



1998 ANNUAL REPORT

PHILIP ANGELIDES
State Treasurer and Chair

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CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

1998 ANNUAL REPORT

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CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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or

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TABLE OF CONTENTS

Introduction to the Commission	1
Background	1
Commission Members	2
Technical Advisory Committee	2
Commission Programs	3
California Public Finance in 1998	5
Overview	5
Statewide Issuance	5
Notes and Bonds Comprise Bulk of Issuance	6
Capital Improvements and Public Works Top Statewide List	7
State Issuance	8
State's Overall Issuance Down Slightly	8
State Bond Issuance Rises	8
Education Issuance Tops for State	9
Local Issuance	9
Local Agencies Increase Debt Issuance	9
Purposes of Local Agency Debt Issuance	10
Student Loan Corporation Financings	10
Who Issues Debt?	10
Mello-Roos Community Facilities Districts	11
Bond Issuance Increases	11
Defaults and Draws on Reserves Down Slightly	11
Taxable Financings	12
Competitive vs. Negotiated Financings	12
1998 in Review	13
Policy Research	13
Interagency Municipal Task Force	13
Marks-Roos Act	13
Local Government Investment Pool Report	13
Data Collection and Dissemination	14
Technical Assistance	16
Reports Published in 1998	16
Seminars, Workshops and Symposia	17
Public Outreach	19
Outlook for 1999	20
Seminars and Symposia	20
Reports and Other Projects	20
Appendices	
A. Commission Enabling Legislation	21
B. Commission Technical Advisory Committee, 1998	26
C. Commission Funding, Expenditures and Fee Schedule	27
D. Commission Reporting Fee Schedule	28
E. Commission Current List of Publications Down	29

Charts

Chart 1. California Public Debt Issuance, 1988–1998 -----	5
Chart 2. California Public Debt Issuance, Refunding vs. New Money, 1988–1998 -----	6
Chart 3. California Public Debt Issuance by Type, 1998 -----	7
Chart 4. California Debt Issuance by Purpose, 1998 -----	8
Chart 5. Mello-Roos Issuance, Refunding vs. New Money, 1988–1998 -----	11
Chart 6. Mello-Roos Issuance by Purpose, 1988–1998 -----	12

Tables

Table 1. California Public Debt Issuance, Long-term vs. Short-term, 1997–1998---	6
Table 2. State of California, Types of Debt, 1997–1998 -----	8
Table 3. State of California, Purposes of Debt, 1997–1998 -----	9
Table 4. Local Agency, Types of Debt, 1997–1998 -----	9
Table 5. Local Agency, Purposes of Debt, 1997–1998-----	10
Table 6. Number of CFD Defaults/Draws by Year -----	12
Table 7. State and Local Debt Issuance, Competitive vs. Negotiated, 1988–1998	12
Table 8. Operating Revenues and Expenditures FY 1997–1998 -----	27

INTRODUCTION TO THE COMMISSION

BACKGROUND

1998 launched the Commission's 17th year of operations. This report details the Commission's activities in 1998, and provides the statutory and legislative background for the Commission's activities.

The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 as the California Debt Advisory Commission (CDAC) with the passage of Assembly Bill 1192 by Assemblymember Jim Costa (Stats. 1981, c. 1088). Pursuant to this law, the Commission serves as the State's clearinghouse for public debt issuance information and assists state and local agencies with monitoring, issuing, and managing public debt.

On January 1, 1997, the Commission's responsibilities were expanded by the passage of AB 1197 (Takasugi) to include the development of a continuing education program on local agency investments to help local governments safely and effectively invest public funds.

The Commission fulfills its statutory mandates through a variety of programs and publications. In developing debt and investment programs and reports, guidelines and briefs on current issues, the staff supplements its expertise and knowledge with information from experts in the financial community and outside data sources.

Specifically, the Commission is required to:

- Serve as the state's statistical center for debt information;
- Publish a monthly newsletter concerning debt issuance in the state;
- Maintain contact with all participants in the municipal debt industry to improve the market for California's public debt;

- Provide technical assistance to state and local governments in an effort to reduce debt issuance costs and to protect debt issuers' credit ratings in the market;
- Undertake or commission studies on methods to reduce debt issuance costs and to improve credit ratings;
- Recommend legislative changes to improve the marketability of state and local agency issued debt and to ensure repayment of debt;
- Provide continuing education programs regarding the investment of public funds; and,
- Assist the State financing authorities and commissions in carrying out their responsibilities.

Over time, the Legislature has given the Commission additional responsibilities.

- In 1998 legislation was passed that requires the reporting and collection of annual outstanding public debt for entities within the State. This legislation requires CDIAC to prepare an annual long-term indebtedness report utilizing information from existing sources (Stats. 1998, c. 407, AB 2052, Firestone and Pringle).
- Certain Marks-Roos local bond pool participants issuing debt are required to report yearly fiscal status information and, regardless of when their debt is issued, to report draws on reserve funds or non-payments of principal and interest within ten days of each occurrence to the Commission (SB 1275, Stats. 1995, c. 229).
- Pursuant to legislation enacted in 1992 (SB 1464 (Mello), Stats. 1992, c. 772), the Commission is required to collect

specific fiscal information on Mello-Roos community facilities districts (CFDs) which issue bonds after January 1, 1993. Also, all CFD issuers, regardless of the date of sale of the bonds, report draw on reserve or default information to the Commission.

- The California Government Code requires issuers to report to the Commission when they sell refunding or revenue bonds through negotiation or private placement, or issue bonds payable in a foreign currency (AB 2544, Stats. 1985, c.1033).

In 1997 the Commission updated its goals through its strategic plan, to include:

- Providing a broader range of debt- and investment-related information and policy analysis;
- Maintaining and enhancing the Commission's ability to provide quality products and services;
- Providing timely and accessible ongoing education and training programs;
- Developing and maintaining a quality investment education program; and,
- Maintaining and cultivating a working environment that encourages open communication, mutual respect and teamwork.

COMMISSION MEMBERS

The Commission consists of nine members: the State Treasurer, the Governor or the Director of the Department of Finance, the State Controller, two local government finance officials, two Assembly members, and two Senators. The State Treasurer serves as Chair and appoints the two local government officials. The Treasurer also appoints an Executive Director to oversee the day-to-day operations of the Commission and to recommend policy direction. The Speaker of the Assembly appoints the Assembly representatives and the Senate Rules Committee appoints the Senate

representatives. Appointed members serve four-year terms at the pleasure of their appointing power. The Commission meets throughout the year to direct the activities of its 15-member staff.

The 1998 Commission members included: Matthew Fong, California State Treasurer; Pete Wilson, Governor; Kathleen Connell, State Controller; Louis J. Papan and Scott Wildman, State Assemblymen; Robert Leland, Treasurer, City of Fairfield; Donald W. Merz, County of Sonoma Treasurer.

TECHNICAL ADVISORY COMMITTEE

The Technical Advisory Committee (TAC) was established in 1983 to assist the Commission in fulfilling its responsibilities. The TAC is comprised of approximately thirty individuals representing public finance, including bond counsel, financial advisors, underwriters, credit analysts, insurance providers, investors, and local issuers. The TAC serves two primary functions:

1. To assist the Commission in its deliberations by providing a forum for the initial discussion of issues, problems and topics related to public finance on both municipal debt issuance and public agency investment; and,
2. To provide technical review and critique reports, issue briefs and other CDIAC research and policy documents before they are published.

Since its inception, the TAC has continually provided Commission staff with advice on a wide variety of issues, ranging from the contents of CDIAC's reporting forms to emerging issues in public finance. Many of the TAC members also serve as faculty for the Commission's technical assistance seminars.

The State Treasurer appoints TAC members to staggered two-year terms. All TAC members serve without compensation.

Appendix B (page 31) shows the members of the Technical Advisory Committee that served during calendar year 1998.

COMMISSION PROGRAMS

The Commission engages in a wide range of activities in three general program areas: *data collection, policy research and development, and technical assistance.*

Data Collection

As the State's clearinghouse for public debt financing information, the Commission has compiled data on all public debt issued in California since January 1, 1985. All issuers of state and local government debt are required to submit information on a proposed bond sale to the Commission 30 days prior to the sale date. Issuers must also submit a report of final sale no later than 45 days after the sale with a copy of the final official statement. The data reported to CDIAC includes the sale date, the name of the issuer, the type of sale, the principal amount, the type of debt instrument, the source or sources of repayment, the purpose of the financing, the rating of the issue and the members of the financing team. Depending on market conditions, 2,500 to 4,000 reports are received each year. Data from these reports is the basis for statistical information used for debt issue analysis, research projects and education.

Policy Research and Development

The Commission's responsibilities include improving the market for public debt and assisting California's local agencies with public investment decisions. Commission staff maintain regular contact with participants in the municipal finance industry and undertake or commission studies on matters affecting public finance in California. Information gathered by Commission staff can act as a guide for state and local debt issuers and investors who are often confronted with difficult and complex decisions.

Commission projects are designed to help issuers reduce issuance costs and keep issuers apprised of emerging trends in public finance. The Commission places a high priority on making its data and expertise available to public agencies in useful forms, which is the crux of the Commission's technical assistance program. The policy staff

of the Commission also recommends legislative changes on matters affecting California public finance.

Technical Assistance

CDIAC's technical assistance program has three components. The first is the publication of reference materials, issue briefs, hearing documents, statistical reports and technical guidelines for state and local issuers. One of the Commission's most notable publications is the *California Debt Issuance Primer*, which provides comprehensive information on debt instruments, the roles and responsibilities of municipal debt issuers and private industry professionals, and other important information which is useful to anyone participating in municipal finance. The *Primer*, which was updated in 1998, provides a comprehensive overview of and reference document for the debt issuance process in California.

The second component of the technical assistance program is CDIAC's seminar program. Since 1984, CDIAC has conducted educational seminars. These seminars focus on public finance matters, the debt issuance process, and the investment of public funds. CDIAC seminars are offered throughout the year in various locations in the State. They are designed to introduce public officials and their staff to the municipal debt issuance process and to techniques for investing public funds. The seminars also enhance the expertise of public officials who are familiar with the municipal debt issuance process and the investment of public funds. The majority of the seminar attendees are from local agencies, although many attendees are from state and federal agencies.

CDIAC also conducts public hearings on issues affecting public finance. These hearings provide a forum for local and state officials to share ideas and information, and to provide CDIAC with a foundation for future research. In addition, CDIAC co-sponsors public finance-related conferences, symposia, and seminars conducted by private companies and statewide associations. These co-sponsorships allow CDIAC to contribute its expertise, increase contacts with experts from public and private sectors, and keep abreast of current matters affecting public finance in California.

The third component of CDIAC's technical assistance program is responding to inquiries concerning California debt issuance and California public investment laws. The Commission receives daily requests from representatives of public and private entities and the media for data on debt issuance and information on the nature and application of specific debt instruments and investment tools and practices. CDIAC staff responds to over 2,000 such requests each year.

CALIFORNIA PUBLIC FINANCE IN 1998

OVERVIEW

In 1998, state and local agencies in California issued a total of \$41 billion in short-term and long-term debt. This total represents a 5.4 percent increase from the \$38.9 billion issued in 1997. 47.7 percent of the total statewide long-term volume was for refunding prior debt, as issuers took advantage of moderate interest rates throughout the year to refund higher interest rate bonds issued in prior years.

The economic climate in California continued to improve in 1998 which was reflected in another year of low interest rates and a noted increase in building, manufacturing and job creation.

Statewide Issuance

This section summarizes California statewide public debt issuance in 1998 and highlights the major purposes for which this debt was issued. A more detailed treatment of public debt issued in California is provided in the

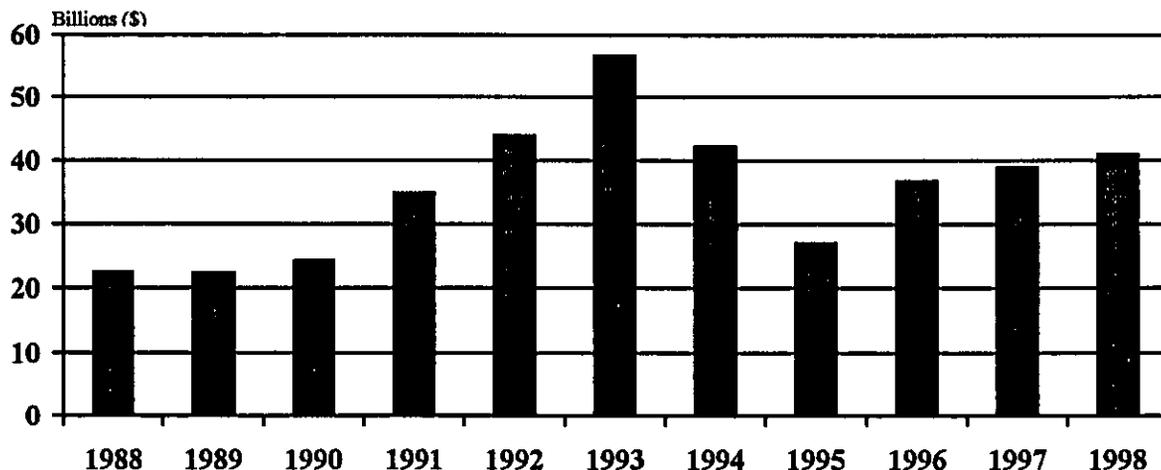
Commission's two companion publications: *1998 Calendar of Public Debt Issuance* and *1998 Summary of California Public Debt*.

Overall volume for 1998 increased 5.4 percent over the 1997 level. As shown in Chart 1, the volume of debt sold increased moderately from 1988 through 1990. Then, state and local debt issuances began a steady climb to a peak of \$56.7 billion in 1993. Issuances dropped by 25 percent in 1994 to \$42.2 billion and by 36 percent in 1995, to \$27 billion. In the last three years, 1996, 1997 and 1998, volume has increased moderately to \$36.7 billion, \$38.9 billion, and \$41 billion respectively.

The total number of debt issues reported sold in 1998 was 2,048. This number is up 18 percent from the 1,739 reported issues in 1997. Of that total, 176 were state issues, six were student loan corporation financings, and the remaining 1,866 were sold by local issuers.

Chart 1

California Public Debt Issuance
1988 through 1998



As shown in Table 1, 1998 total debt issuance of \$41 billion increased 5.4 percent from 1997. The refunding portion was 47.7 percent of the total long-term volume. Short-term debt issuance dropped because of the decrease in the amount of the State of California's cash-flow borrowing in 1998. The State sold \$1.7 billion in RANs in 1998, down from the \$3 billion RANs issued in 1997.

Refunding issues have been a large part of statewide debt issuance for the past six years. The highest year both in total dollar volume and percent of dollar volume occurred in 1993, the first year that interest rates dropped. The total dollar volume of refundings has decreased from that peak over the last four years, but refundings have ranged between 31 percent and 54 percent of the total dollar volume. Chart 2 illustrates the refunding versus new money issuance since 1988.

Table 1

**California Public Debt Issuance
Long-term vs. Short-term
1997 and 1998
(Millions \$)***

	1997	1998	% of Chg
L-T Debt	\$28,715	\$32,904	+14.6
(Refund)	(15,783)	(15,374)	- 2.6
(New)	(12,932)	(17,530)	+35.6
S-T Debt	10,194	8,103	-20.5
Total	\$38,909	\$41,007	+5.4

Notes and Bonds Comprise Bulk of Issuance

Of an aggregate \$41 billion sold by California public agencies in 1998, bonds (\$27.6 billion) and notes (\$8 billion) account for 87 percent of the total volume. Local agencies issued over \$664 million in commercial paper in 1998, about two-thirds the amount issued in 1997. Chart 3 on the next page, illustrates the distribution of the type of debt instruments sold in 1998.

Note: Figures include state and local governmental entities and Student Loan Corporation issues.

*Totals may not add due to rounding.

Chart 2

**California Public Debt Issuance
Refunding vs. New Money
1988 through 1998**

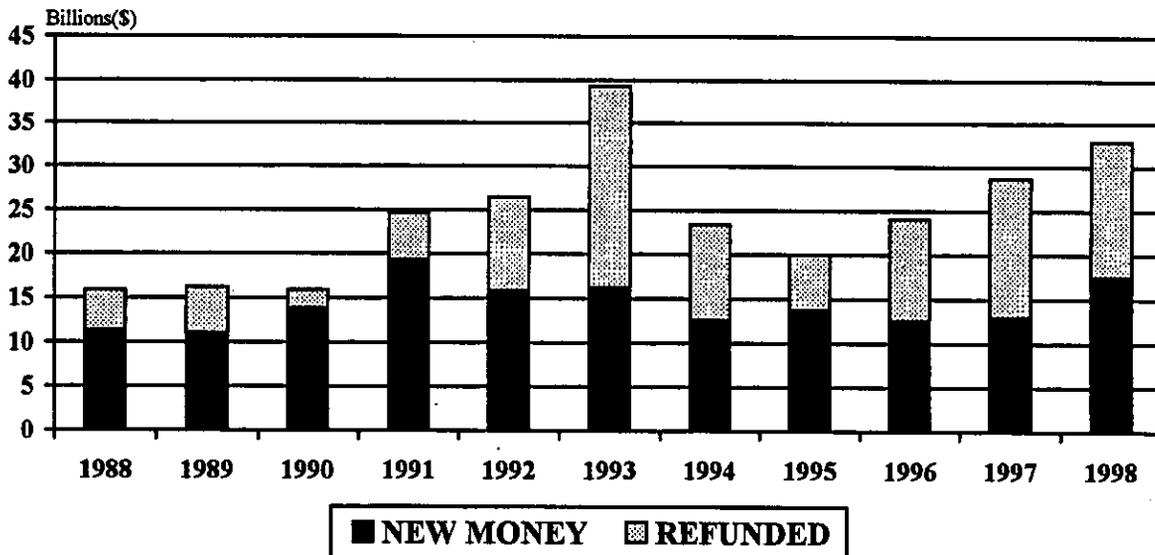
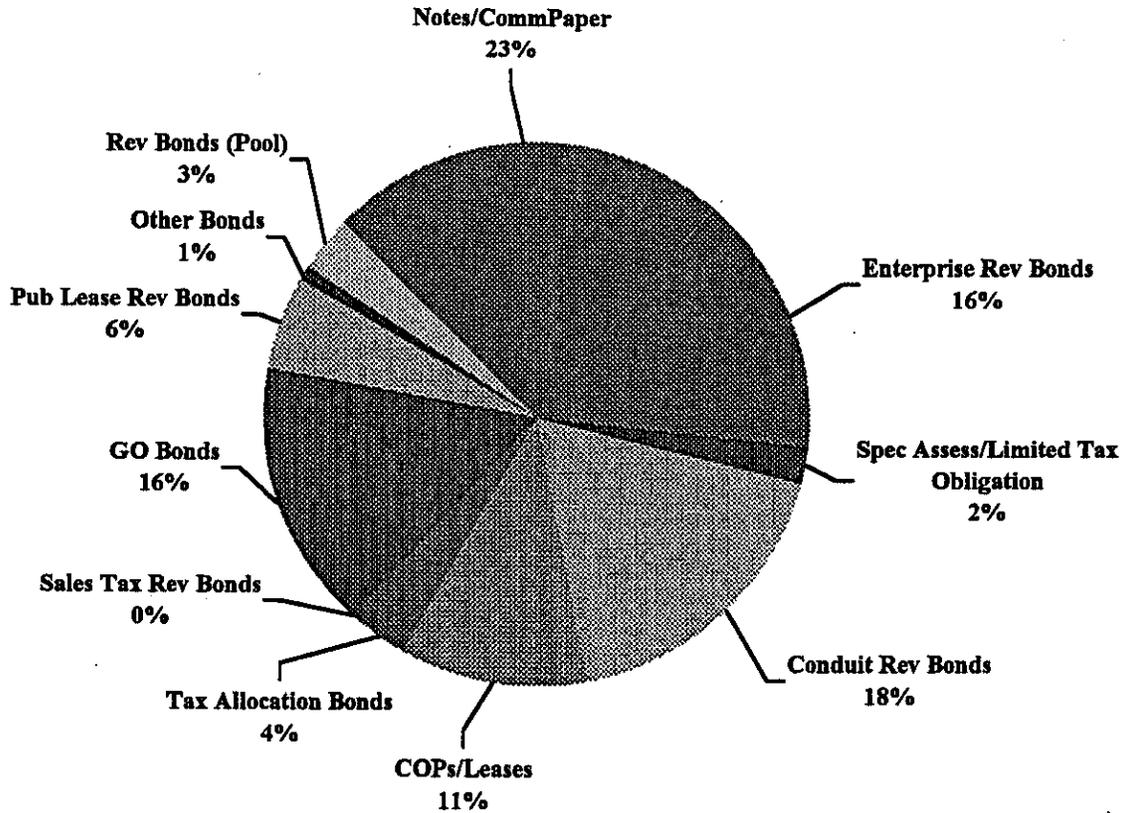


Chart 3

**California Public Debt Issuance by Type
January 1, 1998 – December 31, 1998**



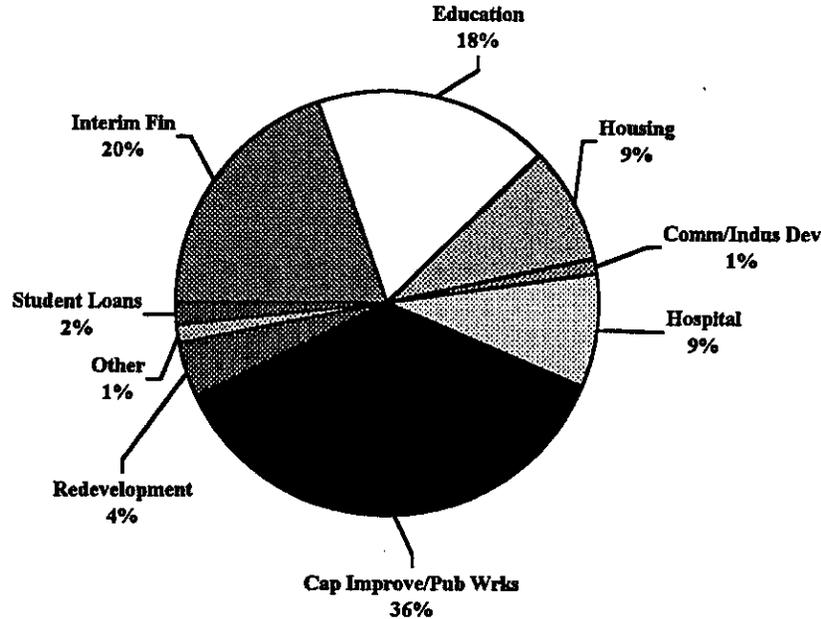
Enterprise revenue bonds, typically issued for capital improvements and public works projects, totaled \$6.4 billion and represent nearly 19.5 percent of 1998 long-term debt. Other financing types representing more than 10 percent of the total issuance include general obligation bonds (\$6.1 billion), conduit revenue bonds (\$6.9 billion), notes/commercial paper (\$9 billion), and certificates of participation (\$4.2 billion). Each of the other debt instrument types accounted for 10 percent or less of the total issuance dollar volume.

Capital Improvements and Public Works Top Statewide Purposes List

Chart 4 on the next page shows 1998 California public debt issuances by purpose. Capital improvements and interim financing account for 36.4 percent of the aggregate \$41 billion sold by all California public agencies. Volume totals for capital improvements stand at \$14.9 billion and interim financing at \$8.1 billion for 1998. At 17.9 percent of the total volume, education financing (\$7.3 billion) is the next largest category. The remaining categories—housing, commercial/industrial development, hospital/health care, redevelopment, and *other* purposes—each account for less than 10 percent of the total debt volume.

Chart 4

**California Debt Issuance by Purpose (Percentage by dollars)
January 1, 1998 - December 31, 1998**



State Issuance

State's Overall Issuance Down Slightly

The State of California, and its financing authorities and agencies, issued a total of \$11 billion in 1998, which is an increase of 5.2 percent from the 1997 volume of \$10.5 billion. The State's long-term debt issuance, however, increased slightly--\$9.3 billion in 1998 as compared to \$7.5 billion in 1997.

The State and its financing authorities continued to take advantage of relatively low interest rates to refund \$4.5 billion in long-term debt and achieve significant savings in debt service payments. New money issuance totaled \$4.8 billion, which is down 14 percent from the 1997 new money issuance of \$2.7 billion. Refundings amounted to 48.6 percent of the total long-term volume.

State Bond Issuance Rises

The State's 1998 issuance of bonds increased 25.8 percent to \$9.3 billion from the \$7.4 billion sold in 1997. General obligation bond issuance increased in 1998 to \$3.2 billion from the \$2.7 billion sold in 1997, a 19 percent increase.

Table 2
**STATE OF CALIFORNIA
TYPES OF DEBT
1997 vs. 1998
(Millions \$)***

Type	1997	1998	% of Ch
Bonds	\$7,451	\$9,373	+25.8
COP/Leases	73	6	-91.8
Notes	<u>3,005</u>	<u>1,700</u>	-43.4
Total	\$10,529	\$11,079	+5.2

* Totals may not add due to rounding.

Education Issuance Tops for State

As shown in Table 3 (below), the State's long-term debt issuance for education totaled \$3.4 billion, or 37.2 percent of the State's total long-term volume. Next in order was hospital/healthcare issuance, which totaled \$2 billion, or 21.7 percent of the State's long-term issuance. Capital improvements and public works followed at \$2 billion, 22 percent of the long-term total.

Table 3
STATE OF CALIFORNIA
PURPOSES OF DEBT
1997 vs. 1998
(Millions \$)*

Purpose	1997	1998	% of Ch
Interim Finance	\$3,000	\$1,700	-43.3
Education	2,272	3,493	+53.7
Housing	2,555	1,425	-44.2
Com/Indus	583	360	+38.2
Hospital/Health	669	2,034	+204.0
CIPW	<u>1,450</u>	<u>2,067</u>	+42.5
Total	\$10,529	\$11,079	+5.2

*Totals may not add due to rounding.

Local Issuance

Local Agencies Increase Debt Issuance

Local agencies issued \$6.5 billion in short-term and \$22.8 billion in long-term debt in 1998, for a total issuance of \$29.2 billion. Shown in Table 4, these totals represent an 3.3 percent increase from 1997, when \$7 billion in short-term and \$21 billion in long-term debt (for a total of \$28.2 billion) was issued. Of the long-term debt sold by local agencies in 1998, \$12 billion was new money and \$10.8 billion was refundings of prior debt. The new money total increased more than 20 percent from 1997 when issuers sold \$10 billion in new money issues.

The bulk of local agency short-term issuance was for tax and revenue anticipation notes (TRANs and TANs). Local agency TRAN and TAN issuance for 1998 was \$6.2 billion, down slightly from the 1997 total of \$6.9 billion.

Even though there was a lower volume of local agency issuance for public lease revenue, special assessment and pooled revenue bonds, overall local agency issuance for long-term bonds increased about eight percent in 1998. Half of the bond volume for 1998 was composed of the following:

- Conduit revenue bonds, up 74.7 percent.
- General obligation bonds, up 8.6 percent.
- Public enterprise revenue bonds, up 9.1 percent.
- Sales tax revenue bonds, up 57.7 percent.
- Tax allocation bonds, up 10.5 percent.
- Limited tax obligation bonds, up 89.1 percent.

Certificates of participation (COP) issuance increased 17 percent in 1998. The total sold amounted to \$4.2 billion, up from the \$3.6 billion sold in 1997. Forty-seven percent of the COP volume was for refunding of prior debt issues.

Table 4
LOCAL AGENCY
TYPES OF DEBT
1997 vs. 1998
(Millions \$)*

Type	1997	1998	% of Ch
Bonds	\$16,520	\$17,841	+8.0
Com Paper	1,074	664	-38.2
COP/Leases	3,641	4,263	+17.1
Notes	<u>6,994</u>	<u>6,465</u>	-7.6
Total	\$28,299	\$29,233	+3.3

*Totals may not add due to rounding.

Purposes of Local Agency Debt Issuance

Table 5 shows that forty-four percent, or \$12.9 billion of total local debt was issued for capital improvements and public works. The major components of the \$12.9 billion include: multiple capital improvements and public works (\$4 billion); airports (\$1.6 billion); water supply and distribution (\$2.1 billion); and power generation and transmission projects (\$1.4 billion).

The most dramatic increase in local agency debt financing occurred in housing, which more than doubled the amount sold in 1997. Total housing financings for 1998 were \$2.3 billion as compared to \$1 billion sold in 1997. Of the housing total, 42.5 percent represents refunded issues.

Redevelopment financing increased 32 percent to \$1.6 billion from the \$1.2 billion issued in 1997. Of the redevelopment total, almost 65 percent represents refunding of prior issues. 1998 issuance for K-12 schools was \$3.8 billion, an increase of over seven percent from the \$3.5 billion in 1997.

1998 local agency health care financing of \$1.5 billion was up 18 percent from the \$1.2 billion in 1997. Of the health care total, 68 percent was for refunding. This 1998 issuance was split between health care facilities at almost \$887 million and hospital financings at \$633 million.

Local short-term issuance decreased this year to \$6.4 billion. This is an 11 percent decrease over the \$7.2 billion of interim financings for 1997.

Student Loan Corporation Financings

Student loan corporations sold \$695 million for student loans in 1998. This is a 363 percent increase from the \$150 million sold in 1997. All were new money issues.

Table 5
**LOCAL AGENCY
PURPOSES OF DEBT**
1997 vs. 1998
(Millions \$)*

Purpose	1997	1998	% of Ch
Interim Fin	\$7,194	\$6,403	-11.0
Education	3,575	3,842	+7.5
Housing	1,076	2,306	+114.3
Com/Indus	89	87	-2.2
Hospital/Health	1,287	1,527	+18.6
CIPW	12,887	12,844	-0.3
RD	1,282	1,699	+32.5
Other	<u>839</u>	<u>525</u>	-37.4
Total	\$28,229	\$29,233	+3.6

*Totals may not add due to rounding.

Who Issues Debt?

- The State and its authorities and agencies issued 27 percent of the total dollar volume of debt issuance in California for 1998.
- Local agencies issued over 71 percent of total debt, while the remaining one percent was issued by student loan corporations.
- Los Angeles County and its agencies led the local issuance total with \$5.1 billion in debt issued. Other counties that had issuance of more than \$1 billion include: San Diego, \$2.3 billion; San Francisco \$1.8 billion; Alameda and Orange, \$1.5 billion each; Riverside, \$1.3 billion; Santa Clara, \$1.2 billion; Sacramento and San Bernardino, \$1.1 billion each; and multiple county issuers, \$4.9 billion.
- Joint powers agencies (JPAs) issued a total of \$9.9 billion in 1998. Of that total, \$4.8 billion was issued by JPAs issuing under the Marks-Roos Act.

Mello-Roos Community Facilities Districts

Bond Issuance Increases

Mello-Roos Community Facilities Districts sold 89 issues in 1998 for a total volume of \$1.2 billion. This is up 86 percent from the \$672 million sold in 1997. Chart 5 provides a historical perspective of Mello-Roos CFD issuances since 1988, with a breakdown of refunded versus new money issues.

CFDs are formed primarily for the construction of local capital improvements (i.e., streets, sewers, etc.) and school facilities. Chart 6 (on the next page) portrays the volume of Mello-Roos bonds by purpose for the last 11 years.

Defaults and Draws on Reserves Down Slightly

In 1998, 17 issuers reported either defaults (non-payment of principal and interest) or draws on the reserve fund for 25 separate bond issues.

Issuers must report a draw on reserve if any withdrawal of funds decreases the reserve fund below the *Minimum Reserve Fund Requirement* as stated in the official bond documents or indenture of the bond sale.

Table 6 shows eighteen issues defaulted in 1998. For nine of the 18 issues, issuers submitted two reports of default for the year. The remaining eleven reports received from issuers were draws on the reserve fund. One issuer reported two draws for the year.

From 1994 (the first year reports to the Commission were required) through 1996, the total number of issuers reporting defaults and draws was minimal until 1997 when 17 defaults were reported. The trend continued in 1998 with 18 reported defaults. Many of the issues were affected by the recession in the early 1990s, and the results are now appearing in the default statistics. As Table 6 shows, there are at least three times as many defaults reported this year than in 1994 and 1995.

Chart 5

**Mello-Roos Issuance
Refunding vs. New Money
1988 through 1998**

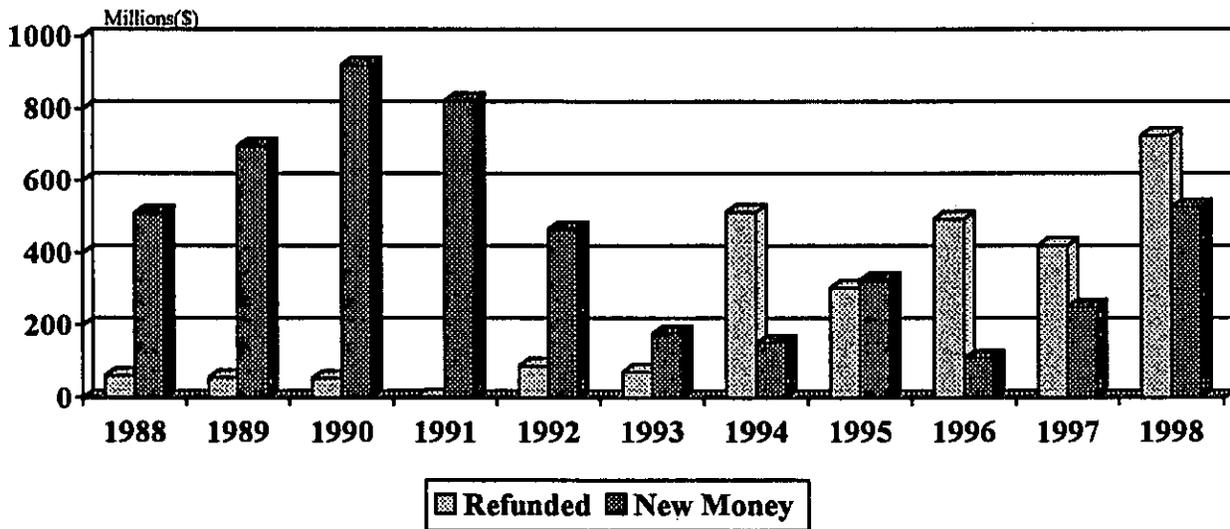


Chart 6

**Mello-Roos Issuance by Purpose
1988 through 1998**

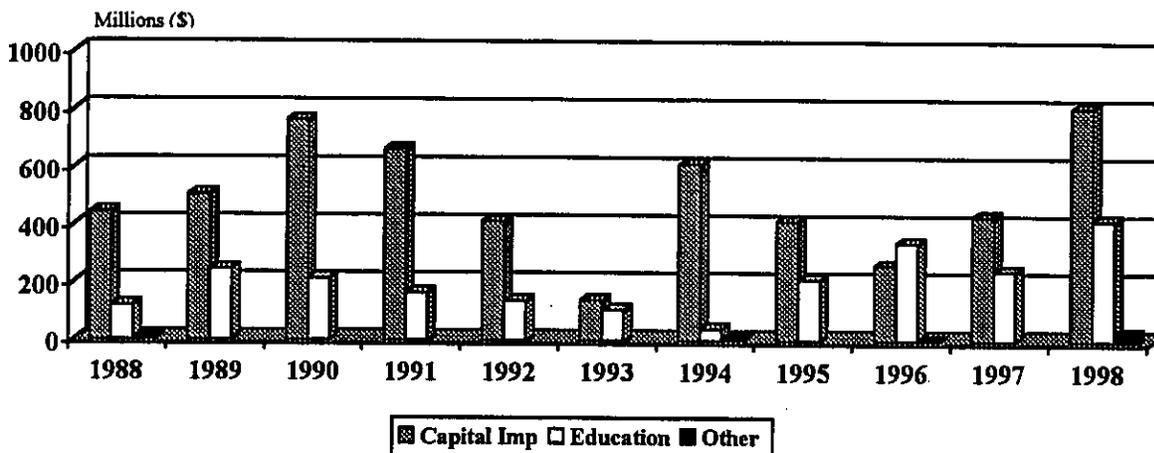


Table 6

No. of CFD Defaults/Draws by Year

Year	No of Defaults	No of Draws	Total No
1994	6	21	27
1995	5	23	28
1996	5	31	36
1997	17	22	39
1998	18	10	28

This is an increase in competitive bidding from 1997 when 25 percent of the volume was competitively bid. The State sold 33 percent of its debt competitively this year, which is an increase from 1997 when 25 percent was sold competitively. Local agencies bid 25 percent of their bonds competitively and negotiated the remaining 75 percent. This competitive bid figure is up from 1997 when 17 percent of the local volume was competitively bid.

Additional information on Community Facilities Districts and their defaults or draws was published in the Commission's 1998 *Mello-Roos Communities Districts Yearly Fiscal Status Report*.

Taxable Financings

Taxable issuance totaled \$2.5 billion and was six percent of the total statewide dollar volume of debt issuance. This total represents an increase of over eight percent from the \$2.3 billion taxable issuance in 1997.

Competitive vs. Negotiated Financings

Table 7 provides an eleven-year comparison of negotiated vs. competitive financings. Competitively-bid issues comprised 27 percent of the year's total dollar volume while negotiated financings reached 73 percent.

Table 7

**State and Local Debt Issuance
Competitive vs. Negotiated Financings
1988 through 1998
(Millions \$)**

Year	Comp (\$)	% of Total	Neg (\$)	% of Total
1998	10,940	26.7	30,067	73.3
1997	9,444	24.6	28,971	75.4
1996	6,990	19.0	29,731	81.0
1995	5,857	22.0	21,153	78.0
1994	15,589	37.0	26,504	63.0
1993	14,828	26.2	41,850	73.8
1992	9,446	21.6	34,296	78.4
1991	10,001	28.7	24,821	71.3
1990	6,043	25.0	18,091	75.0
1989	4,545	20.3	17,812	79.7
1988	3,418	15.2	19,068	84.8

1998 IN REVIEW

POLICY RESEARCH

Interagency Municipal Task Force

As in 1997, the CDIAC policy section continued to concentrate its activities on various aspects of the Marks-Roos Local Bond Pooling Act of 1985. In 1997, regulatory enforcement efforts at the federal level and abuses reported in the California municipal market prompted an in-depth study of various aspects of the Act. An Interagency Municipal Securities Task Force was established in 1997. In addition to CDIAC, the Task Force was comprised of the California Department of Justice, the California Department of Corporations, the California State Bar, and the California State Treasurer's Office.

The Task Force provided a forum for the participating agencies to reach a common understanding of the enforcement framework provided by existing law. The Task Force also gave the agencies an opportunity to determine whether additional legislation or resources were needed to address noncompliance with State bond laws in the municipal market. As part of the work on the Task Force, CDIAC staff prepared informational policy papers, and presented data at legislative hearings and for State regulators.

In June 1998 the Task Force published the *Report of the Interagency Municipal Securities Task Force*, which made several recommendations to improve enforcement in the municipal marketplace. The Task Force report recommended that the Legislature direct the Department of Justice to establish a municipal bond law enforcement section.

This work in 1998 has culminated in ongoing discussions among the various parties involved in local debt issuance to set up mechanisms that will bring more "sunshine" to this area of municipal finance.

Marks-Roos Act

In September 1998 the Commission approved the release of *A Review of the Marks-Roos Local Bond Pooling Act of 1985*, a comprehensive study on the use of Marks-Roos financing by local agencies in California over the past 12 years. This study of the Marks-Roos Bond Pooling Act of 1985 reviewed over 1,200 joint power agency issues reported to the Commission since 1985. Since 1987, over \$24 billion in bonds has been issued by local agencies in California under the authority of the Marks-Roos Act. This represents roughly 13 percent of all local long-term debt issued in that period. The report found that the Act has been the subject of more reported abuse than any other borrowing authority. Some of the early abuses of the Act were corrected by subsequent legislation recommended by CDIAC.

Legislation to improve public accountability in Marks-Roos issuances was signed into law on May 13, 1998 by then Governor Wilson. Senate Bill 147 (Kopp), requires that at least one member of a Joint Powers Authority (JPA) have physical jurisdiction over projects to be financed by the JPA. SB 147 also requires that the JPA member hold a public hearing to make a finding of public benefit prior to the issuance of the bonds (Chapter 35, Statutes of 1998).

Local Government Investment Pool Report

The role of local government investment pools (LGIPs) has remained fairly constant over the years because most local agency officials view LGIPs as a relatively safe, liquid investment mechanism that provide diversification and ease of administration. This view was severely tested, however, when Orange County declared bankruptcy in 1994 because of significant losses in the County investment pool. As a result of this bankruptcy, State officials enacted laws that more explicitly directed LGIPs to choose

investment instruments based first upon safety and liquidity, and then yield.

CDIAC drafted a report which reviews county investment pool policies and portfolio reports to determine how the post-Orange County laws have been implemented. The goal of this report is to provide insight into the investment practices of local agencies and the tools that can be used to analyze them. It highlights the techniques that county pools use to achieve safety, liquidity and yield, the different investments choices and how they vary by pool size or type of investment strategy, and the tradeoffs associated with these investment choices. The report also provides useful tools to assist local agencies in evaluating investment pools. The LGIP report will be released in Fall 1999.

DATA COLLECTION AND DISSEMINATION

For calendar year 1998, the Data Collection Unit of the Commission processed 2,185 reports of proposed debt issuance by California State and local issuers of public debt. CDIAC also received 2,048 reports for issues sold during the year. Each of the over 4,233 reports CDIAC processed in 1998 contains detailed information the proposed and sold reports of public debt.

The debt issuance data supports CDIAC's research efforts and is an important part of the Commission's technical assistance function. CDIAC's debt issuance data, from 1985 through 1998, is available through printed reports, CDIAC's Internet site, e-mail, and on computer diskette.

In addition to debt issuance reports, CDIAC compiles data on the fiscal status of both Mello-Roos Community Facilities Districts and Marks-Roos Bond Pooling Act debt issues, as well as on defaults and draws on reserves for these types of bonds.

CDIAC distributes debt issuance data and other information through:

Print Distribution

Printed debt issuance data is available free of charge.

Data on Disk Subscriptions

Subscribers received a computer diskette each month containing the data on Sold Issues reported to the Commission in the previous 30-day period. A pre-paid subscription for the calendar year costs \$77.58 including tax. Prior calendar years' Sold Issues data may be purchased for \$6.47 per year. In addition, as of January 1999, the Commission also offers the data free of charge via electronic mail.

CDIAC On-Line

The CDIAC's website is located at www.treasurer.ca.gov/stocda.htm or may be accessed through the State Treasurer's home page under Boards and Commissions.

CDIAC's website provides the latest statistics on state and local debt issuance from the Commission's database; selected information about the Commission; CDIAC reports; seminar schedules; fee schedules; reported defaults and draws for Mello-Roos and Marks-Roos financings; and reporting forms for debt issuance, and *Mello-Roos* and *Marks-Roos Yearly Fiscal Status*.

The Commission can also be contacted through e-mail at cdiac@treasurer.ca.gov.

DEBT LINE

In 1998, CDIAC published the 17th volume of **DEBT LINE**. This monthly publication is sent to over 1,800 subscribers and contains a *Calendar of Issues*, which lists the proposed and sold public debt financings for the month. **DEBT LINE** also publishes articles on public financing topics and reports on the programs and activities of the Commission, legislation affecting California public finance and information about practices and trends on both debt- and investment-related topics.

Mello-Roos and Marks-Roos Monthly Reports

In addition to the *Mello-Roos Calendar of Issues*, other subscribers receive monthly *Default and Draw on Reserve Reports* for both Mello-Roos CFD issuers and Marks-

Roos Bond Pooling Act participants. Over 700 of these reports were distributed in 1998, while 400 were distributed in 1997, a 43 percent increase.

1997 Mello-Roos Yearly Fiscal Status Reports

The *1997 Mello-Roos Community Facilities Districts Yearly Status Report* was the fifth annual report issued detailing specific fiscal information on Community Facilities Districts (CFDs). The report is prepared annually from information submitted to the Commission by CFD agencies issuing bonds since January 1, 1993. Legislation enacted in 1992 (SB 1464, Mello, Stats. 1992, c. 772) requires that all issuers of CFD bonds report annually, until the bonds are retired, on the fiscal status of their bonds. Legislation was amended in 1993 to include a requirement for reporting data on all CFD issuer defaults or draws on reserve funds.

In 1997, a total of 95 issuers, located in 23 counties, were required to file status reports on 209 separate bond issues. All issuers complied with the reporting requirement. In addition two issuers reported voluntarily on bonds sold prior to January 1, 1993. Of the 209 issues, 56 are new bond issues sold in the 96/97 fiscal year.

1997 Marks-Roos Bond Pooling Act Participants Yearly Fiscal Status Report and Draw on Reserve Default Report

Pursuant to a law passed in 1995 (SB 1275, Stats. 1995, c. 229), certain bond pool participants must annually report specific information about Marks-Roos bond issues to the Commission.

The 1997 report contains information on 69 separate bond issues. They consisted of 21 public financing authorities (PFAs) and 48 local obligor reports. Only PFAs that loan to two or more local obligors or buy two or more local obligations are required to file reports. The 21 public financing agency bond issues represented in this report are 12.5 percent of the total number and seven percent of the total dollar volume of Marks-Roos Bonds issued from January 1, 1996 through June 30, 1997.

Draw on reserve or default reports were received from nine issuers. Two reported defaults and the other seven reported a draw on the reserve fund.

1997 Summary of California Public Debt

This report is a companion volume to the *1997 Annual Report* and the *1997 Calendar of Issues*. The purpose of this report is to provide a profile of public borrowing by all levels of government in the state. It is based on data for public debt issuance from January 1 through December 31, 1997.

The report is devoted to tables that summarize 1997 state and local debt issuance by type of debt instrument (general obligation bonds, certificates of participation, etc.), use of proceeds (single-family housing, education, health care, etc.), taxable financings, financings to refund existing debt, type of issuing agencies (state, cities, counties, etc.), and Mello-Roos financings. This report is the thirteenth *Summary* published since 1985.

1997 Calendar of Debt Issuance

A companion publication to the *1997 Annual Report* and the *1997 Summary of California Public Debt*, the calendar contains detailed information on each California debt issue sold in 1997 as reported to the Commission. The information presented in the *Calendar* is organized by state agency, county and issuer to portray each entity's debt issuance activity for the year. Details include the type of debt instrument sold, the sale date, the purpose for which the funds are borrowed. This report is the thirteenth in a series published annually since 1985.

1997 Annual Report

This is the seventh report summarizing the activities of the Commission on an annual basis. The *1997 Annual Report* provides a summary of the activities and accomplishments of the Commission and its members, and gives an overview of California public finance activities during 1997, and it outlines projects planned by the Commission for 1998.

The *1997 Annual Report* is supplemented by several charts and tables that provide a perspective on California public debt activity over time, as well as an appendix containing an excerpt from the Government Code upon which the California Debt and Investment Advisory Commission's programs and operations are based, and other pertinent information relating to the Commission.

TECHNICAL ASSISTANCE

CDIAC's technical assistance program consists of publishing reference materials, issue briefs, statistical reports and technical guidelines for state and local issuers, providing California debt issuance data and information on the methods and uses of debt financing for public and private financing professionals, and conducting educational seminars.

California Debt Issuance Primer

The cornerstone of the Commission's technical information program is the *California Debt Issuance Primer*. This document, which has been distributed to over 1,500 financing professionals, was originally published in 1988. It was subsequently updated in 1990 to reflect changes in federal law and new financing techniques and in 1997, the Commission contracted with Orrick, Herrington & Sutcliffe to revise the *Primer*.

The revised *Primer* was released in April 1998 and includes expanded descriptions and discussions of types of debt instruments, changes in federal and state regulations and other changes in the world of public finance. The revised *Primer* also contains a section on the steps in the debt issuance process, as well as information about working with state agencies. It also offers an extensive list of other sources of public financing information. The cost of the *Primer* is \$25.00.

For a complete list of Commission publications, please see Appendix E.

REPORTS PUBLISHED IN 1998

1997 Marks-Roos Bond Pooling Act Participants Yearly Fiscal Status Report and Draw on Reserve Default Report, January 1998.

1997 Mello-Roos Community Facilities Districts Yearly Fiscal Status Report, March 1998.

1997 Annual Report – Calendar of Issues, April 1998.

1997 Annual Report – Summary, April 1998.

Report of the Interagency Municipal Securities Task Force, June 1998.

State & Local Tax and Bond Ballot Measures: Results of the 1998 Primary Election, September 1998.

A Review of the Marks-Roos Local Bond Pooling Act of 1985, September 1998.

SEMINARS, WORKSHOPS AND SYMPOSIA

In 1998 the Commission continued to offer educational seminars, conferences and symposia as part of its technical assistance program. CDIAC worked with public and private organizations to provide information on a variety of public finance issues that attempt to meet the needs of various state and local governments and private financial businesses. The seminar faculty and presenters are selected from the private and public sector for their ability to share their expertise and knowledge on public finance. CDIAC's seminar program is constantly evolving to meet the needs of the public finance community in California.

1998 SEMINARS

Investing Public Funds: Understanding and Evaluating Your Investment Alternatives

Date: January 22nd and 23rd
Site: Monterey

This seminar provided investment professionals, local finance officers, and local public officials responsible for the investment of public funds the opportunity to learn about: the fundamental concepts and methods of investing public funds; the management of a governmental investment portfolio; the roles and responsibilities of local officials in the investment process; and the means for ensuring the safety and liquidity of investments while obtaining the best returns possible.

The Fundamentals of Debt Financing

Dates: March 12th and 13th
Site: Berkeley

This is the Commission's introductory seminar for public officials and staff on the debt issuance and debt management processes. The seminar covered the basics of a bond issue, the participants' roles, types of debt financings, credit ratings, and disclosure issues. The seminar's faculty consists of private and public financing professionals.

Mechanics of a Bond Sale Seminar

Date: April 2nd and 3rd
Site: Concord

The *Mechanics of a Bond Sale* seminar is the second seminar offered by CDIAC in the Debt Issuance series. This seminar provided an in-depth examination of the bond issuance process. It taught public officials how to structure a bond issue, put together a financing team, prepare legal documents, market and price an issue, and evaluate the risks and rewards of debt issuance. In addition, this seminar covered rules regarding the investment of bond proceeds, and the administrative responsibilities of an issuer once a bond issue is sold.

Fixing Local Government Finances: Reform, Revise or Adopt?

Dates: May 8th and May 13th
Sites: Santa Monica and Sacramento

Co-hosts: UCLA Extension Public Policy Program, UC Davis University Extension

This conference provided data on the state of local finances since Proposition 13; evaluated the consequences of the adaptations that have resulted from Proposition 13; reviewed current proposals to either modify or reform local government financial systems and allocation mechanisms; and, featured discussion on the likelihood of change. This conference was open to both public and private sector professionals.

Understanding Municipal Securities Regulation

Date: September 29th
Site: Sacramento

This seminar educated issuers about their legal obligations with respect to primary and continuing disclosure, offered practical advice on how to minimize liabilities. The seminar ended with an interactive case study on disclosure, reviewing the role of counsel, underwriters and financial advisors. This

seminar was open to both public and private sector professionals.

Advanced Topics in Debt Issuance

Date: October 29th and 30th
Site: San Diego

This new program is CDIAC's third and most advanced course in the Debt Issuance Series, with topics that cover debt structuring considerations, variable rate debt, refunding considerations and bond pooling techniques.

SYMPOSIUM

California's Economic Recovery—Is It Here to Stay?: 21st Century Challenges for Transportation, Education and Housing

Date: March 19th
Site: San Francisco

Co-host: Standard & Poor's Ratings Service

This was the seventh annual symposium co-hosted by CDIAC and S&P and represents an ongoing commitment by both CDIAC and S&P to provide a forum for public and private sector officials to discuss critical issues facing municipal practitioners in the State of California. The speakers at the symposium examined 21st Century challenges facing California communities in preparing for anticipated 21st century population growth, particularly with regard to transportation, education and housing. The symposium was open to both public and private sector professionals.

WORKSHOP

Land-Based Financing Workshop

Date: October 23rd
Site: Folsom

At the California Society of Municipal Finance Officers—Sacramento Chapter Meeting, CDIAC staff presented a half-day workshop that provided basic information to local officials on land-based financings, included a discussion on local financing policies, securities law and disclosure obligations, and the administration of land-based bonds. This workshop was for CSMFO members only.

PUBLIC OUTREACH

The Commission staff is often invited to conferences and seminars to make presentation on topics related to California debt issuance and the investment of public funds. CDIAC uses these opportunities to share the Commission's knowledge on public finance issues and to learn more about issues of

concern to local government issuers and investors. In 1998, CDIAC staff made presentations, conducted workshops and attended seminars and conferences sponsored by the following groups and organizations.

- Appraisal Institute—San Francisco Bay Area Chapter
- Association of California Water Agencies (ACWA)
- Bond Buyer
- California Association of Bond Lawyers (CABL)
- California Association of County Treasurers & Tax Collectors (CACTTC)
- California Municipal Treasurers Association (CMTA)
- California Redevelopment Association
- California Society of Municipal Analysts (CSMA)
- California Society of Municipal Finance Officers (CSMFO)
- California State Association of Counties (CSAC)
- Government Finance Officers Association (GFOA)
- League of California Cities
- National Federation of Municipal Analysts (NFMA)
- Standard and Poor's
- Securities and Exchange Commission (SEC)
- UCLA Extension Public Policy Program
- University Extension, UC Davis
- University of Southern California, Sacramento Center

OUTLOOK FOR 1999

The California Debt and Investment Advisory Commission's 1999 agenda includes a combination of new and ongoing programs as CDIAC enters its 18th year. Here is a list of programs and activities planned for 1999.

SEMINARS AND SYMPOSIA

The following programs are planned for 1999:

Investing Public Funds: Fundamentals of Managing Your Portfolio

Date: January 12th and 13th
Site: Monterey

Fundamentals of Debt Financing

Date: February 4th and 5th
Site: Newport

Mechanics of a Bond Sale

Date: April 15th and 16th
Site: Los Angeles

Advanced Topics In Debt Financing

Date: September 14th and 15th
Site: Monterey

Understanding Municipal Securities Regulation

Date: October 5th
Site: Long Beach

Investing Public Funds: Understanding and Evaluating Your Investment Alternatives

Date: November 4th and 5th
Site: San Diego

REPORTS AND OTHER PROJECTS

Outstanding Debt Project

One question asked repeatedly of CDIAC is "How much public debt is outstanding?" CDIAC is pursuing sources of this information to determine how this question may be answered. This project began in 1998, and the first report is due to the legislature by the end of 1999.

Issue Briefs

The Commission plans to restart the issue brief series on debt issuance topics, and begin publishing investment oriented issue briefs.

Investment Primer

The Commission will research the feasibility of developing an Investment Primer to assist local agencies running investment programs. This Primer will be patterned on the updated *Debt Issuance Primer* released in 1998.

Hotline

In order to allow more timely reporting of unusual offers made to local agencies, the Commission will establish a toll-free hotline so local agency officials can more easily report questionable or potentially harmful debt and investment practices.

A Broader Reach

The Commission plans to begin a series of workshops in the Central Valley and remote parts of Northern and Southern California in order to better reach a larger audience of government officials throughout California.

Investment Information

Legislation to allow the Commission to track local agency investments will be introduced in 1999. If this legislation becomes law, the Commission will collect, maintain and provide information on local agency investments of public funds.

STATE OF CALIFORNIA GOVERNMENT CODE

DIVISION 1 OF TITLE 2 (EXCERPT)

Chapter 11.5 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

§ 8855. Creation, composition, term; officers; compensation; powers and duties

(a) There is created the California Debt and Investment Advisory Commission, consisting of nine members, selected as follows:

- (1) The Treasurer, or his or her designate.
- (2) The Governor or the Director of Finance.
- (3) The Controller, or his or her designate.

(4) Two local government finance officers, appointed by the Treasurer, one each from persons employed by a county and by a city or a city and county of this state, experienced in the issuance and sale of municipal bonds and nominated by associations affiliated with such agencies.

(5) Two Members of the Assembly appointed by the Speaker of the Assembly.

(6) Two Members of the Senate appointed by the Senate Committee on Rules.

(b)(1) The term of office of an appointed member is four years, but appointed members serve at the pleasure of the appointing power. In case of a vacancy for any cause, the appointing power shall make an appointment to become effective immediately for the unexpired term.

(2) Any legislators appointed to the commission shall meet with and participate in the activities of the commission to the extent that the participation is not incompatible with their respective positions as Members of the Legislature. For purposes of this chapter, the Members of the Legislature shall constitute a joint interim legislative committee on the subject of this chapter.

(c) The Treasurer shall serve as chairperson of the commission and shall preside at meetings of the commission. The commission, on or after January 1, 1982, and annually thereafter, shall elect from its members a vice chairperson and a secretary who shall hold office until the next ensuing December 31 and shall continue to serve until their respective successors are elected.

(d) Appointed members of the commission shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars (\$50) for each day's attendance at a meeting of the commission

not to exceed three hundred dollars (\$300) in any month, and reimbursement for expenses incurred in the performance of their duties under this chapter, including travel and other necessary expenses.

(e) The commission shall do all of the following:

(1) Assist all state financing authorities and commissions in carrying out their responsibilities as prescribed by law, including assistance with respect to federal legislation pending in Congress.

(2) Upon request of any state or local government units, to assist them in the planning, preparation, marketing, and sale of new debt issues to reduce cost and to assist in protecting the issuer's credit.

(3) Collect, maintain, and provide comprehensive information on all state and local debt authorization, sold and outstanding, and serve as a statistical clearinghouse for all state and local debt issues. This information shall be readily available upon request by any public official or any member of the public.

(4) Maintain contact with state and municipal bond issuers, underwriters, credit rating agencies, investors, and others to improve the market for state and local government debt issues.

(5) Undertake or commission studies on methods to reduce the costs and improve credit ratings of state and local issues.

(6) Recommend changes in state laws and local practices to improve the sale and servicing of state and local debts.

(7) Establish a continuing education program for local officials having direct or supervisory responsibility over municipal investments, and undertake other activities conducive to disclosure of investment practices and strategies for oversight purposes.

(f) The commission may adopt bylaws for the regulation of its affairs and the conduct of its business.

(g) The issuers of any proposed new debt issue of state or local government shall, no later than 30 days prior to the sale of any debt issue at public or private sale, give written notice of the proposed sale to the commission, by mail, postage prepaid. This subdivision shall also apply to any nonprofit public benefit corporation incorporated for the purpose of acquiring student loans.

(h) The notice shall include the proposed sale date, the name of the issuer, the type of debt issue, and the estimated principal amount thereof. Failure to give this notice shall not affect the validity of the sale.

(i) The issuer of any new debt issue of state or local government, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, shall submit a report of final sale to the commission by mail, postage prepaid, or by any other method approved by the commission. A copy of the final official statement for the issue shall accompany the report of final sale. The commission may require information to be submitted in the report of final sale that it considers appropriate. [added in 1998]

(j) The commission shall publish a monthly newsletter describing and evaluating the operations of the commission during the preceding month.

(k) The commission shall meet on the call of the chairperson, or at the request of a majority of the members, or at the request of the Governor. A majority of all nonlegislative members of the commission constitutes a quorum for the transaction of business.

(l) All administrative and clerical assistance required by the commission shall be furnished by the Office of the Treasurer.

§ 8855.5 Bond issuing agencies, authorities, governmental units, or nonprofit corporations; reports to commission

(a)(1) Any redevelopment agency which issues revenue bonds to finance residential construction pursuant to Chapter 7.5 (commencing with Section 33740 or Chapter 8 (commencing with Section 33750) of Part 1 Division 24 of the Health and Safety Code, (2) any housing authority which issues revenue bonds to finance housing developments or residential structures pursuant to the Housing Authorities Law, Chapter 1 (commencing with Section 34200) of Part 2 Division 24 of the Health and Safety Code, (3) any local agency which issues bonds to finance residential rehabilitation pursuant to the Marks-Foran Residential Rehabilitation Act of 1973 (Part 13 (commencing with Section 37910), Division 24, Health and Safety Code), (4) any city or county which issues bonds for purposes of a home financing program carried on pursuant to Chapter 1 (commencing with Section 52000) to Chapter 6 (commencing with Section 52060), inclusive, of Part 5 of Division 31 of the Health and Safety Code or for purposes of financing the construction, acquisition, or development of multifamily rental housing pursuant to Chapter 7 (commencing with Section 52075) or Chapter 8 (commencing with Section 52100) of Part 5 of Division 31 of the Health and Safety Code, (5) any local agency, including any charter city or city and county, that issues revenue bonds to finance the purchase, construction, or rehabilitation of housing pursuant to any statute or under the authority of its charter, and

(6) Any nonprofit corporation that has qualified under Section 501(c)(3) of the federal Internal Revenue Code and which issues indebtedness for which the interest is exempt from federal income taxation to finance the purchase, construction, or rehabilitation of housing in this state, shall report to the California Debt and Investment Advisory Commission the incomes, family size, and rents or mortgage payments of the occupants, the number, size, cost, sales price, location by zip code, and geographical distribution of the units developed; the length of time the units are required to be held for occupancy by targeted income groups, and, if applicable, the number of years the units are required to be held as rentals; and the distribution of housing developments among for-profit, limited dividend, and nonprofit sponsors. For the purposes of this section, "nonprofit sponsors" includes public agencies.

(b) The information required to be reported by subdivision (a) shall be reported at least annually during the time that a percentage of the units are required to be occupied by, or made available to, persons or families within a particular income group. The report required by subdivision (a) shall only apply to housing units financed with the proceeds of bonds that are authorized to be issued, and which are issued, on and after January 1, 1985, pursuant to any of the provisions described in subdivision (a) or implementing provisions supplementary thereto, such as the authorizations contained in Chapter 5 (commencing with Section 6500) of Division 7 of Title 1. For purposes of this section, "bonds" means any bonds, notes, interim certificates, debentures, or other obligations issued under the authority of the provisions, or as otherwise, described in subdivision (a), and "issues" includes the issuance of bonds to refund previously issued bonds pursuant to the statutory provisions authorizing the original issuance or pursuant to supplementary authorization, such as Article 10 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5.

The redevelopment agency, housing authority, local agency, or city and county may charge a fee to the recipient of agency financing not to exceed the cost of making the reports required by this section.

§ 8855.7 Reports required by Section 8855.5; analysis of compliance with subsection (d) or Section 142 of Internal Revenue Code; certification of compliance with filing requirements.

(a) The reports required by Section 8855.5 shall also contain an analysis by the reporting agency of compliance with the targeting requirements of subsection (d) of Section 142 of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 142) with respect to any issue of its bonds subject to those requirements for federal tax exemption under Section 103 of the Internal Revenue Code of 1986 (26 U.S.C. Sec.103). The analysis shall identify the numbers of rental units subject to this reporting requirement by categories based on the number of bedrooms per unit, and shall report as to each of these categories.

(b) No public agency or nonprofit corporation subject to the reporting requirements of Section 8855.5 may issue any bonds, including bonds to refund previously issued bonds, subject to the reporting requirements of that section until the Treasurer certifies that the public agency or nonprofit corporation has filed the information required by Section 8855.5 and this section with the California Debt and Investment Advisory Commission.

§ 8855.8 Commission compilation and summary of reports; contents

The commission shall compile and summarize the information reported to the commission pursuant to Section 8855.5 and issue that summary to the Legislature and the Legislative Analyst on or before November 1 of each year that the information is received by the commission. This summary shall also list any redevelopment agency, housing authority, local agency, city, and county which issued bonds under the authority of any of the programs specified in subdivision (a) of Section 8855.5 without first obtaining a certification from the Treasurer required pursuant to Section 33760, 34312.3, 52097.5, or 52045 of the Health and Safety Code.

§ 8856. Fees

(a) In carrying out the purposes of this chapter, the commission may charge fees to the lead underwriter or the purchaser in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars (\$5,000) for any one issue. Amounts received under this section shall be deposited in the California Debt and Investment Advisory Commission Fund, which is hereby created in the State Treasury. All money in the fund shall be available, when appropriated, for expenses of the commission and the Treasurer.

Until fees are received by the advisory commission and appropriated pursuant to this chapter for the expenses of the commission and the Treasurer, the commission may borrow the moneys required for the purpose of meeting necessary expenses of initial organization and operation of the commission.

§ 8857. Employees

The chairperson of the commission, on its behalf, may employ an executive director and other persons necessary to perform the duties imposed upon it by this chapter. The executive director shall serve at the pleasure of the commission and shall receive compensation as fixed by the commission. The commission may delegate to the executive director the authority to enter contracts on behalf of the commission.

§ 8858. Annual Report; outstanding state and local public debt; recent trends

Notwithstanding Section 7550.5, the commission shall prepare an annual report compiling and detailing the total amount of outstanding state and local public debt and examining recent trends in the composition of that outstanding debt. The report shall reflect all bonded indebtedness issued by governmental entities, including, but not limited to, the state and state authorities, school

districts, cities, counties, city and counties, special districts, joint powers agencies, redevelopment agencies, and community college districts. The commission shall obtain the information for this report from existing sources, including the Controller, the State Department of Education, and the Chancellor's office of the California Community Colleges, and these shall assist the commission in carrying out this section. [added in 1998]

§ 8859. Advice regarding local bond pooling authorities

The commission may, upon request, advise local agencies regarding the formation of local bond pooling authorities pursuant to Article 4 (commencing with Section 6584 of Chapter 5 of Division 7 of Title 1), and may advise the authorities regarding the planning, preparing, insuring, marketing, and selling of bonds as authorized by that article.

**CDIAC TECHNICAL ADVISORY COMMITTEE
1998**

PUBLIC MEMBERS

Irwin Bornstein
City of Mission Viejo
Harry Ehrlich
Olivenhain Municipal Water District
George Jeffries
City of Tustin
James Knapp
Elk Grove Unified School District
Norma Lammers
CA State Association of Counties
Michael Smith
Marin County
Maureen Sicotte
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Public Finance Management, Inc.
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Kitahata & Company
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Fieldman, Rolapp & Associates.
Lester Wood
Fund Services Associates, Inc.

INVESTOR REPRESENTATIVE MEMBER

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BOND COUNSEL MEMBERS

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Patricia Sinclair
Latham & Watkins
Sharon Stanton White
Hunton & Williams
Eric Tashman
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CREDIT ENHANCER MEMBER

John Pizzarelli
Municipal Bond Investors Assurance Corp.

INVESTMENT BANKING MEMBERS

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A.L. (Bud) Byrnes, III
R.H. Investment Corporation
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Morgan Stanley & Co., Inc.
David Johnson
BancAmerica Robertson Stephens
Ed Nahmias
Capital Research Company
Stephanie Petersen
Charles Schwab & Co.
Scott Sollers
Stone & Youngberg
Peter Taylor
Lehman Brothers

RATING AGENCY MEMBERS

Kenneth Kurtz
Moody's Investors Service
Amy Doppelt
Fitch Investors Service
Steve Zimmermann
Standard & Poor's Corp

COMMISSION FUNDING AND EXPENDITURES

The Commission is funded out of the California Debt and Investment Advisory Commission Fund, established under Chapter 1088/81. The CDIAC Fund is supported by fees levied on debt issues reported to the Commission. Specifically, the Commission is authorized to charge a fee to the lead underwriter or purchaser of a debt issue equal to one-fortieth of 1 percent (2.5 basis points), up to \$5,000 for each issue.

As Table 8 indicates, the Commission required \$1,905,296 in fiscal year 1997-98 to conduct its mandated functions. This was entirely offset by \$2,659,244 in revenues. By the start of the 1998-99 fiscal year, the CDIAC Fund Balance increased to \$3,155,874.

The Commission took action in late 1995 to avert a deficit in CDIAC's Fund by increasing reporting fees. The goal was to generate revenues that would cover CDIAC's current operating costs as well as to restore its reserve to an appropriate level. Such a reserve would provide funding for continued operations in case revenues fall short at some future date due to a decline in debt issuance. With the increase in reporting fees, the goal was met. In fact, the goal was met more quickly than anticipated. A notable increase in the *number* of debt issues sold caused fee revenues to exceed estimates.

Therefore, in February 1998, the Commission approved a two-phase fee reduction. The first phase reduced fees below the level needed to fully fund current operations in order to spend down the excess balance in the reserve. The fee reduction was in effect for 15 months and extended on June 2, 1999 for another year. If reserves are spent down, fees will be increased on July 1, 2000 to a level necessary to cover operational expenditures. As noted in Table 8, the fund balance at the end of FY 97/8 reached \$3.1 million. The Commission believes a prudent reserve is equal to one fiscal year's spending authority, which is

currently \$1.9 million per fiscal year. This level of reserve funding provides the Commission with greater flexibility to adjust to changes in debt issuance levels, and potentially to outlast temporary periods of low debt issuance without changes in the fee structure. The copy of the revised fee schedule follows (Appendix D).

Table 8

California Debt and Investment Advisory Commission Operating Revenues and Expenditures Fiscal Year 1997-98

CDIAC Fund:	
Beginning balance (7/1/97)	\$1,905,296
Revenues*	2,659,244
Reimbursements	<u>67,401</u>
Total resources	\$ 4,631,952
Expenditures:	
Staff salaries	\$ 600,713
Staff benefits	157,961
General expense	64,481
Printing	80,350
Communications	10,610
Postage	17,802
In-state travel	19,378
Out-of-state travel	2,209
Training	5,933
Facilities operation	74,881
Consultant/professional contracts	326,225
Data processing	1,216
Central administrative services	65,549
Equipment	<u>48,000</u>
Total expenditures	\$1,475,313
Administrative charges per Chapter 672/94	(754.06)
CDIAC Fund:	
Ending balance (6/30/98)	\$3,155,874

*Includes interest earnings.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION
REPORTING FEE SCHEDULE**

Date of Adoption: June 2, 1999

Under Resolution 99-02 the California Debt and Investment Advisory Commission (CDIAC) defers the fee increase scheduled for July 1, 1999 to July 1, 2000. The fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter or purchaser of the issue..

1. **Issues Purchased by Agencies of the Federal Government:** No fee shall be charged on any issue purchased by an agency of the Federal Government.
2. **Issues of Less Than \$1,000,000:** No fee shall be charged to the lead underwriter or purchaser of any public debt issue which has a par value amount less than one million dollars (\$1,000,000), regardless of the term of the issue.
3. **Issues with Short-Term Maturities:** Notwithstanding Sections 1 and 2 above, the lead underwriter or purchaser of any public debt issue which has a maturity of eighteen (18) months or less, including those issues sold in a pooled financing (e.g., a TRANS pool), shall be required to pay a fee to the California Debt and Investment Advisory Commission in accordance with the following schedule:
 - A. For such issues sold on April 1, 1998 through June 30, 2000, the fee will be equal to one hundred and fifty dollars (\$150).
 - B. For such issues sold on or after July 1, 2000, the fee will be equal to two hundred dollars (\$200).
4. **Issues with Long-Term Maturities:** Notwithstanding Sections 1,2, and 3 above, the lead underwriter or purchaser of any public debt issue which has a final maturity greater than eighteen (18) months shall be required to pay a fee to the California Debt and Investment Advisory Commission in accordance with the following fee schedule:
 - A. For such issues sold on April 1, 1998 through June 30, 2000, the fee will be equal to 1.5 basis points (.00015) not to exceed three thousand dollars (\$3,000).
 - B. For such issues sold on or after July 1, 2000, the fee will be equal to 2.0 basis points (.0002) not to exceed four thousand dollars (\$4,000).
5. **Marks-Roos Financing Authority Issues:** One fee will be assessed for Marks-Roos Financing Authority bond issues where the bond sales occur simultaneously (i.e., reports filed with the Commission are received on the same date, financings are sold on the same date, and with the same financing team).
6. **All Proposed Sales to be Reported to the California Debt and Investment Advisory Commission:** Nothing in this fee schedule shall relieve an issuer from giving written notice to the California Debt and Investment Advisory Commission of a proposed debt issue no later than 30 days prior to the proposed sale, as required by Section 8855(g) of the California Government Code.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)

CURRENT LIST OF PUBLICATIONS

For information on how to receive the publications listed below, please call or write the:

*California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400
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Sacramento, CA 94209-0001
(916) 653-3269, FAX (916) 654-7440
Email: CDIAC@treasurer.ca.gov*

The following materials are available at cost.

DEBT ISSUANCE PRIMER

1998 CALIFORNIA DEBT ISSUANCE PRIMER, April, 1998. This is a comprehensive handbook on the debt issuance process in California. Available for \$25.00 per copy.

DATA ON DISK

Subscriptions are available for:

1997 Monthly Sold Data \$77.58 per year (includes tax)
Prior Years Sold Data \$6.47 for each year (includes tax)
Data is also available through the Internet at no charge.

The Commission's data includes sold information from 1985 through year-to-date 1998.

The following publications are provided free of charge to interested parties upon request.

We suggest you limit your request to information that will be used. If you have questions about the content of the publication, please contact the Commission.

MONTHLY PUBLICATIONS

DEBT LINE, A MONTHLY PUBLICATION, 1982 to present. This newsletter provides a calendar listing of all proposed and sold debt issues reported to CDIAC, as required by law, as well as summary tables and articles related to public debt and the investment of public funds.

ANNUAL REPORTS

CALIFORNIA PUBLIC DEBT

- 1998 CALENDAR OF DEBT ISSUANCE [CDIAC #99-1]**
- 1997 CALENDAR OF DEBT ISSUANCE [CDIAC #98-3]**
- 1996 CALENDAR OF DEBT ISSUANCE [CDIAC #97-6]**
- 1995 CALENDAR OF DEBT ISSUANCE [CDAC #96-3]**
- 1994 CALENDAR OF DEBT ISSUANCE [CDAC #95-8]**
- 1993 CALENDAR OF DEBT ISSUANCE [CDAC #94-5]**
- 1992 CALENDAR OF DEBT ISSUANCE [CDAC #93-6]**
- 1991 CALENDAR OF DEBT ISSUANCE [CDAC #92-5]**
- 1990 CALENDAR OF DEBT ISSUES, June 1, 1990**
- 1989 CALENDAR OF ISSUES, February 15, 1990**
- 1988 CALENDAR OF ISSUES, February 15, 1989**
- 1987 CALENDAR OF ISSUES, February 1, 1988**
- 1986 CALENDAR OF ISSUES, May 15, 1987**
- 1985 CALENDAR OF ISSUES, March 31, 1986**
- 1998 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDIAC #99-5]**
- 1997 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDIAC #98-5]**
- 1996 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDIAC #97-7]**
- 1995 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDAC #96-2]**
- 1994 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDAC #95-7]**
- 1993 SUMMARY OF CALIFORNIA DEBT ISSUANCE [CDAC #94-4]**
- 1992 SUMMARY OF CALIFORNIA PUBLIC DEBT [CDAC #93-5]**
- 1991 SUMMARY OF CALIFORNIA PUBLIC DEBT [CDAC #92-4]**

1990 SUMMARY OF CALIFORNIA PUBLIC DEBT, June 1, 1990

1989 SUMMARY OF CALIFORNIA PUBLIC DEBT, February 15, 1990

1988 SUMMARY OF CALIFORNIA PUBLIC DEBT, February 15, 1989

1987 SUMMARY OF CALIFORNIA PUBLIC DEBT, February 1, 1988

1986 SUMMARY OF CALIFORNIA PUBLIC DEBT, May 15, 1987

1985 SUMMARY OF CALIFORNIA PUBLIC DEBT, March 31, 1986

1985 CALIFORNIA PUBLIC DEBT BY ISSUING AGENCIES, August 15, 1986¹

1998 MARKS-ROOS BOND POOLING ACT PARTICIPANTS YEARLY FISCAL STATUS REPORT AND DRAW ON RESERVE DEFAULT REPORT, April, 1999 [CDIAC 99-3]

1997 MARKS-ROOS BOND POOLING ACT PARTICIPANTS YEARLY FISCAL STATUS REPORT AND DRAW ON RESERVE DEFAULT REPORT, February 1998 [CDIAC #98-1]

1996 MARKS-ROOS BOND POOLING ACT PARTICIPANTS YEARLY FISCAL STATUS REPORT AND DRAW ON RESERVE DEFAULT REPORT, February, 1997 [CDIAC #97-4]

1998 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, April, 1999 [CDIAC #99-1]

1997 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, March, 1998, [CDIAC #98-2]

1996 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, January 1997, [CDIAC #97-1]

1995 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, January 1996, [CDAC #96-1]

1994 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, December 1994, [CDAC #94-8]

1993 MELLO-ROOS COMMUNITY FACILITIES DISTRICTS YEARLY FISCAL STATUS REPORT, December 1993, [CDAC #93-9]

¹ Please note that 1985 was the only year that this report was published separately; beginning in 1986 this information was incorporated into the "Summary of California Public Debt."

ISSUE BRIEF SERIES³

**ISSUE BRIEF NUMBER 1 - COMPETITIVE VS. NEGOTIATED SALE OF DEBT,
September 1992**

**ISSUE BRIEF NUMBER 2 - UNDERSTANDING THE UNDERWRITING SPREAD,
March 1993**

**ISSUE BRIEF NUMBER 3 - PREPARING REQUESTS FOR PROPOSALS,
October 1994**

STATE & LOCAL TAX AND BOND BALLOT MEASURES

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: RESULTS OF THE
NOVEMBER 1998 GENERAL ELECTION, March 1999 [CDIAC #99-2]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: RESULTS OF THE 1998
PRIMARY ELECTION, June 1998, [CDIAC #98-7]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: RESULTS OF THE
1996 GENERAL ELECTION, March 1997, [CDIAC #97-2]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: RESULTS OF THE 1996
PRIMARY ELECTION, June 1996, [CDAC #96-5]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: RESULTS OF THE 1994
PRIMARY AND GENERAL ELECTIONS, December, 1994, [CDAC #94-9]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: SUMMARY OF GENERAL
ELECTION, JUNE 2 AND NOVEMBER 3, 1992, March 22, 1993 [CDAC #93-1]**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: SUMMARY OF GENERAL
ELECTION, NOVEMBER 6, 1990, February 22, 1991**

**STATE AND LOCAL TAX AND BOND BALLOT MEASURES: SUMMARY OF GENERAL
ELECTION, JUNE 1990, August 1990**

**STATE AND COUNTY TAX AND BOND BALLOT MEASURES: SUMMARY OF
GENERAL ELECTION, NOVEMBER 8, 1988, February 1, 1989**

**STATE AND COUNTY TAX AND BOND BALLOT MEASURES: SUMMARY OF
GENERAL ELECTION, NOVEMBER 4, 1986, February 9, 1987**

² These are short reference documents on various public finance topics.

³ These are short reference documents on various public finance topics.

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