



1997 ANNUAL REPORT

MATT FONG
State Treasurer and Chairman

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION**

915 CAPITOL MALL, ROOM 400
P.O. BOX 942809
SACRAMENTO, CA 94209-0001
TELEPHONE: (916) 653-3269
FAX: (916) 654-7440
Executive Director
Peter W. Schaafsma

June 10, 1998

To the Governor of the State of California and the Members of the California Legislature:

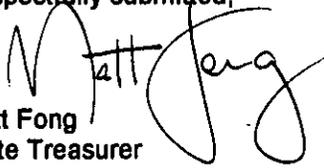
On behalf of the members of the California Debt and Investment Advisory Commission, I am pleased to submit the Commission's 1997 Annual Report. This report provides an overview of the Commission's responsibilities and output during 1997, and presents a summary of the year's debt issuance activity.

Major efforts were expended throughout the year in a revision of the Commission's *California Debt Issuance Primer*, the cornerstone of the CDIAC technical assistance program. The *Primer*, originally published in 1988 and updated in 1990, has been completely revised and updated to reflect new federal and state regulations discussing public debt financing, innovations in financing methods and to include information concerning the investment of bond proceeds. Other major activities for the year include the production of the *Commission's Strategic Plan*, a review of the Marks-Roos Bond Pooling Act of 1985 and the continuing efforts of the Interagency Municipal Securities Task Force.

In 1997, the Commission continued education efforts for California's public officials by sponsoring and co-sponsoring seminars, conferences and symposia on public finance topics. They included disclosure seminars on the municipal securities regulations and the fundamentals of investing public funds, and co-sponsored conferences on the effects of Proposition 218 on California municipal finance.

As this report details, the Commission continues to provide on-going educational and technical assistance to state and local government agencies in California.

Respectfully submitted,


Matt Fong
State Treasurer

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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The California Debt and Investment Advisory Commission complies with the Americans With Disabilities Act (ADA). If you need additional information or assistance, please contact the Commission at (916) 653-3269 or TDD (916) 654-9922.

California Debt and Investment Advisory Commission

The California Debt and Investment Advisory Commission was created in 1981 to assist state and local governments effectively and efficiently issue, monitor and manage public debt. To carry out its responsibilities, the Commission maintains a database of all public debt issued in California, conducts a continuing education program, publishes a monthly newsletter with debt issuance data and informative articles, and conducts research to develop reports, guidelines and briefs on topical issues. In 1996, the Commission's responsibilities were expanded to include a municipal education program to help local governments safely and effectively invest public funds.

1997 Members

Matt Fong
California State Treasurer
and Chairman

Pete Wilson
Governor

Or
Craig L. Brown
Director
Department of Finance

Kathleen Connell
State Controller

Vacancy
State Senator

Vacancy
State Senator

Scott Wildman
State Assemblyman

Louis J. Papan
State Assemblyman

Donald W. Merz
Treasurer/Tax Collector
Sonoma County

Robert Leland
Finance Director
City of Fairfield

Additional information concerning this report or the programs of the California Debt and Investment Advisory Commission may be obtained by contacting:

Peter W. Schaafsma
Executive Director
California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400
P.O. Box 942809
Sacramento, CA 94209-0001
(916) 653-3269

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AN INTRODUCTION TO THE COMMISSION

LEGISLATION

The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 as the California Debt Advisory Commission (CDAC) with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). This statute mandates the Commission to serve as the State's clearinghouse for public debt issuance information and to assist state and local agencies with monitoring, issuance, and management of 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 concerning debt issuance in the state;
- o Maintain contact with all participants in the municipal debt industry to improve the market for California's public debt;
- o Provide technical assistance to state and local governments in an effort to reduce debt issuance cost and to protect the debt issuers' credit ratings in the market;
- o Undertake or commission studies on methods to reduce debt issuance costs and to improve credit ratings;
- o Recommend legislative changes to improve the marketability of state and local agency issued debt and to ensure repayment of debt; and
- o Assist the state financing authorities and commissions in carrying out their responsibilities.

Since its creation in 1981, the Legislature has given the Commission additional responsibilities.

Section 53583(c)(2)(B) of the California Government Code requires issuers to report specific information to the Commission when they (1) sell refunding or revenue bonds through negotiation or private placement or (2) issue bonds payable in a foreign currency.

Pursuant to legislation enacted in 1992 (Chapter 772, SB 1464, Mello), the Commission is required to collect specific fiscal information on Mello-Roos community facilities districts (CFDs) which issue bonds after January 1, 1993. SB 1464 requires that all CFD issuers, regardless of the date of sale of the bonds, report draw on reserve or default information to the Commission.

Under the provisions of Chapter 229, Statutes of 1995 (SB 1275), certain Marks-Roos local bond pool participants issuing debt are required to report yearly fiscal status information and, regardless of when their debt is issued, to report to the Commission draws on reserve funds or non-payments of principal and interest within ten days of each occurrence.

As of January 1, 1997, the Commission's responsibilities expanded to include the development of a continuing education program in the area of local agency investments as a result of the passage of AB 1197 (Takasugi) in 1996. This measure also changed the Commission's name to the California Debt and Investment Advisory Commission.

The Commission fulfills its statutory mandates through a variety of programs and publications which are summarized in this report. Data on the debt issued in California is primarily derived from reports of debt sold by California issuers. In developing programs and publications, the staff supplements its expertise and knowledge with information from experts in the financial community and outside data sources.

THE COMMISSION MEMBERS

The Commission consists of nine members, including the State Treasurer, the Governor or the Director of the Department of Finance, the State Controller, two local government finance officials, two Assembly members, and two Senators. The State Treasurer serves as the chairman and appoints the two local government officials. The Treasurer also appoints an executive director to oversee the day-to-day operations of the Commission and to recommend policy direction. The Speaker of the Assembly appoints the Assembly representatives and the Senate Rules Committee appoints the Senate representatives. Appointed members serve four-year terms, or at the pleasure of their appointing power. The Commission meets throughout the year to direct the activities of its 14-member staff.

THE TECHNICAL ADVISORY COMMITTEE

To assist the Commission to fulfill its mandated functions, the Technical Advisory Committee (TAC) was established in 1983. The TAC is comprised of approximately thirty individuals representing participants in the municipal debt issuance process, including bond counsel, financial advisors, underwriters, credit analysts, insurance providers, investors, and local issuers. It serves two primary functions:

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

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

The State Treasurer appoints TAC members to staggered two-year terms. All TAC members serve without compensation. Appendix B shows the members of the Technical Advisory Committee that served during calendar year 1997 and those appointed to serve in 1998.

THE COMMISSION'S PROGRAMS

The Commission engages in a wide range of activities that can be classified into three general program areas: (1) data collection, (2) policy research and development, and (3) technical assistance.

Data Collection

As the state's clearinghouse for public debt financing information, the Commission has compiled data on all public debt issued in California since January 1, 1985. All issuers of state and local government debt are required to submit issue-related information to the Commission 30 days prior to the sale date. The data reported to CDIAC includes the sale date, the name of the issuer, the type of sale, the principal amount, the type of debt instrument, the source(s) of repayment, the purpose of the financing, the rating of the issue and the members of the financing team. Depending on market conditions, the volume of individual debt issuance reports received ranges from 2,500 to 4,000 each year. Data from these reports is the basis for the statistical information disseminated by the Commission.

Policy Research and Development

The Commission's mandated functions include some that are intended to improve the market for public debt issued in California. Such functions include efforts to maintain contact with all participants in the municipal debt industry, to undertake or commission studies of various aspects of the market

in order to provide guidance to state and local debt issuers and to recommend legislative changes in matters affecting issuers. The Commission selects projects that are of current interest and have practical relevance to public finance practitioners. These projects are typically designed to help issuers reduce issuance costs and keep issuers apprised of emerging trends in public finance. The Commission places a high priority on making its data and expertise available to public agencies in useful forms. This accessibility is the crux of the Commission's technical assistance program.

Technical Assistance

CDIAC's technical assistance program has three components. The first is the publication of reference materials, issue briefs, hearing documents, statistical reports and technical guidelines for state and local issuers. One of the Commission's most notable publications is the *California Debt Issuance Primer*, which contains information on the types of debt instruments available and the roles and responsibilities of municipal debt issuers and private industry professionals. The *Primer* provides a comprehensive overview of and reference document for the debt issuance process in California. A contract to revise the *Primer* was awarded in 1997 and the final revised *Primer* will be available in 1998.

The second component is CDIAC's seminar program. Since 1984, CDIAC has conducted educational seminars focusing on public finance matters and the debt issuance process. Offered throughout the year at various locations all over the state, CDIAC seminars are designed to: (1) introduce public officials who are new to the field of public finance to the municipal debt issuance process and to techniques for investing public funds; (2) strengthen the expertise of public officials who are familiar with the municipal debt issuance process and the

investment of public funds; and, (3) inform public officials about current topics that may affect public finance. The majority of the attendees are from local agencies while the remainder represent state and federal agencies.

CDIAC also has conducted public hearings on current matters affecting public finance and the debt issuance process. The purpose of these hearings is to provide a forum for discussion of the varying points of view, to provide local and state officials with information, and to provide CDIAC with a foundation for research. Further, CDIAC has acted as co-sponsor of public finance-related conferences, symposia, and seminars conducted by private companies and statewide associations. Such co-sponsorships allow CDIAC to contribute its expertise to the event, increase contacts with experts from public and private sectors, and keep abreast of current matters affecting public finance in California.

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

CALIFORNIA PUBLIC FINANCE IN 1997

OVERVIEW

In 1997, state and local agencies in California issued a total of \$38.4 billion in short- and long-term debt. This total represents a 4.6 percent increase from the \$36.7 billion issued in 1996. Fifty-four percent of the total statewide long-term volume was for refunding prior debt, as issuers took advantage of moderate interest rates throughout the year to refund higher interest rate bonds issued in prior years. Although the passage of Proposition 218 in November 1996 was expected to have an impact on issuers in 1997, there was no indication from the numbers that it had any significant effect.

The economic climate in California continued to improve in 1997 as reflected in low interest rates and a noted increase in building, manufacturing and job creation. However, as a reminder of the early '90s recession, California local agencies experienced the highest level of defaults on land-based financings since the Depression. Some of these financings also found themselves the subject of federal and state regulatory actions.

Statewide Issuance

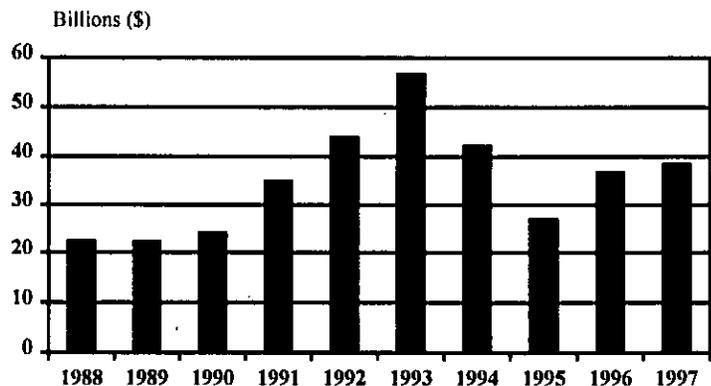
This section summarizes California statewide public debt issuance in 1997 and highlights the major purposes for which this debt was issued. A more detailed treatment of public debt issued in California is provided in the Commission's two companion publications: *1997 Calendar of Public Debt Issuance* and *1997 Summary of California Public Debt*.

Overall volume for 1997 increased 4.6 percent over the 1996 level. As shown in Chart 1, volume of debt sold increased moderately from 1988 through 1990. Then, state and local debt issuances began a steady climb to a peak of \$56.7 billion in 1993. It dropped by 25 percent in 1994 to \$42.2 billion and by 36 percent in 1995, to \$27 billion. In the last two years, 1996 and 1997, volume has increased moderately to \$36.7 billion and \$38.4 billion, respectively.

The total number of debt issues reported sold in 1997 was 1,739. This number is down just over two percent from the total 1,785 issues reported in 1996. Of that total, 142 were state issues, 3 were student loan corporation financings, and the remaining 1,594 were sold by local issuers.

Chart 1

California Public Debt Issuance
1988 through 1997



As shown in Table 1, 1997 long-term debt issuance of \$28.2 billion increased 15 percent from 1996. The refunding portion was 54 percent of the total long-term volume. Short-term debt issuance dropped because of the decrease in the amount of the State of California's cash flow borrowing in 1997. The State sold just \$3 billion in RANs in 1997, down from the \$5 billion RAN issued in 1996.

Table 1
California Public Debt Issuance
Long-term vs. Short-term
1996 and 1997
(Millions \$)*

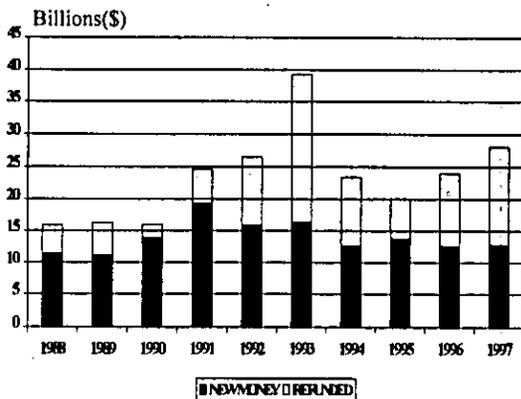
	1996	1997	% of Chg
L-T Debt	\$24,487	\$28,220	+15.2
(Refund)	(11,399)	(15,289)	+34.1
(New)	(13,088)	(12,931)	-1.2
S-T Debt	<u>12,234</u>	<u>10,194</u>	-16.7
Total	\$36,721	\$38,414	+4.6

Note: Figures include state and local governmental entities and Student Loan Corporation issues.
 *Totals may not add due to rounding.

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

Chart 2

California Public Debt Issuance
Refunding vs. New Money
1988 through 1997

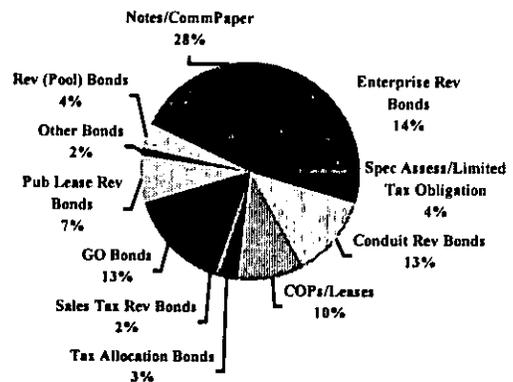


Notes and Bonds Comprise Bulk of Issuance

Of an aggregate \$38.4 billion sold by California public agencies in 1997, bonds (\$23.6 billion) and notes (\$10 billion) account for 87 percent of the total volume. Local agencies issued over \$1 billion in commercial paper in 1997, about twice the amount issued in 1996. The State, after commercial paper sales of \$595 million in 1996 did not issue any in 1997. Chart 3 illustrates the distribution of the type of debt instruments sold in 1997.

Chart 3

California Debt Issuance by Type
January 1, 1997 - December 31, 1997



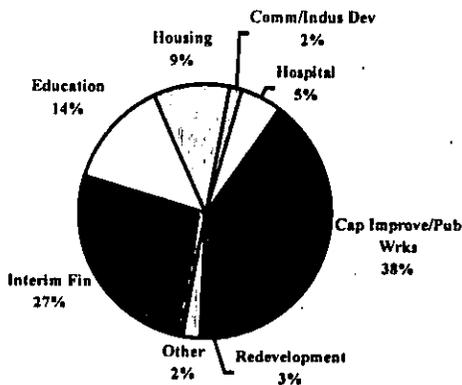
Enterprise revenue bonds, typically issued for capital improvements and public works projects, totaled \$5.3 billion and represent nearly 14 percent of 1997 long-term debt. Other financing types representing more than 10 percent of the total issuance include general obligation bonds (\$5.1 billion), conduit revenue bonds (\$4.7 billion), and notes/commercial paper (\$11.1 billion). Each of the other debt instrument types accounted for 10 percent or less than the total issuance volume.

Capital Improvements and Public Works Top Purposes List

Chart 4 shows the categorization of 1997 California public debt issuances by purpose. Capital improvements and interim financing account for 65 percent of the aggregate \$38.4 billion sold by all California public agencies. Volume totals for capital improvements stand at \$14.3 billion and interim financing at \$10.2 billion for 1997. At 14 percent of the total volume, education financing (\$5.5 billion) is the next largest category. The remaining categories - housing, commercial/industrial development, hospital/health care, redevelopment, and other purposes--each account for less than 10 percent of the total debt volume.

Chart 4

California Debt Issuance by Purpose
January 1, 1997 - December 31, 1997



State's Overall Issuance Down Slightly

The State of California (and its financing authorities and agencies) issued a total of \$10.5 billion in 1997, which is a decrease of 17 percent from the 1996 volume of \$12.7 billion. The drop was due to the smaller cash-flow borrowing of \$3 billion, down from the \$5 billion revenue anticipation note issued in 1996. The State's long-term debt issuance, however, increased slightly--\$7.5 billion in 1997 as compared to \$7.1 billion in 1996.

The State and its financing authorities continued to take advantage of relatively low interest rates to refund \$4.7 billion in long-term debt and achieve significant savings in debt service payments. New money issuance totaled \$2.8 billion down 14 percent from the 1996 new money issuance of \$3.2 billion.

State Bond Issuance Rises

The State's 1997 issuance of bonds increased 4.5 percent to \$7.4 billion from the \$7.1 billion sold in 1996. General obligation bond issuance increased in 1997 to \$2.7 billion from the \$660 million sold in 1996.

Table 2
STATE OF CALIFORNIA
TYPES OF DEBT
1996 vs. 1997
(Millions)

Type	1996	1997	% of Ch
Bonds	\$7,106	\$7,429	+4.5
Com Paper	595	0	NMF*
COP/Leases	0	73	NMF*
Notes	<u>5,002</u>	<u>3,005</u>	-39.9
Total	\$12,702	\$10,507	-17.3

*Not a Meaningful Figure
Totals may not add due to rounding.

Housing Issuance Tops for State

The State's long-term debt issuance for housing totaled \$2.5 billion or 24 percent of the State's total long-term volume. Most of the issuance (\$2.4 billion) was for single family housing. Next in order was education issuance, which totaled \$2.3 billion or 32 percent of the State's long-term issuance. Capital improvements and public works followed at \$1.5 billion, 20 percent of the long-term total.

Table 3
STATE OF CALIFORNIA
PURPOSES OF DEBT
1996 vs. 1997
(Millions)*

Purpose	1996	1997	% of Ch
Interim Finance	\$5,595	\$3,000	-46.4
Education	1,352	2,272	+68.0
Housing	1,161	2,533	+118.1
Com/Indus	1,563	583	-62.7
Hospital/Health	1,092	669	-38.7
CIPW	<u>1,940</u>	<u>1,450</u>	-25.3
Total	\$12,702	\$10,507	-17.3

*Totals may not add due to rounding.

Refundings amounted to 63 percent of the total long-term volume. New money issuance in 1997 dropped to \$2.8 billion from \$3.2 billion in 1996.

Local Agencies Increase Debt Issuance

Local agencies issued \$7.2 billion in short-term and \$20.6 billion in long-term debt in 1997, for a total issuance of \$27.8 billion. These totals represent an 18 percent increase from 1996, when \$6.6 billion in short-term and \$16.9 billion in long-term debt (for a total of \$23.5 billion) was issued. Of the long-term debt sold by local agencies in 1997, \$10 billion was new money and \$10.5 billion was refundings of prior debt. The new money total is almost a seven percent

increase from 1996 when issuers sold \$9.4 billion in new money issues.

The bulk of local agency short-term issuance was for tax and revenue anticipation notes (TRANS and TANs). Local agency TRAN and TAN issuance for 1997 was \$6.6 billion, down slightly from the 1996 volume of \$6.9 billion.

Overall local agency issuance for bonds increased about 24 percent in 1997. There was a lower volume of issuance for public enterprise revenue bonds and conduit revenue bonds. Half of the bond volume for the year was composed of the following types of bond categories. The type and percentage of increase from 1996 is:

- general obligation bonds, up 82 percent,
- public lease revenue bonds, up 65 percent,
- revenue (pool) bonds, up 85 percent,
- tax allocation bonds, up 103 percent; and
- special assessment bonds, up 127 percent.

Certificates of participation (COP) issuances increased nine percent in 1997. The total sold amounted to \$3.6 billion, up from the \$3.3 billion sold in 1996. Fifty-five percent of the COP volume was for refunding of prior debt issues.

Table 4
LOCAL AGENCY
TYPES OF DEBT
1996 vs. 1997
(Millions)

Type	1996	1997	% of Ch
Bonds	\$12,972	\$16,049	+23.7
Com Paper	408	1,074	+163.2
COP/Leases	3,338	3,640	+9.1
Notes	<u>6,816</u>	<u>6,994</u>	+2.6
Total	\$23,534	\$27,758	+17.9

Totals may not add due to rounding.

Purposes of Local Agency Debt Issuance

Forty-six percent, or \$12.9 billion, of total local debt was issued for capital improvements and public works. This was an increase of 29 percent from the \$10 billion sold in 1996. The major components of the \$12.9 billion include: multiple capital improvements and public works (\$3.4 billion); bridges and highways (\$1.6 billion); water supply and distribution (\$1.5 billion); and power generation and transmission projects (\$1.3 billion).

The most dramatic increase in local agency debt financing occurred in redevelopment, which reported double the amount sold in 1996. Total redevelopment financings for 1997 were \$1.3 billion as compared to \$628 million sold in 1996. Of the redevelopment total, 69 percent represents refunded issues.

Education financing increased 34 percent to \$3.1 billion from the \$2.3 billion issued in 1996. Of the education total, almost 24 percent represents refunding of prior issues. 1997 issuance for K-12 schools was \$2.9 billion, an increase of 34 percent from the \$2.1 billion of 1996.

1997 local agency health care financing of \$1.3 billion was up 46 percent from the \$880 million in 1996. Of the health care total, 68 percent was for refunding. This 1997 issuance was split between healthcare facilities at almost \$600 million and hospitals financing at \$541 million.

Local short-term issuance increased this year to \$7.2 billion. This is an 8.4 percent increase over the \$6.6 billion of interim financings for 1996. Table 4 presents the comparisons by purpose from 1996 and 1997.

Student Loan Corporation Financings

Student loan corporations sold \$150 million for student loans in 1997. This is a 69 percent decline from the \$485 million sold in 1996. All issues were sold as conduit revenue bonds and were new money issues.

Table 5
LOCAL AGENCY
PURPOSES OF DEBT
1996 vs. 1997
(Millions)*

Purpose	1996	1997	% of Ch
Interim Fin	\$6,639	\$7,194	+8.4
Education	2,314	3,106	+34.2
Housing	1,201	1,076	-10.4
Com/Indus	95	89	-6.3
Hospital/Health	880	1,287	+46.3
CIPW	10,011	12,887	+28.7
RD	628	1,280	+103.8
Other	<u>1,765</u>	<u>839</u>	-52.5
Total	\$23,534	\$27,758	+17.9

*Totals may not add due to rounding.

Who Issues Debt?

- The State and its authorities and agencies issued 27 percent of the total volume of debt issuance for 1997.
- Local agencies issued 72 percent of total debt, while the remaining one percent was issued by student loan corporations.
- Los Angeles County agencies led the local issuance total with \$6.7 billion in debt issued. Other counties that had issuance of more than \$1 billion include: Orange, \$3.1 billion; San Diego, \$1.7 billion; Alameda, \$1.5 billion; Riverside, \$1.3 billion; San Francisco and Santa Clara, \$1.1 billion each; San Bernardino, \$1.0 billion; and multiple county issuers, \$3.9 billion.

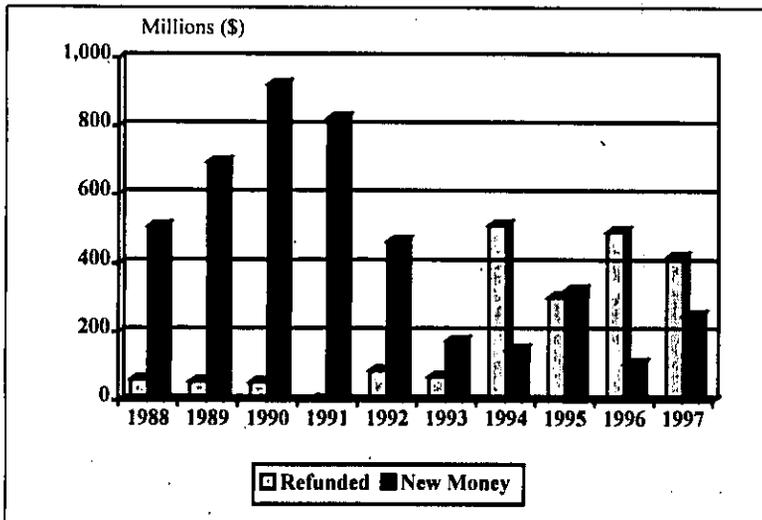
- Joint powers agencies issued a total of \$7.3 billion in 1997. Of that total, \$4.1 billion was issued by JPAs issuing under the Marks-Roos Act.

Mello-Roos Community Facilities Districts

Bond Issuance Increases

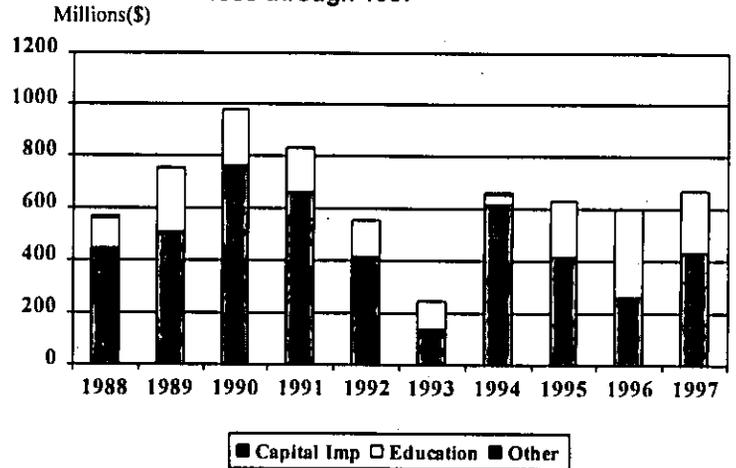
Mello-Roos Community Facilities Districts sold 56 issues in 1997 for a total volume of \$672 million. This is up 11 percent from the \$602 million sold in 1996. Chart 5 provides a historical perspective of Mello-Roos issuances by CFDs since 1988, with a breakdown of refunded versus new money issues.

Chart 5
Mello-Roos Issuance
Refunding vs. New Money
1988 through 1997



CFDs are formed primarily for the construction of local improvements consisting of capital improvements (i.e., streets, sewers, etc.) and school facilities. Chart 6 portrays the volume of Mello-Roos bonds by purpose for the last 10 years.

Chart 6
Mello-Roos Issuance by Purpose
1988 through 1997



Defaults and Draws on Reserves Hit New High

In 1997, 22 issuers reported either defaults (non-payment of principal and interest) or draws on the reserve fund for 39 separate bond issues. As some issues had more than one default or draw occurrence, a total of 56 reports were received by CDIAC throughout the year.

There were 22 CFD defaults reported in 1997. Of that total, five issues reported two defaults each. The remaining 34 reports were draws on the reserve fund of the bond issue. Twelve issues reported two draws each for the year. Issuers must report a draw on reserve if any withdrawal of funds decreases the reserve fund below the *Minimum Reserve Fund Requirement* as stated in the official bond documents or indenture of the bond sale.

The total number of issuers reporting defaults and draws was minimal from 1994 (the first year reports to the Commission were required) through 1996, so the 17 defaults reported in 1997 was unexpected and unprecedented. Many of the issues were affected by the recession in the early 1990s, and the results are now appearing in the default statistics. As Table 5 notes, there are more than three times as many defaults reported this year than in 1995 and 1996.

Table 6

No of CFD Defaults/Draws by Year

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

Additional information on Community Facilities Districts and their defaults or draws is published in the Commission's *1997 Mello-Roos Communities Districts Yearly Fiscal Status Report*.

Taxable Financings

Taxable issuance totaled \$2.3 billion and was six percent of the total statewide dollar volume of debt issuance. This total represents a drop of 12 percent from the \$2.6 billion taxable issuance in 1996.

Competitive vs. Negotiated Financings

Table 5 provides an ten-year comparison of negotiated vs. competitive financings. Competitively-bid issues comprised 25 percent of the year's total dollar volume while negotiated financings reached 75 percent. This is an increase in competitive bidding from 1996 when 19 percent of the volume was competitively bid. The State sold 46 percent of its debt competitively this year, which is an increase from 1996 when

12 percent was sold competitively. Local agencies bid 17 percent of their volume competitively and negotiated the remaining 83 percent. This competitive bid figure is down from 1996 when 24 percent of the local volume was competitively bid.

Table 7

**State and Local Debt Issuance
Competitive vs. Negotiated Financings
1988 through 1997
(Millions \$)**

Year	Comp (\$)	% of Total (%)	Neg (\$)	% of Total (%)
1997	9,444	24.6	28,971	75.4
1996	6,990	19.0	29,731	81.0
1995	5,857	22.0	21,153	78.0
1994	15,589	37.0	26,504	63.0
1993	14,826	26.2	41,850	73.8
1992	9,446	21.6	34,296	78.4
1991	10,001	28.7	24,821	71.3
1990	6,043	25.0	18,091	75.0
1989	4,545	20.3	17,812	79.7
1988	3,418	15.2	19,068	84.8

CDIAC'S YEAR—1997 IN REVIEW

1997 launched the Commission's 16th year of operations, and the first with its new name, the *California Debt and Investment Advisory Commission*. The new name is the result of the passage of AB 1197 (Takasugi) in 1996, which also mandates the Commission's continuing education program in the area of investing public funds. The following pages detail the Commission's activities of the past year in the areas of debt financing and investment education.

THE CDIAC STRATEGIC PLAN

Mission Statement

CDIAC's mission is to improve the practice of public finance in California, by providing responsible and reliable information, education and advice.

This mission statement, developed through the strategic planning process throughout 1997, identifies that CDIAC's biggest challenge in California's dynamic public finance environment is to provide information, education and advice in a proactive manner to public officials and others in the public finance world. Private and public financing professionals shared their time, insight and ideas with CDIAC in the development of the *Strategic Plan*.

The *Plan* developed the following five planning goals which will be the blueprint for the Commission's future activities and programs.

Strategic Plan Planning Goals

1. Provide a broader range of debt-related information and policy analysis.
2. Maintain and enhance the Commission's ability to provide quality products and services.
3. Provide timely and accessible ongoing education and training programs.
4. Develop and maintain a quality investment education program.
5. Maintain and cultivate a working environment that encourages open communication, mutual respect and teamwork.

POLICY RESEARCH

The CDIAC policy section concentrated its year's activities on various aspects of the Marks-Roos Bond Pooling Act of 1985. The Act has been used extensively since 1987 and has been amended several times to reflect concerns about usage. In 1997, regulatory enforcement efforts at the federal level and abuses reported in the California municipal market prompted an in-depth study of various aspects of the Act. CDIAC, under the direction the State Treasurer, staffed the Interagency Securities Task Force, and prepared informational policy papers for their review; presented data at legislative hearings and for state regulators; and instituted a comprehensive review of the Act.

The *Disclosure Guidelines for Land-Based Securities*, published in 1996, was honored in 1997 with awards by private and public financial industry groups.

Disclosure Guidelines for Land-Based Securities Receives Awards

This 1996 CDIAC publication was honored in 1997 with Awards of Excellence by both the National Federation of Municipal Analysts and the Government Finance Officers Association.

The *Guidelines* recommend disclosure practices for compliance with the Securities and Exchange Commission amendments to Rule 15c2-12 (adopted in November 1994) for land-based financings (i.e., Mello-Roos and special assessment bonds). The *Guidelines* provide background on land-based financings in California, a summary of municipal securities regulations, and recommendations for primary market disclosure and continuing disclosure for land-based securities.

Interagency Securities Task Force Meets Throughout the Year

The Task Force consists of CDIAC, the state Attorney General, the state Department of Corporations and the State Bar. These agencies were asked to participate following Treasurer Matt Fong's call for federal and state investigations into several financings executed under the state's Marks-Roos Bond Pooling Act of 1985.

The Task Force was called to provide a forum for the participating agencies to reach

a common understanding of the enforcement framework provided by existing law, to develop cooperative arrangements with respect to enforcement of existing laws, and to determine whether additional legislation or resources are needed to address problems in the municipal market.

Members of the Task Force met throughout 1997 and a draft report was distributed to the members for their review and comments. Recommendations will be addressed after the Task Force review.

Marks-Roos Bond Pooling Act Project Involves Year-Long Analysis

A comprehensive study of the Marks-Roos Bond Pooling Act of 1985 was begun in 1997. Since 1987, over \$24 billion in bonds has been issued by local agencies in California under the authority of the Marks-Roos Act. This represents roughly 13 percent of all local long-term debt issued in that period. The Act has been the subject of more reported abuse than any other borrowing authority. Some of the early abuses of the Act were corrected by subsequent legislation recommended by CDIAC. However, before recommending further legislation to address ongoing abuses, CDIAC determined that a thorough review of the use of the Act was needed. The areas analyzed were: the authority for issuance, the make-up of the agencies issuing debt under the Act, purposes of the financings, single

and pooled aspects of the financings and the costs associated with the issues.

In order to gather this information, staff reviewed over 1,200 joint power agency issues received by the Commission since 1985. The data review and the resulting analysis and policy recommendations will be issued in report form in mid-1998.

DATA COLLECTION AND DESSEMINATION

For calendar year 1997, the Data Collection Unit of the Commission processed 1,833 reports of proposed debt issuance by California state and local issuers of public debt. CDIAC also received 1,739 reports for issues sold during the year. Each of the over 3,572 reports CDIAC processed in 1997 contains detailed information on that particular sale of public debt.

The debt issuance data supports CDIAC's research efforts and is an important part of the Commission's technical assistance function. Debt issuance data is available for calendar year 1985 to the current date via hard-copy reports, CDIAC's Internet site and through the *Data on Disk* program to interested parties.

In addition to debt issuance reports, CDIAC compiled data on the fiscal status of both Mello-Roos and Marks-Roos Bond Pooling Act debt issues as well as on defaults and draws on reserves for these issues. Over 200 fiscal status and default/draw reports were received in 1997.

Electronic Distribution

The following are the electronic distribution means by which CDIAC distributes debt issuance data:

Data on Disk Subscriptions

Subscribers received one diskette each month containing the data on **Sold** issues reported to the Commission in the previous 30-day period. A pre-paid subscription for the current calendar year costs \$77.58 including tax. Prior calendar years' sold data may be requested for each prior year for a total of \$6.47 prepaid.

CDIAC On Line

The CDIAC Home Page is located at www.treasurer.ca.gov/stocda.htm or may be accessed through the State Treasurer's Home Page @ *Boards and Commissions, California Debt and Investment Advisory Commission*. To request information or assistance, contact CDIAC by E-Mail at cdiac@treasurer.ca.gov.

CDIAC's Home Page provides the latest statistics on state and local debt issuance from the Commission's database; selected information about

the Commission; CDIAC reports (*Disclosure Guidelines for Land-Based Securities* and *Local Agency Investment Guidelines*); current CDIAC seminar schedules; reported defaults and draws for Mello-Roos and Marks-Roos financings; and reporting forms for debt issuance, *Mello-Roos* and *Marks-Roos Yearly Fiscal Status*.

Print Distribution

Debt issuance data is also available in hard-copy format free of charge. Following are the monthly and yearly data information documents prepared in 1997 which are available to our consumers without cost.

DEBT LINE

In 1997, CDIAC published the 16th volume of **DEBT LINE**. This monthly publication is sent to over 1,800 subscribers and contains a *Calendar of Issues*, which lists the proposed and sold public debt financings for the month. **DEBT LINE** also publishes articles on public financing topics and reports on the programs and activities of the Commission

Mello-Roos and Marks-Roos Monthly Reports

A subscriber list is maintained for monthly updates of the *Mello-Roos Calendar of Issues* for the year.

In addition to the *Mello-Roos Calendar of Issues*, other subscribers receive monthly *Default and Draw on Reserve Reports* for both Mello-Roos CFD issuers and Marks-Roos Bond Pooling Act participants. Over 400 of these reports were distributed in 1997.

1997 Mello-Roos Yearly Fiscal Status Reports

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

In 1997, a total of 95 issuers, located in 23 counties, were required to file status reports on 207 separate bond issues. All issuers complied with the reporting requirement. In addition two issuers reported voluntarily on bonds sold prior to January 1, 1993. Of the 209 issues, 56 are new bond issues sold in the 96/97 fiscal year.

The report also lists all of the draw on reserve reports and default reports received in 1997. (A discussion of the defaults appears in this publication on page 10.)

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

This is the second year of publication of information received from Marks-Roos Act Bond Pool participants on the fiscal status of bonds issued under the Act. It is the result of amendments to the Marks-Roos Act (SB 1275) which passed in 1995 and requires that certain bond pool participants to annually report specific information about their bond issues to the Commission.

This year's report contains information on 69 separate bond issues. They consisted of 21 public financing authorities (PFAs) and 48 local obligor reports. Only PFAs that loan to two or more local obligors or buy two or more local obligations are required to file reports. The 21 public financing agency bond issues represented in this report are 12.5 percent of the total number and seven percent of the total dollar volume of Marks-Roos Bond issuance issued within the same timeframe.

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

1996 Summary of California Public Debt

This report is a companion volume to the *1996 Annual Report* and the *1996 Annual Report Calendar of Issues*. The purpose of this report is to provide a profile of public borrowing by all levels of government in the state. It is based on data for public debt issuance from January 1 through December 31, 1996.

The report is devoted to tables that summarize 1996 state and local debt issuance by type of debt instrument (general obligation bonds, certificates of participation, etc.), use of proceeds (single-family housing, education, health care, etc.), taxable financings, financings to refund existing debt, type of issuing

agencies (state, cities, counties, etc.), and Mello-Roos financings. This report is the twelfth *Summary* published since 1985.

1996 Calendar of Debt Issuance

A companion publication to the *1996 Annual Report* and the *1996 Summary of California Public Debt*, the calendar contains detailed information on each California debt issue sold in 1996 as reported to the Commission. The information presented in the *Calendar* is organized by state agency, county and issuer to portray each entity's debt issuance activity for the year. Details include the type of debt instrument sold, the sale date, the purpose for which the funds are borrowed. This report is the twelfth in a series published annually since 1985.

1996 Annual Report

This is the fifth in a series which summarizes the activities of the Commission on an annual basis. As such, the *1996 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 1996, and outlines major new projects planned by the Commission for 1997.

The *1996 Annual Report* is supplemented by several charts and tables that provide a perspective on California public debt activity over time, as well as an appendix containing an excerpt from the Government Code upon which the California Debt and Investment Advisory Commission's programs and operations are based, and other pertinent information relating to the Commission.

TECHNICAL ASSISTANCE

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

The following presents information and documents prepared and distributed in 1997. The next section details the seminar programs presented in 1997.

California Debt Issuance Primer

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

The revised *Primer* is scheduled for release in the Spring of 1998 and will include expanded descriptions and discussions of types of debt instruments, changes in federal and state regulations and other changes in the world of public finance. The revised *Primer* also contains a section on the steps in the debt issuance process, as well as information about working with State agencies. It additionally offers an extensive list of other sources of public financing information.

Election Results

The Commission has produced a number of publications highlighting the results of bond and tax measures in Primary and General Elections over the years. In 1997, that function was expanded to include informal reviews of newspaper and Internet sources to report on any tax measures placed on the ballot in response to Proposition 218, the *Right to Vote on Taxes* initiative passed in November 1996. The first publication of 1997 was the review of the November 1996 election summarized below.

State and Local Tax and Bond Measures: Results of the 1996 General Election, November 1996

This report is a summary of the bond and tax measures which were decided at the November 5, 1996 General Election in California. Included is data from the California Secretary of State's Office and the

58 county clerks' election departments. The Commission tracked 151 state and local bond and tax measures that appeared in the General Election. Of that total, 74 were approved by voters and 77 failed.

CDIAC also informally tracked local elections held on June 3 and November 6, 1997, and published the results in **DEBT LINE**. Of the 81 bond and tax measures reviewed by CDIAC in the June election, 86 percent were approved. In the November election, voters approved 53 percent of the 107 measures reviewed.

Local Agency Investment Guidelines

The *Guidelines* were developed by the California Debt and Investment Advisory Commission to assist local agencies in their efforts to comply with new state investment laws (SB 564, SB 866 in 1995 and SB 864 in 1996). Developed with assistance and input of representatives from seven statewide

associations and the Legislature, the *Guidelines* are designed to interpret the provisions of these laws and provide recommendations on compliance strategies.

Issue Brief Series

The *Issue Briefs* are reference documents on specific public finance topics. These *Briefs* present objective analyses of the topics and recommendations for approaching them. Currently, the *Issue Brief* series includes:

Issue Brief No. 1 - Competitive versus Negotiated Sale of Debt - is intended to assist public issuers in determining the appropriate method of sale for their debt offerings.

Issue Brief No. 2 - Understanding the Underwriter Spread - is designed to provide public issuers with a basic understanding on how underwriters are compensated as part of the debt transaction and to identify ways of evaluating the various components of the underwriting spread.

Issue Brief No. 3 - Preparing Requests for Proposals - provides a starting point for smaller agencies or infrequent issuers in their search to obtain expert help in preparing for a bond sale. A Request for Proposals (RFP) is a formalized method of soliciting information of candidate firms concerning their qualifications, experience, proposed compensation arrangements, and suggested approaches to a planned financing.

Investment Practices Video

As part of its effort to promote the continuing education of public officials in the area of investment practices, CDIAC and several statewide associations prepared an educational video for local elected officials. The video discusses the importance of investment oversight, the basics of investment programs, and provide some tips

for monitoring investment program performance.

The video entitled "*How Safe Is Your Money?*" is specifically targeted at local elected officials who have less available time to attend the investment seminars and workshops that are available through their associations or CDIAC. CDIAC and its partners produced the video that can be viewed in the context of a city council or board of supervisors meeting. The video is available from local associations or may be purchased from CDIAC at a cost of \$6.50.

A complete list of all publications is available on the CDIAC Home Page or by calling the Commission.

SEMINARS, WORKSHOPS AND SYMPOSIA

In 1997 the Commission continued to offer educational seminars, conferences and symposia as part of its technical assistance program. In implementing the programs this year, CDIAC worked with statewide and private organizations to provide topical information on a variety of public finance issues that would meet the needs of various state and local governments and private financial businesses. The faculty and presenters are drawn from government agencies, private and public finance professionals, and legislative representatives. They are selected for their ability to impart their expertise and knowledge on the specific topic. CDIAC's ongoing seminar function is constantly evolving to meet the varied and changing needs of the financial community it serves.

1997 SEMINARS

Implementing Proposition 218: Mapping and Navigating the Changing Landscape of Local Government Finance

Dates: January 9 and 16, 1997
February 19 and 27, 1997

Sites: Vallejo, City of Industry,
Sacramento, Cerritos

Co-Hosts: University of California Davis
Extension Program and UCLA Extension
Public Policy Program

State, local and private public finance experts discussed the major impact of Proposition 218, *the Right to Vote on Taxes* initiative passed at the November 5, 1996 General Election. The seminars covered the history of the Proposition, a summary of the Act, analysis from bond rating agencies and local agencies on how to address its main provisions; provisions for application for new financings; and any related legislation that may be proposed.

The Fundamentals of Debt Financing

Dates: April 3 - 4, 1997
Site: Irvine

This is the Commission's introductory seminar for public officials interested in understanding the debt issuance and debt management process. The seminar covered the basics of a bond issue, the participants' roles, types of debt financings, credit ratings,

disclosure issues, and ethics. The seminar's faculty consists of private and public financing professionals. The seminar was open only to local and state officials.

Mechanics of a Bond Sale Seminar

Date: May 1 - 2, 1997
Site: Irvine

The *Mechanics of a Bond Sale* seminar is designed for public officials who require more advanced training in public finance. It provides an in-depth examination of the bond issuance process by taking public officials through the steps such as capital outlay planning, structuring a bond issue and putting together a financing team, preparation of legal documents, marketing and pricing an issue, the risks and rewards of debt issuance, investing bond proceeds, and methods for achieving and maintaining a positive credit rating. This seminar was open only to local and state officials.

State Financing Opportunities for Community Investment

Date: June 19, 1997
Site: Los Angeles

The conference provided community representatives with information about California's financing authorities, committees and commissions and how their financing programs can be accessed. The conference

identified the programs for school facilities, affordable housing, economic development, industrial development facilities, pollution control facilities, health facilities and small business programs. Through break-out sessions, participants were able to meet with state authorities' staff for further discussion or about individual questions.

Understanding Municipal Securities Regulation: Complying with Disclosure Requirements and Avoiding Enforcement Action

Date: September 30, 1997
Site: Irvine

This seminar educated issuers about their legal obligations and offered practical advice on how to minimize their liabilities with respect to the changes in federal securities law. The seminar included an interactive case study and reviews of the disclosure role of counsel, underwriters and financial advisors. This seminar was open to both public and private sector professionals.

All's Not Quiet on the Western Front

Date: November 5 - 7, 1997
Site: La Quinta

Co-Host: Association for Governmental Leasing & Finance (AGL&F)

This seminar was presented on the first day of the 17th Annual Conference of the AGL&F. The CDIAC half-day session included a presentation on leasing terminology, the leasing market, guidelines for the issuance and management of lease debt, and current topics in the leasing field. This seminar was open to both public and private sector professionals.

Investing Public Funds: Fundamentals of Managing Your Portfolio

Date: November 13-14, 1997
Site: Long Beach

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

SYMPOSIUM

Privatization in the '90's: Will Proposition 218 and Welfare Reform Inspire the Movement?

Date: March 11, 1997
Site: San Francisco

Co-Host: Standard & Poor's Ratings Service

The symposium, the sixth co-hosted by CDIAC and S&P, represents an ongoing commitment by CDIAC 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 speakers at the symposium examined the question of whether current trends toward privatization might be accelerated by the passage of Proposition 218 and the passage of welfare reform legislation by Congress in the 1996 session. The symposium was open to both public and private sector professionals.

THE OUTLOOK FOR 1998

The California Debt and Investment Advisory Commission's 1998 agenda includes a combination of new and ongoing programs as CDIAC enters its 17th year. This chapter highlights programs and activities planned for 1998.

SEMINARS AND SYMPOSIA

The following programs are planned for 1998.

Investing Public Funds: Understanding and Evaluating Your Investment Alternatives

Date: January 22, 23, 1998
Site: Monterey

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

Date: March 11, 1998
Site: San Francisco

Co-Host: Standard & Poor's

Fundamentals of Debt Financing

Date: March 12, 13, 1998
Site: Berkeley

Mechanics of a Bond Sale

Date: April 2, 3, 1998
Site: Concord

Understanding Municipal Securities Regulation

Date: Fall 1998
Site: Northern California

Advanced Course In Debt Financing (new)

Date: Fall
Site: To be announced

Workshops in Land-Based Financings (new)

Date: Summer, 1998
Sites: To be announced

REPORTS AND STUDIES

Marks-Roos Act Study

The year-long study due to be released in late Spring will include an analysis of the joint powers agencies that have used the Marks-Roos Bond Pooling Act of 1985 to fund public infrastructure improvements or acquire local obligations.

This report includes sections on the legislative history and intent, the data analysis, current issues in the use of the Act, and will present policy recommendations for local governments who may use this financing authority.

Outstanding Debt Project

One question asked repeatedly of CDIAC is "How much debt is outstanding?" CDIAC is pursuing sources of this information to determine how this question may be answered. A framework for this project will be developed in early 1998.

APPENDICES

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

Chapter 11.5 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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

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

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

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

- (5) Two Members of the Assembly appointed by the Speaker of the Assembly.
- (6) Two Members of the Senate appointed by the Senate Committee on Rules.

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

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

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

(d) Appointed 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 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.

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

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

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

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

(i) The 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 and Investment Advisory Commission the incomes, family size, and rents or mortgage payments of the occupants, the number, size, cost, sales price, location by zip code, and geographical distribution of the units developed; the length of time the units are required to be held for occupancy by targeted income groups, and, if applicable, the number of years the units are required to be held as rentals; and the distribution of housing developments among for-profit, limited dividend, and nonprofit sponsors. For the purposes of this section, "nonprofit sponsors" includes public agencies.

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

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

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

(a) The reports required by Section 8855.5 shall also contain an analysis by the reporting agency of compliance with the targeting requirements of subsection (d) of Section 142 of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 142) with respect to any issue of its bonds subject to those

requirements for federal tax exemption under Section 103 of the Internal Revenue Code of 1986 (26 U.S.C. Sec.103). The analysis shall identify the numbers of rental units subject to this reporting requirement by categories based on the number of bedrooms per unit, and shall report as to each of these categories.

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

8855.8 Commission compilation and summary of reports; contents

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

8856. Fees

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

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

8857. Employees

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

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
1997**

PUBLIC MEMBERS

Irwin Bornstein
City of Mission Viejo
Harry Ehrlich
Olivenhain Municipal Water District
George Jeffries
City of Tustin
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1998**

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COMMISSION FUNDING AND EXPENDITURES

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

As Table 8 indicates, the Commission required \$1,401,252 in fiscal year 1996-97 to conduct its mandated functions. This was entirely offset by \$2,226,393 in revenues. By the start of the 1997-98 fiscal year, the CDIAC Fund balance increased to \$1,905,296.

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

Therefore, in February 1998, the Commission approved a two-phase fee reduction. The first phase will reduce fees below the level needed to fully fund current operations so as to work off the excess balance in the reserve. The first phase fee reduction will be in effect for 15 months. The second phase will increase fees back to a level necessary to cover operational expenditures, but the fees are still lower than the current fees. As noted in Table 8, the fund balance at the end of FY 96/97 reached \$1.9 million. Without adjustment in the current FY 97/98, it was

projected that the fund balance would be about \$2.5 million. The Commission believes a prudent reserve is equal to one fiscal year's spending authority, which is currently \$1.6 million per fiscal year. This level of reserve funding provides the Commission with greater flexibility to adjust to changes in debt issuance levels, and potentially to outlast temporary periods of low debt issuance without changes in the fee structure. The copy of the revised fee schedule follows.

Table 8

**California Debt and Investment Advisory
Commission
Operating Revenues and Expenditures
Fiscal Year 1996-97**

CDIAC Fund:	
Beginning balance (7/1/96)	\$1,015,497
Revenues*	2,226,393
Reimbursements	66,663
Total resources	\$ 3,308,553
Expenditures:	
Staff salaries	\$ 594,099
Staff benefits	159,336
General expense	72,633
Printing	52,406
Communications	10,791
Postage	24,947
In-state travel	23,722
Out-of-state travel	6,461
Training	6,987
Facilities operation	68,111
Consultant/professional contracts	343,550
Data processing	436
Central administrative services	30,148
Equipment	7,645
Total expenditures	\$1,401,252
Administrative charges per Chapter 672/94	<2,005>
CDIAC Fund:	
Ending balance (6/30/97)	\$1,905,296

*Includes interest earnings.

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

Date of Adoption: February 4, 1998

Pursuant to Section 8856 of the California Government Code, the California Debt and Investment Advisory Commission (CDIAC) adopted the following two-phased fee schedule beginning with all debt issues sold on or after April 1, 1998.

1. **Issues Purchased by Agencies of the Federal Government:** No fee shall be charged on any issue purchased by an agency of the Federal Government.
2. **Issues of Less Than \$1,000,000:** No fee shall be charged to the lead underwriter or purchaser of any public debt issue which has a par value amount less than one million dollars (\$1,000,000), regardless of the term of the issue.
3. **Issues with Short-Term Maturities:** Notwithstanding Sections 1 and 2 above, the lead underwriter or purchaser of any public debt issue which has a maturity of eighteen (18) months or less, including those issues sold in a pooled financing (e.g., a TRAns pool), shall be required to pay a fee to the California Debt and Investment Advisory Commission in accordance with the following schedule:
 - A. For such issues sold on April 1, 1998 through June 30, 1999, the fee will be equal to one hundred and fifty dollars (\$150).
 - B. For such issues sold on or after July 1, 1999, the fee will be equal to two hundred dollars (\$200).
4. **Issues with Long-Term Maturities:** Notwithstanding Sections 1,2, and 3 above, the lead underwriter or purchaser of any public debt issue which has a final maturity greater than eighteen (18) months shall be required to pay a fee to the California Debt and Investment Advisory Commission in accordance with the following fee schedule:
 - A. For such issues sold on April 1, 1998 through June 30, 1999, the fee will be equal to 1.5 basis points (.00015) not to exceed three thousand dollars (\$3,000).
 - B. For such issues sold on or after July 1, 1999, the fee will be equal to 2.0 basis points (.0002) not to exceed four thousand dollars (\$4,000).
5. **Marks-Roos Financing Authority Issues:** One fee will be assessed for Marks-Roos Financing Authority bond issues where the bond sales occur simultaneously (i.e., reports filed with the Commission are received on the same date, financings are sold on the same date, and with the same financing team).
6. **All Proposed Sales to be Reported to the California Debt and Investment Advisory Commission:** Nothing in this fee schedule shall relieve an issuer from giving written notice to the California Debt and Investment Advisory Commission of a proposed debt issue no later than 30 days prior to the proposed sale, as required by Section 8855(g) of the California Government Code.

The CDIAC staff issues an invoice for the CDIAC reporting fee to the lead underwriter or purchaser as identified on the *Report of Final Sale*. If you have questions regarding the CDIAC reporting fees, please call (916) 653-3269.

**California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400
P.O. Box 942809
Sacramento, CA 94209-0001
(916) 653-3269**