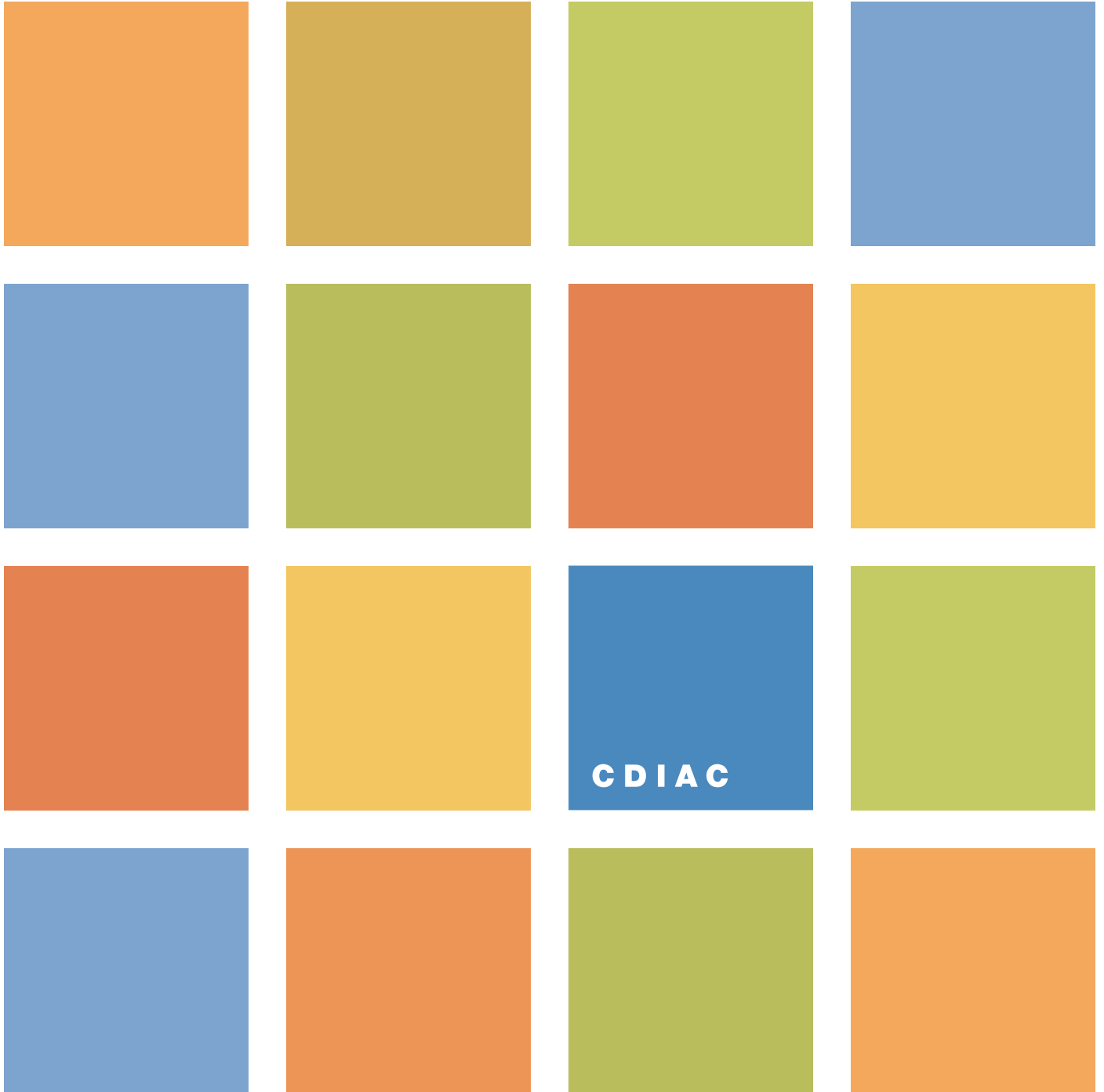


2010 ANNUAL REPORT



CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

CDIAC No. 11-03

STATE AND LOCAL BOND ISSUANCE

During calendar year 2010, State and local governments in California issued \$90.5 billion in debt—5.1 percent lower than the amount issued

in 2009 (Figure 1).^{1,2} They collectively conducted 1,628 debt transactions during this period, an increase of nearly 18 percent. With the exception of 2009, total debt issued in 2010 was higher than during any of the 10 prior years (Figure 2). Debt

FIGURE 1

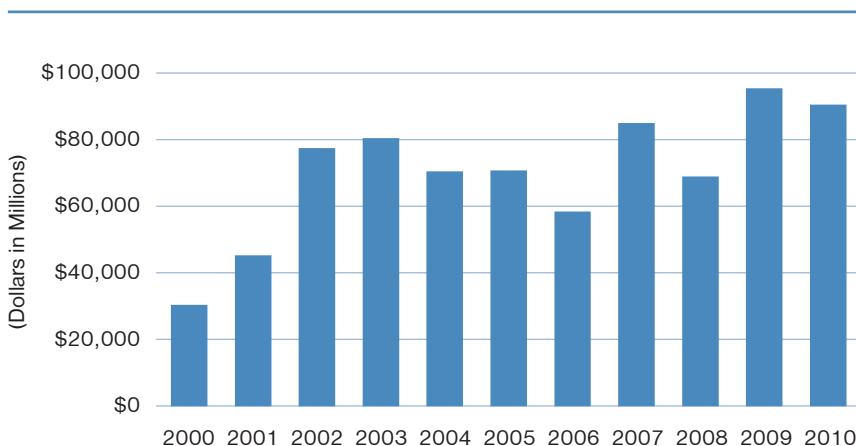
DOLLAR VOLUME OF CALIFORNIA PUBLIC ISSUANCE, BY TYPE OF ISSUER
2008, 2009, AND 2010 (DOLLARS IN MILLIONS)*

| ISSUER TYPE | 2008 | | 2009 | | 2010 | | PERCENT CHANGE IN VOLUME 2008 TO 2009 | PERCENT CHANGE IN VOLUME 2009 TO 2010 |
|----------------------------|----------|--------|----------|--------|----------|--------|---|---|
| | VOLUME | NUMBER | VOLUME | NUMBER | VOLUME | NUMBER | | |
| City and County Government | \$2,094 | 21 | \$2,723 | 18 | \$3,580 | 27 | 30.0% | 31.5% |
| City Government | 6,910 | 141 | 6,052 | 116 | 8,885 | 131 | -12.4 | 46.8 |
| County Government | 4,415 | 51 | 5,137 | 44 | 4,666 | 47 | 16.4 | -9.2 |
| Joint Powers Agency | 10,783 | 271 | 12,218 | 218 | 11,126 | 348 | 13.3 | -8.9 |
| K-12 School District | 5,286 | 248 | 10,195 | 470 | 9,385 | 555 | 92.9 | -8.0 |
| Other Issuer | 13,878 | 309 | 13,023 | 307 | 14,995 | 337 | -6.2 | 15.1 |
| State Issuer | 25,552 | 156 | 45,990 | 210 | 37,819 | 183 | 80.0 | -17.8 |
| TOTAL | \$68,919 | 1,197 | \$95,339 | 1,383 | \$90,455 | 1,628 | 38.3% | -5.1% |

* Totals may not add due to rounding.

FIGURE 2

CALIFORNIA PUBLIC ISSUANCE
TOTAL PAR AMOUNT, BY CALENDAR YEAR, 2000-2010



¹ Total includes short-term and long-term debt.

² State and local issuers include the State of California and its financing authorities, city and county governments, joint powers authorities, school districts, and other public entities, including but not limited to special districts, redevelopment agencies, community facilities districts, and community college districts.

issuance in both 2009 and 2010 reflect, in part, the pent-up demand generated by poor market conditions in 2008 and the BABs program which expired at the end of 2010.

Nearly 41 percent of the debt issued by State and local agencies was committed to capital improvements and public works (Figure 3). Almost 29 per-

cent was used for interim financing and nearly 19 percent for education. All other uses accounted for five percent or less of the total debt issued in 2010.

Debt issued for capital improvements and public works grew by 11 percent during between 2008 and 2010, while debt issued for interim financing purposes grew 30 percent (Figure 4). Among

FIGURE 3

CALIFORNIA PUBLIC ISSUANCE, BY PURPOSE, 2010 (DOLLARS IN MILLIONS)

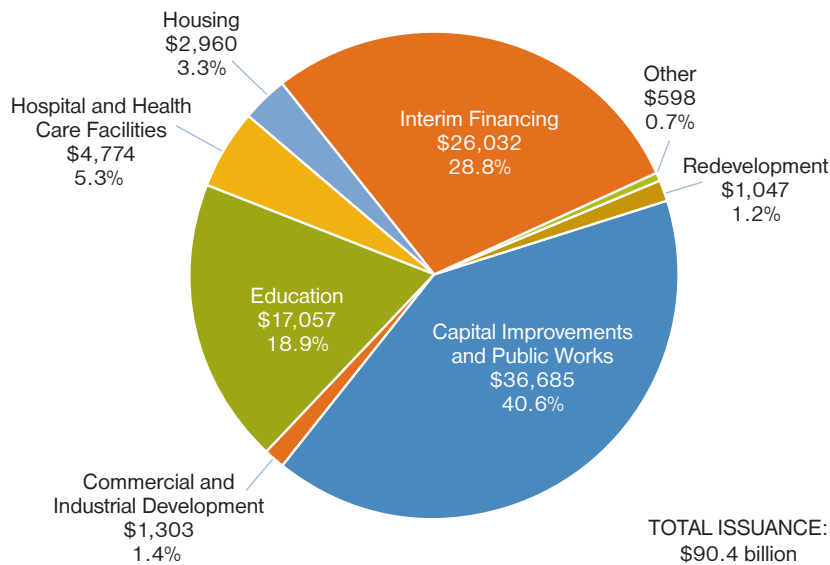
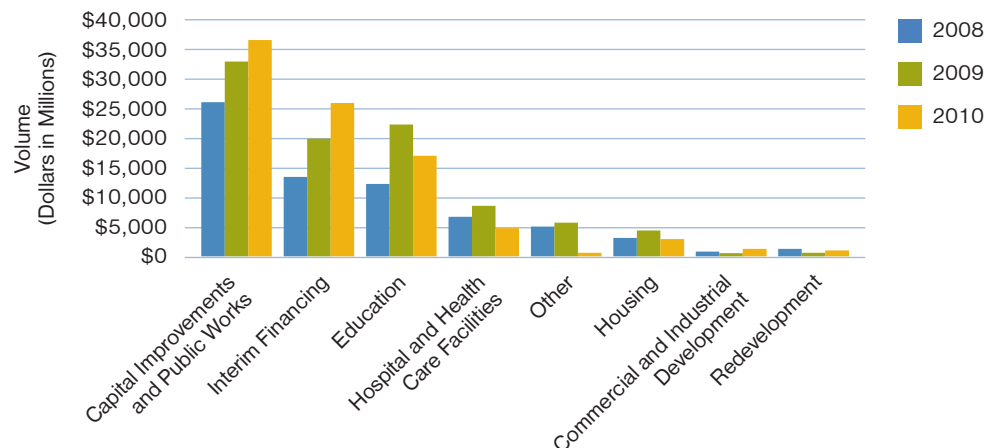


FIGURE 4

CALIFORNIA PUBLIC ISSUANCE, BY PURPOSE, 2008-2010



those purposes for which debt issuance declined during this period were education (24 percent decline), hospital and health care facilities (45 percent decline), and housing (33 percent decline).

Long-term Debt vs. Short-term Debt Issuance

In 2010, public agencies collectively issued \$64.3 billion in long-term debt – approximately 63 percent of total issuance activity for the year (Figure 5). The remaining \$26.1 billion was issued as short-term debt instruments, maturing in 18 months or less.³ Total long-term debt issuance fell by nearly 15 percent from 2009 to 2010, while short-term issuance grew by nearly 31 percent. The dramatic difference between long-term and short-term issuance was likely related to the fiscal conditions facing state and local agencies and the need for these agencies to address cash flow concerns before taking on additional long-term debt.

In 2010, long-term issuance consisted primarily of public enterprise revenue bonds, general obligation bonds, and conduit revenue bonds. Limited tax allocation bonds, public enterprise revenue bonds, tax allocation, and tax increment bonds increased in relation to 2009. In light of the fis-

cal conditions facing public agencies, these bonds provided state and local agencies financing opportunities where general fund revenue-backed debt may not have been available.

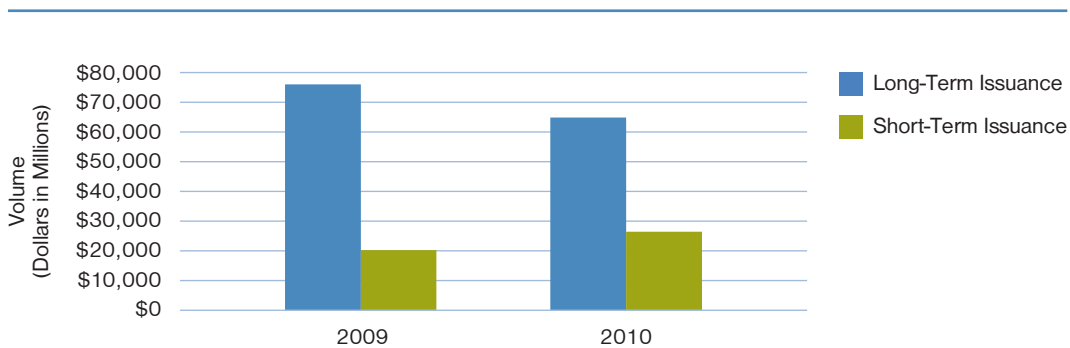
Short-term issuance overall increased 30.8 percent in 2010. Revenue anticipation notes experienced more than a 54 percent increase in activity in 2010. The state's \$10 billion issuance late in the year represents over 60 percent of issuance activity in this category. In general, changes in the volume of issuance between 2009 and 2010 reflect the impact of declining revenues on public agency cash flows during the year. Notes comprised 96 percent of short-term issuance activity; commercial paper, a short-term financing option for public agencies, represented the remaining 3 percent of short-term activity.

New Money Issues vs. Refundings

The ratio between new money issues and refunding was essentially unchanged between 2009 and 2010 (Figure 6). Unlike the levels exhibited nationally, California showed a decline in both new money issuance and refundings. In terms of volume, state and local governments issued nearly five (5) percent less new money debt in 2010

FIGURE 5

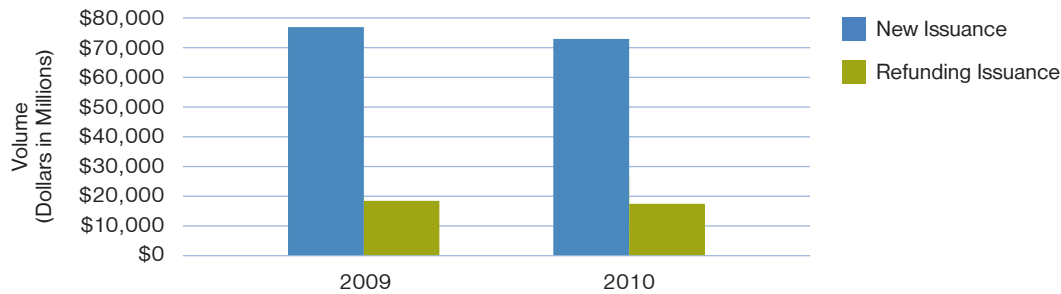
CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF LONG-TERM AND SHORT-TERM DEBT, 2009 AND 2010



³ Definitions of short-term debt differ within the finance community. CDIAC considers all forms of debt with an 18 month term or less as short-term and applies this definition to all reports and analyses of public debt it issued.

FIGURE 6

CALIFORNIA PUBLIC ISSUANCE COMPARISON OF NEW AND REFUNDING ISSUANCE, 2009 AND 2010



than they did in 2009. Refundings were down nearly 6 percent.

As expected, the largest metropolitan counties issued the greatest volume of debt in 2010. Much of the debt issued by these counties was new money issue. For example, Los Angeles County issued \$18.5 billion in debt, of which only 11 percent was refunded debt. Alameda County issued \$3.4 billion in debt. \$158 million or 4.6 percent was issued to refund outstanding debt. Across all local agencies, 80 percent of the debt issued in 2010 was new debt and 20 percent was issued to refund existing debt. Much of the refunding activity occurred in smaller counties where the size of transactions tended to be smaller.

Competitive vs. Negotiated Transactions

Public agencies have the ability to sell their bonds or short-term instruments through either a competitive or negotiated sale method. In a negotiated sale the issuer selects the underwriter (or syndicate) and negotiates the sale prior to the issuance of the bonds. In a competitive sale underwriters submit sealed bids on a date specific and the issuer selects the best bid according to the notice of sale. For California public issuers, 87 percent of debt sales by volume in 2010 were ne-

gotiated sales. As a comparison, *The Bond Buyer* reports that negotiated sales composed 82.5 percent of all bond sales nationwide in 2010.⁴ The trend over time has favored negotiated sales over a competitive sales approach (Figure 7).

When considering the choice of sales methods, certain issuers employed a competitive or negotiated method more than other issuers (Figure 8). For example, most bond sales conducted by the City and County of San Francisco used the competitive method (63.7 percent). Education issuers, Marks-Roos/Joint Powers Agencies (JPAs), and city governments, among others, preferred the negotiated method. Both issuer characteristics and financial conditions may contribute to the selection of one method over another. For example, the strength of the credit, the size of the issue, or the type of debt instrument may justify the use of a negotiated sales method. Unique or complicated financings tend to be sold using negotiated sales. Not surprisingly, community facilities districts special tax bonds employ this sales method frequently.

Taxable Debt

Public issuers may utilize taxable bonds for certain projects or parts of a project that do not meet federal tax-exempt requirements (generally for proj-

⁴ "A Decade of Municipal Finance" table available at www.bondbuyer.com/marketstatistics/decade_1/.

FIGURE 7

CALIFORNIA PUBLIC ISSUANCE
COMPETITIVE VERSUS NEGOTIATED FINANCINGS, 2010-2010

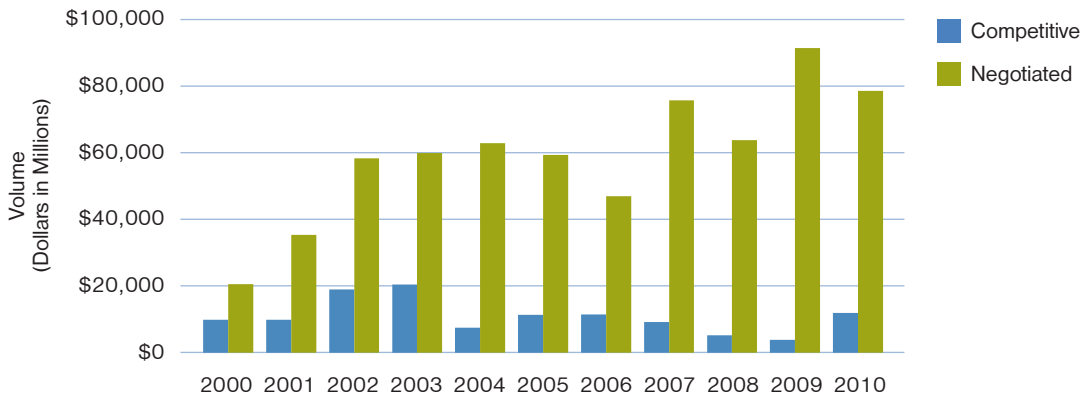
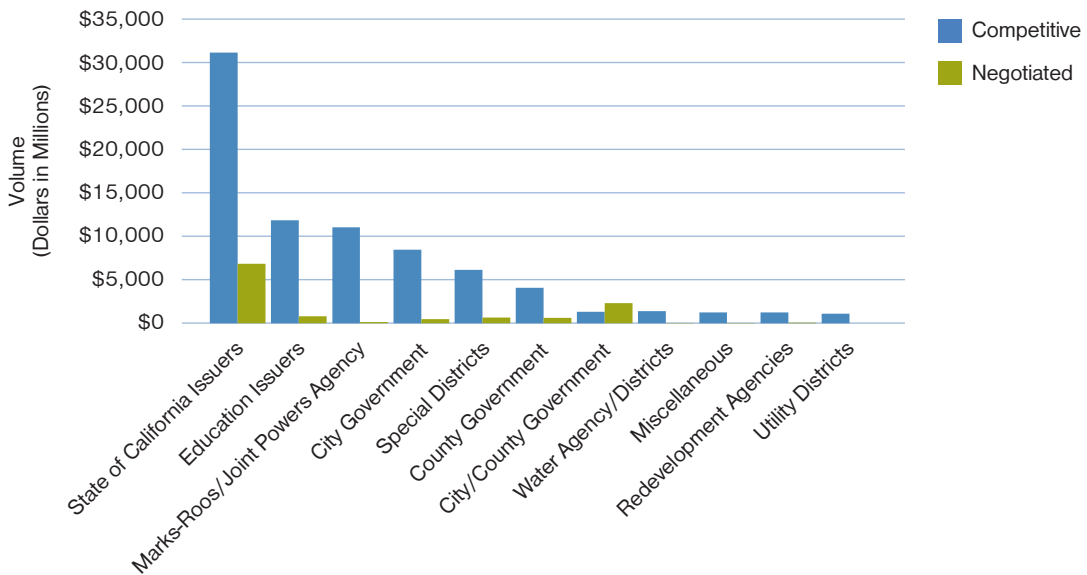


FIGURE 8

CALIFORNIA PUBLIC ISSUANCE
COMPETITIVE VERSUS NEGOTIATED FINANCINGS, BY ISSUER TYPE, 2010



ects that provide benefits to private entities as defined by tax code). Investor-led housing projects, local sports facilities, and borrowing to replenish a municipality’s underfunded pension plan are examples of bond issues that are federally taxable. The BABs program, authorized under ARRA, offered public agencies additional opportunities to issue taxable bonds during 2009 and 2010. As a direct result of the BABs program the percentage of taxable issuance increased from four percent in 2008 to 31 percent in 2010 (Figure 9).

Credit Enhancements

Figure 10 illustrates the decline of credit enhanced debt over the past three years as a result of the turmoil in the financial markets and subsequent collapse of bond insurers, such as Ambac and FGIC.⁵ Beginning in 2008, the volume of debt issued with a credit enhancement began a dramatic decline, from approximately 47 percent in 2008 to less than nine percent in 2010. Higher-risk instruments that

FIGURE 9

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF TOTAL VOLUME TO TAXABLE FINANCINGS, 2008-2010

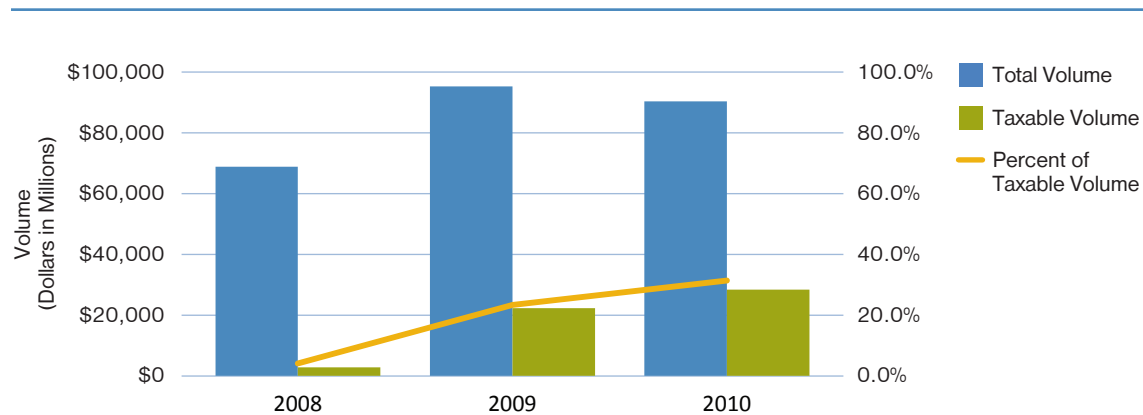
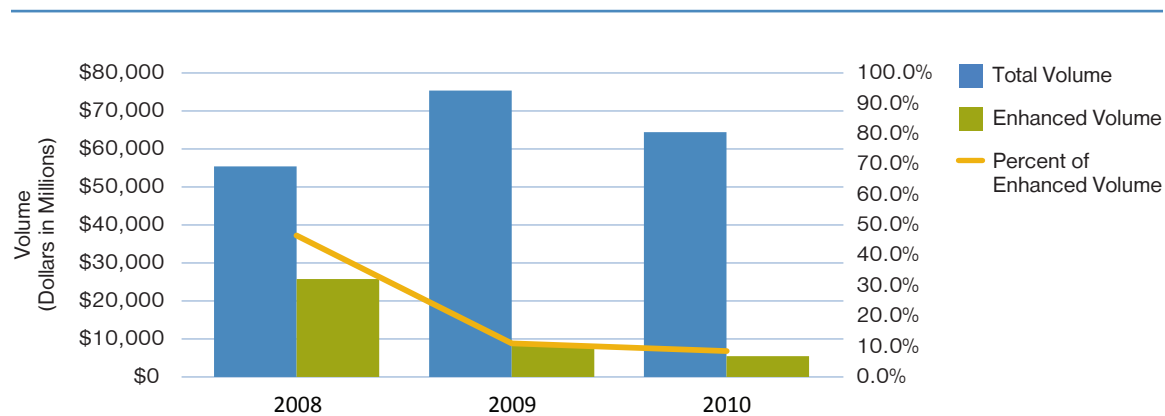


FIGURE 10

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF TOTAL VOLUME TO ENHANCED VOLUME, 2008-2010



⁵ Ambac filed for chapter 11 bankruptcy protection on November 8, 2010; FGIC filed for chapter 11 bankruptcy protection on August 4, 2010.

were typically insured, such as public enterprise bonds, conduit bonds and certificates of participation/leases saw the greatest decline in the use of credit enhancement. Prior to the financial crisis of 2008, credit enhanced issues represented approximately 57 percent of bonds issued by public agencies.⁶

State Debt Issuance in 2010

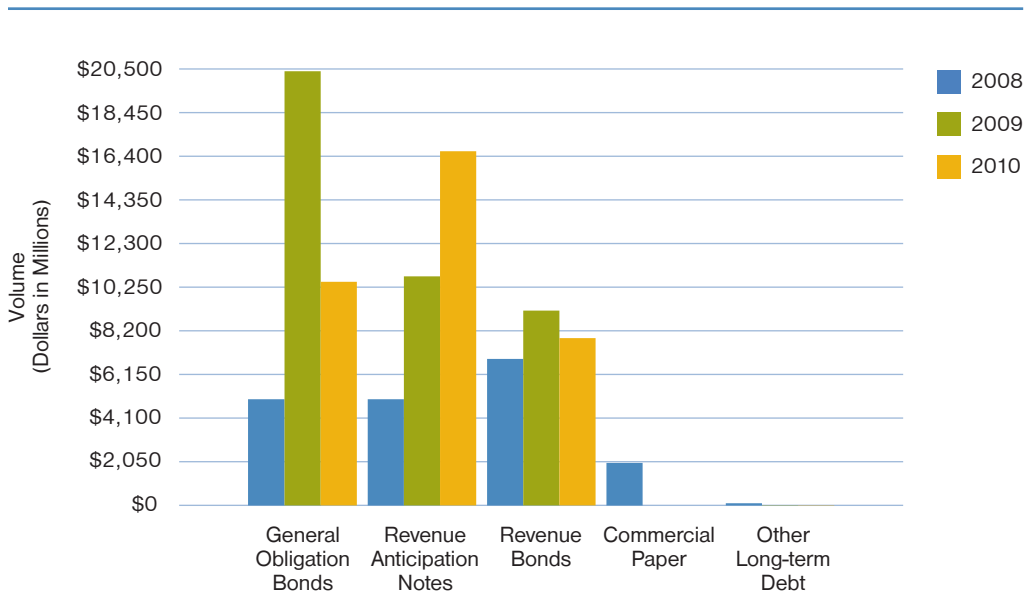
In 2010, the State of California issuers sold \$35.1 billion in debt of which approximately \$18.4 billion as in the form of long-term debt and \$16.7 billion in short-term notes.⁷ State issuance accounted for approximately 38.8 percent of all debt issued by public agencies in California.

Over the past three calendar years, 2008, 2009, and 2010, the issuance of revenue anticipation notes (RAN) by State entities has increased (Figure 11).⁸ Alternatively, the issuance of other debt and commercial paper has decreased. The volume of general obligation bonds and public lease revenue bonds increased between 2008 and 2009, but declined between 2009 and 2010. At the same time, the issuance of certificates of participation grew by nearly 348 percent.

Between 2009 and 2010, state issuance for all purposes except interim financing and commercial and industrial development declined (Figure 12). The increase in interim financing was the result of the State's large RAN issuance in 2010.

FIGURE 11

VOLUME OF STATE DEBT ISSUANCE, 2008-2010



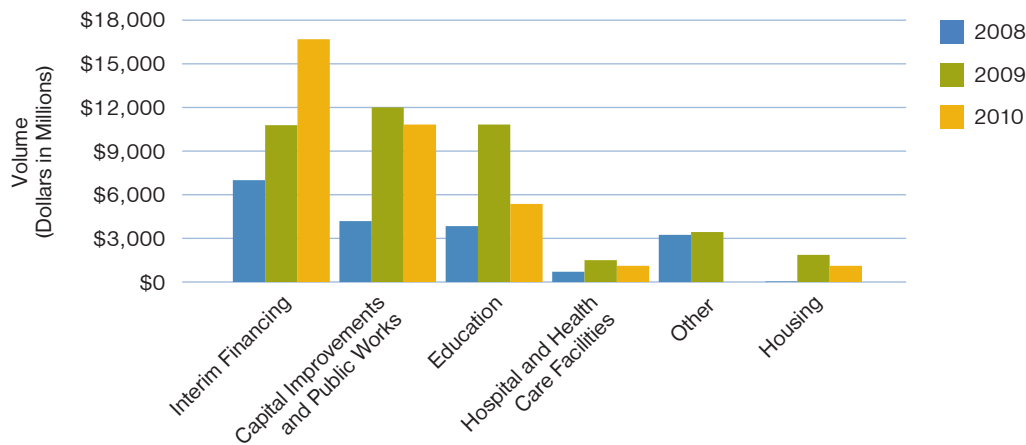
⁶ California Debt and Investment Advisory Commission, *2007 Annual Report*, page, 15.

⁷ In addition to the State of California, state issuers include the California Department of Water Resources, California State Public Works Board, California State University Monterey Bay, Hastings College of the Law, The Regents of the University of California, Trustees of the California State University, and California State University San Francisco.

⁸ In 2009 and 2010, the State of California issued privately placed interim RANs (\$1.5 billion and \$6.7 billion, respectively), which were repaid with publicly offered RANs (\$8.8 billion and \$10 billion, respectively).

FIGURE 12

STATE DEBT ISSUANCE BY PURPOSE, 2008-2010



Other State Issuers and Conduit Issuance in 2010

Issuance by State instrumentalities, including conduit bond issuers, comprised nearly 3.0 percent (\$2.7 billion) of all public agency issuance in 2010.⁹ Conduit revenue bonds issued by State instrumentalities and conduits decreased each year between 2008 and 2010 (Figure 13). Issuance of short-term debt, consisting of commercial paper and RANs, by these entities also decreased each year. However, issuance of other revenue bonds and other notes declined from 2008 to 2009, but increased from 2009 to 2010.

State conduit bond issuance for all purposes except commercial and industrial development declined between 2009 and 2010 (Figure 14).

Student Loan Finance Corporation Issuance in 2010

Student loan corporations issue debt to fund student loans in California. Student loans consist of three types: federal loans directly issued by the government; federal loans issued by banks or other lenders that are guaranteed by the government; and private loans from banks or other private lenders that do not have a government guarantee.¹⁰ In 2010, The Health Care and Education Reconciliation Act of 2010, which eliminated the Federal Family Education Loan Program, resulted in student loan corporations no longer being able to originate federal student loans.

CDIAC receives filings from three classifications of student loan entities: private corporations, non-profit corporations and the California Education Facilities Authority (CEFA), which is a State issuer. In 2010, student loan corporation debt totaled \$458 million in refunding revenue

⁹ State instrumentalities include the California Alternative Energy and Advanced Transportation Financing Authority, California Educational Facilities Authority, California Health Facilities Financing Authority, California Infrastructure and Economic Development Bank, California Pollution Control Financing Authority, and the California School Finance Authority.

¹⁰ Glater, Jonathan D. "Guide to Student Loans," The New York Times. (30 Nov. 2007): Web (http://www.nytimes.com/ref/timestopics/topics_studentloans.html?ref=studentloans). 16 Nov. 2011

FIGURE 13

VOLUME OF CONDUIT STATE DEBT ISSUANCE, 2008-2010

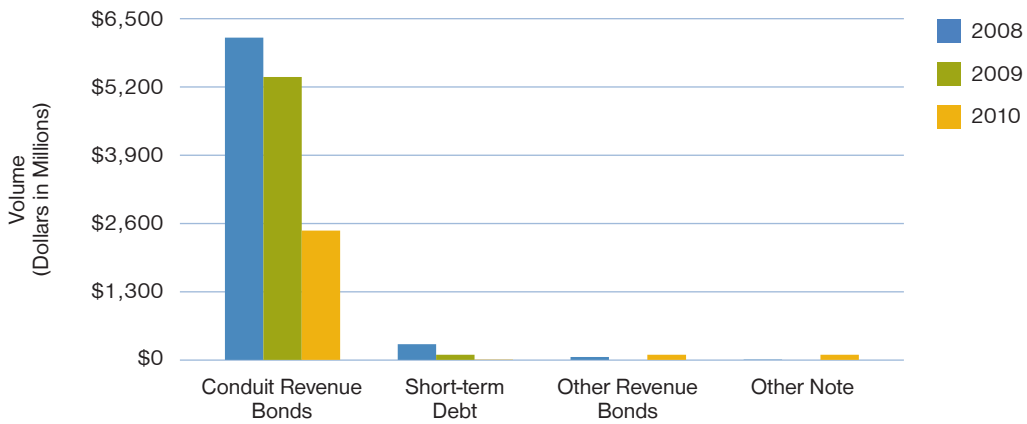
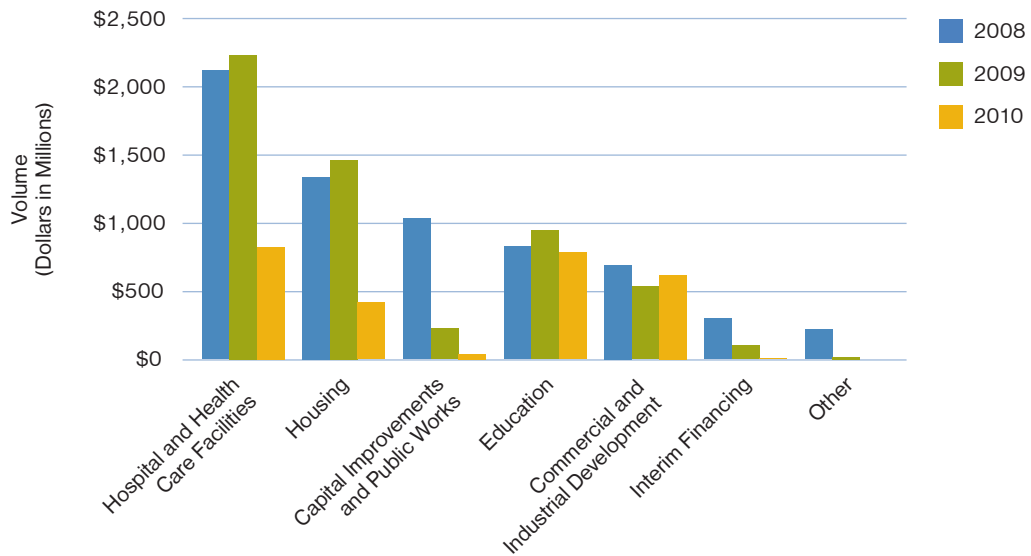


FIGURE 14

CONDUIT STATE DEBT ISSUANCE BY PURPOSE, 2008-2010



bonds (LIBOR floating rate bonds). The issuer of these bonds is a non-profit corporation. Prior to 2010, the last time student loan corporation debt was issued was in 2007.

Local Debt Issuance in 2010

In calendar year 2010, local agencies collectively issued \$52.2 billion in short- and long-term debt, a 5.7 percent increase from 2009 (Figure 15). Among long-term bonds, local agencies in-

creased their issuance of all types of debt in 2010 except conduit revenue bonds, general obligation bonds, and Marks-Roos revenue bonds. Among short-term instruments, only the issuance of tax revenue anticipation notes and other forms of notes increased between 2009 and 2010.

Between 2009 and 2010 local agencies increased the use of debt for capital improvements, commercial and industrial development, housing, re-development, and interim financing (Figure 16).

FIGURE 15

VOLUME OF LOCAL AGENCY BOND ISSUANCE, BY DEBT TYPE, 2008-2010

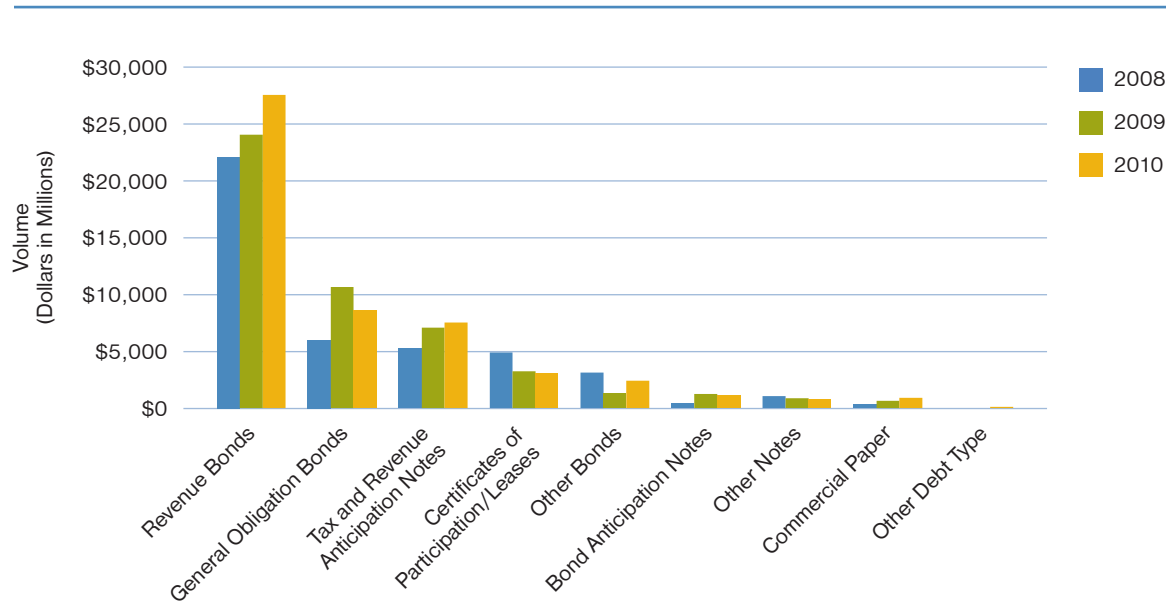
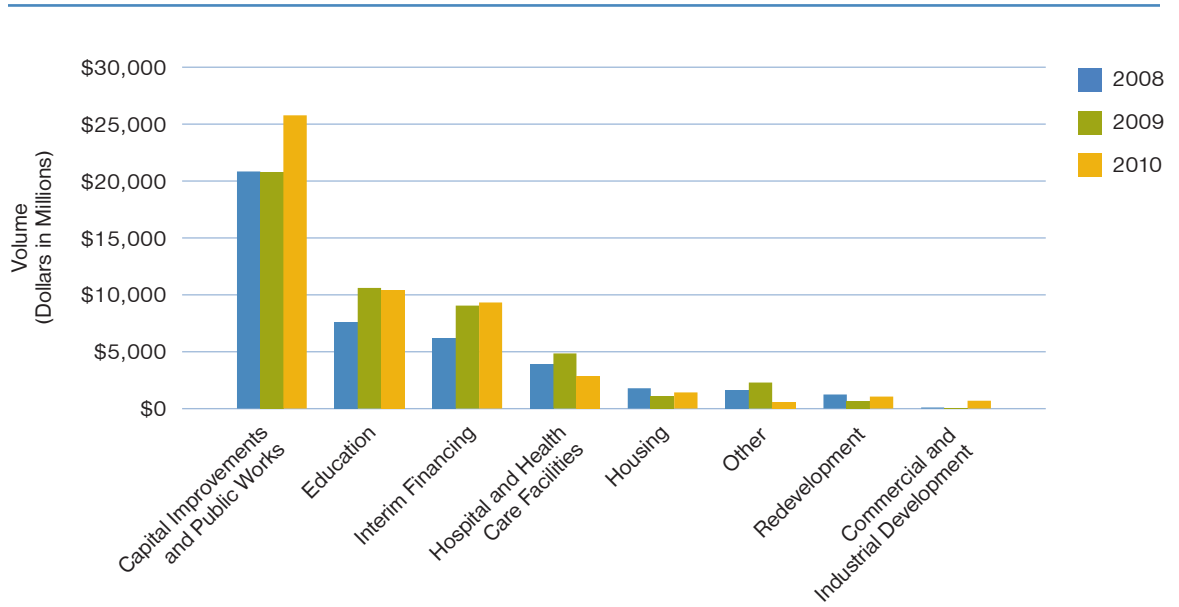


FIGURE 16

VOLUME OF LOCAL AGENCY ISSUANCE, BY PURPOSE, 2008-2010





CDIAC

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