



# AGENDA ITEM 3 (INFORMATION ITEM)

## EXECUTIVE DIRECTOR'S REPORT

### JUNE 6, 2024

#### FISCAL 2024–25 BUDGET PROPOSAL

CDIAC's proposed budget for the fiscal year (FY) 2024–25 is \$4,343,000, which is a slight increase from FY 2023–24 total expenditure authority inclusive of mid-year adjustments. The total budget authority includes \$4,163,000 in baseline expenditure authority and \$180,000 in reimbursed expenditure authority. CDIAC receives reimbursements from the fees it charges attendees of CDIAC's in-person educational programs.

In FY 2024–25, CDIAC is authorized for 21 full-time staff.<sup>1</sup> The following chart provides a three-year overview of CDIAC's enacted and proposed budget.

#### CDIAC BUDGET APPROPRIATION WITH ADJUSTMENTS (THOUSAND \$)

	FY 2022–23 ENACTED	FY 2023–24 ENACTED	FY 2024–25 PROPOSED
Authorized Positions	21	21	21
Personal Services	\$2,656	\$2,780	\$2,908
Operating Expenses & Equipment	1,435	1,435	\$1,435
BUDGET ACT APPROPRIATION <sup>A</sup>	\$4,091	\$4,215	\$4,343
Mid-year Adjustments <sup>B</sup>	133	108	
GRAND TOTAL	\$4,224	\$4,323	\$4,343

<sup>A</sup> Includes \$180,000 appropriation authority for reimbursements.

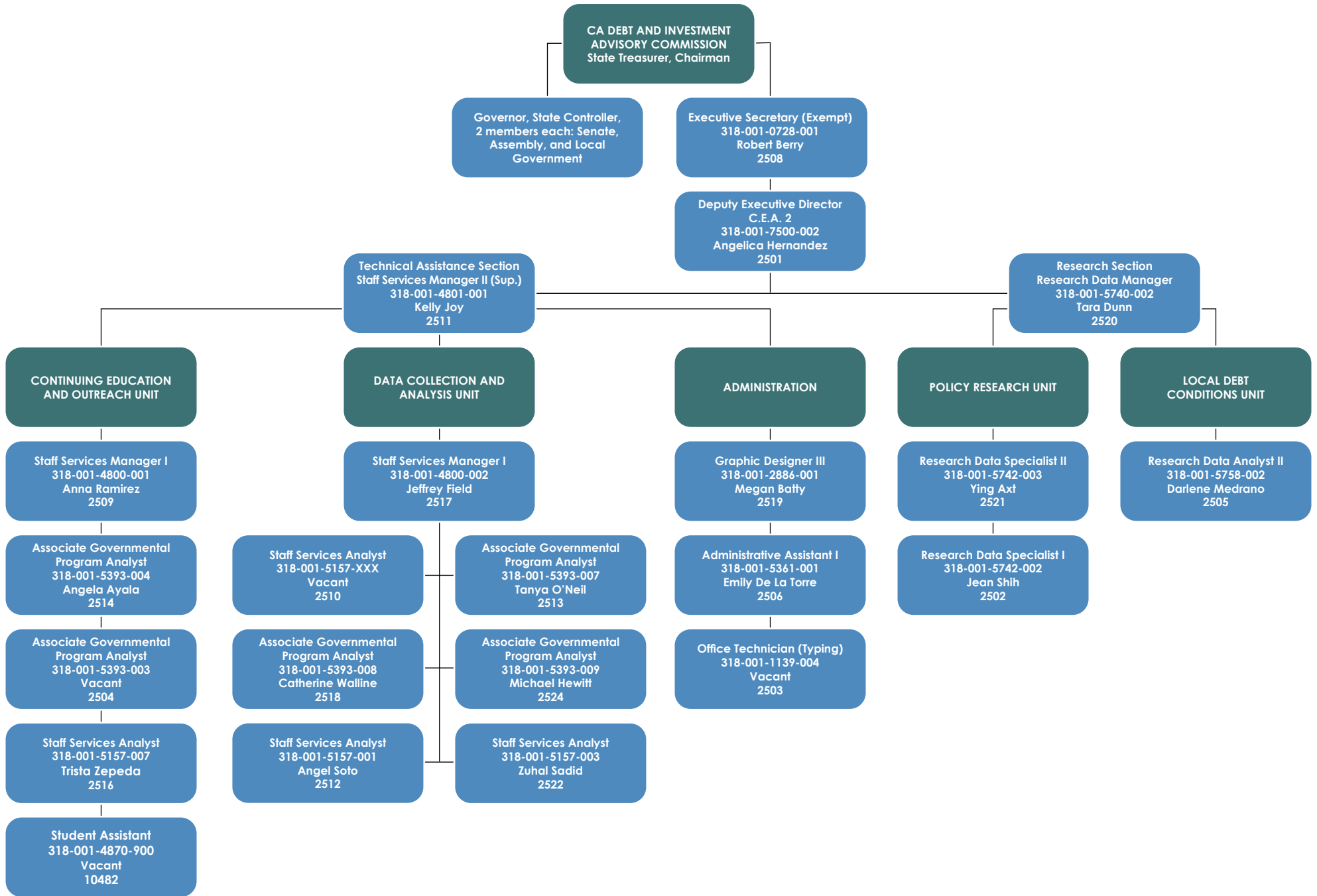
<sup>B</sup> MID-YEAR ADJUSTMENTS (THOUSANDS \$)

	FY 2022–23	FY 2023–24
Pension Contributions	\$0	\$0
Compensation Reduction	0	0
Employee Benefits	26	42
Salary Adjustments	60	73
Other Post-Employment Benefits	0	-7
Section 4.05 Ongoing Expenditure Reductions	0	0
Retirement Rate Adjustments	47	0
TOTAL	\$133	\$108

<sup>1</sup> In the Proposed FY 2024–24 State Budget, CDIAC is authorized for 21 positions; however, as included in the Early Action Agreement between the Governor and the Legislature, dated April 4, 2024, there will be a Salary Savings Sweep from positions. At this time, it is unclear if CDIAC will have FY 2024–25 budget authority to fill positions that are vacant on or after 7/1/2024.

# CDIAC Organization Chart

CURRENT AS OF 05/06/2024



## CDIAC FUND CONDITION

### Fee Revenue

Last year, CDIAC projected a 4% decrease – and warned of a potential larger decrease – in FY 2023–24 revenue due to economic uncertainty led by significant inflationary conditions, declining municipal revenues, and actions by the Federal Reserve. Based upon eight months of actual revenues and receivables as well as estimates for March, April, May, and June 2024, CDIAC’s FY 2023–24 fee revenue is expected to decrease by nearly 12% from the revenue received in FY 2022–23. FY 2023–24 fee revenue is comparable to FY 2018–19 revenue levels.<sup>2</sup>

CDIAC fee projections are typically based on municipal issuance projections by market participants. This fall’s General Election and interest rate expectations are expected to have the most influence on market activity for the remainder of calendar year 2024.<sup>3</sup> There are signs nationally that debt issuance may increase in FY 2023–24, including a 13% increase in March issuance activity month-over-month, and a 25% increase in calendar year-to-date issuance; however many predictions are that issuance activity most likely will remain similar to current levels until interest rates decline.<sup>4</sup> Given the challenges in predicting the timing of an interest rate decline, CDIAC is projecting FY 2024–25 issuance fee revenue near the FY 2023–24 levels.

### Expenditures

Total expenditures for FY 2023–24 are expected to total \$3.745 million, which is approximately 5% lower than FY 2022–23. In anticipation of declining revenue, CDIAC made a purposeful effort to control expenditures in FY 2023–24 while focusing on strategic investments. The launch of DebtWatch 2.0, the second phase of CDIAC’s End-to-End project, marks the completion of a modern technology platform that positions CDIAC to more efficiently collect and distribute an increasing amount of data without the requirement for additional personnel resources.

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<sup>2</sup> “Commission Meeting: Agenda Item 3. Executive Director’s Report,” *California Debt and Investment Advisory Commission*, 13, Published June 17, 2020, Accessed May 3, 2024, [www.treasurer.ca.gov/cdiac/meeting/2020/20200617/staff/3.pdf](http://www.treasurer.ca.gov/cdiac/meeting/2020/20200617/staff/3.pdf).

<sup>3</sup> Robert Slavin, “Analysts Expect Pockets of Credit Deterioration in 2024,” *The Bond Buyer*, Published January 29, 2023, Accessed May 3, 2024, [www.bondbuyer.com/news/analysts-offer-thoughts-on-the-muni-market-in-2024](http://www.bondbuyer.com/news/analysts-offer-thoughts-on-the-muni-market-in-2024).

<sup>4</sup> Katie Kolchin, CFA and Justyna Romulus, *Quarterly Report: US Fixed Income, 1Q24*, 18, (New York: Securities Industry and Financial Markets Association, 2024), Accessed May 3, 2024, [www.sifma.org/wp-content/uploads/2024/01/SIFMA-Research-Quarterly-Fixed-Income-1Q24.pdf](http://www.sifma.org/wp-content/uploads/2024/01/SIFMA-Research-Quarterly-Fixed-Income-1Q24.pdf).

Over the course of the past few years, hiring has proved difficult. During FY 2023–24, CDIAC was able to fill critical positions in the Administration, Education, and Research units and expects to end the fiscal year with only two vacant positions.

The addition of new team members in FY 2023–24 – and personnel cost growth generally – will be the largest drivers of expenditures in FY 2024–25. These expenses are partially offset by the conclusion of one-time and recurring technology expenditures that have resulted from the technology investments made over the past three fiscal years. However, CDIAC is projecting total expenditure growth of 9.4% in FY 2024–25.

## Fund Balance

CDIAC expects the year-end fund balance for FY 2023–24 to decrease by about 16%, even as expenditures are estimated to come in nearly 10% less than baseline budget authority. Given the projection of flat revenue growth in FY2024–25, it is expected that the fund balance at the end of

### CDIAC FUND CONDITION (THOUSAND \$)

	FY 2022–23 ACTUAL	FY 2023–24 ESTIMATED <sup>A</sup>	FY 2024–25 PROJECTED <sup>B</sup>
RESERVES, ADJUSTED	\$7,076	\$6,224	\$5,230
REVENUE			
Fees	\$2,968	\$2,621	\$2,700
Interest	138	120	100
Reimbursements, Misc.	65	10	135
TOTAL REVENUES	\$3,171	\$2,751	\$2,935
EXPENDITURES			
State Operations	\$3,743	\$3,414	\$3,713
Adjustments (Prorata, Pension Payment)	\$280	\$331	\$353
TOTAL EXPENDITURES	\$4,023	\$3,745	\$4,066
FUND BALANCE	\$6,224	\$5,230	\$4,099

<sup>A</sup> FY 2023–24 fee revenue estimates are based on receipts and receivables through February 28, 2024, and invoice estimates for March through June. Operations expenditures are based on internal fiscal year budgeting. Operations expenditures are projected to be under the baseline budget authority (total authority less reimbursements).

<sup>B</sup> FY 2024–25 issuance fee revenue projections were based on market conditions remaining consistent with FY2023–24. While operations expenditures are projected to be higher as CDIAC is operating near full staffing levels it is still under the baseline budget authority before adjustments (total authority less reimbursements).

FY 2024–25 will continue to decline as total expenditures are expected to exceed projected total revenues by over \$1 million. Fee revenue will be monitored, and discretionary expenditures reduced, to mitigate fund balance degradation due to a greater than projected revenue decline during the fiscal year.

## FY 2023–24 SUMMARY OF ACCOMPLISHMENTS

### Debt Data Collection and Reporting

In May 2024, CDIAC achieved a major milestone with the completion of DebtWatch 2.0, the second phase of its ambitious End-to-End database enhancement project. This final phase of the project represents the integration of data distribution functionality with the Data Portal, CDIAC’s new data collection and database application. Under agreement with the State Treasurer’s Office Information Technology Division (ITD), CDIAC developed and deployed a new cloud-based application that drastically enhances CDIAC’s capacity to fulfill its responsibility as a “statistical clearinghouse” of information on the debt of California’s state and local agencies. DebtWatch 2.0 has multiple new features, including the following:

- A new home page designed to provide “fast stats” on California’s public debt and expedited access to CDIAC’s entire data collection.
- Access to view and download annual fiscal status and debt transparency data and documentation that had not been previously available.
- A new issue-level detail grid that allows users to view, analyze, and export all types of debt data collected by CDIAC in an organized manner.
- Customizable visualizations and tables with the latest CDIAC data.
- An interface for viewing and downloading documents submitted to CDIAC that allows users to search, filter, and sort documents based on multiple field types.
- Summaries of Annual Debt Transparency, Marks- and Mello-Roos Yearly Fiscal Status, and Defaults-Draws reports that can be generated for specific issuers or across issuer groups.

DebtWatch 2.0 is updated on a daily basis as new data submitted to CDIAC is reviewed by CDIAC’s data team. In addition, DebtWatch 2.0 automates certain reports that have historically required significant staff time and resources to produce, including the *Debt Line Calendar*, *Debt Line* charts, annual fiscal status and transparency reports, *Weekly Snapshot*, and annual volume summaries.

FY 2023–24 marks the second full year of operation of the Data Portal, CDIAC’s cloud-based data collection and database application deployed in June 2022. The Data Portal’s more intuitive reporting process is de-

signed to enhance CDIAC's capacity to process the growing number of required reports, increase compliance, improve data validity, and engage public agency stakeholders directly in the collection, maintenance, and dissemination of their own debt issuance data.

For the first 11 months of FY 2023–24, the Data Unit received and processed almost 17,000 reports, an increase from the total number of reports received in all of FY 2022–23. It is projected that the total number of reports received by CDIAC will exceed 17,000 by the end of FY 2023–24. While the number of issuance reports for FY 2023–24 is projected to be under last year's figures, the number of ADTRs reported to CDIAC continued to increase, in this case by almost 20% over FY 2022–23.

The increase in the number of annual transparency reports received and processed was due in part to efforts from CDIAC staff, as well as private-sector financial service providers, to encourage issuers to file reports of issuance and yearly status reports that were due in prior years, but had yet to be filed. To facilitate the effort to bring issuers into compliance, CDIAC deployed an automated batch processing tool within the Data Portal. The new tool allows issuers or their authorized agents to upload dozens of Annual Debt Transparency Reports in one session and eliminates the requirement to access records one at a time to submit reports.

## Continuing Education

CDIAC's educational program schedule in FY 2023-24 consisted of three in-person programs and five webinars, which attracted a total of 773 attendees.

In October 2023, in collaboration with *The Bond Buyer*, CDIAC produced the Pre-conference to *The Bond Buyer's* California Public Finance Conference in San Francisco. This was the 22<sup>nd</sup> year that CDIAC has collaborated with *The Bond Buyer* on the preconference. This past year's Pre-conference, entitled *Managing Your Borrowing Costs Through Market Turbulence*, was designed to present attendees with potential strategies that can be used before, during, and after issuance to manage borrowing costs amidst high interest rates and looming market uncertainty. The program consisted of two sessions. Session one, *Exploration of Potential Cost-saving Tools and Strategies*, featured a panel of market professionals as they discussed the mechanics, objectives, and conditions for successful application of cost-saving financing strategies, and their expected effects on borrowing costs. Session two, *Application and Execution of Cost-saving Strategies*, featured municipal issuers who shared case studies on the application of various cost-saving strategies, including administrative cost management, tender refundings, and variable-rate structures.

In February 2024, CDIAC presented its annual investments program in Livermore, California in collaboration with the California Municipal Treasurers Association. The *Fundamentals of Public Funds Investing*, was a two-day seminar that provided attendees with the fundamental concepts, tools, and strategies necessary to manage and oversee public investment portfolios. Industry experts addressed the components of portfolio management, including the roles and responsibilities of practitioners, understanding permitted investments, establishing policy objectives, and managing cash flow. There were also sessions related to structuring and diversifying an investment portfolio, benchmarking, and best practices in portfolio accounting, disclosure, and reporting. Sixty public investment professionals from across the state participated in the program.

In May 2024, CDIAC travelled to Pomona, California to present *Current Topics and Practices in Land-secured and Development Finance*. This one-day program built from foundational land-secured topics to examine current district formation, finance, and administration practices, and explored the strategic application of land-secured and tax increment financing tools to meet a variety of topical public finance challenges.

In addition to CDIAC's in-person and webinar programming for FY 2023–24, CDIAC achieved a major milestone in the development of Elect>Ed, its collection of on-demand electronic courseware for elected officials. The Elect>Ed series on debt issuance and administration was completed with the release of the last two modules. Module 7, *Implications and Documentation of Your Long-term Debt Commitments*, was released in September 2024 and discusses the high-level policy implications of the most frequently issued types of long-term debt and summarizes the fundamental documentation used to formalize the commitments made through debt issuance. Module 8, *Becoming a Model Borrower*, was released in March of 2024 and explores post-issuance responsibilities with a focus on the disclosure, communication, internal control, and administrative practices that garner a strong borrower reputation and enable an agency to achieve its long-term financing goals.

Due in part to the success of the Elect>Ed series, interest in CDIAC's online education offered through the CDIAC Education Portal continues to grow. During FY 2023–24, CDIAC surpassed 500 registered users.

## Research and Guidance

In addition to being the primary contributors of content for *Debt Line*, CDIAC's statutorily required monthly newsletter and publishers of several recurring online data tools such as the "Weekly Snapshot" of

proposed debt, the Research team completed a number of projects during the year that either provided guidance to public agency officials on topics of debt issuance and public investments or informed public finance policy decisions.

CDIAC's recurring update of the *Local Agency Investment Guidelines* was completed to support CDIAC's annual educational programming related to public investment. Local public agency investment professionals eagerly await the update as it provides the latest information and guidance for interpreting and applying state and federal law to the practice of surplus funds investing.

The 2024 update of *K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued*, identified over \$55 billion of unissued, voter-approved general obligation bond capacity among school and community college districts from elections dating back to the passage of Proposition 39 in 2001.

Originally published in 2016, *Securitized Investments*, an issue brief that provides an overview of securitized investments, was recently updated to account for recent legislative changes that clarify the authorizing statute for certain securitized investments.

Under California Government Code Section 53359.5, issuers of Mello-Roos bonds sold on or after January 1, 1993, are required to file a Yearly Fiscal Status Report (YFSR) with CDIAC until the bonds are retired. Using this information, CDIAC published the *Mello-Roos Yearly Fiscal Status (YFSR) Report: Summary of Reporting Year End 2023*. The report provided summary findings from the data aggregated from all of the YFSR submissions for the reporting year end of June 30, 2023.

As part of its long-standing research tradition of compiling and analyzing results of the state and local bond and tax measures included on primary and general election ballots, CDIAC published *Results of the 2023 Local Elections: Bond and Tax Measures Appearing on the Local Election Ballots* and *Bond and Tax Measures Appearing on the 2024 Primary and Local Election Ballots*. This report series began covering the results of the statewide General Election in 1994 and has now expanded to cover the state primary elections and results of odd-year local elections. The data collected through this process contributes to CDIAC's tracking of bond authorizations and provides key data points for the annual *K-14 Authorized, but Unissued* report.

The CDIAC Research team also supported and contributed to efforts across the organization including performing integral roles in the development of the Elect>Ed education series and the DebtWatch rebuild.



## FOCUS FORWARD: PLANNING HIGHLIGHTS FOR FY 2024–25

CDIAC's mission is to improve the practice of public finance in California by providing responsive and reliable information, education, and guidance. CDIAC seeks consistent achievement of this mission by delivering products and services that are timely, of the highest achievable utility, simply discovered and accessed, and provided in the formats and modes supportive of contemporary learning preferences.

CDIAC made significant strides in advancing strategic objectives while working to overcome significant human resources challenges. In the year to come, the focus will be on adding to the energy and talent of the CDIAC team and achieving several significant goals that will position the organization for future success. CDIAC will direct its activity in pursuit of the following strategic objectives.

### Continuous Enhancement of the California Debt Database

*Collect, enhance, and distribute accurate, timely, and complete data on the histories, uses, types, quantities, statuses, and terms of public debt issued by California public entities. Seek out and capitalize on opportunities to improve the user experience of the variety of stakeholders while increasing data validity, issuer compliance, and processing capacity.*

The technological and productivity enhancements of the Data Portal and DebtWatch 2.0 will continue to shift CDIAC's data team into a more analytical role by leaving more time and opportunity available for staff to see the aggregate context, significance, and applicability of the data submitted to CDIAC. This expanded viewpoint, coupled with the user experiences of stakeholders, will position CDIAC to continue to enhance and refine the interface and functionality of the Data Portal and DebtWatch. Advancements also position CDIAC to measure progress toward the objectives of increased filing speed and data validity, reduced customer service demands, and increased compliance with statutory reporting obligations. Priority enhancements being considered include automatic notification of issuers via e-mail of their reporting obligations by issue and type of data submission as well as an enhanced internal data management interface that will allow quicker and more efficient corrections of invalid data.

The development and deployment of both Data Portal and DebtWatch 2.0 has resulted in many changes to internal processes and procedures in a relatively short time. In the year ahead, CDIAC will prioritize the documentation of these new procedures to provide productivity enhancing resources for current and future members of the data team.

CDIAC will continue its work to consolidate its vast collection of issuance documentation into the Data Portal and thereby make it available to stakeholders via DebtWatch. This includes the digital conversion of documentation from the records of issuance from before the year 2000 that is stored only in hardcopy.

## Core and Topical Educational Programs

*Develop and conduct core and topical training in debt issuance and administration and the investment of public funds. Emphasize applied learning and use of technology to increase learning opportunities and enhance the learner's experience.*

### TOPICAL WEBINARS

CDIAC will use the webinar format to produce educational content around emerging public finance topics and would like to enhance programs through the integration of companion publications and guidance produced through CDIAC's research activities.

In Fall 2024, CDIAC will present its first *Annual Municipal Disclosure Training Webinar*. It will be focused on providing the fundamental elements of good disclosure practices to the staff of agencies either directly and routinely or indirectly and intermittently involved in disclosure or speaking to the market. It will also provide an opportunity to brief participants on new or emerging disclosure issues for the year.

Also late in 2024, CDIAC will produce a webinar, *Practical Adaptations to the Evolution of Credit Ratings*, to address how the changes in credit rating practices and methods can be factored into an agency's approach to the credit rating process.

### IN-PERSON PROGRAMS

For the 23<sup>rd</sup> year, CDIAC will produce the Pre-conference to *The Bond Buyer* California Public Finance Conference. The Pre-conference, a half-day program, addresses an emerging topic in California public finance. Scheduled for October 23, 2024, in San Francisco, California, this year's Pre-conference will focus on strategies for public agencies to obtain the best pricing outcomes when issuing debt.

In September, CDIAC will offer its flagship fundamentals of debt program, *Municipal Debt Essentials*, in Southern California. This three-day program covers public debt issuance, including basic terms and concepts, the steps in the issuance process, and issuers' post-issuance responsibilities.

In Spring 2025, CDIAC will offer *Public Funds Investment: Strategy in Practice* in collaboration with the California Municipal Treasurers Association (CMTA) addressing advanced public fund investment topics. Also, CDIAC's *Municipal Market Disclosure: Fundamentals and Evolving Practices* will be offered. This training will cover the fundamentals of each phase of municipal disclosure, as well as exploration of topical and emerging disclosure subjects. Both programs will take place in Southern California.

To round out CDIAC's FY 2024–25 programming, *Fundamentals of Land-secured Financing* is planned for Spring 2025 in Northern California. This program covers the fundamentals of assessment district and community facilities district (land-secured) formation, debt issuance, and ongoing administration.

### Develop Timely and Practical Guidance and Integrated Research

*Develop analyses, reports and tools that improve the practice of public finance and are integrated with – or foundational to – other products, services, or research.*

#### RESEARCH TO SUPPORT EDUCATIONAL PROGRAMMING

CDIAC will direct its research work to support and enrich the educational programming produced during the year. The Research team will focus on producing articles, briefs, and guidance that will be used as an educational foundation or to consolidate the information presented during an educational program.

In addition to a focus on integration with educational programming, and work on regularly scheduled articles in *Debt Line*, the Research team will be focused on several important project goals, including conducting a multiyear analysis of annual debt transparency reporting and publishing a report tracking the use of green, social, and sustainability bond labels reported to CDIAC since 2014.

The Research Unit's *Debt Line* article on credit ratings published in December 2023 was the catalyst for the development of the *Practical Adaptations to the Evolution of Credit Ratings* webinar to be held later this year.

CDIAC's *California Public Fund Investment Primer* (Primer) is a fundamental investment resource, that is referenced in nearly every investment related program conducted in California. As the current version of the Primer is dated December 2009, CDIAC will conduct a needs assessment to determine the scope of updates needed for the Primer.

## Build an Organization that Will Deliver on CDIAC's Value Proposition

*Develop and maintain an organization that is well known for delivering timely, convenient, practical, professional, and accurate data, information, and guidance.*

CDIAC will continue to use targeted communication tools and social media to promote new products, educational opportunities, and Data Portal and DebtWatch enhancements. It will continue to take advantage of opportunities to innovate in ways that deliver information to constituents in more timely, accurate, and useful format.

### STRATEGIC MARKETING

With additional staff, CDIAC has been able to focus on strategic use of social media and email outreach to market its programs and resources. In FY 2024–25, CDIAC intends to employ an active strategy of following municipal market partners, building on existing recognized campaigns, and posting unique CDIAC messages. Staff meet on a biweekly basis to schedule marketing efforts and strategize about upcoming outreach opportunities. As an example of leveraging existing awareness campaigns to build more followers, in April, CDIAC shared the League of California Cities, California Cities Week graphics with a message about public finance and essential services. This post generated multiple reposts as well as additional online engagement from the larger public finance community. CDIAC also posted about Earth Day on social media with links to CDIAC's Climate Resources Dashboard.

In FY 2024–25, CDIAC will procure a new email marketing platform to help focus our outreach to CDIAC's stakeholders. CDIAC has developed a subscriber list of over 9,000 interested parties, and the new platform will allow CDIAC to focus email marketing to specific subscriber subgroups, and integrate social media and email marketing campaigns.

### WEB PRESENCE

CDIAC has begun to develop plans for rebuilding several aspects of its website that will enhance access to both educational content and publications. To drive interest in CDIAC's on-demand educational content, CDIAC worked with its learning management system vendor to allow potential users to link to the Ed Portal library and view offerings without having to create an account or login. Logging into the system will only be required once the user selects a program in which they would like to enroll. In addition, CDIAC's publications library will be redesigned to improve search functionality and feature the most current and relevant publications.