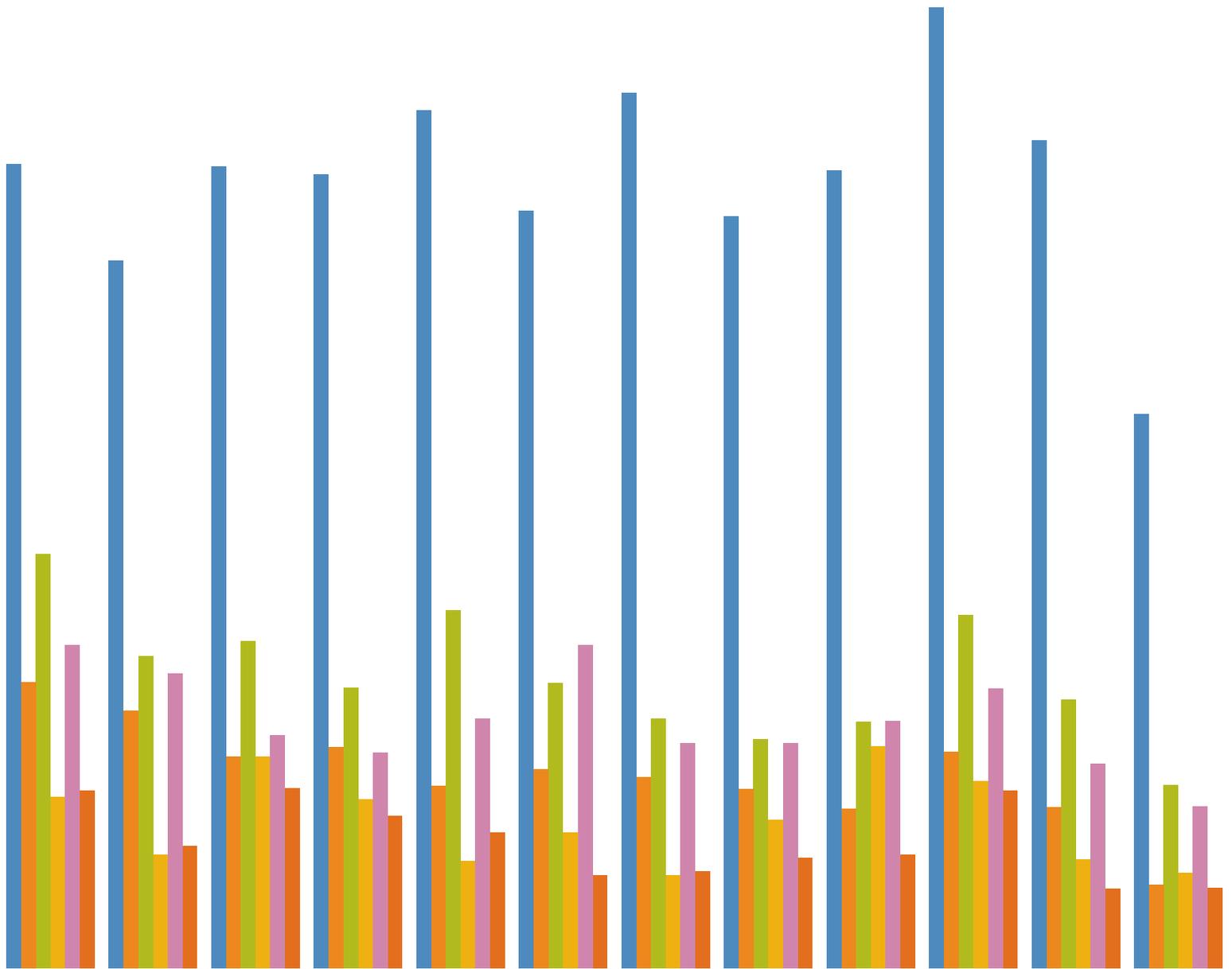


2013 ANNUAL REPORT

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC No. 14.05





May 21, 2014

To Our Constituents:

I am pleased to present the California Debt and Investment Advisory Commission (CDIAC) *2013 Annual Report*.

In 2013, the efforts of the Dodd-Frank Wall Street Reform and Consumer Protection Act to address perceived weaknesses in the municipal market became more tangible. In September, the Securities and Exchange Commission (SEC) adopted guidance on the types of financial advisory activities that are subject to federal regulatory oversight, including rules adopted by the Municipal Securities Rulemaking Board (MSRB). Throughout the year the MSRB provided guidance on a number of topics stemming from the Dodd-Frank Act, including guidance to state and local governments when hiring a municipal advisor, FAQs (“frequently asked questions”) on the expanded duties underwriters have to public issuers, and guidance and educational resources on disclosing financial information by public agencies.

These actions, as well as many others not discussed in our report, confirm the fact that life for state and local governments issuing debt continues to change. Public agencies and the ways they hire and engage financial consultants, including bankers and municipal advisors, will need to evolve as the roles and responsibilities of these consultants change. As the content and methods of communicating with market participants become subject to new rules or are clarified by legal or administrative actions, issuers will need to amend their practices to remain compliant. CDIAC provides education and research to guide California public issuers in each of these pursuits. For example, CDIAC coordinated a panel discussion at the 2013 Pre-Conference at *The Bond Buyer’s* California Municipal Finance Conference on the MSRB’s Rule G-17, pertaining to underwriter disclosures to issuers. The discussion sought to direct attention to the challenges issuers are having with these disclosures and the opportunity to improve practices.

This annual report details CDIAC’s efforts to develop and deliver programs and services that serve California state and local agencies. The nature of the municipal market and of public finance in general requires that CDIAC continue to develop new education programs and research. And to better understand the decisions made by these agencies with respect to the use of debt to continue to improve the scope and timeliness of the debt issuance data compiled by CDIAC.

We respectfully submit this report for your information and use, and with gratitude for the productivity and skill of CDIAC and its staff.

Respectfully,

Mark B. Campbell
Executive Director

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About CDIAC

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created in 1981 with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). This legislation established the California Debt Advisory Commission as the State's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring, issuance, and management of public financings. CDIAC's name was changed to the California Debt and Investment Advisory Commission with the passage of Chapter 833, Statutes of 1996 (AB 1197, Takasugi) and its mission was expanded to cover the investment of public funds. CDIAC is specifically required to:

- Serve as the State's clearinghouse for public debt issuance information.
- Publish a monthly newsletter.
- Maintain contact with participants in the municipal finance industry to improve the market for public debt issuance.
- Provide technical assistance to state and local governments to reduce issuance costs and protect issuers' credit.
- Undertake or commission studies on methods to reduce issuance costs and improve credit ratings.
- Recommend legislative changes to improve the sale and servicing of debt issuances.
- Assist state financing authorities and commissions in carrying out their responsibilities.
- Collect specific financing information on public issuance through Mello-Roos Community Facilities Districts after January 1, 1993 or as a member of a Marks-Roos Bond Pool beginning January 1, 1996; collect reports of draws on reserves and defaults from Mello-Roos Community Facilities Districts and Marks-Roos bond pools filed by public financing agencies within 10 days of each occurrence.
- In conjunction with statewide associations representing local agency financial managers and elected officials, develop a continuing education program aimed at state and local officials who have direct or supervisory responsibility for the issuance of public debt or the investment of public funds.
- Receive notice of public hearings and copies of resolutions adopted by a Joint Powers Authority for certain bonds authorized pursuant to Marks-Roos Local Bond Pooling Act of 1985.

Figure 1 summarizes CDIAC’s statutory responsibilities. To meet these, CDIAC’s divides its functions into four units: Data Collection and Analysis, Policy Research, Education and Outreach, and Administration.

Pursuant to statute, all state and local government issuers must submit information to CDIAC at two points during the debt issuance process: thirty days prior to the proposed sale date and no later than 45 days after the actual sale date. Included in these reports to CDIAC are the sale date, name of the issuer, type of sale, principal amount issued, type of financing instrument, source(s) of repayment, purpose of the financ-

ing, rating of the issue, and members of the financing team. In addition, Mello-Roos and Marks-Roos bond issuers, for as long as their bonds are outstanding, must submit a yearly fiscal status report on or before October 30th. Data compiled from these reports are the basis for public issuance statistics and analyses released by CDIAC. Since 1984, CDIAC has maintained this information in the California Debt Issuance Database – a portion of which is available on CDIAC’s website.¹

Since 1984, CDIAC has organized educational seminars focusing on public finance matters. Offered at locations throughout the State, CDIAC seminars are designed to: (1) introduce new public

Figure 1

CDIAC STATUTORY PROVISIONS

FUNCTION	CALIFORNIA CODE SECTION	DESCRIPTION OF PROVISIONS
CDIAC Authorizing Statute	Government Code Section 8855 - 8859	Establishes CDIAC’s duties
Report of Proposed Sale of Public Debt	Government Code Section 8855(i)	Requires the issuer of any proposed debt issue of a state or local government to, no later than 30 days prior to the sale, give written notice to CDIAC of the sale.
Report of Final Sale of Public Debt	Government Code Section 8855(j)	Requires the issuer of any new debt issue of a state or local government to submit, not later than 45 days after sale, a report of final sale to CDIAC including specific information about the transaction.
Mello-Roos Reporting Requirements	Government Code Section 53359.5(a) thru (c) and 53356.05	Reporting requirements: debt issuance, annual debt service, default, reserve draw, specific events affecting the value of outstanding bonds, and annual status.
Marks-Roos Reporting Requirements	Government Code Section 6586.5, 6586.7, 6599.1(a), 6588.7 (e) (2), 6599.1(c)	Reporting requirements: notice of hearing authorizing bond sale, copy of resolution authorizing bonds, written notice of proposed sale, debt issuance, annual debt service, default, reserve draw, rate reduction bond savings, and annual status.
General Obligation Bond Cost of Issuance	Government Code Section 53509.5(b)	Reporting requirements: cost of issuance of bonds issued by city, county, city and county, school district, community college district or special district.
Refunding Bonds Sold at Private Sale or on a Negotiated Basis	Government Code Section 53583(c)(2) (B)	Reporting requirement: written statement from public district, public corporation, authority, agency, board, commission, county, city and county, city, school district, or other public entity or any improvement district or zone explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at public sale.
School District Reporting	Education Code Section 15146(c) and (d)	Reporting requirements: cost of issuance of bonds issued by a school district and report of sale or planned sale by a school district.

¹ While CDIAC has collected information since January 1, 1982, the database contains information from 1984 to present day.

finance staff to the bond issuance and investment processes; (2) strengthen the expertise of public officials familiar with issuance and investment processes; and (3) inform public officials about current topics that may affect public issuance and the investment of public funds. The majority of the public officials who attend CDIAC seminars are from local agencies; while as many as 25 percent are employed by state and federal agencies.

Commission members and industry professionals advise CDIAC staff on areas of interest for potential research and analysis. CDIAC's researchers also draw on information from the California Debt Issuance Database, public and private municipal finance experts, periodicals, and journals to publish reports, briefs, and articles on topics related to public debt and investing. Publications are intended to apprise issuers and investors of emerging trends in public finance and to preserve the integrity and viability of the public finance market.

CDIAC COMMISSION MEMBERS

The Commission may consist of between three and nine members, depending on the number of appointments made by the Treasurer or the Legislature. Three statewide-elected officials – the State Treasurer, State Controller, and Governor or Director of Finance – serve *ex officio*. Statute names the Treasurer to be chair. Local government associations, such as the League of California Cities, may nominate two local finance officers for appointment by the Treasurer. The Senate Rules Committee and the Speaker of the Assembly may each appoint two members. Appointed members serve at the pleasure of their appointing power and otherwise hold four-year terms.

The 2013 Commission members serving as of June 30, 2013 included:

BILL LOCKYER
California State Treasurer
Residence: Hayward, California

Background: As State Treasurer, Mr. Lockyer draws on leadership, management and policy-

making skills developed over a public service career spanning more than three decades. Mr. Lockyer served for 25 years in the California Legislature, culminating his Capitol career with a stint as Senate President pro Tempore. He served eight years, from 1999-2006, as California Attorney General and left a lasting legacy. Among his landmark achievements as Attorney General, Mr. Lockyer revolutionized crime fighting in California by creating and maintaining the nation's most sophisticated DNA forensic laboratory, established the Megan's Law website and recovered billions of dollars for defrauded energy ratepayers, consumers and taxpayers.

Mr. Lockyer completed his undergraduate study at the University of California, Berkeley, and earned a law degree from McGeorge School of Law in Sacramento while serving in the State Senate. He also holds a teaching credential from California State University, Hayward.

EDMUND G. BROWN
Governor of California
Residence: Sacramento, California

Background: Edmund G. Brown Jr., known as Jerry, was elected Governor of California in November 2010. Governor Brown has held other elected positions including member of the Los Angeles Community College Board of Trustees, Secretary of State, Governor (1975 to 1983), Mayor of Oakland, and California Attorney General.

Governor Brown received his Bachelor of Arts degree in classics from the University of California at Berkeley and his law degree from Yale Law School.

JOHN CHIANG
California State Controller
Residence: Torrance, California

Background: Mr. Chiang serves as California's State Controller. He presides over 76 boards and commissions, including the Franchise Tax Board, the California Public Employees' Retirement System Board, and the California State Teachers' Retirement System Board. Prior to

his election as State Controller, he served on the Board of Equalization in 1998, leading with innovative taxpayer-friendly services like the State's free income tax return preparation service, ReadyReturn.

Mr. Chiang holds a degree from the University of South Florida and a Juris Doctor from the Georgetown University Law Center.

BILL EMMERSON

State Senator, 23rd District

Residence: Hemet, California

Background: After serving in the California State Assembly, Bill Emmerson was elected to the California State Senate in June of 2010. He serves as Vice Chair of the Budget and Fiscal Review Committee and the Business, Professions and Economic Development Committee. Senator Emmerson is also a member of the Governance and Finance Committee, the Human Services Committee, and the Rules Committee. In addition, he twice served as Chair of the Inland Southern California Caucus, a bipartisan group dedicated to uniting legislators of both Chambers around issues facing the Inland Southern California region.

Senator Emmerson graduated from La Sierra University in Riverside, with a Bachelor of Arts degree in history and political science. He received his D.D.S. degree in 1980 from Loma Linda University and continued his dental studies in orthodontics, graduating with his M.S. degree in 1982.

CAROL LIU

State Senator, 21st District

Residence: La Cañada Flintridge, California

Background: Carol Liu was elected to the California State Senate in 2008. Senator Liu serves as the Chair of the Senate Human Services Committee and the Budget Subcommittee on Education. She also serves on the following committees: Banking and Financing Institutions, Budget and Fiscal Review, Educa-

tion, Governance and Finance, and Public Safety. She represented the 44th Assembly District from 2000-2006. Prior to her election to the State Assembly, she served eight years as a City Councilmember, including two terms as Mayor of the City of La Cañada Flintridge.

Senator Liu graduated from San Jose State College, earned a teaching and administrative credential from University of California, Berkeley, and spent 17 years working in public schools.

STEVE FOX

Assembly Member, 36th District

Residence: Palmdale, California

Background: Los Angeles County Assemblymember Steve Fox is a life-long resident of Los Angeles County. He earned a bachelor's degree in political science from California State University, Northridge in 1976 and worked as a teacher in the Los Angeles Unified School District. After passing the bar exam in 1994, he opened his own law firm in Lancaster, California. Steve has been a public servant throughout his adult life. He was a member of the board of the Northwest Los Angeles Resource Conservation District from 1979 to 1983 and also served as a student trustee of the L.A. Community College District from 1982 to 1983. In 1990, he was elected to the Antelope Valley Health Care District's Board of Trustees and chaired the panel from 2000 to 2002. From 2005 to 2009, Assemblymember Fox sat on the Board of the Antelope Valley College District.

HENRY T. PEREA

Assembly Member, 31st District

Residence: Fresno, California

Background: Assemblymember Perea represents the 31st Assembly District that includes the Central Valley communities of Cutler-Orosi, Dinuba, Firebaugh, Fowler, Kerman, Mendota, Parlier, Reedley, Sanger, San Joaquin, Selma and Fresno. He currently serves on the Agriculture, Banking and Finance, Governmental Organization, and Revenue and Taxation Committees,

and the Select Committees on Job Creation for the New Economy, and Renewable Energy Economy in Rural California. He began his career in public service with an internship with Congressman Cal Dooley and was later elected to serve on the Fresno City Council.

Assemblymember Perea completed the *Senior Executives in State and Local Government* program at Harvard's John F. Kennedy School of Government.

JOSÉ CISNEROS

*Treasurer of the City and County of San Francisco
Residence: San Francisco, CA*

Background: As Treasurer, Mr. Cisneros serves as the City's banker and Chief Investment Officer, and manages tax and revenue collection for San Francisco. In 2006, Mr. Cisneros launched the Bank on San Francisco program, the first program in the nation to address the needs of unbanked residents by actively partnering with financial institutions to offer products and services to lower-income consumers. In addition, he worked to establish the Office of Financial Empowerment, only the third municipal office nationwide dedicated to stabilizing the financial lives of low-income families.

Mr. Cisneros received his Bachelor of Science from the Massachusetts Institute of Technology, Sloan School of Management and studied for his Master of Business Administration at Boston University. He is also a graduate of the International Business Program at Stichting Nijenrode University in the Netherlands.

JAY GOLDSTONE

*City of San Diego Chief Operating Officer
Residence: San Diego, CA*

Background: Mr. Goldstone retired as Chief Operating Officer in June 2012. While in that role he oversaw the City's daily operations and implemented Mayoral and Council initiatives and policies. Prior to this appointment, Mr. Goldstone served as the City's first Chief Financial Officer. Mr. Goldstone has had a successful thirty-year career in municipal finance and came to San Diego from the City of Pasadena where he served as the Director of Finance.

Mr. Goldstone holds a Master of Business Administration from the University of Santa Clara, Master of Public Administration from Arizona State University, and Bachelor of Science from the University of Minnesota.

Highlights from the 2013 California Municipal Market

REGULATORY ACTIONS AGAINST MUNICIPALITIES AND THEIR EMPLOYEES

The Securities and Exchange Commission (SEC) assumed a greater role in municipal finance in 2012 when its Enforcement Division formed the Municipal Securities and Public Pensions Unit. At the time, the unit targeted five priority enforcement areas — offering and disclosure fraud, tax or arbitrage-driven fraud, pay-to-play and public corruption violations, public pension accounting and disclosure violations, and valuation and pricing fraud. 2013 can be distinguished by the number and importance of enforcement actions taken by the SEC as it follows through on this commitment. In many of these actions, the common theme was the nature and timing of municipal disclosures. In particular, the SEC reiterated the need for issuers to develop and implement disclosure policies and procedures.

In Harrisburg, Pennsylvania, the SEC issued a cease and desist order charging the City of Harrisburg with fraud on the basis of misrepresentations or omissions in public statements and financial reports. The SEC found the City had failed to meet its post-issuance continuing disclosure responsibilities. In the absence of available

information, market participants were dependent upon public statements made by the City's elected officials. The City's problems with the SEC can be traced to its failure to timely and accurately prepare financial statements in compliance with its continuing disclosure obligations. In light of the SEC's actions in Harrisburg, municipalities should take care to adopt a robust continuing disclosure compliance plan, designate responsible municipal officers or employees to carry out the plan, provide necessary training to those officers and employees, and engage professionals to assist as necessary.

In South Miami, Florida the SEC charged the City of South Miami with defrauding investors in connection with the tax-exempt status of a mixed-use retail and parking structure. According to the SEC, the City failed to act on advice from bond counsel that the use of the publicly financed portions of the project posed a tax problem. On two subsequent occasions the City incorrectly reported that the City was in compliance with tax laws regarding private use of the project. The actions highlight the importance of understanding the restrictions involved with respect to tax-exempt financing and the value of having post-issuance compliance procedures for both tax and disclosure matters in place.

The SEC found that the West Clark Community Schools in southern Indiana misled investors in a 2007 bond offering by falsely stating to bond investors that the school district had been properly providing annual financial information and notices required as part of its prior bond offerings.

The SEC charged the State of Illinois with securities fraud for misleading municipal bond investors about the State's approach to funding its pension obligations. The SEC found that the State failed to inform investors about the impact of problems with its pension funding schedule even as the State offered and sold more municipal bonds.

The SEC charged the Greater Wenatchee Regional Events Center Public Facilities District (central Washington) with misleading investors in a bond offering that financed the construction of a regional events center and ice hockey arena. According to the SEC, the District's official statement used in the offering and sale of bond anticipation notes stated there had been no independent review of financial projections for the events center being financed even though an independent consultant twice examined the projections and raised questions about the center's economic viability. Also charged were the underwriter, the outside developer of the project, the District's executive services director who signed off on the disclosure document, and other individuals involved in the offering. The District agreed to settle the SEC's charges by paying a \$20,000 penalty and undertaking remedial actions. It was the first time that the SEC assessed a financial penalty against a municipal issuer.

In actions still pending, the SEC has charged the City of Miami, Florida with violating a previous cease and desist order by failing to adequately disclose matters relating to certain fiscal year-end interfund transfers that, according to the SEC, hid a declining financial condition and thereby misled investors in the City's 2009 bond offerings. The SEC charged the City of Victorville, California with defrauding investors by including what the SEC alleges are inflated valuation

figures for certain property in connection with a tax increment financing for airport improvements in 2008.

REGULATORY REFORM—THE MUNICIPAL ADVISOR RULE

In July 2010, Congress passed the Dodd-Frank Act, which included a provision to protect municipalities, taxpayers, and investors from conflicted advice and unregulated advisors. In particular, the Dodd-Frank Act requires the SEC to adopt a rule requiring these municipal advisors to register with the SEC and comply with a set of regulations that would be issued by the Municipal Securities Rulemaking Board (MSRB). Soon after the Dodd-Frank Act was passed, the SEC issued a temporary rule requiring municipal advisors to register with the SEC by October 2010.

In December 2010, the SEC proposed a permanent rule governing the registration process. By requiring municipal advisors to register on a permanent basis, the SEC will obtain substantial information that will enhance its oversight of municipal advisors and their activities in the municipal securities market. In response, the SEC received over a 1,000 comment letters on the proposed rule citing specific concerns with the designation of board members of municipal entities as municipal advisors. In September, 2013 and, after substantial effort, the SEC adopted the final rule (MA rule), clarifying who is and isn't a municipal advisor and offering guidance on when a person is providing "advice" for purposes of the municipal advisor definition.

The MA rule impacts market participants in different ways. Because the rule characterizes as advice some services underwriters have historically offered, issuers are likely to experience some changes in their relationships to underwriters and to municipal financial advisors who seek to find ways to provide their traditional services in a manner consistent with the rule. Many underwriters will likely seek to be exempt from the definition of municipal advisor and the fiduciary

duty obligation. They will endeavor to avoid providing advice the SEC considers outside of the scope of underwriting unless it is (i) in response to a proposal from the issuer or (ii) the issuer is represented by an independent registered municipal advisor. The second of these options will require the issuer to make representations to, and receive disclosures from, the underwriters. In addition, financial advisors will be regulated, possibly changing how they interact with issuers.

There has been mixed reactions to the MA rule as might be expected. The Securities Industry and Financial Markets Association (SIFMA) believes that the MA rule has the potential to fundamentally inhibit the way issuers interact with public finance bankers. SIFMA is concerned that issuers will not be presented with deal ideas, analysis, suggestions, and related services from bankers and dealer firms outside of a formal underwriter engagement or RFP submission. Because many issuers may lack the ability to hire an “independent registered municipal advisor,” the rule will severely limit their exposure to ideas, suggestions, analysis, assistance or other services available through broker-dealers and bankers.

RULEMAKING–DEALER POLITICAL CONTRIBUTIONS

Early in 2013, the MSRB filed proposed rule changes with the SEC that would require dealers to disclose more information about contributions to issuers’ bond ballot campaigns and any resulting underwriting agreements. The proposal, which amends Rule G-37 on political contributions and Rule G-8 on books and records, has a few modifications from the initial version that the MSRB released for public comment in August. The changes would clarify the nature of “in kind” contributions and limit disclosures to contributions made by dealers and their employees during the previous two years.

To support the distribution of such disclosures, the MSRB enhanced its Electronic Municipal Market Access (EMMA) system to allow deal-

ers to post political contributions made to issuer officials, state and local political parties, and bond ballot campaigns. In April 2013, the SEC approved the expanded disclosure of contributions through the EMMA system. The new requirements are intended to address concerns that dealer political contributions will influence the issuer’s decision to hire dealers as underwriters.

RULEMAKING–DEALER DISCLOSURES

In August 2012, the MSRB adopted an interpretive notice on the fair practice duties that brokers, dealers, and municipal securities dealers acting as underwriters owe to issuers of municipal securities. To support this effort, the MSRB issued Frequently Asked Questions guidance in March 2013 and a second interpretative notice on the application of Rule G-17 to broker-dealers in August 2013. Rule G-17 currently says that muni dealers and advisors must deal fairly with all persons and may not engage in any deceptive, dishonest or unfair practice. The MSRB has interpreted G-17 to require a dealer to disclose to an issuer such things as its relationship to the issuer and the key terms and risks of complex transactions, and to obtain affirmation from the issuers that they have received such disclosures. Market participants, including broker-dealers and issuers, are unclear about the structure and content of these disclosures. Because of this, broker-dealers may be inclined to “over-disclosing” information they feel material to their transactions. Some issuers, concerned that they might be surrendering legal rights, have declined to sign an affirmation of receipt of the dealers’ G-17 disclosures.

THE EFFECT OF BANKRUPTCY ON GENERAL OBLIGATION SECURITIES

In July, the MSRB issued a statement saying that investors need to consider the nature of the general obligation securities they hold in light of the Detroit bankruptcy. The MSRB added that Detroit’s effort to treat GO bondholders as holders of unsecured debt highlights the need for investors and market professionals to understand that

the strength of the GO pledge might vary from jurisdiction to jurisdiction. This followed a report published by Moody's declaring that "Not All General Obligation Bonds Are Equal." The market had come to assume that all local general obligation bonds had the same legal and financial support. In the wake of the Detroit bankruptcy and the treatment of the City's general obligation debt, it became important to distinguish general obligation bonds from general fund obligations such as leases and certificates of participation.

FACTORS AFFECTING THE MARKETABILITY OF MUNICIPAL BONDS

For more than a year both President Obama and Congress have been weighing different alternative reforms that directly affect the taxability of municipal bonds. While these discussions have been little more than proposals, House Ways and Means Committee Chairman Dave Camp seems determined to make good on his promise to overhaul the tax code. In the past, Camp has said that he wants tax reform to be revenue neutral and to lower the top individual and corporate tax rates to 25 percent. Doing so would directly impact municipal bonds because maintaining a revenue neutral position while lowering rates means that reforms would have to eliminate exemptions or deductions, including those for municipal bonds. Without the beneficial tax treatment municipal bonds receive currently, investor demand will decline and borrowing costs will rise for municipalities.

On March 1, sweeping sequestration cuts to the federal budget, mandated by the Budget Control Act of 2011, were ordered; some of which directly affect a portion of the municipal bond market. Among the reductions are interest subsidy payments the federal government makes to issuers of "direct pay bonds" such as the Build America Bonds, recovery zone economic development bonds, most qualified school construction bonds, qualified zone academy bonds, new clean renewable energy bonds, and qualified energy conservation bonds. Interest payments were reduced by

7.2 percent through September 30, 2014, and by a percentage yet to be announced thereafter.

On December 10, 2013, several federal agencies, including the SEC, approved the Volcker Rule to restrict an insured depository institution and its affiliates from: engaging in proprietary trading; acquiring or retaining any equity, partnership, or other ownership interest in a hedge fund or private equity fund; and sponsoring a hedge fund or a private equity fund. The Rule, however, includes an exemption for municipal securities. Had they not been excluded, the Rule might have negatively affected liquidity and pricing and made it more difficult for municipalities to raise capital for public projects.

Finally, federal banking regulators are still mulling over liquidity requirements under Basel III, an international banking accord seeking to establish voluntary regulatory standards on global banking. The requirement currently excludes municipal securities from the category of High Quality Liquid Assets. If regulators implement these requirements as currently drafted banks may become less willing to purchase municipal bonds.

FISCAL STRESS ON MUNICIPALITIES

More than four years after the "official" end of the Great Recession, municipalities in U.S. continue to struggle. Revenues have yet to rise to pre-Recession levels and the cost of reduced services and investment is beginning to show. But even as the economy recovers and hope returns, the threat of rising pension liabilities looms. In California and elsewhere where pension reforms promise long-term relief to communities, surviving the time between now and the time pension systems begin to reap the benefits of those reforms becomes paramount. By all projections, pension costs will continue to consume an increasing share of public budgets, competing with investments in services, facilities, and infrastructure. The question of how to respond to this threat is as much a challenge for policy mak-

ers as it is for the municipal market. In response, regulatory entities, ranging from the MSRB to GASB, the SEC to the IRS, have been focusing on the content and timing of disclosures regarding pension liabilities. Full and timely disclosure is fundamental to an efficient market.

Pension liabilities play into the security underlying municipal securities in a more fundamental way, however. In the case of the City of San Bernardino's bankruptcy, the California Public Employees Retirement System (CalPERS) has

argued that the City's obligation to make its annual required contribution to the retirement system trumps any other obligations of the City, including, by effect, general obligation bonds. Even though the San Bernardino bankruptcy does not involve general obligation bonds the point remains that a ruling in the case that supports the arguments of CalPERS may well apply to municipal bankruptcies in the future that do involve general obligation bonds. Investors are sure to take note of the court's decision and subsequent appeals.

California Outstanding School General Obligation Bond Authority

K-14 VOTER APPROVED GENERAL OBLIGATION BONDS: AUTHORIZED, BUT UNISSUED

In June 1986, California voters approved Proposition 46, a constitutional amendment that restored to counties, cities, and school districts the authority to issue general obligation bonds. Since then, general obligation bonds have become the primary financing tool used by California school and community college districts to develop or improve school facilities.

General obligation bonds, also called G.O. bonds, backed by the full faith and credit of the issuing agency, are paid for by increasing local property taxes above the limit imposed by Proposition 13. G.O. bonds require two-thirds voter approval to be issued. The agency issuing a G.O. bond is authorized to levy (via the county treasurer) an ad valorem property tax at the rate necessary to repay the principal and interest on the bonds.

The total amount of outstanding city, county, or school district debt was limited by Proposition 46 and is based on the assessed valuation (AV) of the property within their boundaries.²

In November 2000, voters in California approved Proposition 39 - the “Smaller Classes, Safer Schools and Financial Accountability Act” - that amended portions of the California Constitution to provide school districts the authority to issue a G.O. bond with just 55 percent voter approval. A school district may decide to seek approval under Proposition 46 or Proposition 39, but under Proposition 39 the district additionally agrees to issue an amount of bonds that can be repaid by property taxes generated by a *limited* tax rate.³

Since the passage of Proposition 39, 98 percent of the California school and community college bond issuance authority has been granted by voters through elections under Proposition 39 and, as a result, districts are pledging to issue only the debt that can be serviced within their tax

² The G.O. debt limit for unified school districts and community college districts is 2.5 percent of AV. The limit is half as much for elementary and high school districts (1.25 percent of AV).

³ Under Proposition 39, the total of all bonds issued under any single bond ballot measure of an elementary or high school district can require taxes of no more than \$30 per year per \$100,000 of assessed property value of the district. For unified school districts, the limit is \$60, and for community colleges it is \$25.

rate limitations.⁴ Generally, the amount of bond authority sought in an election, is not based on the debt that can be serviced from the tax revenues generated from the district immediately, but from tax revenues generated over time as the value of property in the district increases. Therefore, school and community college districts issue these bonds under an approved authority over a number of years, in multiple issuances, staying within the Proposition 39 tax rate limits and the Proposition 46 limitations on total outstanding bonds. The combined limitations cause districts to only issue bonds that they can afford to repay based on their tax revenue projections. This means that districts, as a group, will always have more bond authority than they have bonds issued.

Given the enormous swings in property values and property tax receipts before, during, and after the Great Recession, CDIAC undertook research to determine the amount of GO bond authority that had been granted by voters to California school and community college districts, but had not been issued. The research concluded that of the over \$90 billion of GO bond authority approved by voters since November 2002, \$37.5 billion has not been issued (Figure 2).

CDIAC identified all approved school and community college GO bond elections from November 2002 through November 2013 – 681 elections total – from its database of California bond and tax elections.⁵ This election data was cross referenced with all school and community college

Figure 2

CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT
VOTER APPROVED GO AUTHORITY VS. ISSUANCE, (REPORTED AS OF 11/19/2013)

ELECTION YEAR	NUMBER OF APPROVED ELECTIONS	VOTER APPROVED G.O. AUTHORITY (MILLIONS)	G.O. AUTHORITY ISSUED (MILLIONS)	UNISSUED G.O. AUTHORITY (MILLIONS)	PERCENT UNISSUED
2002 (a)	83	\$9,451	\$9,210	\$241	2.6%
2003	11	1,553	1,538	15	1.0
2004	112	11,561	10,792	769	6.7
2005	35	6,294	5,485	809	12.9
2006	94	10,319	7,861	2,458	23.8
2007	11	1,253	391	863	68.8
2008	142	28,001	10,844	17,157	61.3
2009	2	69	69	0	0.0
2010	62	5,055	2,648	2,407	47.6
2011	7	981	247	734	74.8
2012	116	15,286	3,496	11,790	77.1
2013	6	318	41	277	87.1
TOTAL	681	\$90,141	\$52,622	\$37,519	41.6%

(a) Includes November 2002 approved elections only. At the March 2002 election, 65 K-14 GO bond elections were approved for just over \$6 billion.

Source: CDIAC 2013

⁴ Of the 681 K-14 voter approved authorities reviewed by CDIAC, 667 (97.9%) were approved under Proposition 39.

⁵ The election data is obtained through internet search or direct contact with county clerk/voter registrar offices. Among the internet sources used by CDIAC are the websites of the League of Women Voters, the County Clerk/Voter Registrar Offices, the Secretary of State, Ballotpedia, and local newspapers.

district GO debt issuance that was reported to CDIAC under Government Code 8855(j) from January 2003 to November 19, 2013 and stored in CDIAC's California Debt Issuance Database – approximately \$95 billion in 2,800 issues.⁶ Every debt issue in the data set was reviewed by a CDIAC researcher and either coded to an approved election authority from the election dataset or determined to not reduce election authority and not assigned to an election. CDIAC staff utilized official statements from CDIAC's internal bond document database and the Electronic Municipal Market Access (EMMA) system operated by the Municipal Securities Rulemaking Board (MSRB) to verify the proper coding of the bond issue when the CDIAC data did not lead to a conclusive determination.

Under Proposition 39, bond elections may only be held on the same day as statewide general, primary or special elections, or at regularly scheduled local elections. This causes most school bond elections to be held in even numbered years (over 90 percent in this selected election data set).

As previously discussed, the timing of bond issuances under an authority is largely dependent on the availability of tax revenue to service the debt, but other factors affect the timing of issuance including the construction schedule, bond market factors, and availability of matching funds under the State Facilities Program, to name a few. Resultantly, districts issue their bonds for as many as five to ten years follow-

ing the election depending on the complexity and combination of factors. The data reveals an expected increase in the percentage of unissued authority as elections become more recent.

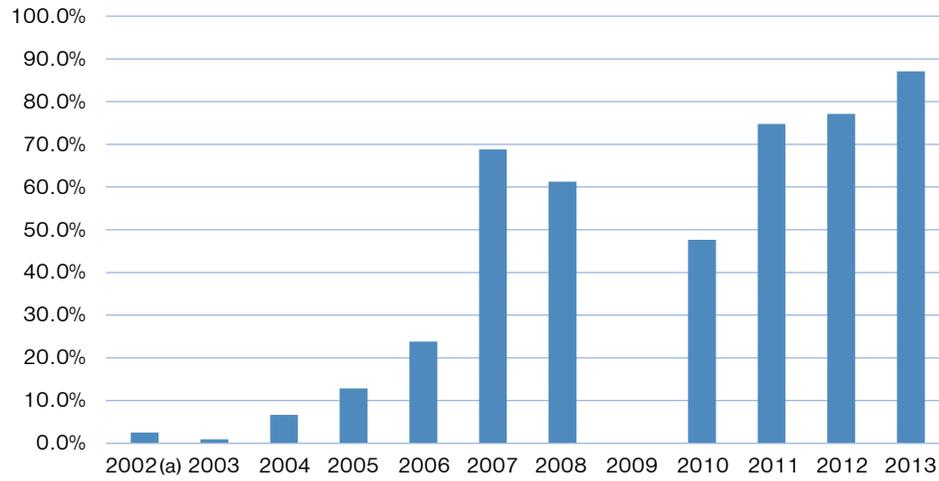
The data also reveals a marked jump in the percentage of the unissued authority post 2006 (Figure 3). California experienced successive years of property value declines beginning in 2007 and has only recently seen property values begin to regain pre-recession levels. Many districts realized that they could not pace their issuances at the rate they had planned when they put the bond authorization on the ballot. Falling property values, likely, could not support the increasing tax revenue that was required to service additional debt. CDIAC researchers also noticed that it was not uncommon for districts to return to the voters to receive additional authority before all of the prior authority was issued. Perhaps these districts were financing entirely different projects, but they may have been seeking an additional tax rate allocation to raise the tax revenues required for a new bond issue that would get their facilities programs back on schedule.

CDIAC set out to answer the basic questions related to authorized, but unissued school and community college district G.O. bonds. CDIAC researchers will continue to look beyond these initial findings to better understand the how economics and policy affect this critical type of school facility financing.

⁶ The GO bond dataset included refundings and bond anticipation notes (BANs). Refundings were counted against the district's election authority if they refunded a non-GO debt (e.g. certificates of participation, lease obligations), otherwise not. BANs were counted against the election authority only if the GO bond planned to repay the BAN had not yet been issued. In this case, using the BAN principal at issue may understate the amount of authority used when the BAN is taken out by the GO bond because it does not include accreted interest, a common BAN feature.

Figure 3

**CALIFORNIA SCHOOL AND COMMUNITY COLLEGE DISTRICT G.O. BOND AUTHORITY
PERCENTAGE UNISSUED BY ELECTION YEAR**



(a) Includes November 2002 approved elections only.

Source: CDIAAC 2013

State and Local Bond Issuance

Nationally, 2013 was the most challenging year for municipal debt issuance since 1994. Municipal debt issuance decreased nearly three percent in 2013.⁷ Several factors attributed to this, including municipal defaults in Detroit and Puerto Rico and the Federal Reserve's suggestions that it would begin to wind down its quantitative easing program.⁸ Debt issuance in California followed the nationwide trend with a 3.7 percent decrease in the volume of debt issued (\$67.4 billion in 2012 to \$64.9 billion in 2013) (Figure 4).^{9, 10} The number of debt transactions also decreased (1.4 percent) from 2,008 in 2012 to 1,979 in 2013. State and local debt issuance in 2013 was nearly 12 percent below the 10-year average of \$73.6 billion (Figure 5).

Figure 6 reports on the purposes for which debt was issued by California state and local entities.

Nearly 33 percent of the debt issued was for education, approximately 32 percent was for capital improvements and public works, and approximately 21 percent for interim financing. All other uses accounted for almost 14 percent of the total debt issued in 2013.¹¹

The notable purposes for which debt issuance decreased from 2012 were interim financing (32 percent decline) and housing (17 percent decline) (Figure 7). Standing out in a generally low-volume year was the growth in debt issuance for education purposes (25 percent) and hospital and health care facilities (8 percent). Although redevelopment agencies were dissolved, the substantial volume increase in redevelopment debt issuance was due to the refunding activity of successor agencies.

⁷ Cherney, Mike. Wall Street Journal: Municipal Bonds Wrap Up Tough Year, Dec. 25, 2013. <http://online.wsj.com/news/articles/SB10001424052702304244904579278600934977172>.

⁸ Lambert, Lisa. Reuters: Analysis: Little Respite Seen for U.S. Municipal Bonds in 2014, Dec. 15, 2013. www.reuters.com/article/2013/12/15/us-usa-municipals-outlook-analysis-idUSBRE9BE06R20131215.

⁹ Total includes short-term and long-term debt.

¹⁰ State and local issuers include the State of California and its financing authorities, city and county governments, joint powers authorities, school districts, and other public entities, including but not limited to special districts, successor agencies to redevelopment agencies, community facilities districts, and community college districts.

¹¹ "Other" projects include pensions, residential energy conservation/improvements, purchase of tax receivables from local agencies, and refunding of prior tobacco securitization bonds.

Figure 4

DOLLAR VOLUME AND NUMBER OF CALIFORNIA PUBLIC DEBT ISSUES BY TYPE OF ISSUER
2012 AND 2013 (VOLUME IN MILLIONS)*

ISSUER TYPE	2012		2013		PERCENT CHANGE IN VOLUME FROM 2012 TO 2013
	VOLUME	NUMBER	VOLUME	NUMBER	
State Issuer	\$25,989	245	\$24,254	267	-6.7%
K-12 School District	10,084	599	10,195	555	1.1
City Government	7,053	178	5,935	153	-15.9
Joint Powers Agency	7,292	566	6,539	524	-10.3
County Government	2,960	45	3,695	36	24.8
City and County Government	2,009	16	1,425	19	-29.1
Student Loan Corporation	213	1	447	1	109.8
Other Issuer	11,809	358	12,416	424	5.1
TOTAL	\$67,408	2,008	\$64,906	1,979	-3.7%

*Totals may not add due to rounding.

Figure 5

CALIFORNIA PUBLIC DEBT, ALL ISSUERS
TOTAL PAR AMOUNT BY CALENDAR YEAR
2003 TO 2013 (VOLUME IN MILLIONS)

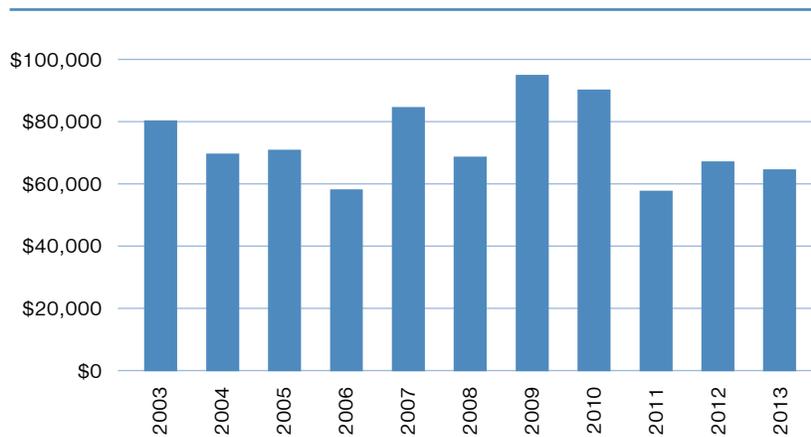


Figure 6

CALIFORNIA PUBLIC DEBT BY PURPOSE
ALL ISSUERS, 2013 (VOLUME IN MILLIONS)

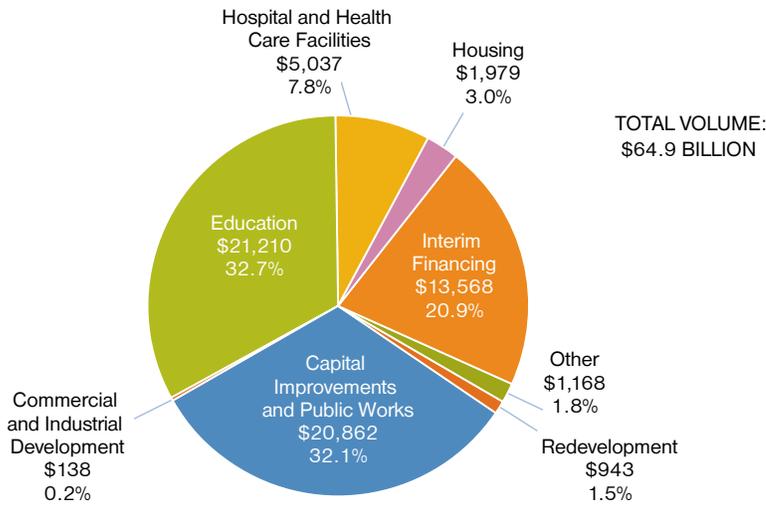
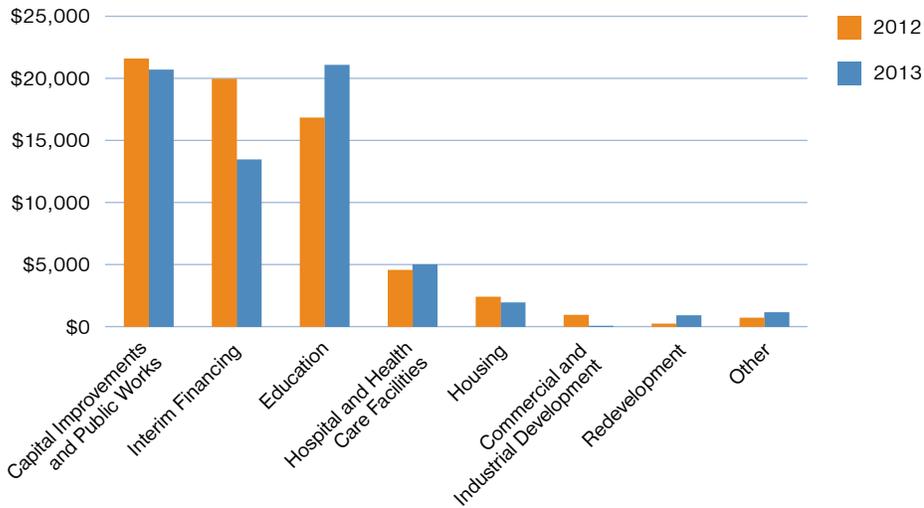


Figure 7

CALIFORNIA PUBLIC DEBT BY PURPOSE
ALL ISSUERS, 2012 AND 2013 (VOLUME IN MILLIONS)



LONG-TERM DEBT VS. SHORT-TERM DEBT ISSUANCE¹²

In 2013, public agencies issued nearly \$51 billion in long-term debt – approximately 78 percent of total issuance for the year (Figure 8). The remaining \$14 billion was issued as short-term debt instruments, maturing in 18 months or less. Total long-term debt issuance increased by approximately eight percent from 2012 to 2013 while short-term issuance declined by approximately 30 percent.

In 2013, long-term issuance consisted primarily of general obligation bonds, public enterprise revenue bonds, and conduit revenue bonds. Major increases from 2012 to 2013 occurred in tax allocation bonds associated with the previously mentioned refunding of redevelopment debt, general obligation notes, and bank/other institution loans.

The decrease in short-term issuance (30 percent decline) was due primarily to the decreases in revenue anticipation notes (50 percent decline) and commercial paper (26 percent decline). Other types of short-term debt declined as well, includ-

ing tax anticipation notes (15 percent decline), certificates of participation (11 percent decline), and tax and revenue anticipation notes (9 percent decline). Bond anticipation notes are the only short-term debt instrument that increased, nearly four times the issuance in 2012.

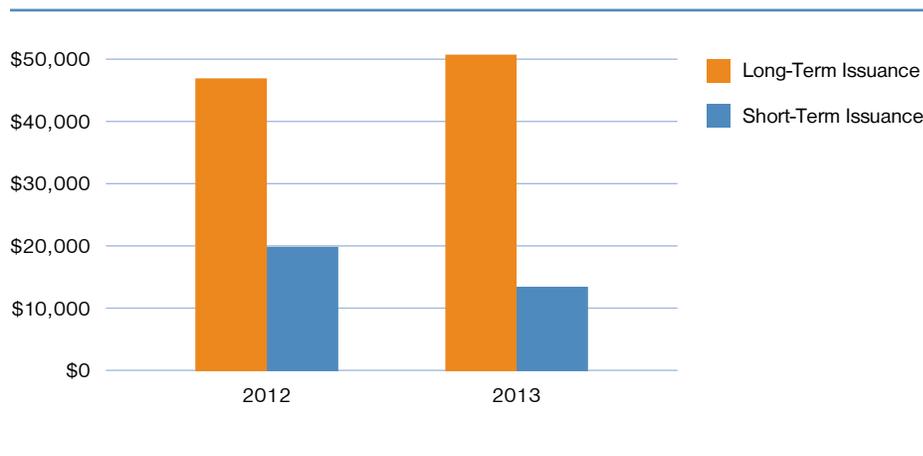
NEW MONEY ISSUES VS. REFUNDING

As with debt issuance overall, both new money and refunding decreased in California by 1.3 percent and 6.9 percent, respectively, from 2012 to 2013 (Figure 9). However, the decline in refunding activity in California was not nearly as drastic as was seen nationally where refunding decreased by 51 percent.¹³

The State of California refunded approximately \$11 billion in outstanding debt, almost 47 percent of the State’s total issuance in 2013. Among local issuers with debt issuance of more than \$1 billion, the average percent of refunding was more than a third of their total issuance (38 percent). The share of refunding issuance among large local issuers was not different from all local issuers where 38 percent was issued to refund existing debt.

Figure 8

CALIFORNIA PUBLIC DEBT, ALL ISSUERS
COMPARISON OF LONG-TERM AND SHORT-TERM DEBT
2012 AND 2013 (VOLUME IN MILLIONS)



¹² Definitions of short-term debt differ within the finance community. CDIAC considers all forms of debt with an 18 month term or less as short-term and applies this definition to its reports and analyses of public debt.

¹³ SIFMA: *Research Quarterly, Fourth Quarter 2013, Research Report* (2013) 3.

Figure 9

CALIFORNIA PUBLIC DEBT, ALL ISSUERS
COMPARISON OF NEW AND REFUNDING ISSUANCE
2012 AND 2013 (VOLUME IN MILLIONS)

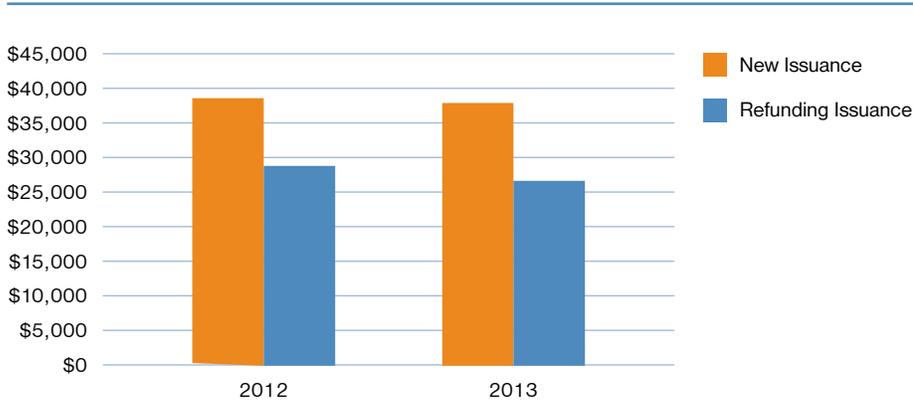
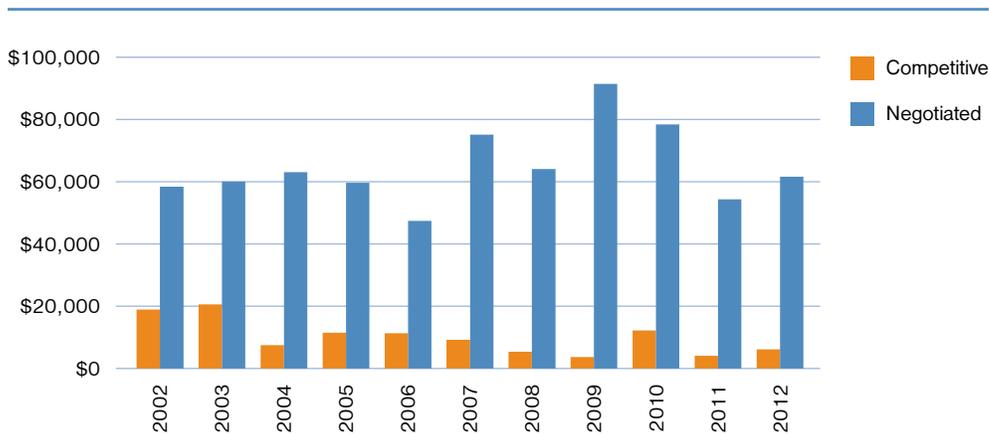


Figure 10

CALIFORNIA PUBLIC DEBT, ALL ISSUERS, COMPETITIVE AND NEGOTIATED FINANCINGS
2003 TO 2013 (VOLUME IN MILLIONS)



COMPETITIVE VS. NEGOTIATED TRANSACTIONS

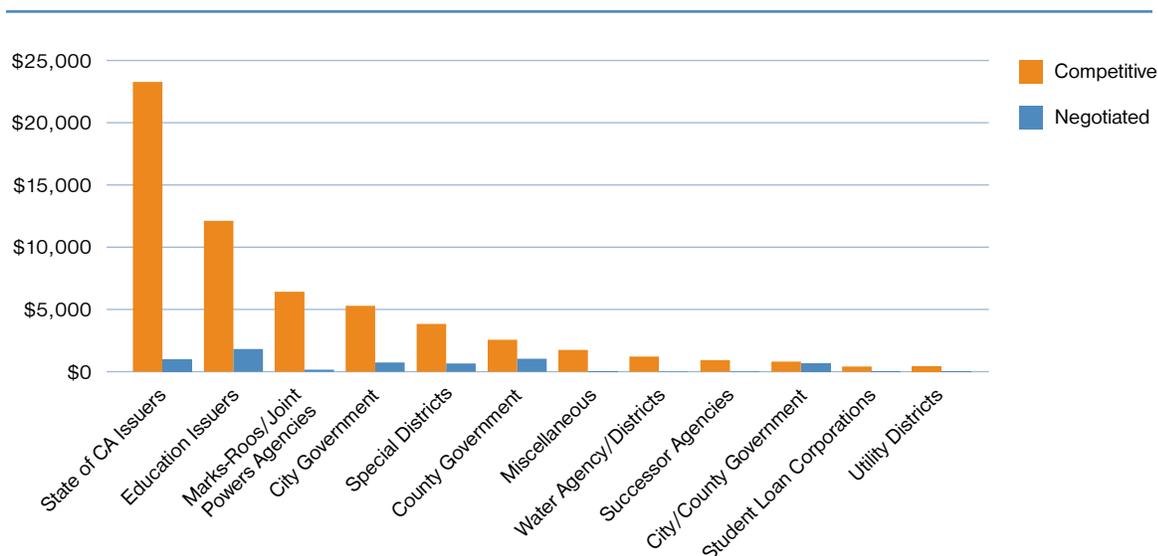
Public agencies have the ability to sell their debt through either a competitive or negotiated sale method. In a negotiated sale the issuer selects the underwriter and negotiates the sale prior to the issuance of the bonds. In a competitive sale underwriters submit sealed bids on a date specific and the issuer selects the best bid according to the notice of sale. In 2013, 90.9 percent of sales by California public debt issuers were negotiated. The trend over time has consistently favored negotiated sales by a wide margin. Since 2003,

roughly 88 percent of California public debt has been issued through a negotiated sales approach. (Figure 10).

When considering the choice of sales methods, all issuers preferred a negotiated sale (Figure 11). Successor agencies, student loan corporations, and utility districts conducted all negotiated sales. Both issuer characteristics and financial conditions may contribute to the selection of one method over another. For example, the strength of the credit, size of issue, type of debt instrument, and/or complexity of the structure may warrant the use of a negotiated

Figure 11

CALIFORNIA PUBLIC DEBT, COMPARISON OF NEGOTIATED AND COMPETITIVE SALES BY ISSUERS TYPE, 2013 (VOLUME IN MILLIONS)



sale method. However, as clearly evident in the prevalence of the method in the California municipal market, the negotiated sale method is very commonly used in more routine “vanilla” offerings, as well.

TAXABLE DEBT

Public issuers may utilize taxable bonds for certain projects or parts of a project that do not meet federal tax-exempt requirements (generally for projects that provide benefits to private entities as defined by tax code). Investor-led housing projects, local sports facilities, and borrowing to replenish a municipality’s underfunded pension plan are examples of bond issues that are federally taxable. The percentage of taxable issuance in 2013 increased to 7.3 percent in 2013 from 6.3 percent in 2012 (Figure 12).

CREDIT ENHANCEMENTS

In 2013, the percentage of credit enhanced debt increased to 8.4 percent from 7.4 percent in 2012 (Figure 13). Additionally, the overall volume of credit enhanced debt increased 23.1 percent to \$4.3 billion in 2013 from \$3.5 billion in 2012. Nationally, insured bonds took up a slightly larger share of new debt sales in 2013, representing 3.9 percent of all municipal bond issuance dollars compared to 3.6 percent in 2012.¹⁴

STATE DEBT ISSUANCE IN 2013

In 2013, the State of California issuers sold \$21.4 billion in debt, of which approximately \$15.9 billion was in the form of long-term debt and \$5.5 billion in short-term notes.¹⁵ State issuance ac-

¹⁴ Reuters: U.S. Municipal Bond Insurance’s Contraction Slowed in 2013, Jan. 17, 2014. www.reuters.com/article/2014/01/17/usa-municipals-insurance-idUSL2NOKR1JK20140117.

¹⁵ In addition to the State of California, state issuers include the California Department of Water Resources, California Educational Facilities Authority, California Health Facilities Financing Authority, California Housing Finance Agency, California Infrastructure & Economic Development Bank, California Pollution Control Financing Authority, California School Finance Authority, California State Public Works Board, Golden State Tobacco Securitization Corporation, The Regents of the University of California, and Trustees of the California State University.

Figure 12

CALIFORNIA PUBLIC DEBT, ALL ISSUERS,
COMPARISON OF TOTAL VOLUME TO TAXABLE FINANCINGS
2012 AND 2013 (VOLUME IN MILLIONS)

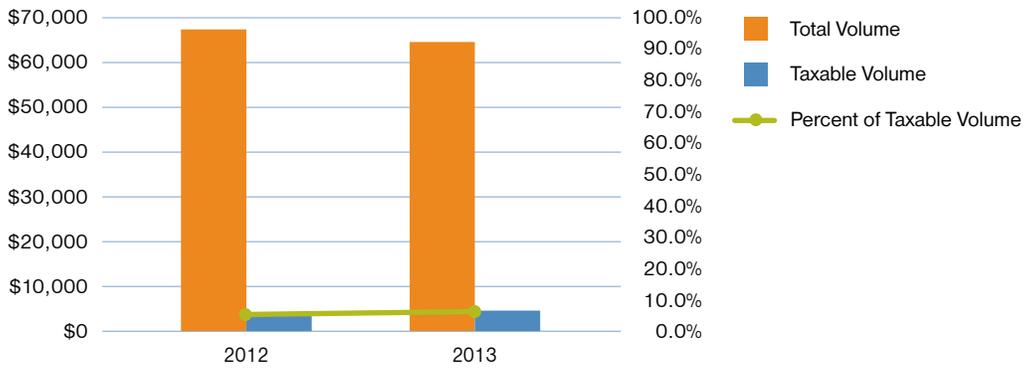
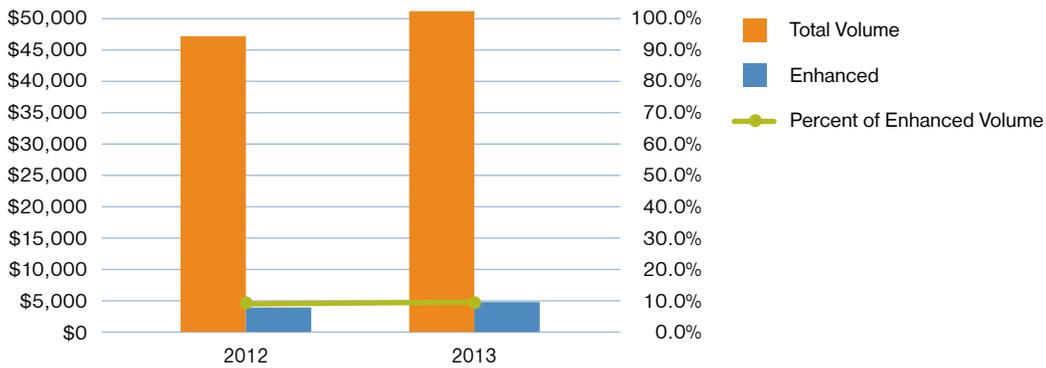


Figure 13

CALIFORNIA PUBLIC DEBT, COMPARISON OF TOTAL VOLUME TO ENHANCED VOLUME*
2012 AND 2013 (VOLUME IN MILLIONS)



*Does not include interim financing.

counted for approximately 38 percent of all debt issued by public agencies in California.

Between 2012 and 2013, state entities increased the issuance of general obligation bonds (47 percent), revenue bonds (39 percent), and other bonds (100 percent) (Figure 14). However, the issuance of revenue anticipation notes (RAN) decreased (50 percent decline).

Between 2012 and 2013, state issuance increased most notably for education (27 percent), and capital improvements and public works (36 per-

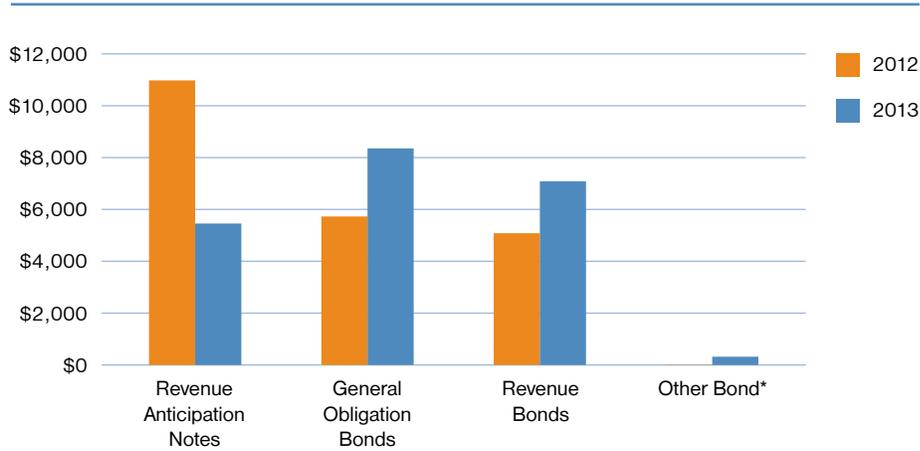
cent). While small relative to education and public works, hospital and health care facilities showed substantial growth in 2013 (Figure 15). State issuance for “other” purposes was a \$375 million tobacco securitization refunding bond. Decreases in state issuance only occurred with interim financing (50 percent decline).

OTHER STATE ISSUERS AND CONDUIT ISSUANCE IN 2013

Issuance by state instrumentalities, including conduit bond issuers, decreased 22 percent in

Figure 14

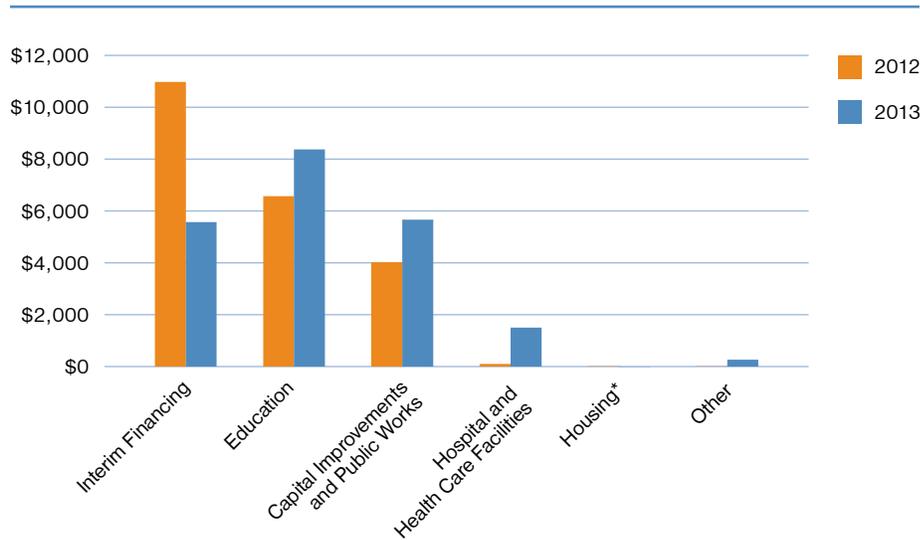
STATE DEBT ISSUANCE, 2012 AND 2013 (VOLUME IN MILLIONS)



* Tobacco Securitization Bond

Figure 15

STATE DEBT ISSUANCE BY PURPOSE, 2012 AND 2013 (VOLUME IN MILLIONS)



* Volume for housing: \$625,000 in 2012 and \$805,000 in 2013.

2013, but comprised nearly 5 percent (\$3.2 billion) of all public agency issuance in 2013.¹⁶

Among state conduit bond issuers, financings for most purposes decreased from 2012 to 2013 with the exception of education (64 percent) and capital improvements and public works (181 percent) (Figure 17). Although issuance for capital improvements and public works nearly tripled, there was no new money issued for this purpose.

STUDENT LOAN FINANCE CORPORATION ISSUANCE IN 2013

CDIAC typically receives filings from three classifications of student loan entities: private corporations, non-profit corporations, and the California Education Facilities Authority (CEFA). As in 2012, there was only one student loan issuance, a refunding by a non-profit corporation for \$447 million.

Figure 16

VOLUME OF CONDUIT STATE DEBT ISSUANCE 2012 AND 2013 (VOLUME IN MILLIONS)

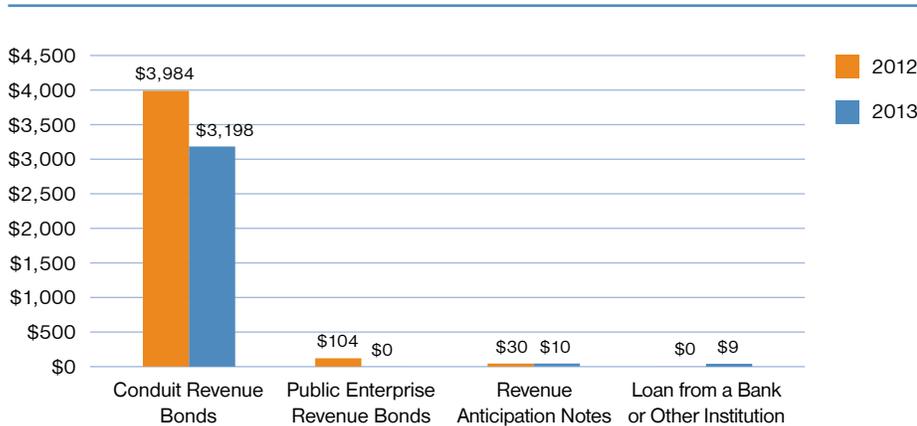
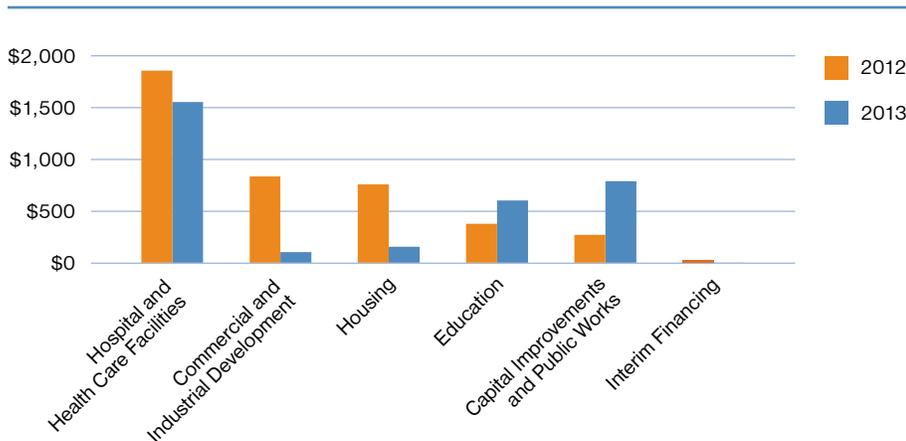


Figure 17

CONDUIT STATE DEBT ISSUANCE BY PURPOSE 2012 AND 2013 (VOLUME IN MILLIONS)



¹⁶ State instrumentalities include the California Department of Veterans Affairs, California Educational Facilities Authority, California Health Facilities Financing Authority, California Housing Finance Agency, California Infrastructure and Economic Development Bank, California Pollution Control Financing Authority, and California School Finance Authority.

LOCAL DEBT ISSUANCE IN 2013

In 2013, local agencies issued \$39.8 billion in short- and long-term debt, a 3.3 percent decrease from 2012. Even though total local issuance decreased from 2012 to 2013, the following debt types increased issuance: GO bonds (24.8 percent), other bonds (39.2 percent), bond anticipa-

tion notes (73.5 percent), and other types of debt (142.6 percent) (Figure 18).

Between 2012 and 2013, there was a decline in local issuance in nearly every purpose category except for housing (13 percent) and education (20 percent) (Figure 19). There was also marked growth in redevelopment issuance, the consequence of successor agencies' refunding activity.

Figure 18

VOLUME OF LOCAL AGENCY BOND ISSUANCE BY DEBT TYPE, 2012 AND 2013 (VOLUME IN MILLIONS)

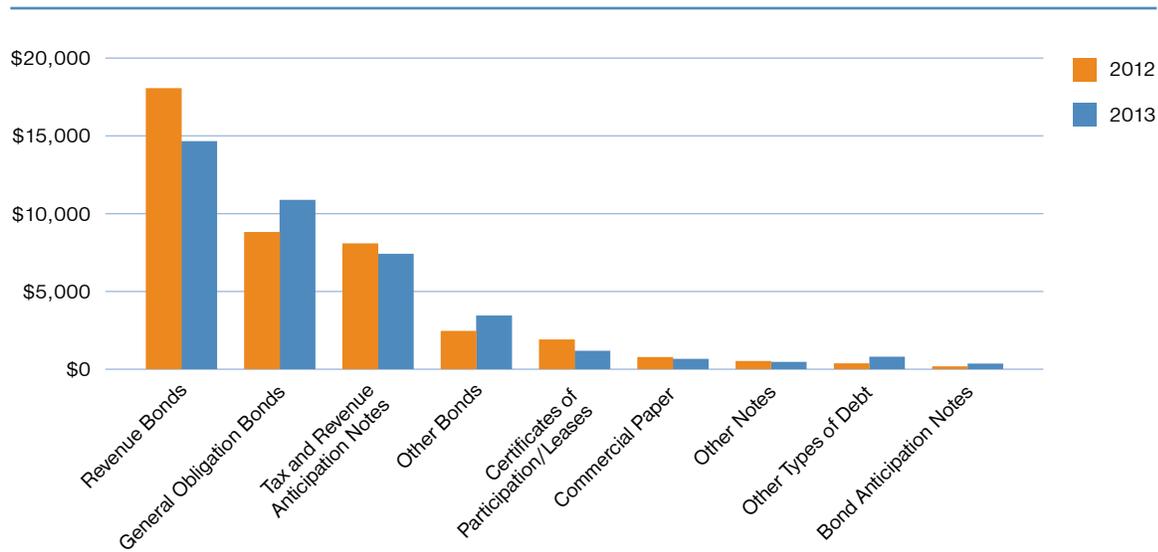
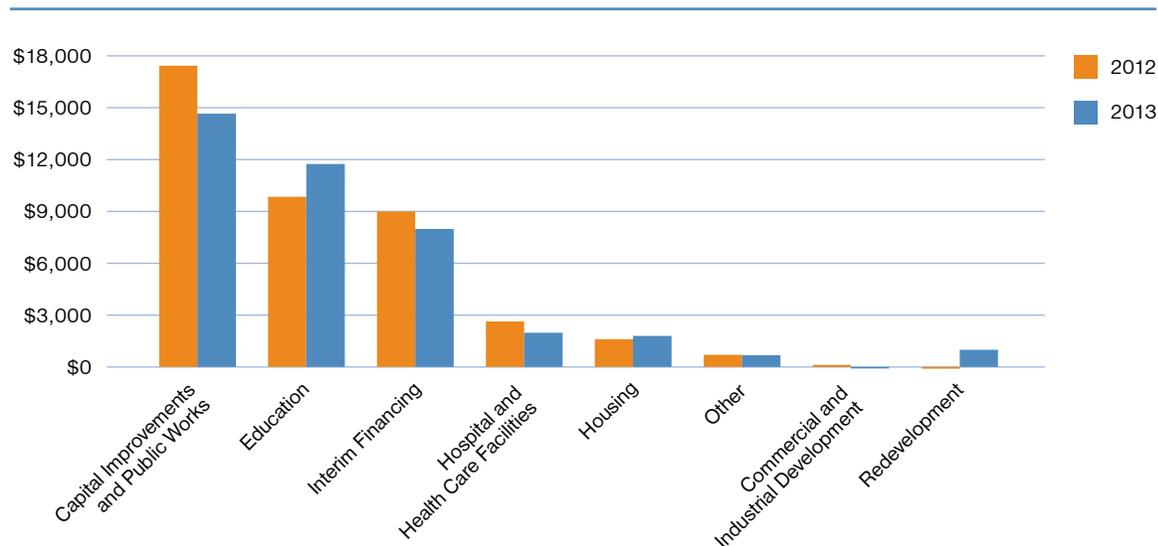


Figure 19

VOLUME OF LOCAL AGENCY ISSUANCE BY PURPOSE, 2012 AND 2013 (VOLUME IN MILLIONS)



2013 Report of Operations

DATA COLLECTION AND ANALYSIS UNIT

In compliance with its statutory requirements, CDIAC's Data Collection and Analysis Unit (Data Unit) maintains the California Debt Issuance Database (Database) which is considered the most comprehensive and accessible database of California public debt issuance in existence. The Database is the source for the debt statistics and analysis regularly released by CDIAC.

Data Collection

Data collected on the proposal and issuance of public debt as well as annual fiscal status reports for Mello-Roos and Mark-Roos bonds are maintained in the Database, a portion of which can be accessed on CDIAC's website.¹⁷ The Database contains information from 1984 to the present and is updated continuously by Data Unit staff. As of December 31, 2013, the Database contained more than fifty thousand records.

For calendar year 2013, the Data Unit received and processed 7,202 reports including Reports of Proposed Debt Issuance (RPDIs),¹⁸ Reports of Final Sale (RFSs),¹⁹ Marks-Roos Yearly Fiscal Status Reports (MKR YFS), Mello-Roos Yearly Fiscal Status Reports (MLR YFS), and Mello-Roos/Marks-Roos Draw on Reserve/Default Filings (DFD). Figure 20 contains a breakdown of the reports processed by the Data Unit during calendar year 2013.

Since 2008, the Data Unit has been transitioning to electronic submission of data and reports. Electronic submission enhances data collection efficiencies and helps to ensure reporting accuracy. Currently, public agency issuers can submit reports using CDIAC's web-based forms, email or traditional mail.

2013 online submission of RPDIs and RFSs accounted for 63 percent of all submissions, an increase from 54 percent in 2012. One thousand

¹⁷ The Data Unit receives annual fiscal status reports for Mello-Roos and Marks-Roos bonds issued after January 1, 1993 and January 1, 1996, respectively.

¹⁸ Per Government Code Section 8855(i) issuers of proposed new debt must give notice no later than 30 days prior to the sale date.

¹⁹ Per Government Code Section 8855(j) issuers must submit reports of final sale no later than 45 days after the signing of the bond purchase agreement or acceptance of bid.

Figure 20

REPORTS PROCESSED, CALENDAR YEAR 2013

TYPE OF REPORT	TOTAL
Reports of Proposed Debt Issuance	2,127
Reports of Final Sale	2,086
Mello-Roos Yearly Fiscal Status Reports	1,417
Marks-Roos Yearly Fiscal Status Reports	1,538
Mello-Roos/Marks-Roos Draw on Reserve/Default/Replenishment Filings	34

five hundred (1,500) of the 4,213 RPDIs and RFSs received for the year were sent in hardcopy form by mail or e-mail. Staff manually entered reports received in this manner. CDIAC continued its customer outreach to determine the reasons for hardcopy submissions in an on-going effort to quickly resolve issues that may be impeding the use of online forms.

Figure 21 displays the methods used to submit RPDIs and RFSs in 2013.

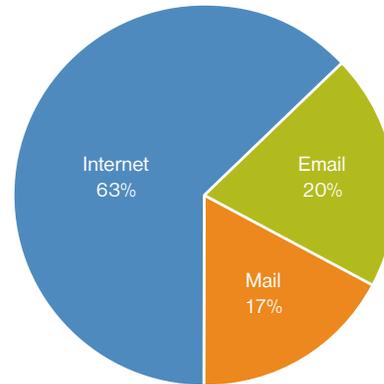
When the Mello and Marks-Roos filings are included, 75 percent of all reports were online submissions, an increase from 69 percent in 2012 (Figure 22). Reports received by traditional mail and email dropped to 25 percent, translating to approximately 1,800 reports that required manual data entry by Data Unit staff. CDIAC anticipates automating the submission of Tax and Revenue Anticipation Note (TRAN) Pools report in the near future. Doing so will result in a higher online submission rate.

Debt Issuance Fees

A critical function of the Data Unit is the collection of CDIAC debt issuance fees, the main source of CDIAC’s operational funding. CDIAC’s issuance fees are assessed based on the principal amount issued and maturity length (long-term or short-term). In general, a flat fee of \$150 is assessed for short-term maturities (eighteen months or less). Long-term maturities (greater than eighteen months) are assessed a fee equal to 1.5 basis

Figure 21

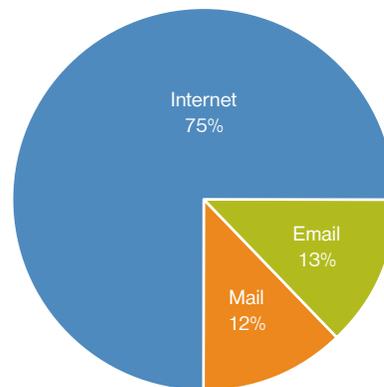
STATE AND LOCAL ISSUANCE
METHODS OF SUBMITTAL
RPDIs AND RFSs, 2013



TOTAL REPORTS RECEIVED: 4,213

Figure 22

STATE AND LOCAL ISSUANCE
METHODS OF SUBMITTAL, ALL REPORTS, 2013



TOTAL REPORTS RECEIVED: 7,202

points (0.015%) not to exceed \$3,000. A detailed fee schedule is available on CDAIC's website.²⁰

For 2013, the Data Unit issued 1,336 invoices totaling approximately \$1.9 million.²¹ Figure 23 reflects the breakdown of fees assessed for state and local agencies in 2013.

Public Access to Debt Issuance Data

CDIAC used a variety of online methods to provide public officials and members of the public immediate access to debt issuance data, including:

DEBT LINE NEWSLETTER. CDIAC publishes a monthly newsletter describing the operations of the Commission during the prior month.²² CDIAC's monthly publication, *Debt Line*, provides comprehensive information on all reports of proposed and finalized debt issuances received during the prior month.

ONLINE TABLES AND GRAPHS. CDIAC posts monthly California state and local debt issuance data to its website in the form of tables and graphs. Data is summarized by year and the type of debt issued or the purpose for which it was issued.

ONLINE ISSUANCE DATA - EXCEL FORMAT. CDIAC reports on all public debt issued in California within each calendar year on the "Reports of Final Sale." The information is provided by month as received.

SEARCHABLE DATABASE. State and local debt issuance data is available through a searchable database that contains information from 1984 through the present on all debt issuance reported to CDIAC. The online database was accessed more than 2,226 times during 2013.

Figure 23

FEES ASSESSED IN CALENDAR YEAR 2013
STATE VS. LOCAL

	FEES ASSESSED	# OF INVOICES
STATE		
Long-Term Debt	\$175,750	64
Short-Term Debt	600	4
LOCAL		
Long-Term Debt	1,695,056	937
Short-Term Debt	49,650	331
TOTAL	\$1,921,056	1,337

MARKS-ROOS AND MELLO-ROOS DRAW ON RESERVES/DEFAULT REPORTS. The Data Unit posts data on draws on reserve and defaults as the reports are received. Reports are listed by issuer and date of occurrence.

Figure 24 displays the number of "hits" or inquiries to CDIAC's online public data during 2013. CDIAC recorded 5,081 hits to its website in 2013 related to debt issuance data.

Reports

CDIAC published a number of summary reports, compiling data reported through the year and providing comparative trend analysis of current year versus prior year(s) issuance activity.

MARKS-ROOS YEARLY FISCAL STATUS REPORT AND MELLO-ROOS COMMUNITY FACILITY DISTRICT YEARLY FISCAL STATUS REPORT. The Marks-Roos and Mello-Roos Yearly Fiscal Status Reports received by CDIAC during the fiscal year (July 1 through June 30) are the basis for these annual reports.²³ In an effort to bring The Marks-Roos Bond Pooling Act Participants Yearly Fiscal

²⁰ Long-term maturities are issues for which the length of final maturity is greater than 18 months. Short-term maturities are issues for which the length of final maturity is 18 months or less.

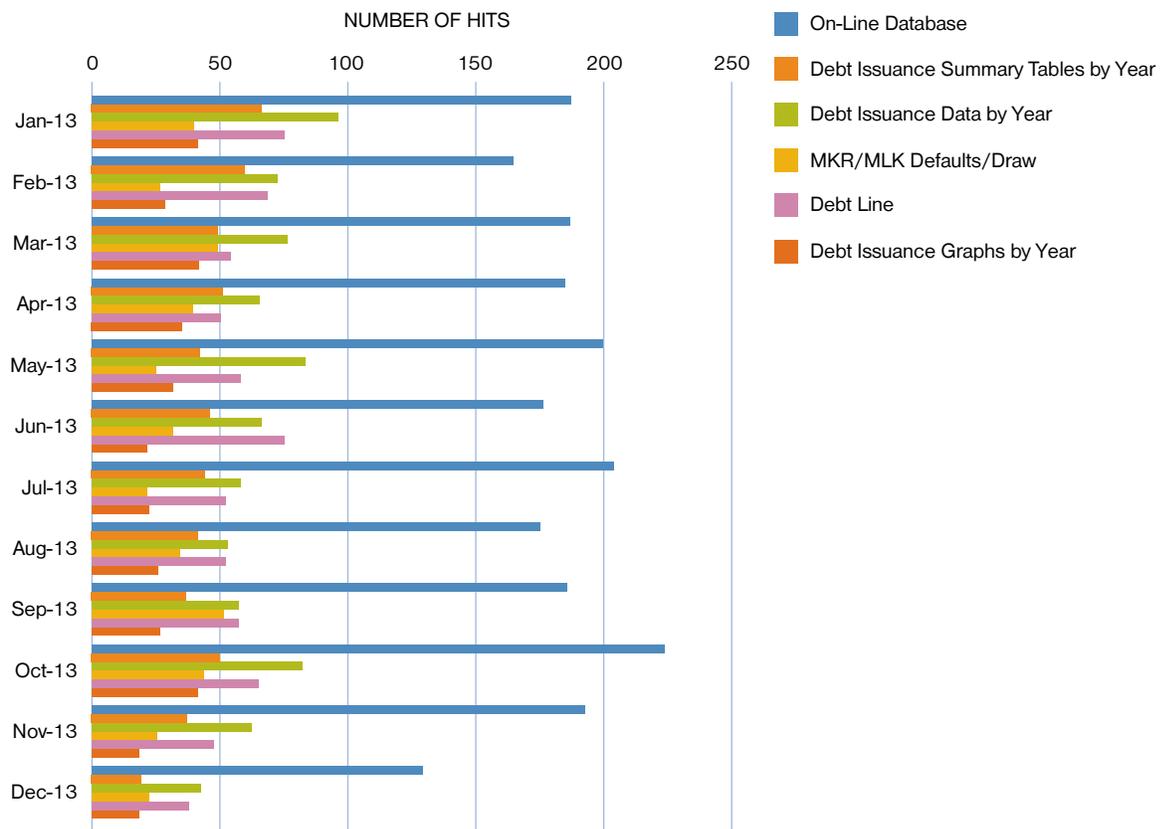
²¹ Four reports remain uncollected at the time of this report.

²² Government Code Section 8855(h)(9).

²³ Pursuant to Government Code Sections 6599.1(b) and 53359.5(b) issuers of Mark-Roos (after January 1, 1996) and Mello-Roos (after January 1, 1993) bonds must submit Yearly Fiscal Status Reports to CDIAC.

Figure 24

CDIAC CONSTITUENT ON-LINE ACTIVITY, 2013



Status Report to a current status, the Data Unit published two reports during 2013, including reports for fiscal years 2004-2005 and 2005-2006. The report for fiscal year 2006-07 will be published in mid-2014 and staff is currently compiling and verifying data for the remaining fiscal years and expects to post these reports to the CDIAC website prior to the end of 2014.

The Mello-Roos Community Facilities District Yearly Fiscal Status Reports covering the period of July 1, 2012 through June 30, 2013, has not yet been issued at the time of this report. All prior year reports have been published. Staff expects to publish the 2012-13 report by mid-2014.

CALENDAR OF PUBLIC DEBT ISSUANCE. This annual report lists details of each public debt issued during the year. Each listing includes the

name of the issuer, the county, the type and purpose of the issue, the date of the sale, the principal amount of the bonds, and whether or not the issue is a refunding. Each listing also shows the interest rate, the rating, credit enhancement information, the final maturity date, and the major participants in the financings. The report is organized chronologically by issuer, beginning with the State of California and its departments and agencies, then local agencies (further sorted by county, agencies within counties, and by the sale date of the issue) and student loan corporations.

SUMMARY OF CALIFORNIA PUBLIC DEBT ISSUANCE. This annual report provides aggregate summary information by issuer on major components of debt, such as long-term and short-term debt, tax-exempt and taxable debt, and refunding

existing indebtedness. The value of this report for financing professionals and policymakers lies in its ability to answer questions concerning who issues the debt, how the debt is issued, and for what purpose.

ANNUAL REPORT. CDIAC's Annual Report provides more global analyses (as opposed to the "by issuer" structure of the previous two reports) of public debt issued in California for the calendar year. The analyses include comparisons to previous years' debt issuance levels; categories of issuance (such as, purpose of debt, competitive and negotiated, credit enhanced debt); and displays California's Mello-Roos and Marks-Roos issues, purpose, and defaults and draws on reserves. (Mello-Roos and Marks-Roos are California's financing mechanisms for specified public improvements, and are generally backed by special property tax assessments.)

Other 2013 Data Unit Projects and Initiatives

ELECTRONIC FILE STORAGE. In late 2009 the Data Unit began a project to reduce the amount of paper files stored on site by systematically reviewing, digitizing, and electronically storing all on-site paper files. All 2009 and 2010 files have been scanned and stored. The 2011 files are 65 percent complete.

DATABASE UPDATES - APPLICATION BASED REPORTS. Working with the State Treasurer's Office Information Technology Division (STO-IT), CDIAC was able to improve handling of Mello-Roos and Marks-Roos Yearly Fiscal Status Inquiry Letters. These changes will require far less manual manipulation by staff.

MARKS-ROOS AND MELLO-ROOS YEARLY FISCAL STATUS REPORTS. In concert with STO-IT, CDIAC plans to make minor changes to the database to reduce the time required to manually enter contact fields and other data to forms. CDIAC is implementing these changes in response to suggestions made by report filers. Many

of these improvements will be implemented during the 2013-14 reporting period.

CAPTURING PROCESS EFFICIENCIES. The Data Unit continues to work with STO-IT to enable issuers to easily submit data to CDIAC via the Internet. Although the online submission rate has increased in 2013, CDIAC is far from its goal of a 95 percent online submission rate. The more issuers using the Internet to submit debt reports, the less manual manipulation of the data required of CDIAC staff. Working with STO-IT and CDIAC's online filers, CDIAC has been able to identify and resolve many issues encountered by filers when submitting and printing reports.

Efforts to increase data processing efficiency are currently focused on two projects:

1. Updating online forms to improve ease-of-use and address problems arising from changes and upgrades to web-browsing software and technology, and;
2. Creating online RPDIs and RFSs for electronic submission of TRAN pool sales. Currently all TRAN pool data must be manually entered by Data Unit staff. Developing web-based reports that can be electronically submitted by users will improve staff processing time.

TECHNICAL ASSISTANCE. Data Unit staff responded to 40 requests for technical assistance during the year. Inquiries for cost of issuance data on fees paid to financing team members and information on school district debt were the two most common requests. Data on Mello-Roos bonds was the third most requested item.

2014 Outlook

DEBT ISSUANCE DATABASE REVIEW AND DEVELOPMENT PROJECT

CDIAC continues its comprehensive review of the Database which started in 2010, including outreach to determine, among other things, how CDIAC data is used and who uses it.

EDUCATION AND OUTREACH UNIT

As required by statute, CDIAC's Education and Outreach Unit (Education Unit) delivered a continuing education program for municipal finance officers, maintained contact with municipal market professionals to improve market for state and local government debt issues, and assisted state financing authorities with their responsibilities.

Education Programs

CDIAC's education programs includes "core" seminars given on an annual or biennial basis that are essential to understanding municipal debt and investment (Figure 25), webinar trainings that allow for a timely discussion on current issues, and co-sponsored seminars with affiliate or-

ganizations that enable further outreach between CDIAC and municipal market professionals.

In 2013, CDIAC conducted eight educational programs: one core seminar, three webinars, and four co-sponsored seminars in various locations of the state.

CDIAC Seminars

MUNICIPAL DEBT ESSENTIALS. In Fall 2013, CDIAC held its three-day core seminar on municipal debt. The seminar series is designed so that each day provides the foundation for the topics covered in the following day; however, participants can choose to attend a single day or the entire series based upon their educational needs.

Figure 25

CDIAC'S CORE SEMINARS

SEMINAR	DESCRIPTION
MUNICIPAL DEBT ESSENTIALS	<p>CDIAC combined three individual core debt classes (each class was held over 1 ½ days) into Municipal Debt Essentials a 3-day seminar. Participants can attend a single day or a combination of days.</p> <p>DAY ONE: Debt Basics provides municipal industry participants with the elements of debt financing, including an introduction to the bond market, the definitions of bond financing concepts, presentation of types of short and long-term financing options, a discussion of roles and responsibilities of issuers and consultants, the elements of issuance costs, and initial disclosure to the market. (Formerly <i>Fundamentals of Debt Financing</i>)</p> <p>DAY TWO: Accessing the Market provides municipal industry participants with the elements and processes of selling to the market, including discussion of the concepts and measurement of debt capacity and affordability, the need for debt policies, the function of a plan of finance, sizing and debt structuring options, the importance of credit quality and ratings, the dynamics of marketing and pricing bonds, and effectively reaching key bond market investors. (Formerly <i>Mechanics of a Bond Sale</i>)</p> <p>DAY THREE: Debt Administration provides municipal industry participants with the elements of debt administration, including a foundational understanding of the issuer's roles and responsibilities after the sale of debt which include, managing debt service, post-issuance compliance, investing bond proceeds, reorganizing debt obligations and refunding, and continuing disclosure. (Formerly <i>Living with an Issue: On-Going Debt Administration</i>)</p>
INVESTING PUBLIC FUNDS	This one and a half-day seminar covers investment related topics. CDIAC varies the course material to address basic to advanced investment topics in alternating years.
MUNICIPAL MARKET DISCLOSURE	This one-day seminar covers the disclosure of municipal securities information to the market. Topics include federal securities laws and regulations, issuer responsibilities, and continuing disclosure compliance.
FUNDAMENTALS OF LAND-SECURED FINANCING	This one-day seminar focuses on the use of Mello-Roos and assessment district financing techniques including how to form a district, issue debt, and administer liens.

CDIAC Webinars

MARKET UPDATE: THE FUTURE OF CREDIT ENHANCEMENT. The issuance of credit enhanced municipal bonds in California dramatically decreased from 2007 to 2012, from approximately 60 percent of all bonds sold by issuers to approximately seven percent. CDIAC hosted a webinar on this topic in Spring 2013 to look at market conditions for issuing debt during the upcoming year and to discuss the use of credit enhancement, including when to issue enhanced debt, currently available credit enhancement, and the potential impact of municipal reforms on credit enhancement.

REFUNDING REDEVELOPMENT DEBT: NEW CHALLENGES. In fall 2013, CDIAC hosted a webinar on refunding redevelopment debt addressing the role of successor agencies. Following the dissolution of redevelopment agencies in California, the passage of Assembly Bill 1484 (Chapter 26, 2012) provided some opportunities for successor agencies to benefit from lower interest rates or restructured obligations by refunding outstanding bonds. The webinar considered the uncertainty and complexity of refunding outstanding redevelopment debt.

DISCUSSION OF PUBLIC INVESTMENT PRODUCTS CURRENT AND FUTURE: WHAT ARE THEY AND ARE THEY RISKY? In fall 2013, CDIAC hosted a webinar addressing the opportunities public agencies in California have to use several alternative investment products, including covered bonds, 144A securities, Yankee bonds, Yankee certificates of deposit (CDs), supranationals, and index notes.

Co-sponsored Seminars

CDIAC AND CMTA INVESTMENT WORKSHOP. In winter 2013, CDIAC partnered with the California Municipal Treasurers Association (CMTA) and held a three-quarter day workshop, *Public Funds Investing: Yesterday and Today*. The seminar delved into public fund investing by considering cases in California where fund managers deviated

from the core principles of public investing. The limits of public investing were then explored by considering the importance of credit quality in securities selection, recent changes in investment authority, and investment reporting.

CDIAC WITH UCD AND UCLA EXTENSIONS SPECIAL ASSESSMENTS FINANCING SEMINARS. In spring 2013, CDIAC partnered with the University of California, Davis (UCD) Extension and the University of California, Los Angeles (UCLA) Extension to conduct the *Funding and Financing of Maintenance and Public Infrastructure Using Special Assessments: New Approaches for Achieving Successful Outcomes* seminar. The seminar considered the implications of recent court actions, how practicing assessment engineers and other public finance professionals have responded, and the opportunities to use assessment districts in the future.

CSMA AND CDIAC SITE VISIT TO THE CAPITOL. In summer 2013, the California Society of Municipal Analysts (CSMA) partnered with CDIAC to conduct a one and a half day program, *Site Visit to the Capitol*. Discussions included the 2014 budget and how it differed from previous years, the future relationship between state and local governments, Covered California, school district funding, pension funding, and budget politics.

BOND BUYER PRE-CONFERENCE. In fall 2013, CDIAC held a three-quarter day pre-conference, *Municipal Securities Rulemaking Board (MSRB) Rule G-17 and Other Market Disclosures: A Pathway to Clarity or Not?*, at *The Bond Buyer's* annual California Public Finance Conference. In the spring of 2012 the SEC approved MSRB's Notice 2012-25, which provides interpretive guidance on how Rule G-17 applies to underwriters in municipal securities transactions. Using G-17 as a starting point, the pre-conference considered what questions issuers need to ask and what forms of disclosure they should expect or require from underwriters, financial advisors, investment advisors, bond counsel, and other consultants, and to better identify and manage the conflicts and risks inherent to the business relationships that

Figure 26

PARTICIPATION AT CDIAC EVENTS, 2013

EVENT TITLE	DATE	LOCATION	TOTAL PARTICIPANTS
CDIAC SEMINARS			
Municipal Debt Essentials 1	10/22/2013	Oakland, CA	107
Municipal Debt Essentials 2	10/23/2013	Oakland, CA	103
Municipal Debt Essentials 3	10/24/2013	Oakland, CA	98
CDIAC WEBINARS			
The Future of Credit Enhancement	3/6/2013	Online	50
Refunding Redevelopment Debt	9/12/2013	Online	136
Public Investment Products Current and Future	11/6/2013	Online	149
OTHER CDIAC ENGAGEMENTS			
CDIAC and CMTA Investment Workshop	2/28/2013	Sacramento, CA	51
CDIAC and UCD Extension Special Assessments Financing Seminar	4/11/2013	Sacramento, CA	48
CDIAC and UCLA Extension Special Assessments Financing Seminar	4/25/2013	Los Angeles, CA	38
CSMA and CDIAC Site Visit to the Capitol	8/14-15/2013	Sacramento, CA	37
<i>The Bond Buyer</i> Pre-Conference	9/25/2013	Los Angeles, CA	101
TOTAL			918

support the issuance of bonds. This marked the twelfth consecutive year that CDIAC partnered with *The Bond Buyer* for the pre-conference.

Seminar Registration

Nine hundred eighteen (918) municipal finance professionals attended CDIAC educational programs in 2013, a small decrease from 2012’s attendance of 998. The decrease may be attributed to the specialized topics for collaborative seminars and the decreased number of webinars. Event dates, locations, and number of participants are given in Figure 26.

The composition of attendance for in-person and web-based trainings can be viewed in Figure 27. There was a slight change in 2013 from the year prior, resulting in a four percent increase for in-person trainings.

Figure 27

ATTENDANCE AT CDIAC PROGRAMS IN-PERSON VS. WEB-BASED TRAINING, 2013

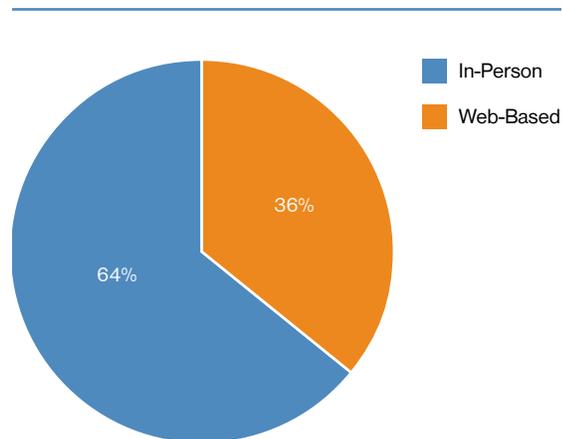
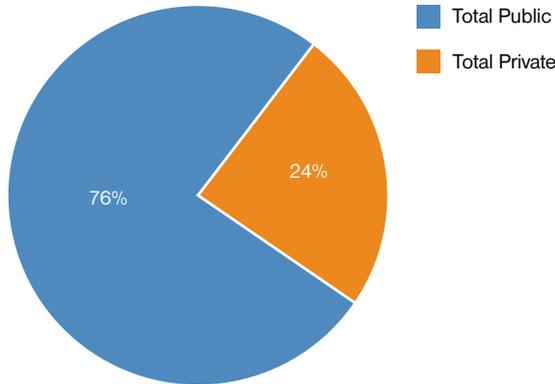


Figure 28

ATTENDANCE AT CDIAC PROGRAMS BY ORGANIZATIONAL AFFILIATION PUBLIC VS. PRIVATE, 2013

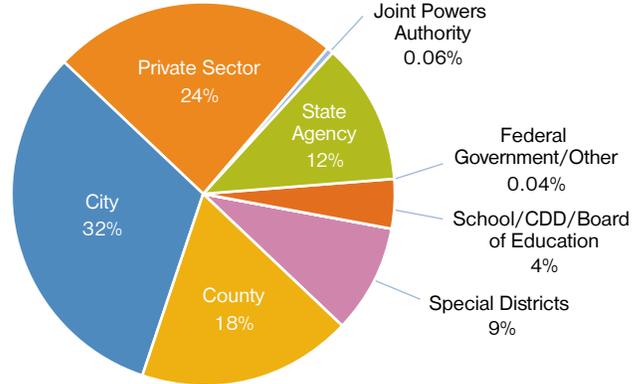


CDIAC tracks the attendees' organizational affiliation by public or private sectors as seen in Figure 28. This year, 76 percent of the participants were from the public sector, a nine percent increase from last year. If registration from the partnerships with CSMA and *The Bond Buyer* were excluded, 83 percent of the attendees were from the public sector.

Of the public and private sectors, approximately 50 percent of attendees were from cities and counties, 43 percent were from state agencies, special districts, school districts, and joint powers authorities, and 24 percent were from private agencies. Figure 29 reflects attendees by organization type at all CDIAC educational programs for the year.

Figure 29

ATTENDANCE AT CDIAC PROGRAMS BY ORGANIZATION TYPE, 2013



Historical Comparison of Seminar Attendance

Attendance in 2013 represented the third consecutive year of educating more than 900 municipal market professionals, and over the past five years CDIAC has attracted approximately 4,502 attendees to its programs, including educational offerings held in partnership with other organizations. Figure 30 reflects enrollment activity in CDIAC programs from 2009 through 2013.

Based on this five year time span, CDIAC continues to serve its primary audience, public agencies,

Figure 30

ATTENDANCE AT CDIAC PROGRAMS, 2009 TO 2013

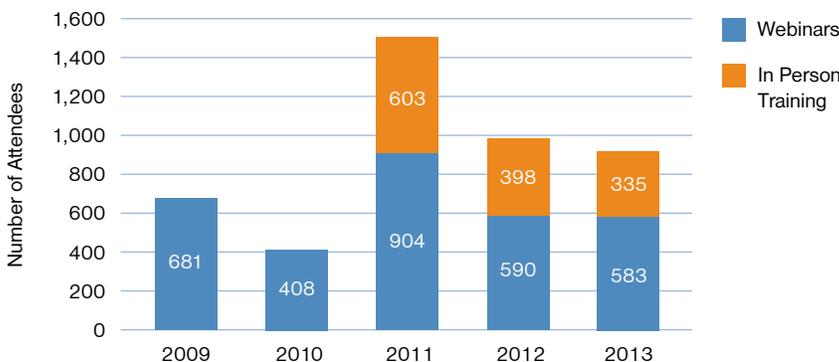


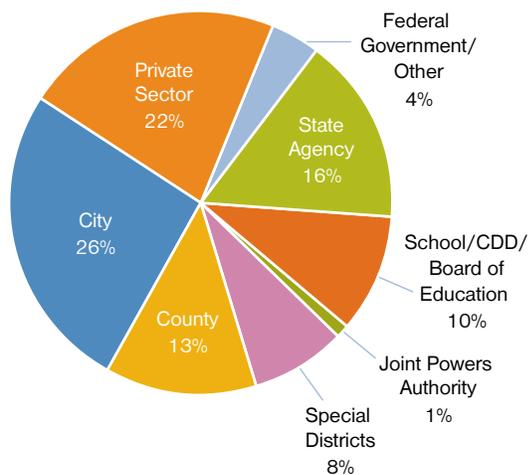
Figure 31

ATTENDANCE AT CDIAC PROGRAMS
PUBLIC VS. PRIVATE, 2009 TO 2013

YEAR	% PUBLIC	% PRIVATE
2009	74%	26%
2010	74	26
2011	74	26
2012	67	33
2013	76%	24%

Figure 32

ATTENDANCE AT CDIAC PROGRAM BY
ORGANIZATION TYPE, 2009 TO 2013



as reflected in Figures 31 and 32. Since 2009, cities, counties, and special districts represent 47 percent of all attendees at CDIAC programs.

Outreach

CDIAC continued its outreach to municipal market professionals in 2013. Along with direct communication with these professionals through CDIAC programs, staff from CDIAC's Education Unit attended the annual conferences of the California Society of Municipal Finance Officers, California Municipal Treasurers Association, Government Finance Officers Association, and California Special Districts Legislative Days.

State Financing Boards, Commissions, and Authorities

In 2013, CDIAC assisted the California Health Facilities Financing Authority (CHFFA) by hosting four webinars and providing webinar technical assistance.

CALIFORNIA HEALTH ACCESS MODEL PROGRAM: HOW TO APPLY FOR A DEMONSTRATION GRANT. In March 2013, CHFFA informed their constituents via webinar about the California Health Access Model program. The program will award up to \$1,500,000 in grants to one or more eligible demonstration projects designed to show cost-effective and innovative methods of delivering quality health care services, improving access to health care, including preventive services, for vulnerable populations or communities, and enhancing health outcomes.

THE INVESTMENT IN MENTAL HEALTH WELLNESS ACT OF 2013 (SENATE BILL 82). In September 2013, CHFFA received a new assignment under SB 82 (Chapter 34, Statutes of 2013) to grant awards to mental health service providers. The purpose of the webinar was to provide information on the awards.

INVESTMENT IN MENTAL HEALTH WELLNESS GRANT PROGRAM: INFORMATIONAL WEBINAR FOR APPLICANTS. In December 2013, CHFFA held two webinars detailing the application process for the Mental Health Wellness Grant Program.

2014 Outlook

PROSPECTIVE EDUCATIONAL APPROACHES AND ACTIVITIES

California public agencies are experiencing the retirement of senior debt and treasury staff in record numbers. In response, CDIAC must continue to focus its educational programs on training their replacements. CDIAC will continue to deliver classroom and web-based training through seminars, workshops, conferences, live-streaming webinars, and media library.

The media library will house recordings of past webinars that will be electronically accessible to the public. In addition, CDIAC will create webinars based on the content of CDIAC publications that may include the Debt Issuance Primer, Investment Primer, and Local Agency Investment Guidelines. This will allow public finance professionals immediate access to these publications.

Topics under consideration for 2014 educational programs include core investment and disclosure, intermediate bond math, debt policy, infrastructure financing, direct lending, inter-fund lending, green financing and investing, and other investment instruments. Should tax reform impact the tax-exempt status of municipal bonds, CDIAC will seek to address the ramifications and revised approaches to municipal debt financing. CDIAC will continue its efforts to stay abreast of topical issues related to both the municipal finance and public investment markets and collaborate with CDIAC's research unit to expand educational offerings.

OUTREACH

CDIAC will continue to utilize other allied membership-based and professional organizations as channels to reach California public finance officials, along with marketing programs through CDIAC's subscribed email list.

EXISTING PARTNERSHIPS. In 2014, CDIAC will partner with *The Bond Buyer* to offer the 13th consecutive pre-conference at the California Public Finance Conference and continue to partner with the extensions of the University of California, Davis and University of California, Los Angeles in presenting the special assessment districts financing course. In addition, CDIAC will continue its involvement in delivering collaborative seminars with the city public investment associations on core and current topics.

PARTICIPATION IN REGIONAL FINANCE ASSOCIATION CHAPTER MEETINGS AND DIVISIONAL AND STATE-WIDE COMMITTEES AND ADVISORY GROUPS. CDIAC staff will attend regional and divisional association meetings and events to interface with professional groups to build networks and maintain a presence in the industry. In addition, the Education Unit will collaborate on public finance association boards and technical advisory committees, such as the Council of Development Finance Agencies, California Roundtable Technical Advisory Committee.

STRATEGIC PARTNERSHIPS AND MARKETING. CDIAC staff will continue one-on-one meetings with the leadership of allied associations, including the California Society of Municipal Finance Officers and California Municipal Treasurers Association and broaden contact with industry leading organizations, such as the League of California Cities, California State Association of Counties, California Special Districts Association, Government Finance Officers Association, Government Investment Officers Association, California Association of County Treasurers and Tax Collectors, and Association of Government Accountants, and also with regional government associations, such as Association of Bay Area Governments to expand CDIAC's target markets for seminars and increase the reach of CDIAC's educational programs.

DIRECT PROMOTION OF PROGRAMS. CDIAC will continue to promote its programs through its subscribed email list and, when necessary, through direct promotion of seminars through targeted mailing of printed brochures to local public agency officials.

STATE FINANCING BOARDS, COMMISSIONS, AND AUTHORITIES

CDIAC will continue to offer educational and outreach services to support state financing boards, commissions, and authorities.

RESEARCH UNIT

California Government Code Section 8855(h)(5) authorizes CDIAC to undertake research projects that improve practices or reduce the borrowing costs of public issuers in California. For calendar year 2013, CDIAC staff have either completed or initiated the following research projects:

CDIAC Projects Completed

BOND AND TAX MEASURES APPEARING ON THE 2012 GENERAL BALLOTS: RESULTS OF THE 2012 GENERAL ELECTION. This bi-annual report, CDIAC provided a detailed analysis of the certified results of the bond and tax elections held in November 2012 General Election. Also included are detailed listings of each bond and tax measure by county, region, type of tax or debt, and purpose.

EMPLOYING A DEBT MANAGEMENT POLICY – PRACTICES AMONG CALIFORNIA LOCAL AGENCIES. CDIAC examined the debt management policies of cities, counties, and school districts and assessed the degree to which the policies of these local issuers conform to the Government Finance Officers Association (GFOA) best practices. The report also highlights several well-developed policies through which local agency issuers may gain an understanding of how best practices translate into actual debt policy construction.

INVESTMENTS UNDER GOVERNMENT CODE 53601(K) – FOCUS ON FOREIGN ISSUERS. CDIAC examined the permissibility of the investment in foreign issuers under California Government Code 53601(k) with particular emphasis on making a determination whether the issuer is organized, operating, and licensed in the United States.

K-14 VOTER APPROVED GENERAL OBLIGATION BONDS: AUTHORIZED, BUT UNISSUED. CDIAC undertook research to cross reference K-14 general obligation bond issuance with the underlying

voter approved authority to determine amounts authorized, but unissued since 2002.

LOCAL AGENCIES ABILITY TO BUY THEIR OWN DEBT – A DIGEST. CDIAC provided a background on local agencies acquiring or repurchasing their own debt and a review of the State and Federal regulations covering the topic.

LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2013. CDIAC, working collaboratively with industry contacts, reviewed and updated the CDIAC Local Agency Investment Guidelines. This document provides references and recommendations (developed by public and private sector professionals) for interpreting and applying California statute to common public fund investment topics related to local agencies. The 2013 Update reflects statutory changes effective January 1, 2013.

PRINCIPAL PROTECTED NOTES. CDIAC prepared this brief to provide a description of Principal Protected Notes (PPNs), their basic structures, how they work, and why their structures are not allowed under state investment regulations.

RULE 144A SECURITIES. CDIAC provided a summary of Rule 144A securities and the rationale for its recommendation to local agencies that they not hold these securities in their investment portfolios.

Academic Studies Completed

ASSESSING MUNICIPAL BOND DEFAULT PROBABILITIES. CDIAC, in collaboration with the Center for California Studies at Sacramento State University, commissioned an academic study to provide a methodology to assess bond default probabilities in California cities. In this study, researchers propose several approaches to explain municipal default and to estimate default likelihood for bonds issued by cities in California. The models were tested against the two defaults that occurred in California in 2012.

2014 Outlook

PROPOSED OR INITIATED PROJECTS

DIRECT LENDING BY PUBLIC AGENCIES IN CALIFORNIA. In response to the increased use of directly placed loans by public agencies, CDIAC has undertaken a study of this emerging financing option. Best practices suggest that public agencies entering into direct lending obligations should disclose these obligations to the market. The study is designed to help CDIAC understand direct lending practices, identify the characteristics of these financings and provide guidance on prudent debt practices for direct lending.

UPDATE TO THE DEBT ISSUANCE PRIMER. As a result of the market crisis of 2008 and the resulting market reform, CDIAC contracted with Nixon Peabody LLP to perform an update and redesign of the Debt Issuance Primer. The Debt Issuance Primer, a nationally recognized resource for debt issuance information, was last updated in 2006. To date, Nixon Peabody LLP has completed (and CDIAC has approved) the table of contents for the Update to the Primer outlining the structure of the updated Primer. Drafts of the Preface and Chapter 1 are in progress. The final Primer is scheduled to be completed in FY 2014-15.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION SCHOOL BONDS. CDIAC is continuing to review the data reported by in January 2014 that California local education agencies have \$38 billion in outstanding bond authority. The goal of this analysis is to understand how the authority corresponds to the need for facilities and the capacity of these agencies to issue debt to finance new schools or to modernize existing facilities.

DISCLOSURE OF MARKET CONDITIONS BY CONDUIT ISSUERS IN CALIFORNIA. CDIAC will examine the content and form of disclosures made by conduit issuers with regard to policy, economic, or social changes affecting the ability of obligated parties to meet their financial obligations to bondholders. The analysis may provide best practice guidance with regard to timely and complete disclosure of conditions that may present future repayment risks to investors.

OUTREACH AND COLLABORATION WITH PUBLIC FINANCE ORGANIZATIONS. CDIAC continues to work with public finance organizations, public agencies and research organizations to identify and assess new forms of debt and public investments coming into the market. This collaboration helps to keep CDIAC informed of market trends and emerging products and practices to produce research that is timely and relevant.

DEBT AND INVESTMENT LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENTS. CDIAC monitors the status of important state and federal legislation affecting bond issuance and public funds investing with helpful links to the legislation for the most current information and published periodically throughout the legislative session in Debt Line.

DEBT LINE. CDIAC publishes its monthly newsletter, Debt Line, throughout 2013, posting issuance statistics along with research articles penned by CDIAC staff. The Research Unit follows the important dates and details arising from the regulatory activities of the MSRB and SEC related to the implementation of the Dodd-Frank Wall Street Reform Act.



CDIAC

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