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State Treasurer and Chair

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AN INTRODUCTION TO THE COMMISSION

At the beginning of the 1980s, California policymakers were becoming increasingly concerned about the financial difficulties facing local agencies who were not only adjusting to the impacts of Proposition 13, but also coping with historically high interest rates in the municipal marketplace. Moreover, the defaults of New York City on its municipal debt obligations in the mid-1970s served as a warning of the consequences of ignoring growing fiscal pressures. It became clear that California could benefit from collecting better information on municipal debt issuance and from providing technical assistance to public agencies issuing debt. To address these deficiencies, State Treasurer Jesse Unruh proposed the creation of the California Debt Advisory Commission (CDAC), to serve as a central repository of public debt information and to assist public agencies in achieving the best financing terms on their bond issuances.

The Commission became a reality with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). Since 1982, CDAC has helped protect and improve the credit standing of public agencies in the state and ensured their continued access to the public debt markets. The Commission achieves these goals by collecting information on the issuance of debt, by providing assistance to local governments upon request, and by analyzing policy issues concerning public debt. Pursuant to Chapter 1088, the Commission is specifically required to:

- o Serve as the state's statistical center for debt information.
- o Publish a monthly newsletter.
- o Maintain contact with all participants in the municipal debt industry to improve the market for public debt.
- o Provide technical assistance to state and local governments to reduce cost and protect the issuer's credit.
- o Undertake or commission studies on methods to reduce costs and improve credit ratings.
- o Recommend legislative changes to improve the sale and payment of debt.
- o Assist the Housing Bond Credit Committee and all state financing authorities and commissions in carrying out their responsibilities.

Since the Commission's creation in 1981, the Legislature has given CDAC additional responsibilities. Chapter 1399, Statutes of 1984 (AB 4025, Waters) requires CDAC to collect, summarize, and report annually to the Legislature specific information on the use of proceeds from the sale of housing bonds. Chapter 1399 also requires CDAC to

certify to the Legislature local agencies' compliance with housing bond reporting requirements.

Moreover, the Legislature requires issuers to report specified information to CDAC when they (1) sell refunding or revenue bonds through negotiation or private placements or (2) issue bonds payable in a foreign currency. Finally, pursuant to legislation enacted in 1992 (Chapter 772, SB 1464, Mello), the Commission is now required to collect specified fiscal information on Mello-Roos community facilities districts which issue bonds after January 1, 1993.

THE COMMISSION MEMBERS

The Commission consists of nine members, including the State Treasurer, the Governor or the Director of Finance, the State Controller, two local government finance officials, two Assembly members, and two Senators. The State Treasurer serves as the Chairperson and appoints the two local government officials. The Speaker of the Assembly appoints the Assembly representatives and the Senate Rules Committee appoints the Senate representatives. Appointed members serve four-year terms, or at the pleasure of their appointing power. The Commission meets at least four times a year to direct the activities of the 12-member staff.

Honorable Kathleen Brown, Chairperson *State Treasurer*



Kathleen Brown was sworn in as California's 28th State Treasurer on January 7, 1991 and became the Commission's fourth Chairperson. In addition to her responsibilities as the state's official banker, she chairs over 40 other boards, authorities, and commissions; including the California Debt Limit Allocation Committee, the California Pollution Control Financing Authority, the California Health Facilities Financing Authority, and the Commission on State Finance. The State Treasurer also serves on the State's two biggest pension boards, the Public Employees' Retirement System and the State Teachers' Retirement System.

Treasurer Brown's election as State Treasurer follows a 15-year career as financial manager and public policymaker: serving two terms as a member of the Los Angeles Board of Education, and also as a corporate attorney specializing in public finance with the law firm O'Melveny & Myers. In 1987, she was appointed to the Los Angeles Board of Public Works. By statute, the State Treasurer serves as the Chairperson of the California Debt Advisory Commission.

Honorable Gray Davis
State Controller



Gray Davis assumed the office of State Controller of the State of California in January 1987. In that capacity, he receives and disburses public funds, reports on the financial condition of the state and local governments, collects certain taxes, and enforces the unclaimed property laws.

Prior to his election, Gray Davis represented the 43rd District in the State Assembly. And from 1974 through 1981, he served as Chief of Staff to former Governor Edmund G. Brown, Jr. Controller Davis has been a Commission member since 1987.

Russell S. Gould
Director of Finance



Director Russell S. Gould was appointed Director of the Department of Finance by Governor Pete Wilson on August 2, 1993 and represents the Governor on the Commission. In his capacity, Director Gould serves as the Governor's chief fiscal advisor and is responsible for the development and management of the State's budget.

Prior to becoming the Director of Finance, Mr. Gould was Secretary of the Health and Welfare Agency as part of Governor Wilson's Cabinet. He also served previously as Chief Deputy Director of the Department of Finance, and, prior to that, as Assistant State Treasurer. Director Gould has been representing the Governor on the Commission since the appointment to his present position in 1993.

Honorable Robert Beverly
27th Senatorial District



Senator Beverly has been a member of the California Legislature since his election to the Assembly in 1967. He was first elected to the Senate in 1976. He currently serves on the Appropriations Committee as Vice Chairperson; and also on the Banking, Commerce, and International Trade Committee; the Elections and Reapportionment Committee; the Governmental Organization Committee; the Senate Rules Committee; and the Select Committee on the Maritime Industry.

Prior to his election to the Legislature, Senator Beverly served in various local government capacities, including city attorney, mayor, and council member. Senator Beverly has been a member of the Commission since its first year of operation in 1982.

Honorable Lucy Killea
39th Senatorial District



Senator Killea was elected to the State Senate in 1989, after serving four consecutive terms in the Assembly. She chairs the Senate Appropriations Subcommittee on Bonded Indebtedness & Methods of Financing and the Senate Banking, Commerce, and International Trade Committee. She also serves on four Senate standing committees: Appropriations, Business and Professions, Education, and Insurance Claims and Corporations.

In addition to her appointments to the California Debt Advisory Commission and the Little Hoover Commission, Senator Killea chairs the Senate Commission on Corporate Governance, and serves on the California Commission on the Status of Women and on the Senate Select Committee on Women in the Workforce.

Prior to her state legislative career, Senator Killea served as a San Diego City Council member and as San Diego City Deputy Mayor. Senator Killea was appointed to the Commission by the Senate Rules Committee in 1991.

Honorable Jim Costa
30th Assembly District



Assemblymember Jim Costa first won election to the California State Assembly in 1978. He chairs the Assembly Ways and Means Subcommittee No. 3 on Resources, Agriculture, and the Environment. He also serves on the Water, Parks and Wildlife Committee and the Transportation Committee, among others.

Before Assemblymember Costa's election to the Legislature, he served as a congressional aide to Congressman B.F. Sisk, a special assistant to Congressman John Krebs, and an administrative assistant to Assemblymember Richard Lehman.

Assemblymember Costa carried the legislation that established CDAC in 1982, and has been a member of the Commission since that time.

Honorable Patrick Nolan
43rd Assembly District



Assemblymember Pat Nolan served in the California State Assembly from 1978 to 1994.

In the Assembly, Assemblymember Nolan served on various committees, including the Rules Committee, Governmental Organization Committee, Higher Education Committee, and the Ways and Means Committee.

Assemblymember Nolan was one of the original members of the Commission. In January of 1994, his place on the Commission was assumed by Assemblymember Dean F. Andal.

Honorable Dean F. Andal
17th Assembly District



Assemblymember Dean F. Andal has served in the California State Assembly since May 14, 1991, when he was elected to fill a vacancy in the 26th Assembly District. In 1992 he was re-elected to the 17th Assembly District. He is president of a Stockton marketing company and has served as a member of the San Joaquin County Board of Education.

Assemblymember Andal is a member of the following Assembly committees: Banking and Finance; Environmental Safety and Toxic Materials; Water, Parks, and Wildlife; Public Employees, Retirement, and Social Security; and Ways and Means.

Assembly Speaker Willie Brown appointed Dean F. Andal to replace Patrick Nolan on the California Debt Advisory Commission in January of 1994.

Honorable Don Merz
Sonoma County Treasurer-Tax Collector



Treasurer Don Merz was first elected Treasurer-Tax Collector of Sonoma County in 1978. Prior to his election, he served as Assistant Department Head in the Treasurer-Tax Collector's Office and as Senior Engineering Manager at Aerojet General Corporation.

Treasurer Merz has assumed leadership positions in several professional organizations, including the position of President of both the California Association of County Treasurers and Tax Collectors and the State Association of County Retirement Systems. He is currently the President of the National

Association of County Treasurers and Finance Officers. State Treasurer Kathleen Brown appointed Treasurer Merz to the Commission in 1991.

Phyllis E. Currie
Los Angeles Department of Water and Power Chief Financial Officer



Phyllis Currie was appointed to her current position with the Los Angeles Department of Water and Power (DWAP) in August 1992.

Prior to her position with DWAP, Ms. Currie served the City of Los Angeles as Assistant City Administrative Officer. In that capacity, she oversaw long-term debt management for the City, and had the responsibility for long-range financial planning and budgeting for capital projects. Thus, Ms. Currie brings a wide array of experience to the Commission in long-range financial planning and budgeting, and the debt-issuance process.

Treasurer Kathleen Brown appointed Ms. Currie to the California Debt Advisory Commission in 1992.

THE TECHNICAL ADVISORY COMMITTEE

To assist the Commission in its decision-making responsibility, a Technical Advisory Committee (TAC) was established in 1983. The TAC serves two primary functions:

- 1) To assist the CDAC in its deliberations by providing a forum for initial discussion of issues, problems, and opportunities related to public agency debt transactions; and
- 2) To assure a proper technical review of public finance subjects by initially exposing them to professionals who have expertise in both the public and private aspects of public agency debt.

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

The TAC is composed of 30 individuals representing various groups involved in municipal finance, including bond counsel, underwriters, financial advisors, investors, credit rating agencies, and local bond issuers. The State Treasurer appoints TAC members to staggered two-year terms. All TAC members serve without compensation. Members of the Technical Advisory Committee that served during calendar year 1993 are listed in Appendix B.

THE COMMISSION'S PROGRAMS

In order to carry out its mission of assisting state and local agencies on matters related to debt issuance and debt management, the Commission engages in a wide range of activities and functions. These activities can be classified into three general program areas: data collection, policy research and development, and technical assistance.

Data Collection

In compliance with its statutory requirements, CDAC operates two data repositories: the debt issuance data bank and the housing bond proceeds data bank. These repositories are considered two of the most comprehensive and accessible databanks of their kind.

As the state's clearinghouse for public debt financing information, the Commission has compiled data on all public debt issued in California since January 1, 1982. All issuers of state and local government debt are required to submit issue-related

information to the Commission 30 days prior to the sale. A sample of the data reported to CDAC includes the sale date, the name of the issuer, the type of sale, the principal amount, the type of debt instrument, the source(s) of repayment, the purpose of the financing, the rating of the issue, and the members of the financing team.

CDAC's other data program, the housing bond proceeds databank, produces statewide information on the costs and benefits of tax-exempt mortgage revenue bonds issued by local entities. A critical feature of CDAC's housing revenue bond proceeds databank is its capacity to illustrate to policymakers and to the public the scope of low-income housing in the state financed by tax-exempt revenue bonds. Since January 1, 1985, CDAC has been collecting annual information on multifamily and single-family housing bond issues sold by cities, counties, and redevelopment agencies in California. Housing authorities began reporting in January 1, 1986. Housing bond data compiled by CDAC include project name and location, developer information, occupant incomes and family size, unit size, and rents or mortgage payments.

Policy Research and Development

To complement its data collection activities, CDAC undertakes various research and development projects. CDAC takes care to select projects that have practical relevance to public finance practitioners. These projects are typically designed to (1) keep issuers apprised of emerging trends in public finance, (2) develop ways of reducing issuance costs, (3) provide financing options for local issuers, (4) raise the issuers' sophistication level with regard to debt issuance and debt management, and (5) preserve the integrity and viability of existing debt instruments by alerting policymakers to potential problem areas.

Technical Assistance

The Commission's activities go beyond data collection and policy research. The data and expertise accrued by CDAC would be of limited value if it were not made available to public agencies in a useful form. It is with this goal in mind that the Commission developed its technical assistance program.

CDAC's formal technical assistance program consists primarily of two components. The first component is the *California Debt Issuance Primer*, a CDAC publication designed as a reference manual for public debt issuers in the state. The *Primer* contains information on the roles and responsibilities of public debt issuers and provides a comprehensive overview of the various debt financing options available to California issuers. It also describes and discusses the roles of the participants in a debt financing, the steps in the debt issuance process, State debt oversight and financing programs, and key terms and concepts in public finance.

The second component is CDAC's seminar program, which was inaugurated in June 1984. Offered several times a year at different locations statewide, CDAC seminars are designed to meet two goals: (1) to introduce public officials who are new to the field of public finance to the debt issuance process and (2) to strengthen the expertise of those who are already familiar with debt issuance and management concepts. Since

its inception in 1984, about 1,500 public officials and staff have participated in seminar workshops. Most of the participants come from local agencies, while the remainder represent federal, legislative, and state agencies.

Of course, CDAC does not limit its technical assistance program to the *Primer* and the seminars. As the state agency responsible for the oversight of state and local debt, public and private individuals routinely contact the Commission with inquiries related to California public debt. Hence, the Commission's staff responds to numerous technical assistance requests throughout the year. These requests include simple referral requests, data inquiries, and questions on the nature and application of specific debt instruments, among others. In a typical year, CDAC staff responds to over 1,000 requests for information or assistance.

CALIFORNIA PUBLIC FINANCE IN 1993

OVERVIEW

The public finance picture in California was clouded by a third successive year of sluggish economic performance. Following four economic conditions in 1991 and 1992, the recessionary trend continued into 1993 as California encountered its most prolonged economic downturn since the Great Depression. The depth and the length of the state's recession, coupled with major reductions in Federal spending in California, have increased the focus on public finance alternatives to help smooth out the problems caused by flat public revenues and an ever-increasing demand for public services. Accordingly, the Commission has sought to serve as a resource and to provide a forum for highlighting potential problems cropping up in the area of public finance, as well as to identify innovative solutions and new approaches that can assist State and local governments in dealing with their budget problems.

CDAC Public Hearings Seek to Add Value

Over the past few years, the Commission has convened several public hearings and issued a number of reports which have focused on how public finance and debt issuance, in particular, can best meet the needs of all Californians during these turbulent times. Because of the State's budget woes, local government finance has been especially impacted by poor economic and fiscal conditions in California. One of the major provisions of the 1993-94 State Budget approved in July 1993 was to shift \$2.6 billion in property tax revenues from local governments to schools to offset reduced General Fund support for K-12 education. This followed a loss of \$1.3 billion in property tax revenues to local governments which helped balance the 1992-93 State Budget.

These financial maneuvers led the Commission to hold a series of public hearings throughout the state to assess their impact on local government fiscal stability -- first in December 1992, then later in October 1993. In total, the Commission received over 18 hours of testimony from more than 70 public and private sector representatives on (1) program areas where local governments would cut back to address the loss of property tax revenues; (2) how the loss would affect support for capital outlay and infrastructure; (3) new methods of service delivery and operation which might offset some of the lost revenue; and (4) the impact that the reduced support would have on local economic development efforts.

The three hearings held in October 1993 also took a prospective look at how the possible defeat of Proposition 172, the initiative to provide increased funds for local public safety services, might affect the local government fiscal landscape. Both sets of hearings were notable not only for the high level of concern many local officials

shared for the future viability of local government operations, but also for the novel approaches that many local officials are embracing in the face of adversity. Following both the 1992 and 1993 hearings, the Commission followed up with reports to the Legislature which not only outlined how local governments are responding to the reductions, but also contained findings and recommendations for State policymakers to consider should they find it necessary to exact further cuts to local governments in the future.

The Commission also held a public hearing in May 1993 to review the State of California's increasing reliance on short-term borrowing to meet its obligations. Each year since 1991, the State has taken another step down the slippery slope of deficit financing by relying on short-term infusions of capital to paper over its budget shortfalls. The May 1993 hearing showcased a number of financial and legal experts who expressed concerns about the long-term implications of the State's short-term borrowing practices and the negative impact that these practices could have on recovery efforts. Again, the Commission issued a report, *California's Cash Crisis: Surviving on Borrowed Money*, to alert State policymakers to the implications of these practices.

November 1993 Special Election Posts Mixed Results

One piece of good news amid all the turmoil over the State's fiscal problems was the passage of Proposition 172, the measure to extend the half-cent sales tax to provide continued funding for public safety. According to statistics compiled by the Secretary of State, the measure was passed in 39 of the 58 California counties. And although continuation of the tax will not result in an increase in available funds, the passage of Proposition 172 will mean that local governments do not have to face the prospect of even more cuts for the time being.

At the same election, however, the electorate voted down Proposition 170, which would have facilitated the approval of future local general obligation bond measures for schools by a simple majority vote. With the defeat of Proposition 170, local school districts must continue to garner two-thirds voter approval for the sale of general obligation bonds for the financing of school facilities. Possible further problems for school finance were avoided as voters overwhelmingly defeated Proposition 174, which would have provided vouchers to students attending both public and private schools.

External Rx: Interest Rates Hit Bottom

Record low interest rates throughout most of 1993 continued to offer relief to financially strapped public agencies. Many California issuers took advantage of the favorable interest rate environment to not only finance new projects, but to refinance existing debt obligations. In fact, the continued free-fall during 1993 prompted some issuers to refund debt issuances which were less than a year old. Short-term borrowing was also facilitated by the favorable interest rate environment and opportunities presented by the slope of the yield curve.

Municipal bond rates remained well under six percent for most of 1993, declining to their lowest level for the year in October 1993. Although interest rates began rising toward the end of 1993, bond rates overall still finished well below the average for the entire year. At the beginning of the year, for example, the *Bond Buyer's* index of 11 general obligation bonds (i.e., high-quality bonds) was at 6.08 percent, falling to a

low of 5.10 percent in October, and ending up at 5.19 percent at the end of December. The 1993 average for the 11-bond index was 5.49 percent. Similarly, the *Bond Buyer's* 20-bond index (slightly lower grade bonds) started at 6.17 percent, declined to 5.20 percent, and finished the year at 5.28 percent. The yearly average for the 20-bond index was 5.59 percent. (While high-grade G.O. bond indexes are used here for illustrative purposes, rates for lower quality bonds tended to follow the same general pattern.)

Refunding Activities Dominate in 1993

State and local agencies in California refunded public debt at record levels in 1993 to take advantage of the favorable interest rates that prevailed for most of the year. Not only did California agencies exceed their own prior levels of refunding, but they were also -- again, for the third consecutive year -- the most active issuers of refunding bonds when compared on a national basis.

Taking a year-to-year perspective, the \$23 billion volume of debt sold for the purpose of refunding in 1993 represents nearly double the refunding volume of the prior year. Moreover, the \$23 billion in refundings accounts for 58 percent of all long-term debt issued in 1993. By contrast, state and local agencies refunded \$12.8 billion in 1992, or 48 percent of the total long-term debt sold in that year. (Refunding ratios are only calculated as a percentage of long-term debt issued because short-term debt, by its nature, is not normally subject to refunding.)

Increased refunding activity represented one of the ways that State and local governments in California were able to partially mitigate the adverse economic and fiscal conditions which prevailed in 1993. Although not without cost itself, refunding normally makes sense if the interest rate differential is substantial enough to allow agencies to reduce the cost of debt obligations on their books (usually measured in present value terms) by replacing bonds having high coupon yields for lower-yielding ones.

The interest rate environment has also caused local governments in California to look seriously at utilizing taxable financing to address both short-term and long-term obligations. For instance, some jurisdictions have been able to issue taxable notes which are not subject to certain Federal tax law restrictions and which have proceeds which can be invested at fairly high rates of return. Other local agencies, primarily counties, are looking at taxable pension obligation bonds to eliminate their unfunded pension liabilities and to reduce their payments for this purpose.

Insofar as interest rates appear to have bottomed out as 1993 drew to a close, and are expected to rise in 1994, the consensus among industry analysts is that debt issuance in California and elsewhere will begin to drop substantially. This would be most likely the case for refunding activity insofar as any rise in current interest rates will reduce the number of circumstances where refunding makes economic sense. The share of the market taken up by refundings could be replaced, in part, by an increase in *new money* issues as California and other states begin to emerge from their economic slumber and the need for new capital facilities to service economic expansion grows.

California Leads The Way in Financing Public Improvements

California local agencies not only issued the greatest volume of long-term debt in 1993 among the states, but also led the municipal market in the issuance of long-term debt in the areas of health care, electric power, utilities, industrial development, and public facilities. As reported in the *Bond Buyer*, statistics based on data gathered by Securities Data Co. indicate that California issuers sold over 13 percent of the \$291 billion total municipal long-term debt volume for 1993. These figures capture both the financing of new and additional projects and the refunding of projects that were financed through the sale of municipal bonds in prior years.

A breakdown of the 1993 total municipal bond volume into ten purpose categories shows that California issuers accounted for approximately 10 percent of \$32 billion debt sold nationwide for the financing of health care facilities; 14 percent of \$27 billion for electric power; 19 percent of \$38 billion for utilities; 52 percent of \$8 billion for industrial development; 27 percent of \$16 billion for public facilities; 11 percent of \$15 billion for housing; 15 percent of \$28 billion for transit; 3 percent of \$12 billion for environmental facilities; 8 percent of \$47 billion for education; and 8 percent of \$68 billion for general purposes. The next section discusses the State's debt issuance picture for 1993 in much greater detail.

CALIFORNIA DEBT ISSUANCE IN 1993

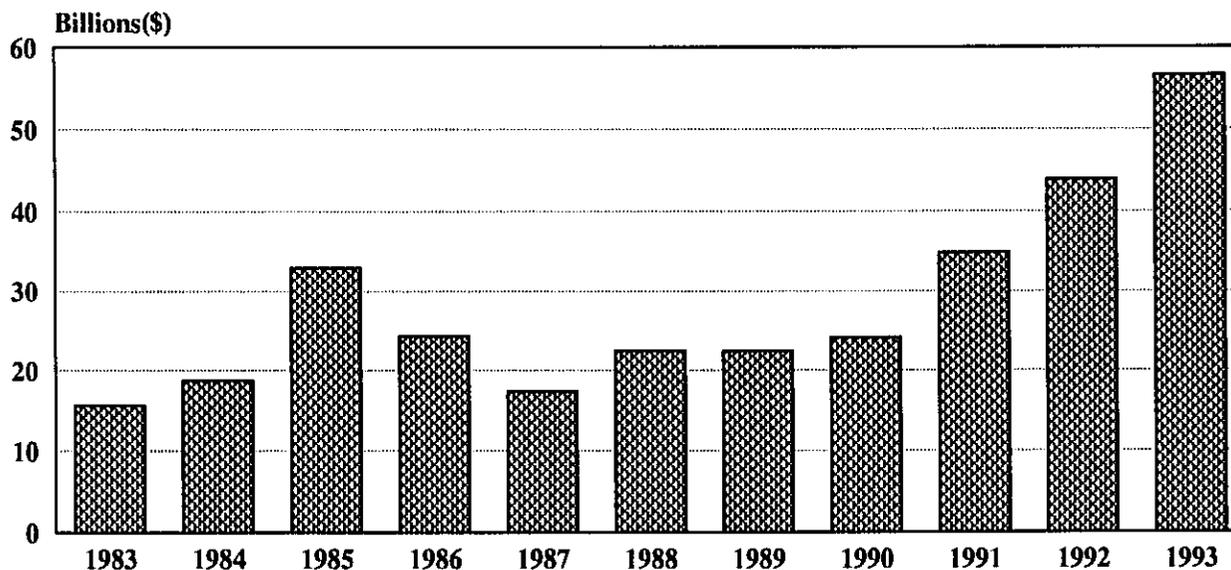
Debt issuance in 1993 by California public agencies exceeded all prior levels since the Commission began collecting this data in 1983. The combined State and local volume of \$56.6 billion represents the latest plateau in a growth trend that began four years ago. As shown in Chart 1 on page 13, after reaching a relative peak in 1985, the volume declined in 1986, and again in 1987. Public debt reached a slightly higher level in 1988 and remained at that level for another year. Following a slight rise in 1990, public debt issuance took off in 1991 with a growth rate of 44 percent; continuing to climb by 26 percent in 1992, and growing by 29 percent in 1993 to reach the new record level.

As this section discusses in greater detail, the 1993 growth in debt issuance is almost exclusively made up of increased refunding activity. Record-low interest rates have permitted public agencies in California to greatly reduce debt service payments associated with previously issued debt, thereby mitigating, at least in part, some of the fiscal pain imposed by the recession and budgetary problems. With rates beginning to rise at the end of 1993 and into 1994, it is expected that these opportunities will become fewer and fewer.

This section summarizes California public debt statistics and highlights the major purposes for which new debt was issued in 1993. A more detailed treatment of public debt issued in California is provided in the Commission's two companion publications: *1993 Calendar of Debt Issuance* and *1993 Summary of California Public Debt*, which are also available from the Commission upon request.

Chart 1

California Public Debt Issuance
1983 through 1993



Refunding Activity Fueled California Public Finance Market in 1993

The spurt in total debt issuance that reached a new record-high level of \$56.6 billion in 1993 resulted primarily from refundings, as favorable interest rates for most of the year provided the only relief in an otherwise bleak picture for public finance in California. Total long-term debt issued in 1993 for all agencies was \$39.3 billion, up 46 percent from the \$26.8 billion sold in 1992. Refundings, which totaled \$23 billion at year-end 1993, were up 81 percent from the \$12.8 billion level recorded a year earlier. As a proportion of long-term debt issuance, refundings accounted for 59 percent of the \$39.3 billion 1993 total. In 1992, the refunding total of \$12.8 billion represented about 48 percent of the \$26.8 billion total long-term debt issued in that year. (Refunding percentages are only measured against long-term debt issued.) A breakdown of California public debt issuance with a year-over-year comparison is shown in Table 1 on the next page.

Table 1

**California Public Debt Issuance
Long-Term vs. Short-Term
1992 and 1993
(dollars in millions)**

	1992	1993
Long-term Debt	\$26,815	\$39,280
(Refundings)	(12,845)	(23,036)
(New Projects)	(13,970)	(16,244)
Short-term Debt	<u>17,039</u>	<u>17,311</u>
Total	\$43,854	\$56,591

Table 1 also reveals that new long-term debt issuance (i.e., funds for new projects or equipment) increased in 1993 (up 16 percent), again, with public agencies taking advantage of low interest rates to enter the market for needed capital. The level of short-term borrowing in 1993, \$17.3 billion, was about the same as the 1992 level -- registering an increase of less than two percent from the prior year. However, borrowing for short-term, interim financing purposes during 1992 and 1993 represents a significantly higher level than was the case in 1991 and earlier years when the interest rate environment was less favorable for this type of borrowing.

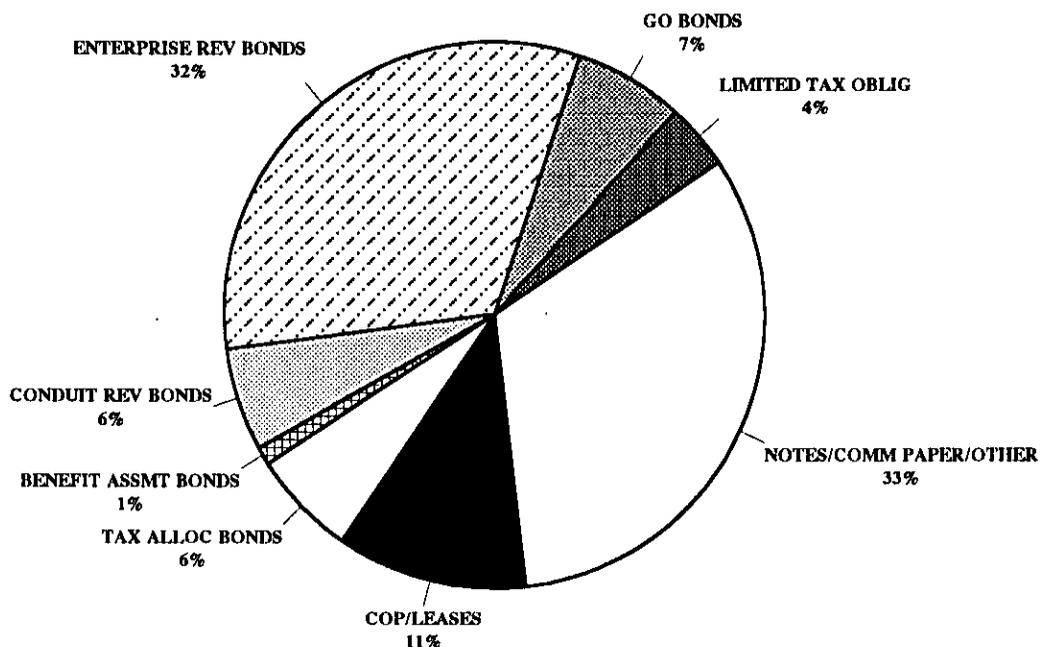
Notes/Commercial Paper and Bonds Represent Major Types of Debt for 1993

As Chart 2 on the next page evidences, the category of notes and commercial paper constituted the foremost purpose of public debt issuance in 1993, totalling \$18.5 billion, or 33 percent of all public debt issued statewide. Nearly matching this total was the \$18.1 billion in revenue bond financing for capital improvements and public works projects, accounting for another 32 percent of statewide debt issuance. Following a distant third, leases and certificates of participation (COPs) accounted for 11 percent of the 1993 statewide total.

In comparison to 1992, the use of public revenue bonds doubled in 1993. Also increasing significantly was the use of tax allocation bonds, which jumped 67 percent in 1993. Lease and certificate of participation (COP) financings also increased significantly, growing by 45 percent. The use of notes, commercial paper, and other debt instruments remained fairly stable, showing an increase of just 4.3 percent from the prior year. The one notable decrease from 1992 to 1993 was in the issuance of State and local general obligation bonds, which declined by 8.5 percent in 1993. Most of this decrease was attributable to the drop in State-issued G.O. bonds.

Chart 2

**California Debt Issuance by Type
January 1, 1993 - December 31, 1993**



Drop in Short-Term Debt Colors State Picture

The State of California saw its reliance on short-term borrowing drop in calendar year 1993. The amount issued as part of short-term cash-flow financings dropped 35 percent from calendar year 1992. In 1993, the State issued a total of \$7 billion composed of revenue anticipation warrants and revenue anticipation notes to fund the year-end cash-flow deficit and provide interim financing for the remainder of the year. This was down from the record-high \$10.8 billion in interim financing debt issued in 1992. Even with the drop in issuance, short-term financings made up 46 percent of the State's total issuance.

The total issuance of bonds by the State and its agencies amounted to \$7.9 billion in 1993, up 33 percent from \$6 billion issued in 1992. The State sold \$1.9 billion in general obligation (G.O.) bonds in 1993, down 40 percent from the \$3.1 billion sold in 1992. One hundred and forty-five million dollars (eight percent of total G.O. bonds sold) in outstanding State G.O. bonds were refinanced in 1993.

Public lease revenue bonds amounted to \$2.5 billion, over 30 percent of all State bonds sold in 1993. Half of that total was for refunding of prior issuance. Other types of bonds issued were conduit revenue bonds, with a total \$1.9 billion issued, with 56 percent done for refunding purposes; and public enterprise revenue bonds, with \$1.7 billion sold, with 91 percent of those being refunded. Additionally, the State issued \$187 million in certificates of participation, all of which represented refunded debt.

Capital Improvements and Education Top Long-Term State Priorities

While short-term debt issuance for the State was tailing off, the State's issuance of long-term debt went up by 38 percent to \$8.3 billion in 1993, although a significant portion of this volume was to refinance prior issues. The issuance was split between capital improvements/public works (\$3.6 billion), education (\$2.9 billion), housing (\$1 billion), health care/hospitals (\$457 million), and commercial and industrial development (\$335 million). Again, a significant amount of debt was for refunding of prior issues. Almost half of the capital improvements and public works financing was for refunding purposes; 44 percent of the education bonds sold represented refunding; and 98 percent of all State housing bonds issued were refundings. (Table 2 reflects State debt activity by purpose.)

Table 2

**State of California
Public Debt Issuance by Purpose
1992 and 1993
(dollars in millions)**

	1992	1993	Percent of Change
Interim Financing	\$10,775	\$7,000	-35.0
Capital Improvements	2,454	3,586	+46.1
Commercial/Industrial	338	335	-0.9
Education	2,611	2,872	+10.0
Hospital/Healthcare	446	457	+2.5
Housing	<u>124</u>	<u>1,027</u>	<u>+728.2</u>
Total	\$16,748	\$15,279	-8.8

In the capital improvements/public works category, bonds issued for prisons, jails and correctional facilities recorded the largest total for one purpose, \$1.7 billion. Of this amount, 46 percent or \$783 million, was for refunding. Education funding was next in rank with college and university facilities bonds totalling \$1.4 billion and K-12 school facilities bonds amounting to \$1.1 billion. Of those totals, 55 percent of the college and university funding was refunded debt, while only 13 percent of debt issued for K-12 facilities was made up of refunding bonds.

The greatest increase in financing at the State level from 1992 to 1993 was in the housing area, where the State took advantage of low interest rates to refund \$1 billion previously issued for housing. The housing category totalled \$124 million in 1992. Debt issued for health care/hospitals and commercial and industrial development remained unaltered from the levels recorded in 1992.

Refunding Paces Local Agency Debt Issuance

With over \$41.2 billion of debt issuance in 1993, local agencies established a new issuance record, surpassing the previous high-water mark of \$26.6 billion issued in 1992 by 54 percent. During 1993, almost all categories of local debt issuance by purpose exhibited a strong growth trend, the only exception being debt issued for commercial and industrial purposes. Moreover, 61 percent of all 1993 long-term bond proceeds were used to refund outstanding local agency bonds. A breakdown and annual comparison of local agency debt issuance according to purpose is shown in Table 3 below, along with amounts refunded for each category.

Table 3

**California Local Agencies
Public Debt Issuance by Purpose
1992 and 1993
(dollars in millions)**

	1992	1993	Percent of Change	1993 Amount Refunded
Interim Financing	\$6,264	\$10,311	+64.6	(\$4)
Capital Improvements	13,591	20,785	+52.9	(13,073)
Commercial/Industrial	204	100	-51.0	(25)
Education	1,391	1,729	+24.3	(695)
Hospital/Healthcare	1,352	2,629	+94.5	(1,555)
Housing	1,030	1,035	+0.5	(772)
Redevelopment	2,679	4,224	+57.7	(2,508)
Other	<u>243</u>	<u>436</u>	<u>+79.4</u>	<u>(97)</u>
Total	\$26,754	\$41,249	+54.2	(\$18,730)

Because of the increasing volatile nature of cash-flows, and due to some opportunities for generating legal arbitrage, interim financings by local agencies rose to \$10.3 billion in 1993, an increase of 65 percent over the \$6.3 million issued for these purposes in 1992. In the health area, local agency bond sales almost doubled during the year to total \$2.6 billion in 1993, up 94.5 percent from the \$1.4 billion total for 1992. More than half (59 percent) of the 1993 health-related financings were used to refund outstanding hospital and health care bonds. Redevelopment financing was another strong area of growth. Local agencies sold \$4.2 billion in redevelopment bonds, of which 59 percent was to refund prior debt. The 1993 redevelopment volume represents

an increase of 58 percent over the \$2.7 billion sold for the financing of redevelopment projects in 1992.

The single largest purpose category for local governments in 1993 was capital improvement financing with \$20.8 billion. This volume represents an increase of 53 percent over the \$13.6 billion volume of capital improvement bonds sold in 1992. As with other purposes, the lion's share of debt financing in this area (63 percent) was used by local agencies to refund outstanding capital improvement bonds in 1993.

The volume of 1993 bonds to finance educational facilities, \$1.7 billion, represents an increase of 24 percent over the \$1.4 billion raised for this purpose in 1992. Of the 1993 proceeds, 40 percent were used by local agencies to refund outstanding education-related bonds. The level of bond issuance for housing purposes remained essentially the same during the last two years at \$1 billion in 1992 and 1993. However, refinancings accounted for 75 percent of the bonds issued for local housing programs in 1993.

Bond sales for commercial and industrial development were the only exception to the otherwise overall growth trend associated with local agency debt issuance, contrasting greatly with the dramatic turnabout that was observed for State debt issuance for commercial and industrial projects noted earlier. Local bond sales for commercial and industrial development projects dropped by 51 percent from \$204 million in 1992 to \$100 million in 1993, following an upswing of 490 percent during 1992 over the prior year.

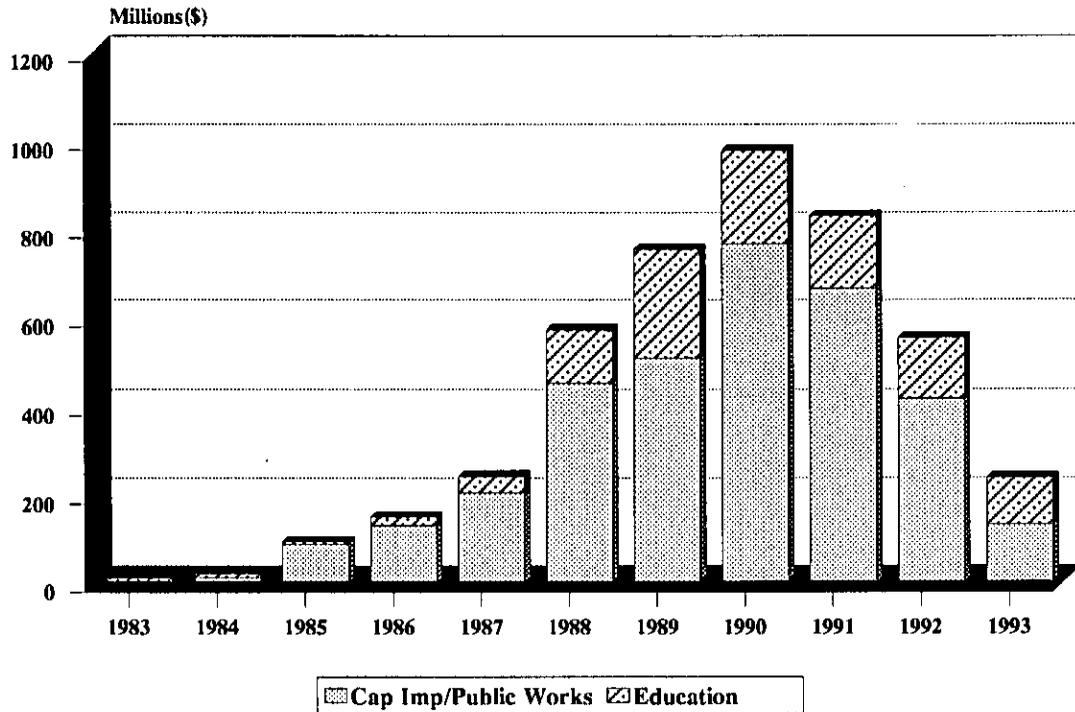
Agencies in L.A. County Record Highest Totals; Mello-Roos Issuance Drops Again

Local agencies in Los Angeles County once again led the State in debt issuance with \$11.9 billion (21 percent of the total volume) issued in 1993. Issuers in eight other counties reported debt issuances in excess of \$1 billion. These are: Orange, \$4.9 billion; San Diego, \$3.6 billion; San Bernardino, \$1.9 billion; Santa Clara, \$1.7 billion; Riverside \$1.4 billion; Alameda, \$1.3 billion; Sacramento, \$1.2 billion; and Contra Costa, \$1.2 billion. Fifty-six of the 58 counties reported debt issuance for the year. Multi-county agencies (i.e., JPAs, transit districts, non-profit corporations, etc.) issued \$5.5 billion in debt, accounting for 9.6 percent of the total California municipal volume.

Total issuance by Mello-Roos community facilities districts (CFDs) dropped in 1993 for the third consecutive year. After reaching a peak volume of \$1 billion in 1990, CFD issuance dropped by 15 percent to \$828 million in 1991, declined by 33 percent in 1992 to a volume of \$553 million, and continued to drop by another 57 percent in 1993 to a volume of \$237 million for the year -- the lowest dollar volume registered since 1987. As would be expected by this decline, the number of Mello-Roos issuances has also dropped. There were 73 CFD issues in 1990, with a like number in 1991. In 1992, the number of CFD issues fell to 46, and then last year only 29 issues were sold to support Mello-Roos improvements. A closer review of these numbers indicates that not only are fewer Mello-Roos bonds being sold, but that the average size of each issue is also declining (from an average of \$13.3 million per issue in 1990 to an average of \$8.2 million in 1993).

Chart 3

**Mello-Roos Issuance by Purpose
January 1, 1983 - December 31, 1993**



As Chart 3 above indicates, the reduction in CFD volume has been primarily in the area of capital improvements and public works. While CFD financing for education purposes has also declined, this drop has not been nearly as dramatic for items like sewers, sidewalks, and roads. While capital improvement financing traditionally has been the predominate purpose of Mello-Roos financing, in 1993 funding of school facilities overtook basic infrastructure financing in CFD's for the first time. The overall decrease in Mello-Roos activity mirrors the continued decline in residential construction and land-based development in California.

Negotiated Sales Fall Slightly in 1993

After a modest rise in 1992, negotiated sales once again dropped in market share relative to competitive placements, capturing 74 percent of the total municipal debt volume in 1993. While the dollar volume of all transactions increased dramatically in 1993 to a record-high volume of \$56.6 billion, the rise in competitive bond sales (up 56

percent in dollar volume) more than doubled the increase in negotiated sales (up 22 percent in dollar volume). A comparison of competitive vs. negotiated sales dating back to 1987 is shown in Table 4 below.

Table 4

**State and Local Debt Issuance
Competitive vs. Negotiated Financings
1987 through 1993
(dollars in millions)**

Year	Competitive	% of Total	Negotiated	% of Total
1993	\$14,754	26.1	\$41,837	73.9
1992	9,446	21.6	34,296	78.4
1991	10,001	28.7	24,821	71.3
1990	6,043	25.4	18,091	75.0
1989	4,545	20.3	17,812	79.7
1988	3,418	15.2	19,068	84.8
1987	1,591	10.1	14,088	89.9

Table 4 shows that with the exception of the modest rise in 1992, the market share of negotiated sales in California has steadily declined since 1987, when almost 90 percent of all transactions were done on a negotiated basis. A primary reason for this has been the increase in the sale of general obligation bonds by the State of California over that period, all which have been sold competitively.

ACCOMPLISHMENTS IN 1993

THE COMMISSION'S PUBLICATIONS

One of the Commission's many challenges is to keep the public informed about issues that affect California's public finance environment. As a statewide resource agency on public finance matters, the Commission strives to make the information at its disposal as accessible to the public as possible. To meet this goal, CDAC disseminates a variety of publications throughout the year. With the exception of the *California Debt Issuance Primer* -- a reference manual for issuers of public debt -- reports and other publications are available to any interested party free of charge.

In 1993, CDAC published the 12th volume of *DEBT LINE*, the Commission's monthly newsletter; developed a second topic for its *Issue Briefs* series (which the Commission made available for the first time in 1992); and released nine new publications, which are described below. (A listing of all CDAC publications currently in print is available upon request.)

State and Local Tax and Bond Ballot Measures: Results of the 1992 Primary and General Elections [CDAC 93-1]

This report covers the results of the elections held on June 2, 1992 and November 3, 1992. Although this is the fifth *Elections* report issued by the Commission, it is the first one to combine the results of the State's Primary and General Elections. For each election, the report provides an overview of state and local bond measures by purpose, summarizes the various bonds and tax measures, and lists those counties which reported no local bond and tax measures. In addition, the various ballot measures and their outcomes are presented in tabular form for easy reference and to facilitate making comparisons.

The findings from the June 1992 election indicate that 19 of 53 tax and bond measures (36 percent) were approved. At the General Election in November of the same year, 35 of 116 measures (30 percent) were passed. Both the volume of the bond and tax measures and the rate of their passage show a decline from prior elections. Additionally, local officials again encountered significant difficulties in generating the necessary two-thirds voter approval for local general obligation (G.O.) bonds. The 1992 Primary Election resulted in the approval of only six of 21 local G.O. bonds measures (29 percent passing). The outcome of the November election was somewhat more successful for local officials in that 13 out of 30 (43 percent) of the local G.O. bonds measures garnered the necessary two-thirds voter approval.

**The Impact of the 1992-93 State Budget on Local Government Finance:
Transcript of Public Hearings
[CDAC 93-2]**

This report represents one of two volumes [CDAC 93-2 and CDAC 93-3] published by the Commission as a follow-up to the series of public hearings conducted by CDAC during December 1992 on the impact of the 1992-93 State Budget on local government finance. At the basis of these hearings was the Commission's plan to provide the Legislature with policy recommendations to help local governments cope with cutbacks in property tax revenues, maintain credit quality, and preserve their ability to foster economic development, since the Commission believes that communication between all levels of California governments is vital for the assessment and successful implementation of State policies.

This volume contains a verbatim record of the testimony given by local officials and industry experts at the December 1, 1992 hearing in Los Angeles, the hearing held on December 2, 1992 in Oakland, and the final hearing conducted on December 3, 1992 in San Diego. Although the Commission received voluminous written testimony, comments, and related background material in conjunction with the public hearings, these documents were not included in the report, but rather were kept on file and will be made available to interested parties upon request.

**The Impact of the 1992-93 State Budget on Local Government Finance:
Report to the Legislature
[CDAC 93-3]**

This is the second volume of two reports [CDAC 93-2 and CDAC 93-3] published by the Commission as a follow-up to the series of public hearings conducted by CDAC during December 1992 on the impact of the 1992-93 State Budget on local government finance. These hearings were held in response to concerns expressed by local officials about the effect property tax revenue reductions would have on local government operations, credit quality, and economic development in California. This report summarizes the findings from the testimony provided by over 50 persons during three days of public hearings conducted in Los Angeles, Oakland, and San Diego.

Part I of the report presents the Commission's findings regarding the impact of budget reductions on local government finance and offers recommendations on how the Legislature can protect and promote the credit quality, infrastructure investment, and economic vitality of local governments should additional revenue reductions become necessary. Part II summarizes the oral and written testimonies received by the Commission as part of the hearing process. Part III provides a revised version of the background report prepared in advance of the December hearings, including additional opportunities for legislative consideration in regard to the protection of local infrastructure investment and economic development. The *Report to the Legislature* is supplemented by several charts.

1992 Annual Report [CDAC 93-4]; 1992 Summary of California Public Debt [CDAC 93-5]; and 1992 Calendar of Debt Issuance [CDAC 93-6]

The Commission annually publishes three separate reports which document the California public finance year in review. The *1992 Annual Report* provides a synopsis of the activities and accomplishments of the Commission and its members, gives an overview of California public finance activities during 1992, summarizes CDAC's accomplishments in the same year, and outlines major new projects planned by the Commission for 1993. The report also provides a digest of the Commission's programs and activities, with a broad perspective on the events that shaped California public finance in 1992. The *1992 Annual Report* is supplemented by several charts and tables that provide a perspective on California public debt activity over time.

The purpose of the *1992 Summary of California Public Debt* is to provide a profile of the level of public borrowing by all levels of government in the state. It is based on unaudited data for public debt issuance reported as sold between January 1 through December 31, 1992. The first part of the contents is a brief narrative of the volume of state and local issuance for 1992, including discussions of state and local debt financings, taxable debt financings, refundings, and financing techniques such as Mello-Roos bonds. The bulk of the report is devoted to tables that summarize 1992 state and local debt issuance by type of debt instrument (general obligation bonds, certificates of participation, etc.); use of proceeds (single-family housing, education, etc.); taxable financings; financings to refund existing debt; and types of issuing agencies (State, cities, counties, etc.). This report is the eighth *Summary* published since 1986.

This final report, *1992 Calendar of Debt Issuance*, contains detailed information on each California debt issue sold in 1992. Although the CDAC staff strives to eliminate apparent errors, the Commission does not audit the data submitted to it by issuers of public debt. The information presented in the *Calendar* is organized by county and by issuer to portray each agency's debt issuance activity for the year. Details include the type of debt instrument sold, the sale date, the purpose for which the funds are raised, and related information of relevance to issuers, analysts, and others interested in California's public debt portfolio. This report is eighth in a series published annually since 1986.

California's Cash Crisis: Surviving on Borrowed Money [CDAC 93-7]

This publication is the staff report on a public hearing conducted by the Commission on May 12, 1993 in the State Capitol. The purpose of the hearing was to receive testimony on the State's cash crisis and to explore options for dealing with problems arising from the deterioration of California's cash position and growing reliance of short-term borrowing from internal and external sources. Included in this staff report are a transcript of the hearing, written comments received by the Commission after the hearing, and a background paper on the State's cash crisis. The background paper was prepared in advance of the hearing.

**Guidelines for Leases and Certificates of Participation
[CDAC 93-8]**

This is the fifth publication by the Commission on the subject of tax-exempt lease financing, with an emphasis on local leasing practices. Because the development of the guidelines required specialized expertise and knowledge, the Commission contracted with the firms American Government Financial Services Company; Government Financial Strategies, Inc.; Orrick, Herrington & Sutcliffe; and Stone & Youngberg for consultation services. Members of CDAC's staff, which closely supervised the project to assure that the needs of California public debt issuers were met, were also assisted by the Commission's Technical Advisory Committee and other professionals from California's financial community.

The guidelines presented in this document are offered as part of the Commission's public assistance function and, as such, are voluntary in nature. To provide perspective and to facilitate their application, the guidelines are grouped under the following topics: financial management, structure and marketing, legal aspects, public policy, and school districts. A glossary of leasing terms rounds out this publication.

**1993 Mello-Roos Community Facilities Districts
Yearly Fiscal Status Report
[CDAC 93-9]**

This report was prompted by legislation enacted in 1992 (SB 1464, Mello, Chapter 772, Statutes of 1992). The legislation requires that all issuers of community facilities district (CFD) bonds report annually on the fiscal status of their bonds to the California Debt Advisory Commission. The reporting requirement pertains to bonds sold after January 1, 1993 and remains in effect until the bonds are retired. SB 1464 also required issuers to report to CDAC within 10 days of any event of default or a draw on reserves. This requirement applies to all Mello-Roos issues, regardless of when they were sold.

This initial report summarizes data on CFD bonds sold within the first six months of 1993. The report is designed to provide specific details on each CFD bond issuance reported to the Commission, including the amount of debt sold, final maturity date, fund balances, assessed value of the CFD, delinquencies, foreclosure, and other pertinent information. Event-related information is also included.

OTHER COMMISSION PUBLICATIONS

DEBT LINE (Monthly)

In 1993, about 1,300 public and private subscribers received a monthly copy of **DEBT LINE**, CDAC's newsletter. This publication contains a calendar listing of all proposed

and sold debt issues reported to the Commission, summary tables on the types of debt and the purposes of the financing, as well as various informational articles. The Commission is receiving an average of 20 new subscription requests every month and expects to have 1,400 subscribers by the beginning of 1994.

DEBT LINE provides three basic types of information. First, it is where issuers and other public finance professionals find information on municipal bond financing transactions occurring in the state. For example, those agencies which are considering a financing transaction often consult **DEBT LINE** for vital information -- volume of debt issuance, interest costs, type of sale, and members of the financing team--on similar issues in the market. Others may consult the newsletter for an indication of potential new trends or innovations in public finance.

Second, **DEBT LINE** serves as a forum for discussion of critical issues in public finance. While some articles are intended to inform readers of developments taking place in the marketplace, other articles present differing views on a particular topic. In 1993, for instance, the June issue of **DEBT LINE** featured an article entitled *CDAC Hearing Examines State Cash Crisis; Multi-Year Deficit Financing Proposals Discussed*. Also included in this issue was an informational technical assistance piece with the title *How to Read the Economy: A Primer*, and an article on the National Analysts Association disclosure forms. Among others, this issue included items on economic indicators, tax and revenue anticipation notes (TRANS), and reporting requirements relating to the issuance of housing bonds. **DEBT LINE's** *Legislative Status Report* also continued to provide information on state legislation that affects the issuance and management of public debt. Finally, **DEBT LINE** is the primary vehicle for advising the public of the Commission's activities. It frequently includes announcements concerning new CDAC publications, programs, and seminars, as well as summaries of the Commission's meetings and hearings.

Issue Brief Series

To round out its technical assistance function, the Commission developed the *Issue Brief* series, which is intended to provide reference documents on topical public finance matters. As such, these documents present objective analyses on important current issues, including suggestions for addressing these issues. Being somewhat more technical than a typical **DEBT LINE** article, but not lengthy enough to be published in report form, these treatments are made available separately in the *Issue Brief* format.

Issue Brief No. 2, Understanding the Underwriting Spread explores a topic related to the subject of the Commission's first issue brief, *Competitive Versus Negotiated Sale of Debt*. Although applicable to either form of marketing, underwriting spread, which is a cost of marketing to the issuer, is of particular concern in negotiated sales. Released in March of 1993, *Issue Brief No. 2* defines underwriting spread, explains the reason for its existence, illustrates the components of this cost of marketing (management fee, expenses, underwriting fee, and takedown), describes some typical situations that might effect the size of the underwriting spread, and offers some concrete means of negotiating for the most favorable terms. Issuers are cautioned that trying to keep the underwriting spread to a rock-bottom minimum may not be optimal in an overall marketing strategy, given certain market conditions.

THE COMMISSION'S SEMINARS AND SYMPOSIA

In 1993, as in prior years, the Commission continued to offer seminar programs as part of its public assistance function, including events which are co-sponsored by statewide associations. Co-sponsored seminars and symposiums are uniquely designed to serve the needs of specialized groups and to bring various players in the financial market together for a broader exchange of views and a fresh outlook on persisting problems. Thus, CDAC's ongoing educational program is constantly evolving to meet the varied and changing needs of the financial community it serves.

Symposium on Transportation Issues

A symposium on transportation issues, entitled *On the Road Again: California Transportation Issues for the 1990s*, was offered jointly by the CDAC and Standard & Poor's Corporation (S&P) on March 11, 1993 in San Francisco. Designed as a forum to discuss critical public finance and policy issues occurring in the State of California, this symposium was the second of its kind co-sponsored by the Commission and S&P. It was attended by over 180 participants from the transportation, public policy, and financial communities.

The first session of the symposium focused on today's transportation challenges. The speakers discussed three topics: the state of the California economy, the impact of the Rider court case decision, and the factors considered in rating transportation-related debt. Because transportation agencies rely heavily on economy-based sources such as the sales tax to support their operations, David Hensley, Director of the UCLA Business Forecasting Project, addressed how the state's economy is affecting sales tax collections. The implications of the Rider decision on transportation agencies was discussed by Will Smith from the consulting firm of D.J. Smith Associates and by Mary Collins from the bond counsel firm of Orrick, Herrington & Sutcliffe. In the final section of this session, three analysts from Standard & Poor's (S&P) discussed the rating criteria for transportation debt. Peter Bianchini explained the factors considered in the evaluation of sales tax revenue bonds, Ernie Perez discussed issues in relation to the rating of toll road bonds, and Emete Hassan addressed S&P's ratings criteria for interest rate swaps.

The focus of the second session of the symposium was on some of the long-term transportation issues facing the state. The panel topics included high-speed rail development, public/private transportation ventures, the defeat of Proposition 156, and the State's implementation of the federal Intermodal Surface Transportation Efficiency Act (ISTEA). State Senator Quentin Kopp, the Chairperson of the Senate Transportation Committee discussed the future of high-speed rail in the State -- citing air quality as "the most important issue this year in the Legislature." Reason Foundation President Robert Poole, Jr., in his presentation, suggested tapping private capital in the form of public/private partnerships to help finance the State's transportation infrastructure. Finally, California Transportation Commission (CTC) Chairperson Jerome F. Lipp addressed the implications of the voters' rejection of

Proposition 156 and the status of the implementation of ISTEA -- noting that these two issues are both rooted in California's landmark transportation blueprint legislation (adopted by the Governor and the Legislature in 1989 and ratified by the voters in 1990).

Seminar on County Finance

Just after the beginning of the new year, the Commission offered a two-day seminar for California's county officials on various technical and topical finance issues which were of prime importance to counties. The seminar was co-sponsored by the California State Association of Counties and the California Association of County Treasurers and Tax Collectors. In addition to mixing hands-on training sessions with policy discussions for the participants, the seminar was also notable because it marked the first time that a Commission seminar offered concurrent sessions so that those attending could have a choice of which topics they would like to learn more about. Over 100 participants attended the Sacramento seminar.

Seminar on Interim Financing and Cash-Flow

A technical assistance seminar on the basics of cash-flow financings was held on November 22, 1993 in Los Angeles. The seminar, co-sponsored by the CDAC and Moody's Investors Service, was designed to provide a broad spectrum of information on a critical part of the debt financing market. It included the following sessions: (1) the role of short-term debt issuance in cash management, (2) the legal authority and tax considerations for issuance of short-term debt instruments, (3) a credit analysis of tax and revenue anticipation notes (TRANS) by rating agencies, (4) the issuance process for TRANS, and (5) marketing considerations in the issuance of TRANS. The seminar was attended by over 50 participants interested in learning more about interim and cash-flow financing. The faculty for the seminar was drawn from experts of the public and private financing community.

The "Fundamentals of Debt Financing" and "Mechanics of a Bond Sale" Seminars

The Commission has regularly offered two standard seminars to public officials which introduce the basic elements of public finance and debt management in California. The *Fundamentals* seminar, which has attracted thousands of participants since its inception in 1984, is designed to provide a new issuer's perspective to a bond financing. The seminar's faculty consists of private and public financing professionals and includes sessions on the major financing participants, their roles and responsibilities; the various types of debt and their uses; competitive versus negotiated financing; rating and credit enhancements; the process for issuing debt; and the ethical responsibilities of the issuer. This seminar was offered in April of 1993 to local and State officials.

For public officials who require more advanced training in public finance, CDAC offered the *Mechanics* seminar, which was held on September 2 and 3, 1993 in Burlingame (near the San Francisco Airport). The seminar took public officials through the step-by-step process in selling a bond issue, including instruction in how to deal with a number of administrative issues that come about after the bonds have been sold. The *Mechanics* course includes an in-depth examination of each step of the bond issuance process, starting from the capital outlay planning stage to the bond sale evaluation stage, as well as discussions on how conflict of interest and the receipt of gifts should be handled. In response to requests from local officials, the 1993 seminar was updated to include a session on how bonds are structured to meet both the needs of the issuer and the investor. The revised seminar also included an overview on derivatives.

THE COMMISSION'S PUBLIC HEARINGS

Among a multitude of mandated tasks, CDAC is required to maintain contact with municipal issuers, investors, underwriters, credit rating agencies, and others to improve the market for state and local government debt issues. To help meet this requirement, the Commission schedules public hearings from time to time on topics of widespread interest. CDAC's public hearings are held at various locations throughout the State, often on consecutive days in both northern and southern California. This allows for timely input from all interested parties. The hearings conducted in 1993 attest to the Commission's commitment to providing public oversight and input on issues affecting debt issuance in California.

Public Hearing on California's Cash Crisis: Surviving on Borrowed Money

Because three consecutive years of the State's continuing financial difficulties have created an unprecedented cash crisis in California, the Commission held a public hearing on May 12, 1993 at the State Capitol. The goal of that hearing was to examine the implications of the State's increasing reliance on short-term borrowing to meet its obligations and to explore strategies for dealing with the cash crisis. The hearing included testimony from State officials knowledgeable about the State's short-term borrowing practices, as well as from private finance experts who offered suggestions on how the State might better manage its cash resources in view of its fiscal problems. The hearing included testimony from representatives of the three national rating agencies which rate California's credit, and was augmented by a Commission staff report.

Public Hearing on the Impact of the 1993-94 State Budget and Proposition 172 on California Cities and Counties

Because of continuing economic difficulties, 1993 marks the second consecutive year that the Commission conducted public hearings on the State Budget's impact on local government finance. Hearings were held on October 1 in San Diego, October 4 in Sacramento, and October 15 in Los Angeles.

These hearings were scheduled specifically to gather information on the impact of the 1993-94 State Budget and Proposition 172 on California cities and counties. The more limited focus -- compared to public hearings conducted in prior years -- was appropriate because of the relatively greater burden shared by cities and counties, and because no other local government units were scheduled to receive funds from the extension of the one-half cent sales tax as part of Proposition 172.

The October hearings had three goals: (1) to seek information on how city and county governments are coping with a second successive year of property tax revenue reductions enacted as part of the State Budget; (2) to solicit the views of city and county officials on specific steps to be taken by the State in any attempt to restructure the State-local fiscal relationship; and (3) to clarify the specific provisions of Proposition 172 by assessing how agencies intend to use the funds made available by the initiative, and the possible impact on public safety and local operations if the initiative failed.

THE COMMISSION'S NETWORKING EFFORTS

Public Outreach

As the state's central repository for debt information, the Commission is often invited to conferences and other gatherings to address various issues related to California debt issuance and debt management. CDAC uses these opportunities to share the Commission's views on various public finance matters and to learn about issues of concern to constituency groups who have an interest in how state and local agencies issue and manage debt. During the past year, CDAC staff made presentations and conducted workshops for the following groups:

- Association for Governmental Leasing & Finance
- California Association for Local Economic Development
- California Association of LAFCOS
- California School Board Association Finance Conference
- Government Finance Officers Association
- Local Agency Investment Fund Conference
- Loyola Marymount University Public Finance Seminar
- National Federation of Municipal Analysts
- San Francisco Municipal Forum
- State Debt Management Network

THE COMMISSION'S DATA REPOSITORY

Calendar year 1993 was another record-breaking period for state and local debt issuance in California. The data collection unit of the Commission processed 2,052 reports of proposed debt issuance in 1993. CDAC also received 1,885 reports for issues sold during the year. These included issues that were reported as proposed sales in prior years but were actually sold in 1993. Each of the over 3,900 reports CDAC processed in 1993 contains detailed information on the sale of public debt.

In addition to debt issuance reports, CDAC compiled data on the use of housing revenue bond proceeds. For the *1993 Annual Summary: The Use of Housing Revenue Bond Proceeds*, the Commission contacted and received data from 171 local agencies -- 90 cities and counties, 47 redevelopment agencies, 30 housing authorities, and four housing finance agencies. These agencies reported on 527 debt issuances relating to multifamily and single-family housing projects -- representing an outstanding debt of almost \$7.7 billion subject to the reporting requirements. For the first time since 1985, when the Commission began collecting housing data, all issuers of housing bonds submitted the required reports -- completing about 99 percent of the data items relating to the reportable bond volume. In prior years, local agency compliance with the housing reporting requirements approached 90 percent of the reportable bond volume.

The data which support all CDAC publications, as well as information provided to the public upon request, are culled from the individual debt issuance reports that CDAC receives each year.

THE OUTLOOK FOR 1994

The California Debt Advisory Commission's 1994 work program includes a combination of ongoing and new programs, as CDAC enters its 13th year of operation. This chapter highlights the new programs and activities for 1994.

Study to Develop Recommended Practices for Redevelopment Agencies

Redevelopment agencies are major participants in the California municipal market, having issued over \$11 billion in bonds and notes since 1986. Since redevelopment provides local governments with a powerful financing tool, the Commission plans to release a Request for Proposals (RFP) soliciting a consultant to develop recommended practices for redevelopment agencies in California.

As local governments struggle to cope with significant revenue losses brought on by Proposition 13, as well as the withdrawal of federal and State infrastructure funds, many turn to redevelopment to fill the gap. In recognition of redevelopment's role in local government finance in California, and its potential to improve the social and economic conditions in many communities, the Commission's goal with this study -- in accord with its mandated public assistance function -- is to help local governments optimize the benefits of redevelopment through the effective and prudent use of redevelopment powers and sound debt issuance and management practices by redevelopment agencies.

Appraisal Standards for Land-Secured Financings

In April 1994, the Commission will release *Appraisal Standards for Land-Secured Financings*, to be prepared on behalf of the State Treasurer pursuant to Senate Bill 1464 (Chapter 772, Statutes of 1992). SB 1464 established a minimum 3:1 value-to-lien requirement for Mello-Roos special tax bonds, effective January 1, 1994, and authorized the State Treasurer to establish standards for appraisals undertaken to establish land values. The *Appraisal Standards* to be developed by the Commission staff will be divided into five sections: (1) Background, (2) General Requirements of the Appraiser, (3) Valuation Methods, (4) Contents of the Appraisal, and (5) Definitions. Most importantly, the *Appraisal Standards* will encourage standardization in the analysis of cash flows generated by real estate development projects. Though SB 1464 specified that the State Treasurer's appraisal standards are to be advisory only, any local agency initiating procedures to form a CFD on or after January 1, 1994 will first need to adopt a statement of definitions, standards and assumptions to be used in appraisals. The *Appraisal Standards* are likely to become an industry standard.

Symposium on Affordable Housing

Entitled *Meeting the Challenges of Affordable Housing in California*, this will be the third co-sponsored symposium offered jointly by the CDAC and Standard & Poor's Corporation (S&P). The symposium, scheduled for March 24, 1994 in Los Angeles, will discuss current housing issues. The housing symposium represents an ongoing commitment by CDAC and S&P to provide a forum for public and private sector officials to discuss critical issues facing the State of California and its local jurisdictions. The two prior symposia featured discussions on education and transportation and drew over 100 participants to each event.

Following an overview of housing in Los Angeles after the Northridge earthquake in January of 1994, various housing topics will be discussed by two panels of speakers. The panel on policy considerations will discuss (1) the effectiveness of the statewide housing planning process, (2) keeping a lid on affordable housing development costs, and (3) improving the jobs-housing balance. The panel on financing alternatives will address (1) the role of redevelopment in housing, (2) private sector involvement in affordable housing finance, and (3) innovative credit trends in affordable housing.

Issue Brief Series

The Commission plans to continue its *Issue Brief* series with the release of new installments in 1994. Some of the topics the Commission intends to tackle in the upcoming year include:

Preparing Request for Proposals. In the past, the Commission has advocated the use of request for proposals (RFP) to procure municipal finance services. Moreover, the Commission's lease survey conducted in 1992 indicated a need for technical assistance in the area of RFP preparation. In response, the Commission will be developing an *Issue Brief* on this topic. The purpose of this document will be to assist local public debt issuers prepare RFPs for financial services. Topics to be covered include the RFP process, the key components of an RFP, and suggestions for an effective RFP.

The Basics of Short-Term Financings. Short-term financing activities have increased dramatically over the past two years. Thus, the Commission believes that it is worthwhile to develop an *Issue Brief* on this financing mechanism. This document will cover the basics of short-term financings such as cash flow analysis, arbitrage considerations, and pooling, among others.

Demystifying Derivative Products. The lure of interest savings from derivative products and the proliferation of these products in the municipal bond market require that issuers be aware of the benefits as well as the pitfalls of these products. These topics will be covered in the *Issue Brief*. However, because of the wide variety of derivative products available and the evolving nature of the industry, this *Issue Brief* will not be focussed on specific derivative products, although some may be mentioned and discussed. Instead, the primary focus of this document will be on the questions issuers should ask to understand the product being offered, approaches for determining the suitability of a product to the issue, and ways of evaluating the risks involved in the transaction.

Seminar on Understanding the Debt Issuance Process

A technical assistance seminar, entitled *Understanding the Debt Issuance Process*, will be held under the co-sponsorship of the California Association of School Business Officials (CASBO) and the California Debt Advisory Commission. The two-day seminar is scheduled for January 27 and 28, 1994 in Folsom (near Sacramento).

The seminar will focus on the process that local school officials should use when issuing debt. Planned sessions include (1) the financing decision: preparing for the issuance of debt and understanding the issuer's role; (2) designing the debt issue; (3) creating a plan of finance; and (4) issuing the debt: executing the plan of finance. The seminar will also include an overview of the municipal securities industry and a discussion of ethics and public finance transactions. The topics on the second day will address the major types of financings used by school districts -- general obligation bonds, certificates of participation, and Mello-Roos bonds -- as well as a review of municipal bond credit rating criteria. The faculty for the seminar will be drawn from public and private financial professionals to present each topic from a practical standpoint.

Seminar on Current Issues in Public Finance

Scheduled for the latter part of 1994 in Sacramento, this one and one-half day seminar is co-sponsored by the California State Association of Counties (CSAC), the California Association of County Treasurers and Tax Collectors (CACTTC), and CDAC. The faculty for this seminar will be composed of experienced public officials and private financial representatives who reflect a wide variety of expertise in the field.

Although the seminar is co-sponsored by county associations, the information to be presented is pertinent to all public agencies. The following sessions are planned: (1) the new fiscal reality; (2) rules and regulations regarding ethics, contributions, and disclosure; (3) health care reform and implications for county hospitals; (4) taking advantage of economic development opportunities; (5) using derivatives as part of a public agency's financing strategy; and (6) managing assets, liabilities, and cash flows.

Seminar on Lease/COP Financing

Currently in the developmental stage, a new seminar which would focus exclusively on lease financing in California is being planned for late 1994. The seminar will draw heavily from work already conducted by the Commission staff on leases and certificates of participation (COPs), including the recently released *Guidelines for Leases and COPs*. The one-day seminar will rely on members of the Commission's Technical Advisory Committee, as well as lease experts, to conduct sessions on lease terms and concepts, how to manage public lease activity, policy considerations surrounding the use of leases and COPs, and current issues in municipal leasing.

1993 Annual Summary: The Use of Housing Revenue Bond Proceeds
[CDAC 94-1]

This ninth report in a series -- based on 1993 survey results, slated for distribution in January 1994 -- is designed to summarize information on local agencies' use of tax-exempt housing revenue bond proceeds, based on unaudited data reported to the CDAC by the issuing agencies. Included in the report is information on the incomes, family size, rents or mortgage payments of housing occupants; the number, size, sales price, and geographic distribution of the units that are developed; the length of time the units have to comply with income-targeting requirements; and the type of developers or sponsors of housing projects.

The 1993 reports from local issuers indicate that housing revenue bonds issued between January 1, 1985 and June 30, 1993 totalled nearly \$7.7 billion. This amount represents the entire reportable bond volume as of mid-year 1993 -- inasmuch as local issuers of housing bonds were in full compliance with the State's reporting requirements for the first time since the Commission began collecting this information. Of the nearly \$7.7 billion total housing revenue bonds reported, almost \$6.7 billion provided funds for the construction of 113,552 multifamily units, and nearly \$1 billion were issued to generate mortgages for single-family housing.

The 1994 version of this report will be released in November.

The Impact of the 1993-94 State Budget and Proposition 172 on
California Cities and Counties
[CDAC 94-2]

Because of continuing state budgetary difficulties, this report documents a series of public hearings on the subject held by the Commission in San Diego, Sacramento, and Los Angeles during October 1993 (describe previously). It is directed at the State Legislature, Governor Wilson, and others who are interested in the fiscal affairs of local governments -- particularly those who are participants in the discussions regarding the restructuring of the State-local fiscal relationship. No recommendations are offered by the Commission at this time, although the report does highlight many of the findings (and the significance of those findings) derived from the hearings.

Section I of the report provides the summary of findings. Section II provides a summary of the testimony presented at the hearings held in San Diego, Sacramento, and Los Angeles. The summary of testimony is presented in narrative form, along the lines of inquiry pursued by the Commission as part of the hearings. A verbatim transcript and all written comments are available for viewing at the offices of the Commission during normal business hours. Finally, Section III offers the background paper which was prepared prior to the hearings -- including some graphs that were alluded to during the hearings. This final section of the report lays out the premise and purpose of the hearings, and identifies some of the key questions for which answers were sought during the public hearing process.

A Summary of 1994 Tax and Bond Ballot Measures Elections Results

Slated for publication in the Winter of 1994, the Commission's *State and Local Tax and Bond Ballot Measures: Results of the 1994 Primary and General Elections* will cover the results of the elections held in June and November 1994. This report will be the sixth in the series. The reports in this series issued since 1992 combine the results of both the Primary and General Elections.

This report is intended to provide a snapshot of how the electorate voted on the state and local tax and bond ballot measures presented for their approval in 1994. The report will include a listing of the ballot measures along with the voting breakdown for each, as well as summaries of the voting patterns by types and purposes of the measures. The information used in this report will come from the Secretary of State's Office and the offices of the 58 County Clerks.

APPENDICES

**STATE OF CALIFORNIA GOVERNMENT CODE
DIVISION 1 OF TITLE 2 (EXCERPT)**

Chapter 11.5. CALIFORNIA DEBT ADVISORY COMMISSION

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

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

(1) The Treasurer, or his or her designate.

(2) The Governor or the Director of Finance.

(3) The Controller, or his or her designate.

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

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

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

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

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

(c) The Treasurer shall serve as chairperson of the commission and shall preside at meetings of the commission. The commission, on or after January 1, 1982, and annually thereafter, shall elect from its members a vice chairperson and

a secretary who shall hold office until the next ensuing December 31 and shall continue to serve until their respective successors are elected.

(d) Appointed member of the commission shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars (\$50) for each day's attendance at a meeting of the commission not to exceed three hundred dollars (\$300) in any month, and reimbursement for expenses incurred in the performance of their duties under this chapter, including travel and other necessary expenses.

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

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

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

(3) Collect, maintain, and provide information on state and local debt authorization, sold and outstanding, and serve as a statistical center for all state and local debt issues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8855.8 Commission compilation and summary of reports; contents

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

8856. Fees

In providing services under paragraph (2) of subdivision (e) of Section 8855, the commission may charge fees in an amount not to exceed the fees established by the Department of General Services for the provision of contract services. In carrying out all the other purposes of this chapter, the commission may charge fees to the lead underwriter or the purchaser in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars (\$5,000) for any one issue. However no fees shall be charged to the lead underwriter or the purchaser for any water district issue which is subject to the jurisdiction of the Districts Securities Commission. Amounts received under this section shall be deposited in the California Debt Advisory Commission Fund, which is hereby created in the State Treasury. All money in the fund shall be available, when appropriated, for expenses of the commission and the Treasurer.

Until such time as fees are received by the advisory commission and appropriated pursuant to this chapter for the expenses of the commission and the

Treasurer, the commission may borrow such moneys as may be required for the purpose of meeting necessary expenses of initial organization and operation of the commission.

8857. Employees

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

8858. Review of capital improvement financing; report

The commission shall comprehensively review the financing of capital improvements by all agencies of local government and study the comparative debt of local governmental agencies for capital improvements and the use of bond financing as a source of the indebtedness. The review shall include an analysis of all general obligation and revenue bond financing laws. On or before January 1, 1983, the commission shall submit to the Legislature a report of its findings and recommendations, if any, for revising the laws governing such financing devices.

8859. Advice regarding local bond pooling authorities

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

COMMISSION TECHNICAL ADVISORY COMMITTEE

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Modesto City Schools

Sandra Davis
Los Angeles County

Murphy McCalley
San Diego Metro Transit Devel. Board

Norma Lammers
CA State Association of Counties

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COMMISSION FUNDING AND EXPENDITURES

The Commission is funded out of the California Debt Advisory Commission Fund, established under Chapter 1088/81. The CDAC Fund is supported by fees levied on debt issues reported to the Commission. Specifically, Chapter 1088 authorizes the Commission to charge a fee, equal to one-fortieth of one percent (2.5 basis points), up to \$5,000 for each issue, to the lead underwriter or purchaser of a debt issue. By Commission policy, however, current CDAC fees are limited to one-hundredth of one percent (one basis point), up to \$1,500.

The Commission has reduced its fee schedule twice since 1982 to provide a more equitable fee schedule for short-term and long-term debt issues sold in California, and to reduce the reserve in the CDAC Fund to a level equal to one year's appropriation. In 1986, the Commission also rebated \$1.2 million to state and local government agencies which remitted fees based on the schedule set in law for debt issues sold in 1982 and 1983.

As Table 2 indicates, the Commission required nearly \$1.1 million in fiscal year 1992-93 to conduct its mandated functions. This was partially offset by \$920,533 in new revenues. The remainder was drawn from the CDAC Fund reserve. At the start of the 1993-94 fiscal year, the CDAC Fund balance exceeded \$1.2 million.

Table 5

California Debt Advisory Commission Operating Revenues and Expenditures Fiscal Year 1992-93

CDAC Fund:	
Beginning balance (7/1/92)	\$1,665,378
New revenues	<u>920,533</u>
Total resources	\$2,585,911
Expenditures:	
Staff salaries	\$513,883
Staff benefits	130,145
General expense	16,710
Printing	49,815
Communications	3,835
Postage	18,768
In-state travel	9,038
Out-of-state travel	1,897
Training	2,371
Facilities Operation	48,166
Consultant and professional contracts	250,481
Data processing	1,797
Central administrative services	10,212
Equipment	<u>2,261</u>
Total expenditures	\$1,059,380
Operating Transfers Out	281,161
CDAC Fund:	
Ending balance (6/30/93)	\$1,245,370

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