CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

AGENDA ITEM 6 (INFORMATION ITEM)
CDIAC FEE SCHEDULE

CDIAC Fee Structure
June 20, 2011

STAFF REPORT

Government Code Section 8856 authorizes CDIAC to charge a fee of up to $5,000 on public debt issuance reported to CDIAC. The lead underwriter or purchaser of the debt is liable for the fee payment. Fee proceeds are deposited into the CDIAC Fund for expenditure in accordance with the CDIAC's annual Budget Act appropriation.

Because CDIAC maintains a fund surplus, staff recommended and the Commission approved Resolution 10-03 on July 15, 2010, establishing a fee schedule below the statutory limit. As a result, fees assessed on long-term debt are equal to one-fortieth of one percent up to a maximum amount of $3,000. Fees assessed on short-term debt are $150. In addition, Resolution 10-03 maintains this fee schedule until the Commission takes an action to amend it.

As reported in the Executive Director's Report earlier, CDIAC's projected fund balance for FY 2011-12 is $5.6 million. Between FY 2009-10 and FY 2010-11 the fund balance declined by approximately eight percent. As a result of the slowdown in the debt markets CDIAC staff projects a 28 percent drop in the fund balance at the end of FY 2011-12. This projection is based on an analysis conducted by CDIAC using two national bond issuance forecasts.[1]

[1] In May 2011 Chris Mier of Loop Capital and George Friedlander of Citigroup predicted a decline in national issuance in 2011 of 44 percent and 37 percent, respectively. Based upon their predictions, CDIAC staff projected a 43 percent decline in CDIAC fee revenue in Fiscal Year 2011-12. The predictive ability of these forecasts is limited beyond the next six to twelve months, but both forecasters have asserted that annual issuance growth over the next five years may be less than seven percent.

Even with the steep decline in debt issuance, CDIAC's fee revenues and fund balance will be sufficient to cover likely expenditures for FY 2011-12.

STAFF RECOMMENDATION

Staff recommends that the Commission take no action to amend the fee schedule at this time.

Staff will continue to closely monitor issuance trends and the resulting effect on projected fee revenue and fund balance. It will continue to report to the Commission on its assessment and the need to amend the fee schedule.