2011 ANNUAL REPORT

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CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC No. 12.03

CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

June 29, 2012

To Our Constituents:

I am pleased to present the California Debt and Investment Advisory Commission (CDIAC) *2011 Annual Report*.

According to the economic definition of the word recession, the Great Recession ended in June or July 2009. Unfortunately for state and local governments the slow, inconsistent pace of the recovery has not lessened their burden. Many sources of public revenue will lag economic recovery for several years, and while the national unemployment figure is falling and business income rising, the ability of public agencies to resolve lingering deficits remains as difficult today as it did in 2009. In response, state and local governments have implemented a series of increasingly significant responses, from program and staff reductions to renegotiating contracts. And still, more than one governmental entity is poised on the verge of insolvency.

Unlike prior reports, the *2011 Annual Report* provides context for CDIAC's efforts to develop and deliver programs and services in terms of the environment in which public agencies operate. In the wake of the dissolution of redevelopment agencies, CDIAC examined the extent of debt issuance by RDAs and the ongoing obligation that will be transferred to successor agencies to service that debt. In light of concerns expressed by the Securities Exchange Commission and certain members of Congress, CDIAC undertook a study of disclosure compliance among issuers in California and conducted two conferences on the topic of disclosure. Regarding the continuing need for infrastructure investment and the limited capacity of public agencies to carry the cost, CDIAC is working with local agencies to identify new ways to grow the amount of money available for investments that serve the public.

This report renews CDIAC's commitment to provide information and training to public officials on the use and administration of debt and the investment of public funds. Where new financing tools have emerged or practices changed, CDIAC has responded with new training programs or launched research projects that provide timely information. For example, the experiences of the State of New Jersey and the City of San Diego with regard to pension disclosure provided CDIAC the inspiration to develop a seminar for *The Bond Buyer California Public Finance Conference* addressing disclosure and the policy initiatives unfolding around pension disclosure in particular.

I believe CDIAC's services are more relevant today than at any time in the past. We are continuing to seek ways to better serve taxpayers, policy makers, public administrators, and the financial community and we appreciate your continued support.

Respectfully,

Mark B. Campbell
Executive Director

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ABOUT CDIAC

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created in 1981 with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). This legislation established the California Debt Advisory Commission as the State's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring, issuance, and management of public financings. CDIAC's name was changed to the California Debt and Investment Advisory Commission with the passage of Chapter 833, Statutes of 1996 (AB 1197, Takasugi) and its mission was expanded to cover the investment of public funds. CDIAC is specifically required to:

- Serve as the State's clearinghouse for public debt issuance information.

- Publish a monthly newsletter.

- Maintain contact with participants in the municipal finance industry to improve the market for public debt issuance.

- Provide technical assistance to state and local governments to reduce issuance costs and protect issuers' credit.

- Undertake or commission studies on methods to reduce issuance costs and improve credit ratings.

- Recommend legislative changes to improve the sale and servicing of debt issuances.

- Assist state financing authorities and commissions in carrying out their responsibilities.

- Collect specific financing information on public issuance through Mello-Roos Community Facilities Districts after January 1, 1993 or as a member of a Marks-Roos Bond Pool beginning January 1, 1996; collect reports of draws on reserves and defaults from Mello-Roos Community Facilities Districts and Marks-Roos bond pools filed by public financing agencies within 10 days of each occurrence.

- In conjunction with statewide associations representing local agency financial managers and elected officials, develop a continuing education program aimed at state and local officials who have direct or supervisory responsibility for the issuance of public debt or the investment of public funds.

- Receive notice of public hearings and copies of resolutions adopted by a Joint Powers Authority for certain bonds authorized pursuant to Marks-Roos Local Bond Pooling Act of 1985.

To help meet its statutory responsibilities (see Figure 1), CDIAC divides its functions into four units: Data Collection and Analysis, Policy Research, Education and Outreach, and Administration.

Pursuant to statute, all state and local government issuers must submit information to CDIAC at two points during the debt issuance process: thirty days prior to the proposed sale date and no later than 45 days after the actual sale date. Included in these reports to CDIAC are the sale date, name of the issuer, type of sale, principal amount issued, type of financing instrument, source(s) of repayment, purpose of the financing, rating of the issue, and members of the financing team. In addition, Mello-Roos and Marks-Roos bond issuers must submit a yearly fiscal status report on or before October 30th. Data compiled from these reports are the basis for public issuance statistics and analyses released by CDIAC. Since 1984, CDIAC has maintained this information in its Debt Issuance Database – a portion of which is available on CDIAC's website.[1]

Since 1984, CDIAC has organized educational seminars focusing on public finance matters. Offered at locations throughout the State, CDIAC seminars are designed to: (1) strengthen the ex-

Figure 1

CDIAC STATUTORY PROVISIONS CALIFORNIA CODE SECTIONS

FUNCTION	SECTION	DESCRIPTION OF PROVISION
CDIAC Authorizing Statute	Government Code Section 8855	Establishes CDIAC's duties
Report of Proposed Sale of Public Debt	Government Code Section 8855(h)(3)	Requires the issuer of any proposed debt issue of state or local government to, no later than 30 days prior to the sale, give written notice to CDIAC of the sale.
Report of Final Sale of Public Debt	Government Code Section 8855(j)	Requires the issuer of any new debt issue of state or local government to, not later than 45 days after the sale to submit a report of final sale to CDIAC including specific information about the transaction.
Mello-Roos Reporting Requirements	Government Code Section 53359.5(a) thru (c) and 53356.05	Reporting requirements: debt issuance, annual debt service, default, reserve draw and notification of specified events that may affect the market value of outstanding bonds.
Marks-Roos Reporting Requirements	Government Code Section 6586.5 and 6586.7; 6599.1(a) & 6599.1(c)	Reporting requirements: notice of hearing to authorize the sale of bonds, copy of resolution authorizing bonds; written notice of proposed sale; debt issuance, annual debt service, default, reserve draw.
General Obligation Bond Cost of Issuance	Government Code Section 53509.5(b)	Reporting requirements: cost of issuance of bonds issued by City, County, City and County, School District, Community College District or Special District.
Refunding Bonds Sold at Private Sale or on a Negotiated Basis	Government Code Section 53583(c)(2)(B)	Reporting requirement: written statement from Public District, Public Corporation, Authority, Agency, Board, Commission, County, City and County, City, School District, or other public entity or any improvement district or zone explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at public sale.
School District Reporting	Education Code Section 15146(c) and (d)	Reporting requirements: cost of issuance of bonds issued by a school district and report of sale or planned sale by a school district.

[1] While CDIAC has collected information since January 1, 1982, the database contains information from 1984 to present day.

pertise of public officials familiar with the bond issuance and the investment processes; and (2) inform public officials about current topics that may affect public debt issuance and the investment of public funds. The majority of the public officials who attend CDIAC seminars are from local agencies, while as many as 25 percent are employed by state and federal agencies.

Commission members and industry professionals advise CDIAC staff on areas of interest for potential research and analysis. CDIAC's researchers also draw on information from CDIAC's public debt issuance database, public and private experts throughout the municipal finance industry, periodicals, and journals to publish reports, briefs, and articles on topics related to public debt and investing. Publications are intended to apprise issuers and investors of emerging trends in public finance and to preserve the integrity and viability of the public finance market.

CDIAC COMMISSION MEMBERS

The Commission may consist of three to nine members, depending on the number of appointments made by the Treasurer or the Legislature. Three statewide-elected officials—the State Treasurer, the State Controller, and Governor or the Director of Finance—serve *ex officio*. Statute names the Treasurer to be chair. Local government associations, such as the League of California Cities, may nominate two local finance officers for appointment by the Treasurer. The Senate Rules Committee and the Speaker of the Assembly may each appoint two members. Appointed members serve at the pleasure of their appointing power and otherwise hold four-year terms.

The 2011 Commission members included:

BILL LOCKYER

California State Treasurer
Residence: Hayward, California

Background: As State Treasurer, Mr. Lockyer draws on leadership, management and policy-making skills developed over a public service career spanning more than three decades. Mr. Lockyer served for 25 years in the California Legislature, culminating his Capitol career with a stint as Senate President pro Tempore. He served eight years, from 1999-2006, as California Attorney General and left a lasting legacy. Among his landmark achievements as Attorney General, Mr. Lockyer revolutionized crime fighting in California by creating and maintaining the nation's most sophisticated DNA forensic laboratory, established the Megan's Law website and recovered billions of dollars for defrauded energy ratepayers, consumers and taxpayers.

Mr. Lockyer completed his undergraduate study at the University of California, Berkeley, and earned a law degree from McGeorge School of Law in Sacramento while serving in the State Senate. He also holds a teaching credential from California State University, Hayward.

EDMUND G. BROWN

Governor of California
Residence: Sacramento, California

Background: Edmund G. Brown Jr., known as Jerry, was elected Governor of California in November 2010. Governor Brown has held other elected positions including member of the Los Angeles Community College Board of Trustees, Secretary of State, Governor (1975 to 1983), Mayor of Oakland, and California Attorney General.

Governor Brown received his Bachelor of Arts degree in classics from the University of California at Berkeley and his law degree from Yale Law School.

JOHN CHIANG

California State Controller
Residence: Torrance, California

Background: Mr. Chiang serves as California's State Controller. He presides over 76 boards and commissions, including the Franchise Tax Board, the California Public Employees' Retirement System Board, and the California State Teachers' Retirement System Board. Prior to his election as State Controller, he served on the Board of Equalization in 1998, leading with innovative taxpayer-friendly services like the State's free income tax return preparation service, ReadyReturn.

Mr. Chiang holds a degree from the University of South Florida and a Juris Doctor from the Georgetown University Law Center.

SAM BLAKESLEE

State Senator, 15th District
Residence: San Luis Obispo, California

Background: Senator Sam Blakeslee, R-San Luis Obispo, was elected to the California State Senate in 2010 to represent the 15th Senate District, which includes the coastal counties of San Luis Obispo, Santa Barbara, Santa Cruz, Monterey and Santa Clara. Senator Blakeslee serves as Chair of the Select Committee on Recovery, Reform and Realignment, a bipartisan Senate think tank to develop innovative reform concepts to address the current structural impediments to job creation, budgetary stability, and accountable governance. Senator Blakeslee previously served in the California State Assembly from 2004-2010.

Senator Blakeslee earned both his bachelor's and master's degrees in geophysics from University of California, Berkeley. He earned a Ph.D. from University of California, Santa Barbara for his research in seismic scattering, micro-earthquake studies, and fault-zone attenuation.

CAROL LIU

State Senator, 21st District
Residence: La Cañada Flintridge, California

Background: Carol Liu was elected to the California State Senate in 2008. Senator Liu serves as the Chair of the Senate Human Services Committee and the Budget Subcommittee on Education. She also serves on the following committees: Banking and Financing Institutions, Budget and Fiscal Review, Education, Governance and Finance, and Public Safety. She represented the 44th Assembly District from 2000-2006. Prior to her election to the State Assembly, she served eight years as a City Councilmember, including two terms as Mayor of the City of La Cañada Flintridge.

Senator Liu graduated from San Jose State College, earned a teaching and administrative credential from University of California, Berkeley, and spent 17 years working in public schools.

MIKE ENG

Assembly Member, 49th District
Residence: Monterey Park, California

Background: Assemblymember Mike Eng represents the 49th Assembly District, which is located within eastern Los Angeles County and includes the cities of Alhambra, El Monte, Monterey Park, Rosemead, San Gabriel, San Marino, and South El Monte. He chairs the Assembly Committee on Banking & Finance. Prior to serving in the State Assembly, he served as Mayor and City Councilmember of Monterey Park and as a Monterey Park Library Board Trustee.

Assemblymember Eng earned his law degree from the University of California at Los Angeles after completing his bachelor's and master's degrees at the University of Hawaii. He is also a part-time community college instructor.

HENRY T. PEREA

Assembly Member, 31st District
Residence: Fresno, California

Background: Assemblymember Perea represents the 31st Assembly District that includes the Central Valley communities of Cutler-Orosi, Dinuba, Firebaugh, Fowler, Kerman, Mendota, Parlier, Reedley, Sanger, San Joaquin, Selma and Fresno. He currently serves on the Agriculture, Banking and Finance, Governmental Organization, and Revenue and Taxation Committees, and the Select Committees on Job Creation for the New Economy, and Renewable Energy Economy in Rural California. He began his career in public service with an internship with Congressman Cal Dooley and was later elected to serve on the Fresno City Council.

Assemblymember Perea completed the *Senior Executives in State and Local Government* program at Harvard's John F. Kennedy School of Government.

JOSÉ CISNEROS

Treasurer of the City and County of San Francisco
Residence: San Francisco, CA

Background: As Treasurer, Mr. Cisneros serves as the City's banker and Chief Investment Officer, and manages tax and revenue collection for San Francisco. In 2006, Mr. Cisneros launched the Bank on San Francisco program, the first program in the nation to address the needs of unbanked residents by actively partnering with financial institutions to offer products and services to lower-income consumers. In addition, he worked to establish the Office of Financial Empowerment, only the third municipal office nationwide dedicated to stabilizing the financial lives of low-income families.

Mr. Cisneros received his Bachelor of Science from the Massachusetts Institute of Technology, Sloan School of Management and studied for his Master of Business Administration at Boston University. He is also a graduate of the International Business Program at Stichting Nijenrode University in the Netherlands.

JAY GOLDSTONE

City of San Diego Chief Operating Officer
Residence: San Diego, CA

Background: As Chief Operating Officer, Mr. Goldstone oversees the City's daily operations and implements Mayoral and Council initiatives and policies. Prior to this appointment, Mr. Goldstone served as the City's first Chief Financial Officer. Mr. Goldstone has had a successful thirty-year career in municipal finance and came to San Diego from the City of Pasadena where he served as the Director of Finance.

Mr. Goldstone holds a Master of Business Administration from the University of Santa Clara, Master of Public Administration from Arizona State University, and Bachelor of Science from the University of Minnesota.

NATIONAL MUNICIPAL MARKET SUMMARY[2]

MARKET HIGHLIGHTS

Municipal bonds and bond mutual funds, which experienced a massive sell-off that began in the fall of 2010 amid predictions of widespread defaults and bankruptcies in the public sector, suffered massive outflows in 2011 as well. In early spring the market predicted that, as a result of economic pressures, 2011 would be the "toughest year so far" for state and local governments since 2008. Among other factors, the market was anticipating rating downgrades to outnumber upgrades. In fact, Moody's downgrades ran ahead of upgrades 3.9 to 1 in the first quarter of the year, the ninth consecutive quarter with more downgrades than upgrades. By August, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the U.S. to 'AA+' from 'AAA', but held to its A-1+' short-term rating. The U.S. rating downgrade sent a ripple through the municipal bond market. Some states lost their triple-A ratings and specific bonds with direct backing from the federal government, such as some housing bonds, were downgraded as well.

Adding to this, a newfound sense of fiscal austerity gripped state and local governments and discouraged their desire to take on additional debt. This combination of factors kept new issuance exceptionally low in early calendar year 2011. By spring, issuance rose somewhat as most states balanced their fiscal year budgets for 2012 and market sentiment improved. A volatile summer for the global markets prompted by concerns surrounding the European debt crisis resulted in a flight to quality that sent municipal bond yields to record lows in September. The year ended with municipal bonds of all shapes and sizes being in demand by both retail and institutional investors. The demand, which was exacerbated by the lack of tax-exempt supply, pushed yields to record lows.

DEBT ISSUANCE LEVELS

Against a backdrop of budget uncertainty at the state and local level, 2011 was a down year for long-term volume in the national municipal bond market. Total long-term municipal volume fell by 32 percent from a year earlier, to $294.7 billion in 10,556 issues. That compares

[2] The summary of municipal finance presented here draws from different sources, including *The Bond Buyer* and *The Wall Street Journal*.

with $433.2 billion from 13,800 issues in 2010. Among sectors, issuance in environmental facilities and electric power saw the largest downturn from 2010, with decreases of 64.7 percent and 62.4 percent, respectively. Environmental facilities bonds fell to $2.8 billion in issuance in 2011 from $7.8 billion one year earlier. Volume for electric power bonds dropped to $11.3 billion last year from $30.2 billion in 2010. Transportation issuance fell dramatically, as well, to $32.9 billion in new bonds last year from $66.9 billion in 2010. Low rates launched refunding deals, as issuers sought to further reduce their cost of capital. Nevertheless, refundings fell 6 percent in 2011 to $93 billion.

While muni bond issuance in general fell, private placements surged in 2011, with issuance leaping 243 percent. The increase was driven by borrowers looking to refund letter-of-credit backed variable-rate debt and lenders finding that holding the debt directly was more cost-effective and helped to meet community reinvestment goals.

POLICY INITIATIVES

Following the demise of the Build America Bonds program, the federal government considered a cap on tax-exempt bonds as a means to wean investors and issuers off the municipal market and toward a permanent, expanded Build America Bond market based upon a flexible subsidy rate. In September, President Obama sent Congress the $447 billion American Jobs Act of 2011 that would bar wealthy investors from using tax-exempt bond interest and other tax exclusions, expenditures, and deductions to reduce their income tax rates below 28 percent. The proposal would have significant impacts on the municipal bond market. In response, State and local government groups combined forces with dealers, bond lawyers, and representatives from energy, education and other sectors to deliver a strong message to the joint congressional deficit-reduction committee to continue "support and commitment" for tax-exempt bond financing.

Two California Representatives Laura Richardson and Adam Schiff, introduced separate bills February 16th to extend the BABs program, which expired December 31, 2011.

Early in 2011, Congress let slip that it was considering legislation to allow states to file for bankruptcy protection. The idea surfaced in a discussion between Senator John Cornyn, R-Texas, and Federal Reserve Board chairman Ben Bernanke during a Senate Budget Committee hearing in January. States strongly opposed any legislative proposal, saying that it was not needed and that it would hurt them in the municipal market. "To the folks in Congress cooking this baloney: Don't bother," California Treasurer Bill Lockyer responded. "States didn't ask for it. We don't want it. We don't need it." The proposal would ostensibly permit states in severe fiscal distress to file for bankruptcy protection so that they could renegotiate their debt, pension plans, union contracts, and other obligations.

The idea of allowing municipalities to file for bankruptcy held sway in some state legislatures as well. In Indiana a controversial measure allowing fiscally distressed municipalities to file for bankruptcy was narrowly defeated in conference committee after both the House and Senate passed versions of HB 105. The bill would have provided for a state-controlled emergency financial takeover of fiscally strained local governments, including school districts. But the House removed the provision allowing governments to file for chapter 9 bankruptcy from the bill. California passed Assembly Bill 506 (Chapter 675, Wieckowski, 2011), encouraging municipalities to participate in a mediation process prior to entering chapter 9. The bill passed both houses after provisions mandating an independent assessment of the municipality's financial condition were removed.

Although municipal bankruptcy was a common topic of discussion in the municipal markets, Standards & Poor's reported that bond defaults were down nearly 70 percent in 2011 from 2010. S&P found that in its indexed municipal bonds there were roughly $2.4 billion of new municipal bond defaults from January 1 to October 31, 2010. By comparison, S&P noted that in this same indexed group there have been about $750 million of defaults January 1 through October 31, 2011.[3] Both figures are par value. Income Securities Advisors Inc., based in Miami Lakes, Fla., found a similar 68 percent decline in defaults when comparing the first nine months of 2011 with the same period in 2010.

The Securities Exchange Commission (SEC) continued to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2011, including rules released in December 2010 requiring municipal advisors to register with it and the Municipal Securities Rulemaking Board (MSRB). Dodd-Frank exempted governmental employees from the definition of municipal advisor and the SEC went one step further in its proposed registration rules by exempting elected officials as well. But the SEC did not exempt appointed officials from the definition, saying that while “employees and elected members are accountable to the municipal entity for their actions,” appointed members “are not directly accountable for their performance to the citizens of the municipal entity.” In February the MSRB responded to the complaint that including governing board members as municipal advisors would disrupt their bond financings and other activities.

During 2011, the MSRB released proposed changes to Rule G-36 on the fiduciary duty of municipal advisors, amendments to Rule G-20 on gift and gratuity limits for municipal advisers, as well as separate interpretative G-17 guidance on fair dealing for municipal advisors and underwriters. In a proposal filed with the SEC in August, the MSRB would require municipal advisors to determine that a transaction or product is suitable for a state and local government. The proposed interpretive notice to Rule G-17 would require that when a municipal advisor recommends a transaction or product to a state or local government, the advisor must have “reasonable grounds for believing that the transaction or product is suitable”. Suitability is based upon the client’s financial circumstances, objectives, tax status, and other material information.

By late Fall, however, the MSRB suspended implementation of a set of municipal advisor proposals because the SEC had failed to adopt a permanent municipal advisor definition. As a result, the MSRB withdrew proposals on Rule G-20 (gifts and gratuities), Rules G-37 and G-2 (political contributions), Rule G-17 (fair dealing), and Rule A-11 and Form A-11 (municipal advisor assessments). Under G-17, the MSRB proposed in November that it would, for the first time, require broker-dealers to disclose to state and local governments that they are not fiduciaries and would prohibit underwriters from advising issuers not to hire financial advisors. In late December the SEC announced it may not finalize its final registration requirements and definition of municipal advisors until September 30, 2012. The SEC’s interim muni advisor rule was scheduled to expire on December 31st.

The MSRB found opportunity to comment on market practices as an interim step to regulation. In August the MSRB warned dealers against taking advantage of disruptions in the financial market to manipulate the prices of municipal securities and reminded issuers of their contractual obligations to submit material event notices to EMMA if their ratings change. The chair of the MSRB, Michael Bartolotta, submitted a letter to the SEC citing the absence of penalties as contributing to issuer noncompliance with continuing disclosure obligations under SEC Rule 15c2-12. With S&P’s downgrade of U.S. sovereign

[3] The figures are based on the S&P Municipal Bond Index, which surveys a sample of muni bonds representing around 44 percent of the par value of the municipal bond market. With its index S&P includes both rated and unrated bonds. Standard & Poor’s data includes only monetary defaults – when issuers miss a principal or interest payment – and not technical defaults.

debt state and local issuers likely experienced ratings downgrades. However, Mr. Bartolotta claimed that issuers who failed to meet their disclosure obligations regarding downgrades were not being penalized.

In late August, the MSRB released proposed Rule G-42, which would prevent municipal advisors from engaging in pay-to-play practices.

In February, Sen. Richard Burr, R-North Carolina introduced a bill that would prohibit state and local governments from issuing tax-exempt bonds unless they met certain pension disclosure requirements. Burr's bill – S. 347, The Public Employee Pension Transparency Act – was introduced February 15th and is virtually the same tax legislation as was introduced by Rep. Devin Nunes, R-California, in the House on February 9th. It would have barred issuers from selling tax-exempt bonds or tax-credit bonds from receiving federal subsidy payments for Build America Bonds or similar direct-pay debt if they failed to comply with reporting requirements related to their public employee pension funds. Under the proposal, state and local governments would have to file reports annually with the Treasury Secretary that include details about their pension plans, including expected contributions, unfunded liabilities, assumptions, returns for the plan year and five previous years, and plans for eliminating unfunded liabilities.

In April, the Pew Center on the States issued a report citing the gap between the promises states made for employees' retirement benefits and the money they set aside to pay for them had grown to at least $1.26 trillion in fiscal 2009, a 26 percent gain in one year. In May, the National Association of Bond Lawyers (NABL) unveiled guidance to boost issuers' disclosure practices. The report, entitled "Considerations in Preparing Defined Benefit Pension Plan Disclosure in Official Statements," provided basic guidance addressing a host of issues, ranging from which documents to gather and review before drafting disclosure language to definitions of pension reporting terms. NABL made plans to spearhead a pension-disclosure project among key players in the municipal bond market, including actuaries, accounting firms, financial analysts, investors and issuers. Simultaneously, the National Federation of Municipal Analysts (NFMA) began working on a pension-disclosure white paper. The NFMA project tracked the NABL report. In July, the SEC announced plans to review the adequacy of public pension disclosures made by a number of governmental entities

In June, the SEC announced it would create a five-person office of municipal securities and a 35-member office of credit ratings, both of which would report directly to the chairman as mandated by Dodd-Frank. In late September, SEC Commissioner Elisse Walter asked the commission to take a long-term look at the fixed-income market structure. The SEC plans to issue a report based on their study of the municipal market with recommendations for legislative and regulatory changes, including possible recommendations for improving the quality of disclosure and bolstering secondary market transparency.

The Bond Dealers of America (BDA) unveiled guidelines designed to help dealers comply with suitability, disclosure, and pricing rules when dealing with retail investors. The action was viewed as an attempt to stave off implementation of a secondary market disclosure checklist offered by the Financial Industry Regulatory Authority (FINRA) in 2010. The BDA's guidelines set forth recommended practices and procedures for secondary market transactions to bolster dealer compliance with rules issued by the MSRB and enforced by FINRA, including Rule G-17, Rule G-19, and Rule G-30. The BDA recommended every dealer adopt a written policy containing a statement about the types of information it expects registered representatives to cull and disseminate to customers in secondary market transactions so they can make appropriate disclosures and suitability determinations.

CALIFORNIA MUNICIPAL MARKET SUMMARY

MARKET HIGHLIGHT

In the May Budget Revise, Governor Jerry Brown proposed to dramatically reduce planned bond issuance as part of an effort to narrow overall state borrowing. The state had already skipped its usual Spring general obligation bond issue, acknowledging the Governor's commitment to reducing the state's "wall of debt". Among the Governor's other major initiatives in 2011 were proposals to launch the nation's only high-speed rail system, support for the Bay Delta Conservation Plan to restore the Delta ecosystems, additional support for schools, and realignment of state and local governments leading to the dissolution of redevelopment agencies in California. The California Redevelopment Association, League of California Cities and others brought suit against the state over the fate of redevelopment. In December, the California Supreme Court upheld AB1x 26 dissolving redevelopment agencies, but struck down a companion bill that would have allowed the agencies to remain in business if they were willing to pay a percentage of their income into a fund to help pay the state's education costs.

Because of lower than projected revenues, the state pulled the trigger on $1 billion in budget cuts that were built into the FY 2010-11 budget. The actions were based upon projections made by the Department of Finance in December that the state would fall $2.2 billion short of the $4 billion in revenues it had projected when it passed the budget in June. The Legislative Analyst's Office projected a budget deficit for 2011-12 of $13 billion.

To address an anticipated budget gap that cannot be resolved by cuts alone, Governor Brown proposed a ballot initiative that would temporarily raise sales taxes and taxes on the wealthy. The proposal would raise nearly $7 billion a year by increasing the sales tax a half cent for four years and raising income taxes on individuals making more than $250,000 a year.

FISCAL STRESS

Fiscal stress plagued local governments in 2011. Two communities, in particular, received the greatest attention: Stockton and Fresno. In January and again in June, Moody's Investors Service downgraded Stockton's issuer rating because of its tight budget position. The City had declared a fiscal emergency in May 2010 due to a $23 million budget gap for 2011. By October, Stockton recognized that it would likely have to draw on reserves to pay debt service for $87 million in outstanding bonds, including those issued by the redevelopment agency.

Stockton may not exactly be the next Vallejo, but similarities between the two California cities abound. For example, both cities experienced severely strained budgets as a result of a steep drop in revenues following the collapse of the housing market. Vallejo, which filed for chapter 9 bankruptcy in 2008, finally emerged from those proceedings in November, 2011, after satisfying the conditions of its plan that was approved in early August by a bankruptcy judge. It was the largest municipal bankruptcy in California since Orange County's in 1994 and cost the City $9 million in attorney fees and other expenses.

In October, all three major ratings agencies dropped Fresno's rating three notches to A2 from Aa2 because of Fresno's weakening finances, exposure to a fragile local economy, and an overstretched budget. The ratings agencies said the City's general fund has been saddled by high fixed costs and subsidies to other branches of government, while its emergency reserve was almost drained.

Another California city in the headlines for two years between 2010 and 2011, the City of Vernon, overcame investor concerns in early 2012 with the sale of $74 million in revenue bonds. The City, which lacks a population and residential tax base, overcame calls for disincorporation and agreed to several reforms that staved off potential job losses that might have resulted from disincorporation.

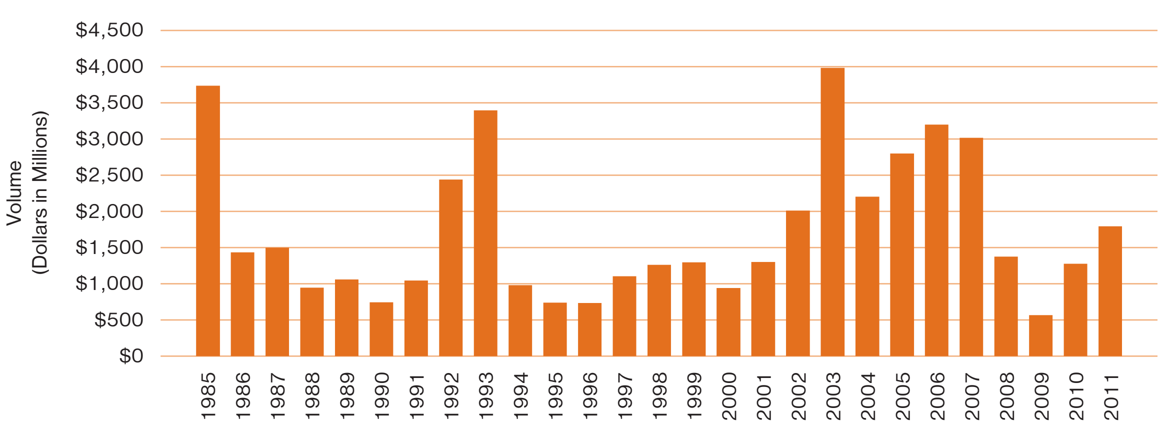
REDEVELOPMENT DEBT

On December 29, 2011, the California Supreme Court upheld AB 1x 26 that provided for the dissolution of the state's redevelopment agencies. According to the state's reading of the law, when the agencies are shut down, the money to pay debts would be put in a special fund and bondholders would get paid. In the FY 2011-12 budget, the state directed that the $5 billion received from redevelopment should go toward payments on the bond debt, leaving $1.7 billion to fund other state budget items.

CDIAC maintains a database of debt issuance that includes data going back to 1985 on the issuance of debt by public agencies in California. Between 1985 and 2011, redevelopment agencies issued $46.9 billion in debt. Issuance during this time period rose and fell with the real estate market (Figure 2). As assessed valuations rose, issuers had more opportunities to pledge tax revenues to tax allocation bonds.

Figure 2

REDEVELOPMENT AGENCY ANNUAL ISSUANCE, 1985-2011



Nearly 80 percent of the debt issued by redevelopment agencies was in the form of tax allocation bonds (Figure 3). A distant second was revenue bonds, accounting for little more than 11 percent of the total amount of debt issued by redevelopment agencies between 1985 and 2011. Other types of debt included certificates of participation, commercial paper, limited obligation bonds, or other revenue bonds.

Seventy-seven percent of the debt issued by redevelopment agencies was for redevelopment purposes (Figure 4). Seventeen percent was for housing and three percent for capital improvement and public works projects. Other purposes included interim financing, hospital and healthcare, education, and commercial and industrial development.

Tax increment was the predominant source of repayment for debt issued by redevelopment agencies with private obligor payments representing the other major source (Figure 5). Other sources of repayment included bond proceeds, tax revenues, special assessment, or the general fund of another local agency.

Debt Issued with a Pledge of Tax Increment Revenues

One of the complexities that emerged with respect to the dissolution of redevelopment agencies was the relationship between tax increment funds and debt issued by agencies other than redevelopment agencies. Prior to the dissolution of redevelopment agencies, local governments often collaborated on projects that pledged tax increment to projects carried out by non-redevelopment agencies. Some or all of this debt issued was repaid from tax increment revenues.

The total volume of debt issued from 1985 to 2011 that included tax increment as a repayment source was $73.2 billion. This compares to the volume issued by redevelopment agencies exclusively during this same period of $46.9 billion. The difference results from adding debt issued by

Figure 3

TOTAL REDEVELOPMENT DEBT ISSUED
BY TYPE OF DEBT, 1985-2011

DEBT TYPE	TOTAL	PERCENT
Tax Allocation Bonds	$36,939	78.8%
Conduit Revenue Bonds	5,583	11.9
Notes	1,903	4.1
Other	2,476	5.3
TOTAL	$46,902	100.0%

Figure 4

TOTAL REDEVELOPMENT ISSUED
BY PURPOSE, 1985-2011

PURPOSE DESCRIPTION	TOTAL	PERCENT
Redevelopment	$36,313	77.4%
Housing	8,091	17.3
Capital Improvements and Public Works	1,565	3.3
Other	933	2.0
TOTAL	$46,902	100.0%

Figure 5

TOTAL REDEVELOPMENT DEBT ISSUED
BY SOURCE OF REPAYMENT, 1985-2011

SOURCE OF REPAYMENT	TOTAL	PERCENT
Tax Increment	$38,681	82.5%
Private Obligor Payments	5,693	12.1
Other	2,528	5.4
TOTAL	$46,902	100.0%

redevelopment agencies to debt issued by other agencies repaid wholly or in part from tax increment revenues.

It is important to note that some charter cities and legislatively created authorities such as the California State University Channel Island Site Authority have the power to collect property tax revenues in the form of tax increment. But in general, access to tax increment revenue is limited to redevelopment agencies. In our analysis we make the assumption that the use of tax increment revenues implies the involvement of a redevelopment agency. When tax increment was used to repay debt it was used exclusive of any other source of funds in nearly all debt repaid from tax increment. Ninety-nine percent of the debt serviced by tax increment was paid exclusively by this source of revenues. The balance was paid by a mix of tax increment and other funds, including bond proceeds, general fund, local obligations, public enterprise revenues, property tax revenues, and sales and special tax revenues.

Redevelopment agencies represented just 53 percent of those issuers who issued bonds secured wholly or in part by tax increment revenue. The remaining 47 percent was composed of joint power authorities (20 percent) and cities and counties (18.5 percent). Education, water, utility, and other issuers made up the remaining nine percent.

The proportion of bonds using tax increment revenues as a repayment source changed once the debt of non-redevelopment agencies was added to the total. For example, tax allocation bonds, which represented nearly 80 percent of the bonds issued by redevelopment agencies fell to 60 percent of the total volume of all agency debt repaid in part or whole by tax increment. The relative shift in the proportion of bond types in Figure 3 versus those in Figure 7 suggests that certificates of participation, notes, and other revenue bonds were the debt structure of choice issued by non-redevelopment agencies when tax increment was a pledged source of repayment in addition to other revenues. Other types of debt included limited tax obligation bonds, commercial paper, and general obligation bonds.

Likewise, the distribution of purposes for which debt was issued by agencies using tax increment to partially or wholly repay their obligations changed from the distribution of debt issued by redevelopment agencies. Housing, as a purpose for which debt was secured in part or whole by tax increments, ranked fourth behind redevelopment, capital improvement and public works, and interim financing. Tax increment as used by these agencies was used to support more capital projects and interim financings by these agencies than by redevelopment agencies using this same revenue source. Other purposes included hospital

Figure 6

TOTAL TAX INCREMENT DEBT ISSUED
BY ISSUER TYPE, 1985-2011

ISSUER DESCRIPTION	TOTAL	PERCENT
Redevelopment Agency	$38,832	53.1%
JPA/Marks-Roos	14,604	20.0
City/County/ City&County	13,532	18.5
Education	1,567	2.1
Utility District	1,122	1.5
Water Agency/District	622	0.8
Other	2,903	4.0
TOTAL	$73,182	100.0%

Figure 7

TOTAL TAX INCREMENT DEBT ISSUED
BY TYPE OF DEBT, 1985-2011

DEBT TYPE	TOTAL	PERCENT
Tax Allocation Bonds	$43,554	59.5%
Other Revenue bonds	9,101	12.4
Notes	7,726	10.6
Certificates of Participation/Leases	4,688	6.4
Conduit Revenue Bonds	2,424	3.3
Other	5,689	7.8
TOTAL	$73,182	100.0%

Figure 8

TOTAL TAX INCREMENT DEBT ISSUED BY PURPOSE, 1985-2011

PURPOSE DESCRIPTION	TOTAL	PERCENT
Redevelopment	$45,215	61.8%
Capital Improvements and Public Works	13,531	18.5
Interim Financing	6,286	8.6
Housing	4,628	6.3
Other	3,521	4.8
TOTAL	$73,182	100.0%

and healthcare, commercial and industrial development, and education.

Outstanding Redevelopment Debt

CDIAC database contains information received from public agencies both at the time the legislative body proposes to sell debt and upon the actual sale of that debt. The information is not updated subsequent to receipt of a Report of Final Sale, except in the case of special tax bonds issued by community facilities districts and assessment bonds issued by an assessment district. California statutes require certain issuers of these types of bonds to provide an annual financial report including such things as total outstanding debt and the balance of reserve funds. For other types of bonds, CDIAC does not collect or maintain outstanding debt information.

AB 1x 26, which provides for the dissolution of redevelopment agencies, requires that tax increment revenues that had been pledged to enforceable obligations, including debt service on bonds, continue to be used for those purposes. This provision naturally resulted in questions from a variety of sources about the outstanding debt held by redevelopment agencies and the blend of funds pledged to repay it. To provide some initial understanding of outstanding redevelopment debt CDIAC contacted a third-party private data vendor, CalMuni, who tracks local agency debt. We report this information here acknowledging that we cannot verify the accuracy of the data provided to CDIAC. However, having assessed the compilation and administration procedures used by CalMuni to gather the data, CDIAC believes it to have value to policy and financial analysts.

With the passage of AB 1x 26, redevelopment agencies were prohibited from entering into new financial arrangements, including contracts or loans. As a result it was possible to fix the total debt outstanding to redevelopment agencies using June 29, 2011 as the end date for such transactions. At that time redevelopment agencies had 1,670 bonds outstanding with an estimated value of $23.4 billion. Of that amount, $22.6 billion was in the form of tax allocation bonds (1, 603 bond issues), $557.8 million in the form of Mark-Roos revenue bonds (58 bond issues), $85.9 million in miscellaneous revenue bonds (3 bond issues), $37.4 million in general obligation bond (2 bond issues), $37.3 million in the form of Mello-Roos bonds (3 bond issues), and $24.2 million in bond anticipation notes (1 bond issue).

As one would expect, the date of issue corresponds to the interest rates on the bonds. The oldest bond issue outstanding dates from December 1985 and maintains a fixed interest rate of 9.1 percent. The average minimum rate charged for the 1,630 issues was 4.851 percent while the average maximum rate was 5.589 percent.

STATE AND LOCAL BOND ISSUANCE

In 2011, state and local issuers in California issued $57.6 billion in debt – 36.3 percent lower than the amount issued in 2010 (Figure 9).[4, 5] The number of debt transactions decreased nearly 8 percent from 1,629 in 2010 to 1,498 in 2011. Bond issuance in 2011, which dropped noticeably from 2010, is at the second lowest level in the decade between 2001 and 2011 (Figure 10). The decrease in state and local debt issuance could be attributed to the expiration of Build America Bonds program, which ended in 2010.[6]

Figure 9

DOLLAR VOLUME AND NUMBER OF CALIFORNIA PUBLIC ISSUANCE BY TYPE OF ISSUER, 2010 AND 2011, DOLLARS IN MILLIONS*

ISSUER TYPE	2010		2011		PERCENT CHANGE IN VOLUME FROM 2010 TO 2011
	VOLUME	NUMBER	VOLUME	NUMBER	
City and County Government	$3,580	27	$2,277	20	-36.4%
City Government	8,885	131	5,348	99	-39.8
County Government	4,666	47	3,539	39	-24.2
Joint Powers Agency	11,130	349	4,869	260	-56.3
K-12 School District	9,385	555	8,311	594	-11.4
Other Issuer	14,995	337	9,220	339	-38.5
State Issuer	37,819	183	24,078	147	-36.3
TOTAL	$90,459	1,629	$57,641	1,498	-36.3%

*Totals may not add due to rounding.

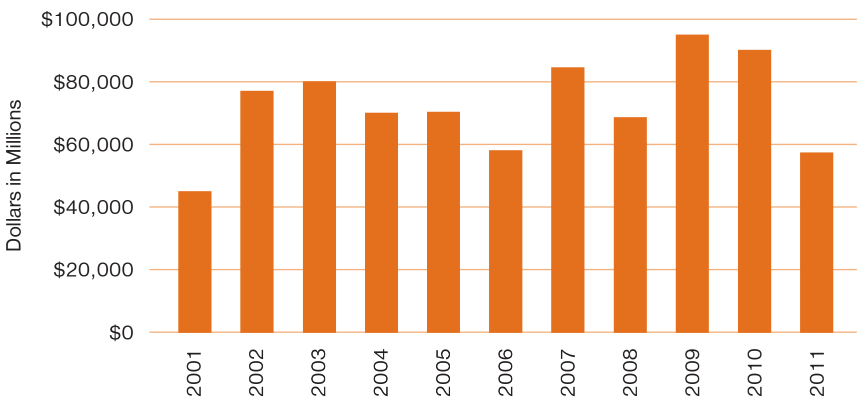
4 Total includes short-term and long-term debt.

5 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.

6 Scott Pattison and Michael Streepey, *Municipal Bonds in 2011: An Update on State and Local Borrowing* (National Association of State Budget Officers, 23 November 2011) 1.

Figure 10

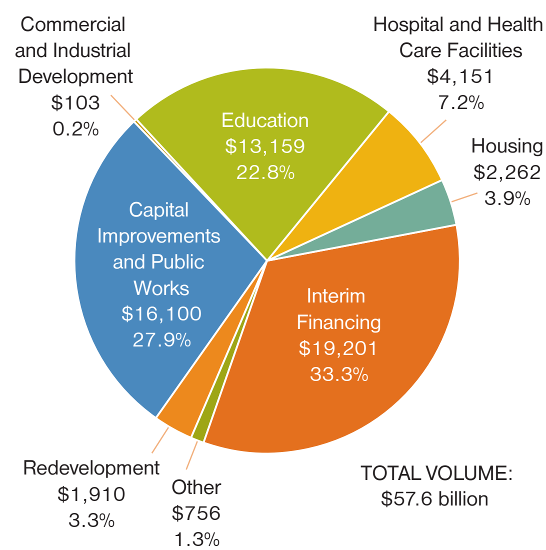
CALIFORNIA PUBLIC ISSUANCE, TOTAL PAR AMOUNT
BY CALENDAR YEAR, 2001-2011



Approximately 33 percent of the debt issued by state and local agencies was issued for interim financing (Figure 11). Nearly 28 percent was used for capital improvements and public works and almost 23 percent for education. All other uses accounted for almost 16 percent of the total debt issued in 2011.

Figure 11

CALIFORNIA PUBLIC ISSUANCE
BY PURPOSE, 2011 (DOLLARS IN MILLIONS)



Debt issued for capital improvements and public works decreased by 56 percent between 2010 and 2011 (Figure 12). Other purposes for which debt issuance declined during this period were commerical and industrial development (92 percent decline), interim financing (26 percent decline), housing (24 percent decline), education (23 percent decline), and hospital and health care facilities (13 percent decline). Redevelopment and "other" projects are the only categories for which issuance increased (83 percent and 26 percent, respectively).[7]

LONG-TERM DEBT VS. SHORT-TERM DEBT ISSUANCE

In 2011, public agencies collectively issued $38.4 billion in long-term debt – approximately 67 percent of total issuance activity for the year (Figure 13). The remaining $19.3 billion was issued

[7] "Other" projects include pensions, economic recovery, and working capital.

Figure 12

CALIFORNIA PUBLIC ISSUANCE BY PURPOSE, 2010 AND 2011

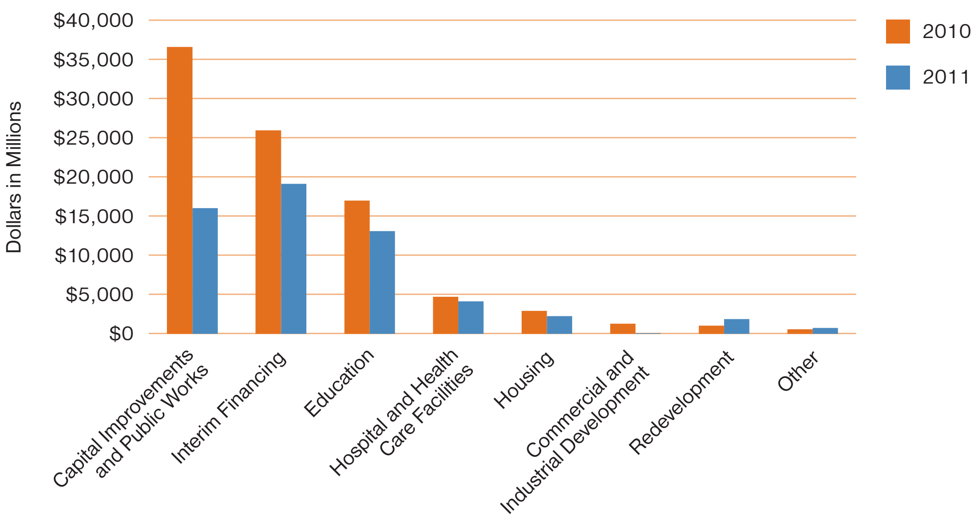
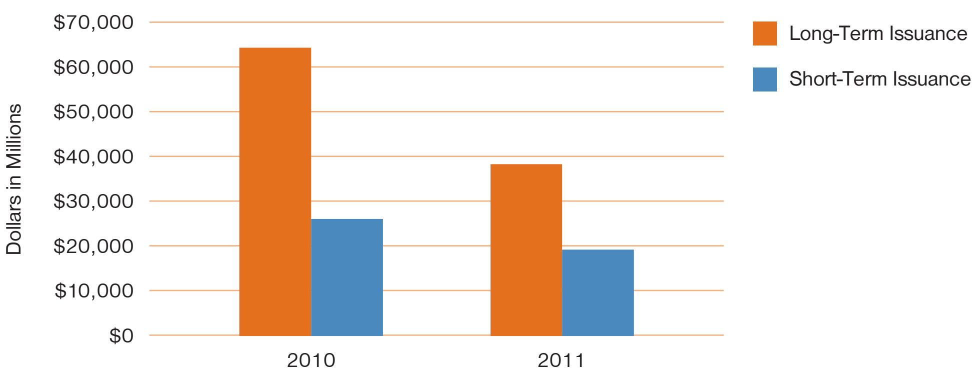


Figure 13

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF LONG-TERM AND SHORT-TERM DEBT, 2010 AND 2011



as short-term debt instruments, maturing in 18 months or less.[8] Total long-term debt issuance fell by approximately 40 percent from 2010 to 2011, and short-term issuance decreased by 26 percent.

In 2011, long-term issuance consisted primarily of general obligation bonds, public enterprise revenue bonds, and conduit revenue bonds. Special assessment bonds, pension obligation bonds, limited tax obligation bonds, revenue bonds, and tax allocation bonds increased in relation to 2010.

Short-term issuance also decreased in 2011 (26.2 percent). Short-term instruments that experienced a decline in issuance are bond anticipation notes (73 percent), notes issued for other purpos-

[8] 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.

es (66 percent), commercial paper (53 percent), revenue anticipation notes (35 percent), and tax and revenue anticipation notes (2 percent). Although agencies issued short-term conduit revenue bonds in 2010, none were issued in 2011.

NEW MONEY ISSUES VS. REFUNDINGS

While new money volume substantially decreased almost 47 percent from 2010 to 2011, refundings increased 6 percent (Figure 14). The increase in refundings, a trend experienced by municipalities nationally as well as in California, might be attributed to low interest rates.[9]

As expected, the largest metropolitan counties issued the greatest volume of debt in 2011. Much of the debt issued by these counties was to refund prior debt. For example, Los Angeles County issued $7.9 billion in debt, of which nearly 37 percent was refunding debt. The City and County of San Francisco issued $2.6 billion in debt; $1.4 billion or 55.2 percent was issued to refund outstanding debt. Across all local agencies, 67.3 percent of the debt issued in 2011 was new debt and 32.7 percent was issued to refund existing debt.

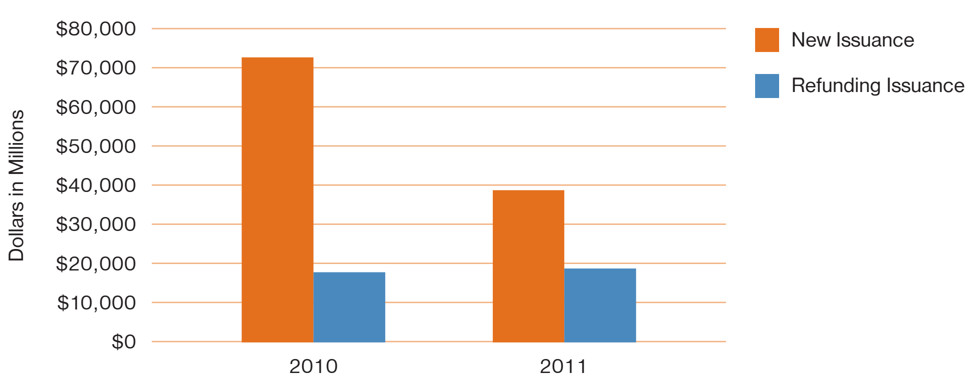
COMPETITIVE VS. NEGOTIATED TRANSACTIONS

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, 94 percent of debt sales by volume in 2011 were negotiated sales. The trend over time has favored negotiated sales over a competitive sales approach (Figure 15).

When considering the choice of sales methods, all issuers preferred a negotiated sale, except the City and County of San Francisco, which balanced negotiated (49.6 percent) and competitive (50.4 percent) approaches in the sale of their bonds (Figure 16). State of California issuers, redevelopment agencies, and utility districts conducted all negotiated sales. 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

Figure 14

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF NEW AND REFUNDING ISSUANCE, 2010 AND 2011



[9] Scott Pattison and Michael Streepey, *Municipal Bonds in 2011: An Update on State and Local Borrowing* (National Association of State Budget Officers, 23 November 2011) 1.

Figure 15

CALIFORNIA PUBLIC ISSUANCE
COMPETITIVE AND NEGOTIATED FINANCINGS, 2001-2011

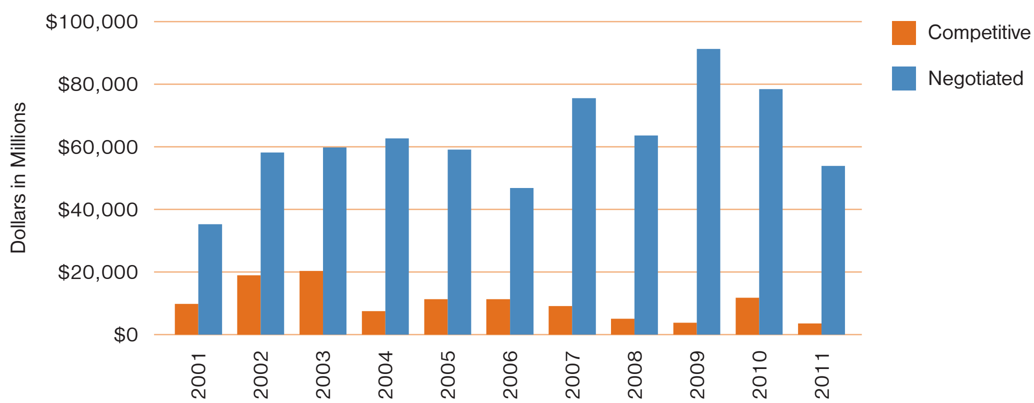
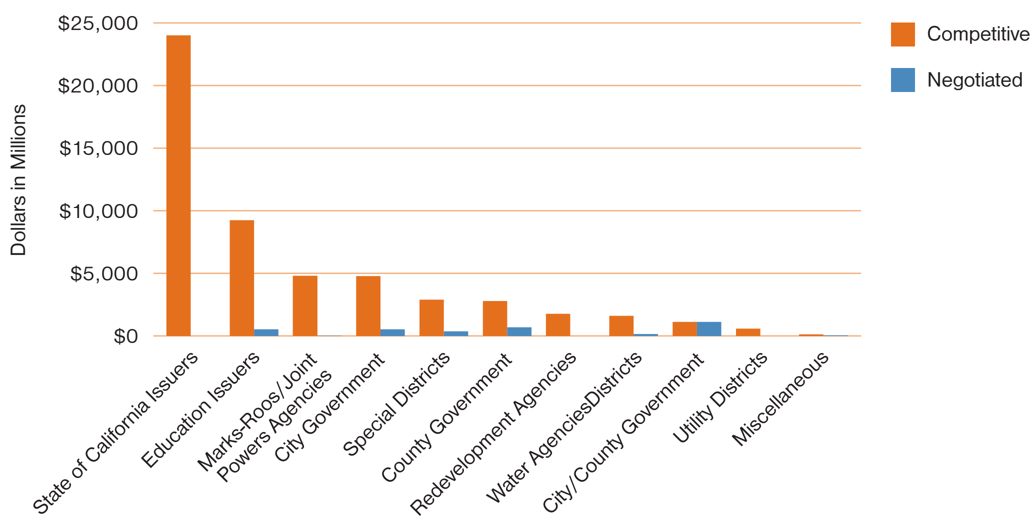


Figure 16

CALIFORNIA PUBLIC ISSUANCE
COMPETITIVE AND NEGOTIATED FINANCINGS, 2001-2011



instrument may justify the use of a negotiated sales method. Unique or complicated financings tend to be sold using negotiated sales.

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 projects 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 2010; however, the expiration of that program possibly contributed to the decline in issuance in 2011. The percentage of taxable issuance in 2011 decreased from 31 percent in 2010 to almost 9 percent in 2011 (Figure 17).

CREDIT ENHANCEMENTS

Figure 18 illustrates the comparison of enhanced debt to total volume in 2010 and 2011. In recent years, the volume of debt issued with a credit enhancement began to decline. However, between 2010 and 2011, the ratio of enhanced volume to total volume increased from 8.5 percent in 2010 to 9.9 percent in 2011. Credit enhancements for public enterprise revenue bonds, conduit revenue bonds and certificates of participation/leases continued to decline between 2010 and 2011, but the percent of credit enhancements for general obligation bonds more than doubled from 1.6 percent in 2010 to 3.3 percent in 2011.

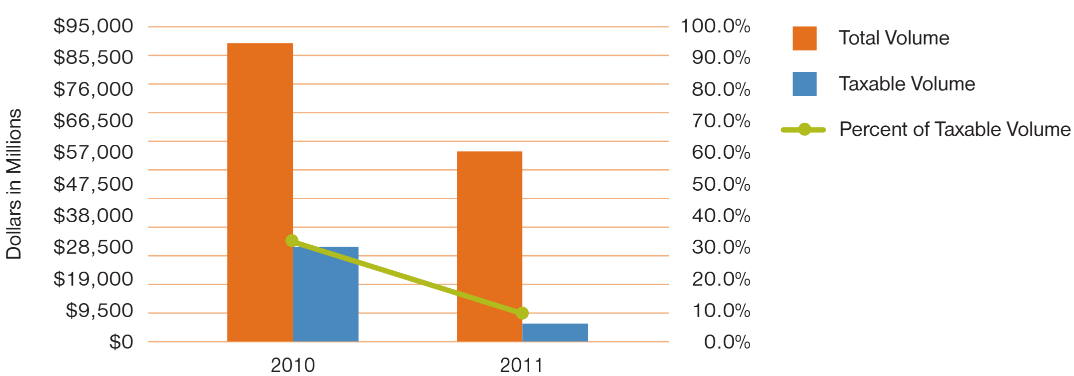
STATE DEBT ISSUANCE IN 2011

In 2011, the State of California issuers sold $20.2 billion in debt, of which approximately $9.4 billion was in the form of long-term debt and $10.8 billion in short-term notes.[10] State issuance accounted for approximately 35 percent of all debt issued by public agencies in California.

Between 2010 and 2011, the issuance of revenue anticipation notes (RAN), general obligation bonds, and revenue bonds by State entities decreased (Figure 19). However, the issuance of certificates of participation/leases increased.

Figure 17

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF TOTAL VOLUME TO TAXABLE FINANCINGS, 2010 AND 2011



[10] 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.

Figure 18

CALIFORNIA PUBLIC ISSUANCE
COMPARISON OF TOTAL VOLUME TO ENHANCED VOLUME, 2010 AND 2011

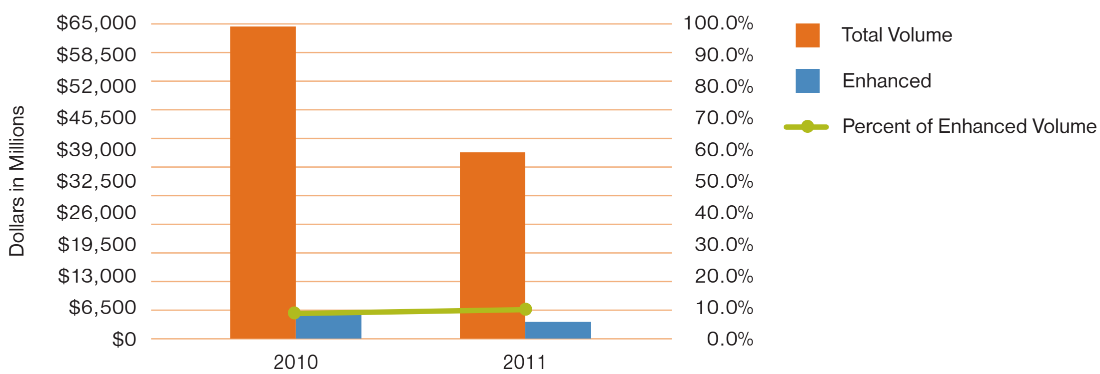
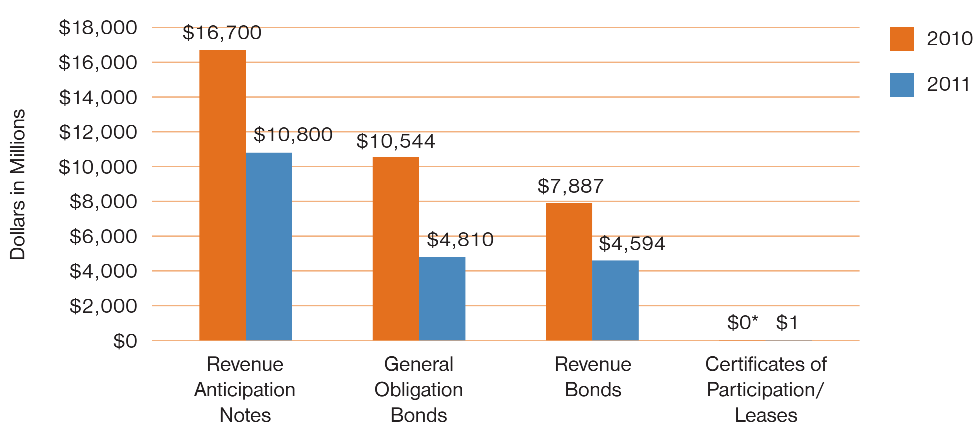


Figure 19

VOLUME OF STATE DEBT ISSUANCE, 2010 AND 2011



* Actual volume: $339,614

Between 2010 and 2011, state issuance decreased for interim financing (35.3 percent decline), capital improvements and public works (65 percent decline), housing (96.5 percent decline), and hospital and health care facilities (91.4 percent decline) (Figure 20). Although state issuance for education decreased, the 6.2 percent decline was minimal compared to the other purposes. "Other" is the only category that experienced an increase as there was no issuance in this category in 2010.[11]

OTHER STATE ISSUERS AND CONDUIT ISSUANCE IN 2010

Issuance by state instrumentalities, including conduit bond issuers, comprised nearly 6.7 percent ($3.9 billion) of all public agency issuance in 2011.[12] Only the issuance of conduit revenue bonds by state instrumentalities and conduits increased between 2010 and 2011 (Figure 21). Issuance of other revenue bonds, other notes, and short-term debt, consisting of RANs, by these entities decreased between 2010 and 2011.

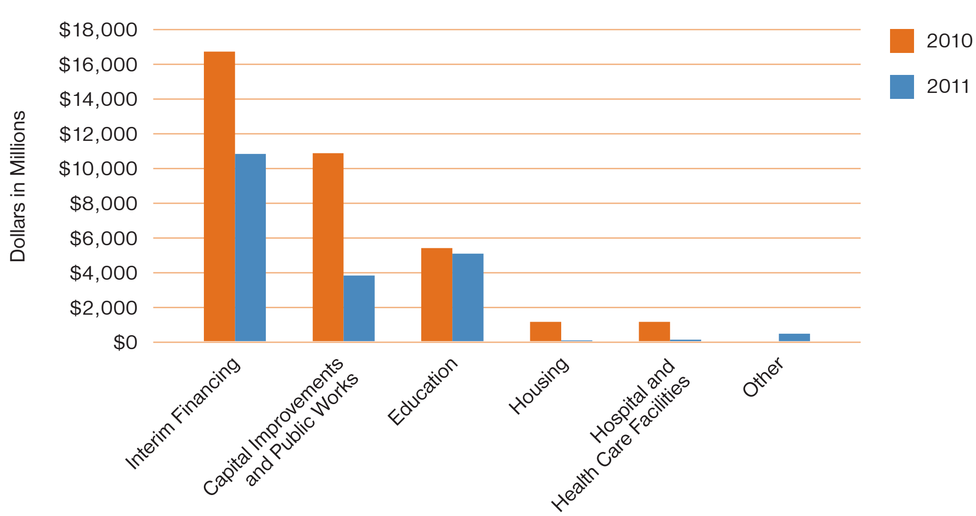
Between 2010 and 2011, state conduit bond issuance for hospital and health care facilities tripled and capital improvements and public works increased by more than 12 times (Figure 22). Conversely, issuance for education, commercial and industrial development, and interim financing all decreased.

STUDENT LOAN FINANCE CORPORATION ISSUANCE IN 2011

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.[13] CDIAC typically re-

Figure 20

STATE DEBT ISSUANCE BY PURPOSE, 2010 AND 2011



[11] "Other" purposes include economic recovery and insurance and pension funds.

[12] 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.

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

Figure 21

VOLUME OF CONDUIT STATE DEBT ISSUANCE, 2010 AND 2011

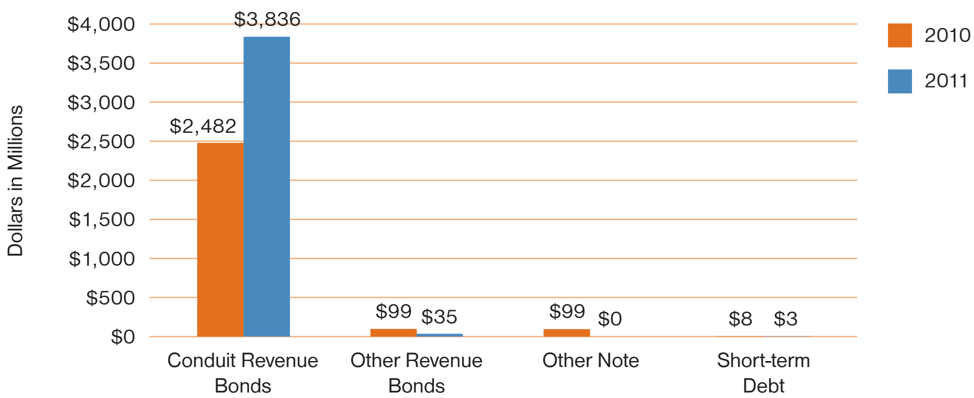
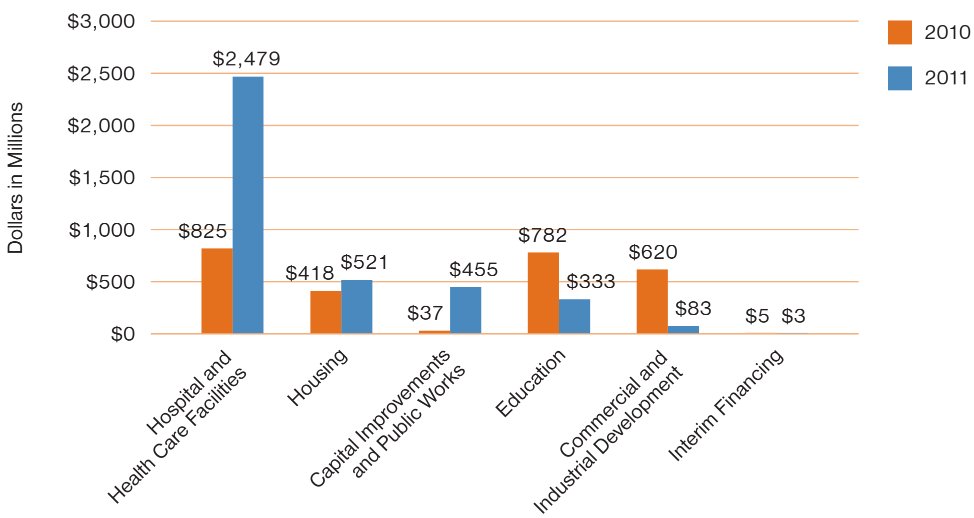


Figure 22

CONDUIT STATE DEBT ISSUANCE BY PURPOSE, 2010 AND 2011



ceives filings from three classifications of student loan entities: private corporations, non-profit corporations and the California Education Facilities Authority (CEFA); however, there was no student loan issuance activity in 2011.

LOCAL DEBT ISSUANCE IN 2011

In calendar year 2011, local agencies collectively issued $33.6 billion in short- and long-term debt, a 35.7 percent decrease from 2010. Among long-term bonds, local agencies decreased their issuance of all types of debt in 2011 except other forms of bonds (Figure 23). Among short-term instruments, only the issuance of other forms of notes increased between 2010 and 2011.

Between 2010 and 2011, local agencies decreased the use of debt for all purposes except housing and redevelopment (Figure 24).

Figure 23

VOLUME OF LOCAL AGENCY BOND ISSUANCE, BY DEBT TYPE, 2010 AND 2011

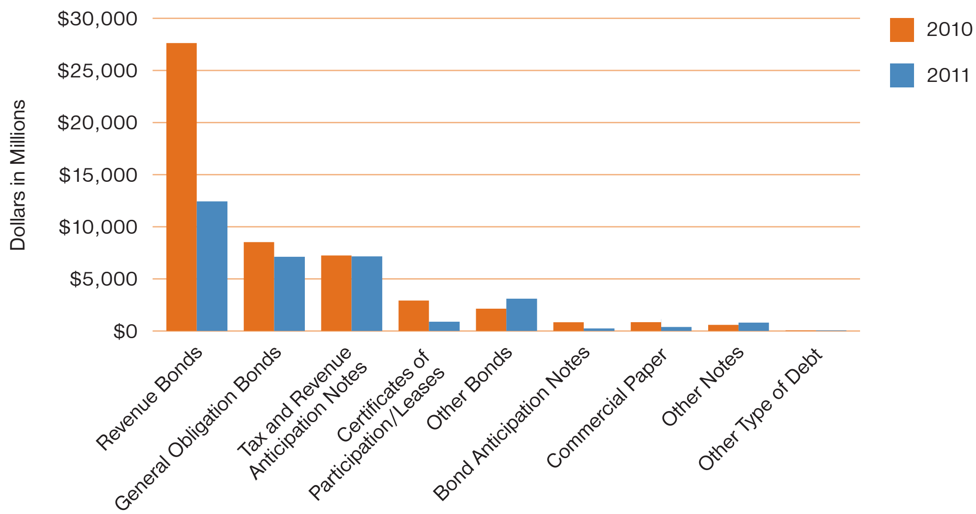
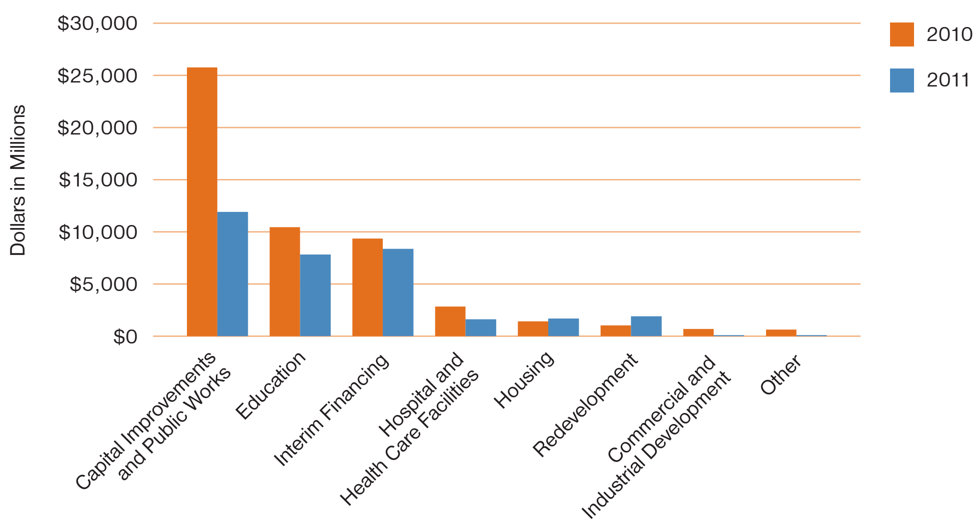


Figure 24

VOLUME OF LOCAL AGENCY ISSUANCE, BY PURPOSE, 2010 AND 2011



DATA COLLECTION AND ANALYSIS UNIT

2011 REPORT OF OPERATIONS

In compliance with its statutory requirements, CDIAC maintains a debt issuance database, which is considered the most comprehensive and accessible database of California public debt issuance in existence. Data from these reports are the basis for the debt statistics and analysis released by CDIAC.

Data Collection

Data collected at the time of issuance as well as annual fiscal status reports for Mello-Roos and Mark-Roos bonds are maintained in CDIAC's Debt Issuance Database (Database), a portion of which can be accessed on CDIAC's website.[14] The Database contains information from 1984 to the present and is updated on a daily basis by Data Unit staff. As of December 31, 2011, the Database contained more than 46,000 records.

For calendar year 2011, the Data Unit received and processed 5,315 reports including Reports of Proposed Debt Issuance (RPDIs)[15], Reports of Final Sale (RFSs)[16], Marks-Roos Yearly Fiscal Status Reports (MKR YFS), Mello-Roos Yearly Fiscal Status Reports (MLR YFS), and Mello-Roos/Marks-Roos Draw on Reserve/Default Filings (DFD). Figure 25 contains a breakdown of the reports processed by the Data Unit during calendar year 2011.

Figure 25

REPORTS PROCESSED CALENDAR YEAR 2011

TYPE OF REPORT	TOTAL
Reports of Proposed Debt Issuance	1,405
Reports of Final Sale	1,537
Mello-Roos Yearly Fiscal Status Reports	1,194
Marks-Roos Yearly Fiscal Status Reports	1,145
Mello-Roos/Marks-Roos Draw on Reserve/ Default/Replenishment Filings	33

[14] The Data Unit receives annual fiscal status reports for Mello-Roos and Marks-Roos bonds issued after January 1, 1993 and January 1, 1996, respectively.

[15] Per Government Code Section 8855(i) issuers of proposed new debt must give notice no later than 30 days prior to the sale date.

[16] Per Government Code Section 8855(j) issuers must submit reports of final sale no later than 45 days after the signing of the bond purchase agreement or acceptance of bid.

Since 2008, the Data Unit has been transitioning to electronic submission of data and reports. Electronic submission enhances data collection efficiencies and helps to ensure reporting accuracy. Currently, public agency issuers can submit reports using CDIAC's web-based forms, by email, or traditional mail.

2011 on-line submission of RPDIs accounted for 39 percent of all submissions, an increase from 24 percent in 2010. Fifty-six percent of the 1,405 RPDIs received for the year were sent in hardcopy form by mail–these reports must be entered manually by staff. CDIAC continues to explore ways to increase online submissions, including conducting customer outreach to determine the reasons for hardcopy submissions and resolve any issues that may be impeding the use of online forms.

Figure 26 displays the methods used to submit RPDIs in 2011.

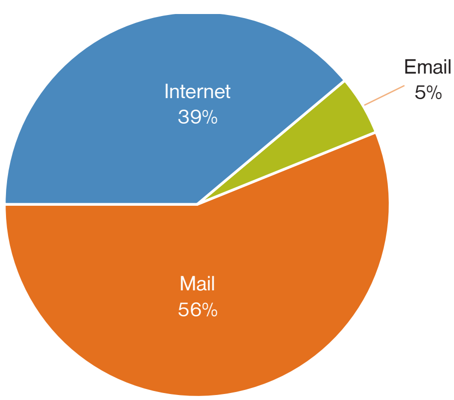
When all types of CDIAC reports are considered, the ratio of type of submission changes dramatically. Approximately 72 percent of all reports are submitted using CDIAC's online forms (Figure 27). Reports received by traditional mail drops to 24 percent.[17] In the coming year, CDIAC hopes to automate the submission of Tax and Revenue Anticipation Note (TRAN) Pools. Electronic submission of these reports should greatly increase the online submission rate.

Debt Issuance Fees

A critical function of the Data Unit is the collection of CDIAC debt issuance fees, the main revenue source through which CDIAC funds its operation. CDIAC's reporting fees are assessed based on the amount of principal issued, the length of maturity (long-term versus short-term), and the type of issuance. In general, the reporting fee for short-term maturities (18 months or less) is $150 and for long-term maturities (greater than 18 months) the fee is equal to 1.5 basis points (0.00015) not to

Figure 26

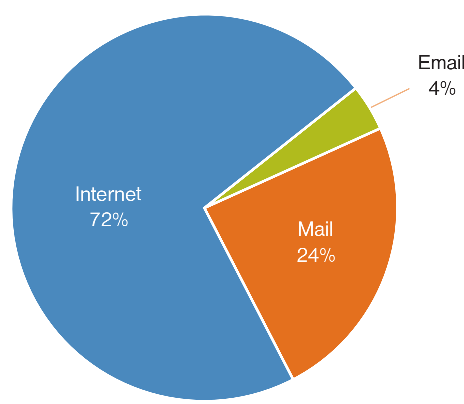
STATE AND LOCAL ISSUANCE
METHODS OF SUBMITTAL, RPDIs
JANUARY 1, 2011 - DECEMBER 31, 2011



TOTAL REPORTS RECEIVED: 1405

Figure 27

STATE AND LOCAL ISSUANCE
METHODS OF SUBMITTAL, ALL REPORTS*
JANUARY 1, 2011 - DECEMBER 31, 2011



TOTAL REPORTS RECEIVED: 3776

* Excludes Reports of Final Sale.

[17] Because each CDIAC issuance only shows one method of delivery, we cannot determine an accurate count of delivery methods of RPDIs versus RFSs. Only the method of submittal for RPDIs is reflected in the Database.

Figure 28

FEES ASSESSED IN CALENDAR YEAR 2011
STATE VS. LOCAL

	FEES ASSESSED	# OF INVOICES
STATE		
Long-Term Debt	$147,546	73
Short-Term Debt	1,800	14
LOCAL		
Long-Term Debt	$1,564,646	836
Short-Term Debt	48,600	147
TOTAL	$1,762,591	1070

exceed $3,000. A detailed fee schedule is available on CDAIC's website.[18]

For 2011 the Data Unit issued 1,070 invoices totaling approximately $1.8 million. Of these, six were cancelled and one remains uncollected. Figure 28 reflects the breakdown of fees assessed for state and local agencies in 2011.

Public Access to Data

CDIAC makes available the information submitted by public agencies through the CDIAC website. Users may access data in a variety of forms, including:

ONLINE TABLES. The Data Unit posts monthly California state and local debt issuance data to CDIAC's website in the form of tables. Data is summarized by year and the type of debt issued or the purpose for which it was issued.

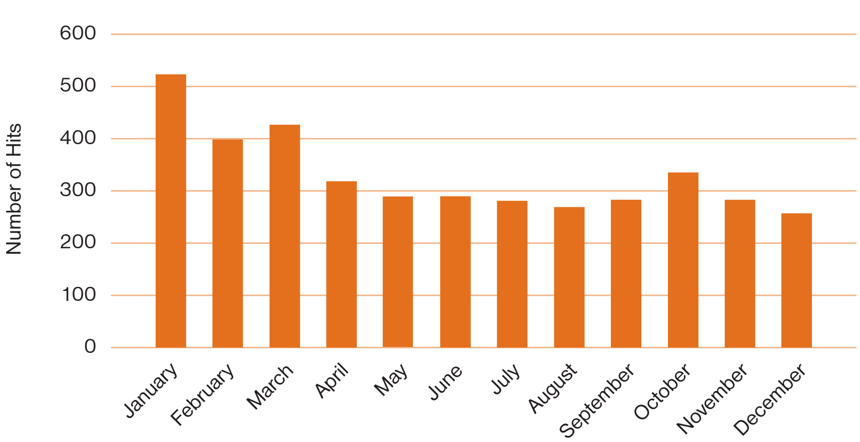
SEARCHABLE DATABASE. State and local debt issuance data is available through a searchable database that contains information from 1984 through the present on all debt issuance reported to CDIAC. The online database was accessed more than 3,900 times during 2011.

Figure 29 displays the number of "hits" or inquiries the online searchable database received during 2011.

REPORTS. CDIAC publishes a number of summary reports using data reported through the year. The Marks-Roos and Mello-Roos Yearly Fiscal Status Reports received by the Data Unit during the fiscal year (July 1 through June 30) are the basis for CDIAC's Marks-Roos Yearly Fiscal Status Report and

Figure 29

ON-LINE DATABASE ACTIVITY, CALENDAR YEAR 2011



[18] Long-term maturities are issues for which the length of final maturity is greater than 18 months. Short-term maturities are issues for which the length of final maturity is 18 months or less.

the Mello-Roos Community Facility District Yearly Fiscal Status Report.[19] The Marks-Roos Bond Pooling Act Participants Yearly Fiscal Status Report was last produced for fiscal year 2001-2002. Staff is currently compiling and verifying data for the intervening fiscal years and expects to post the reports to the CDIAC website in the summer of 2012. Staff is currently reviewing and verifying the Mello-Roos Community Facilities District Yearly Fiscal Status Reports, covering the period of July 1, 2009 through June 30, 2010 and July 1, 2010 through June 30, 2011 and expects to post these report in the coming months.

Yearly data is summarized in three report forms:

1. CALENDAR OF PUBLIC DEBT ISSUANCE. This annual report lists details of each public debt bond issue sold in California. Each listing includes the name of the issuer, the county, the type and purpose of the issue, the date of the sale, the principal amount of the bonds, and whether or not the issue is a refunding. Each listing also shows the interest rate, the rating, credit enhancement information, the final maturity date, and the major participants in the financings. The report is organized chronologically by issuer, beginning with the State of California and its departments and agencies, then local agencies (further sorted by county, agencies within counties, and by the sale date of the issue) and student loan corporations.

2. SUMMARY OF CALIFORNIA PUBLIC DEBT ISSUANCE. This annual report provides aggregate summary information by issuer on major components of debt, such as long-term and short-term debt, tax-exempt and taxable debt, and refunding existing indebtedness. The value of this report for financing professionals and policymakers lies in its ability to answer questions concerning who issues the debt, how the debt is issued, and for what purpose it was issued.

3. ANNUAL REPORT. CDIAC's Annual Report provides more global analyses (as opposed to the "by issuer" structure of the previous two reports) of public debt issued in California for the calendar year. The analyses include comparisons to previous years' debt issuance levels; categories of issuance (such as, purpose of debt, competitive and negotiated, credit enhanced debt); and displays California's Mello-Roos and Marks-Roos issues, purpose, and defaults and draws on reserves. (Mello-Roos and Marks-Roos are California's financing mechanisms for specified public improvements.)

Other Projects

ELECTRONIC FILE STORAGE. In late 2009 the Data Unit began a project to reduce the amount of paper files stored on site by systematically reviewing, digitizing, and electronically storing all on-site paper files. As of December 31, 2011, the Data Unit had completed scanning all of the 2008 files and begun scanning the 2009 files.

MARKS-ROOS YEARLY FISCAL STATUS REPORTING. In 2011 the Data Unit completed a comprehensive review of the Marks-Roos reporting statute to determine if CDIAC's Data Unit staff was capturing all the reports required to be submitted by issuers of bonds under the Marks-Roos Bond Pooling Act. After review of the bond documents of more than 1,000 issues, staff discovered that due to a previous interpretation of the statute, many issuers had not been required to report.[20] CDIAC updated its reporting procedure, online reporting instructions, and developed a new reporting form (the *Marks-Roos*

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[19] Pursuant to Government Code Sections 6599.1(b) and 53359.5(b) issuers of Mark-Roos (after January 1, 1996) and Mello-Roos (after January 1, 1993) bonds must submit Yearly Fiscal Status Reports to CDIAC.

[20] Pursuant to Government Code Sections 6599.1(b) issuers of Mark-Roos (after January 1, 1996) bonds must submit Yearly Fiscal Status Reports to CDIAC.

Yearly Fiscal Status Report for Loan Obligations), and sent out several hundred letters to submitters alerting them to the reporting obligations. CDIAC expects that the new reporting form, which is currently available in hardcopy format only, will be available for electronic submission for the next reporting cycle.

DATABASE AND REPORTING FORMS UPDATES–DRAW ON RESERVE/DEFAULT/REPLENISHMENT. Issuers of Mello-Roos and Marks-Roos bonds are required to notify CDIAC within ten days of any draw on reserve to pay debt service or any default.[21] While reviewing reports draws on reserves and defaults on the MSRB's Electronic Municipal Market Access (EMMA) website, Data Unit staff noticed that issuers were also posting notices of replenishment of draws on reserve. We revised our Draw on Reserve/Default report to give issuers the opportunity to voluntarily report these events to CDIAC. The new Draw on Reserve/Default/Replenishment form is currently available on our website as a mail-in form.[22]

DATABASE AND REPORTING FORMS UPDATE–REPORT OF FINAL SALE. CDIAC uses the date of the signing of the bond purchase contract or the acceptance of a bid as the "actual sale date" in our database.[23] This date is requested on our Report of Final Sale (RFS). When researching bond issuances using other sources, the "dated date" (the date interest begins to accrue) is normally used to identify an issue. To assist users of our online searchable database in correctly identifying bond sales, the Data Unit has added "dated date" as a field in our database. We are now requesting issuers to provide both the actual sale date and the dated date on our RFS. In addition, we are now requesting both true interest costs and net interest costs for all fixed rate debt.

Another addition to our RFS is the "Private Placement" field. With the increase of direct-purchase deals (private placements), CDIAC wanted to be able to immediately identify these issues. We are now asking that issuers supply this information.

These new fields are currently available on our website on the mail-in RFS. The online form is currently being updated to reflect the changes.

CAPTURING PROCESS EFFICIENCIES. The Data Unit continues to work with the State Treasurer's Office Information Technology Division (IT) to enable issuers to easily submit data to CDIAC via the Internet. Although our online submission rate has increased from twenty-four percent to thirty-nine percent, we are far from our goal of a ninety-five percent online submission rate. The more issuers using the Internet to submit debt reports, the less manual manipulation of the data is required to be performed by CDIAC staff. Working with IT and our online submitters, we have been able to identify and resolve many issues encountered by filers when submitting and printing our reports. We are concentrating on two main goals for the remainder of this year:

1. Incorporating the new data fields into the online reporting form and,

2. Formatting the new Marks-Roos Yearly Fiscal Status Report for Loan Obligations as an online form for the next reporting period.

If these two goals can be accomplished, our online submission rate should greatly increase.

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21 Pursuant to Government Code Sections 6599.1(c) and 53359.5(c) issuers of Mark-Roos (after January 1, 1996) and Mello-Roos bonds must, regardless of when sold, must notify CDIAC within ten days if funds are withdrawn from a reserve fund or if issuer fails to pay principal and interest due on any scheduled payment date.

22 Located at: www.treasurer.ca.gov/cdiac/reporting.asp.

23 Pursuant to Government Code Section 8855(j), this date is used to determine date of submittal of the report of final sale.

TECHNICAL ASSISTANCE. Data Unit staff responded to 54 requests for technical assistance during the year. The two most common requests were for cost of issuance data on fees paid to financing team members and information on the yearly fiscal status of Mello-Roos bonds. The Unit also had several requests for information on school district debt.

2012 OUTLOOK: DEBT ISSUANCE DATABASE REVIEW AND DEVELOPMENT PROJECT

CDIAC continues its comprehensive review of the Database begun in 2010, including outreach to determine, among other things, how CDIAC data is used and who uses it.

EDUCATION AND OUTREACH UNIT

2011 REPORT OF OPERATIONS

CDIAC's "core" programming, offered on an annual or biennial basis as described in Figure 30.

In 2011, CDIAC conducted 19 educational programs including seven "core" courses, three topical programs, five web-based trainings, and four co-sponsored seminars in locations throughout the state. CDIAC expanded its educational programming in 2011 to include web-based training –allowing attendees to participate in CDIAC educational opportunities from their personal work stations without having to incur travel costs. Offering web-based training was a method CDIAC used to counter low registration levels from 2010 that was attributed in part to limited public agency travel budgets.

CDIAC Seminar Programs

In addition to the "core" debt programs, CDIAC conducted two additional debt programs during 2011:

PRIVATE ACTIVITY BOND WORKSHOP. In Fall 2011, CDIAC held a one-day seminar on private activity bonds that provided an update on industry trends, best practices, and recent federal and state regulatory actions.

STATE CONTROLLER'S OFFICE DEBT FINANCE TRAINING. In Fall 2011, CDIAC held two one-day training sessions, Introduction to Debt Financing, for the State Controller's Office. The training covered bond concepts, roles and responsibilities of issuers and industry professionals, short- and long-term financing options, and marketing and pricing of bonds. The seminar was attended by the Division of Audits within the State Controller's Office and included participation by some Legislative staff.

Webinars

CDIAC introduced web-based training in 2011 with five webinars that augmented CDIAC's core seminar topics.

BOND MATH - PART 1: ANATOMY OF BONDS. In Fall 2011, CDIAC held the first installment of a two-part series on bond math. The webinar discussed components of a bond sizing, debt service amortization, gross and net debt service, basic bond structures, principal, interest, coupons and yields, true interest costs, and arbitrage. The session was designed to help issuers understand their future debt service costs as well as the output of the many pages of debt service "runs" that agencies receive from their financing team.

Figure 30

CDIAC'S CORE SEMINAR PROGRAMS

SEMINAR	DESCRIPTION
MUNICIPAL DEBT ESSENTIALS	CDIAC combined three individual core debt classes (each class was held over 1½ days) into *Municipal Debt Essentials* a 3-day seminar. Participants can attend a single day or a combination of days. *Day One: Debt Basics* provided municipal industry participants with the elements of debt financing, including an introduction to the bond market, the definitions of bond financing concepts, presentation of types of short and long-term financing options, a discussion of roles and responsibilities of issuers and consultants, the elements of issuance costs and initial disclosure to the market. (Formerly *Fundamentals of Debt Financing*) *Day Two: Accessing the Market* provided municipal industry participants with the elements and processes of selling to the market, including discussion of the concepts and measurement of debt capacity and affordability, the need for debt policies, the function of a plan of finance, sizing and debt structuring options, the importance of credit quality and ratings, the dynamics of marketing and pricing bonds and effectively reaching key markets investors. (Formerly *Mechanics of a Bond Sale*) *Day Three: Debt Administration* provided municipal industry participants with the elements of debt administration, including a foundational understanding of the issuer's roles and responsibilities after the sale of debt which includes, managing debt service, post-issuance compliance, bond proceed investments, reorganization debt obligations and refunding, as well as the continuing disclosure. (Formerly *Living with an Issue: On-Going Debt Administration*)
INVESTING PUBLIC FUNDS	In 2011 this two-day seminar consists of two parts: *Part 1: Short-term and Interim Financing Strategies*, was a half-day seminar for public agencies focused on the use of interim financing techniques; and *Part 2: Investment Basics*, was a one and one-half day seminar that covers CDIAC's traditional investment course that covers investment concepts, investment policies, benchmarking strategies, and the daily management of public funds.
MUNICIPAL MARKET DISCLOSURE	This one-day seminar covered the disclosure of municipal securities information to the market. Topics include federal securities laws and regulations, issuer responsibilities, and continuing disclosure compliance.
FUNDAMENTALS OF LAND SECURED FINANCING	This one-day seminar focused on the use of Mello-Roos and assessment district financing techniques including how to form a district, issue debt, and administer liens.

BOND MATH - PART 2: THE ECONOMICS OF BONDS. In Fall 2011, CDIAC held the second installment of a two-part series on bond math. This webinar session focused on several concepts related to the economics of bond pricing including: yield curve dynamics, time value of money, accrued interest and bond redemption principles, callable bonds, capital appreciation bonds, and bond yield and pricing calculations.

NOT CONCERNED ABOUT ARBITRAGE REBATE? NOT SO FAST. In Fall 2011, CDIAC held a webinar focused on arbitrage math concepts – addressing how issuers can owe a rebate payment in the current interest rate environment, IRS audit hot buttons, and documentation and SEC disclosure.

SWAPS MATH: WHAT ARE YOUR SWAPS WORTH? In Fall 2011, CDIAC held a webinar focused on swap math and related concepts, including information on the swap market, valuation methodologies, swap dealers' pricing conventions, formulas and examples of pricing, and review of variables affecting market prices.

PUBLIC INVESTMENT IN AGENCY SECURITIES: WHAT ARE THE OPTIONS? In Fall 2011, CDIAC

Figure 31

2011 ENROLLMENT AT CDIAC EVENTS

EVENT TITLE	DATE	LOCATION	TOTAL PARTICIPANTS
CDIAC SEMINARS			
Public Investments Seminar Part 1: Short-term and Interim Financing Strategies	1 /12/2011	Hilton Concord	30
Public Investment Seminar Part 2: Investment Basics	1 /12/2011	Hilton Concord	27
Municipal Debt Essentials 1	2 /1 /2011	Oakland Marriott	69
Municipal Debt Essentials 2	2 /2 /2011	Oakland Marriott	68
Municipal Debt Essentials 3	2 /3 /2011	Oakland Marriott	55
2011 Land Secured Financing	3 /24/2011	Hilton Garden Inn SF/ Oakland Bay Bridge	34
2011 Disclosure in Municipal Securities	4 /5 /2011	Kellogg West Conference Center	74
Private Activity Bonds Workshop	9 /7 /2011	Federal Reserve Building Los Angeles	105
SCO Debt Finance Seminar: Day 1	10/27/2011	State Controller's Office	58
SCO Debt Finance Seminar: Day 2	11/15/2011	State Controller's Office	50
CDIAC WEBINARS			
Bond Math - Part 1: Anatomy of Bonds	9 /30/2011	Online	193
Bond Math - Part 2: The Economics of Bonds	10/7 /2011	Online	183
Not Concerned About Arbitrage Rebate? Not So Fast	11/8 /2011	Online	113
Swaps Math: What Are Your Swaps Worth?	11/30/2011	Online	66
Public Investment in Agency Securities: What Are the Options?	12/7 /2011	Online	48
CO-SPONSORED SEMINARS			
CDIAC Program at the CMTA Annual Conference	4 /21/2011	Omni San Diego Hotel	120
CSDA Regional Workshop (Garberville)	6/15/2011	Garberville	40
Bond Buyer Pre-Conference 2011	9 /14/2011	Carlsbad	134
CACTTC Education, Legislation, Bankruptcy Conference (CDIAC session)	10/13/2011	Hyatt Burlingame	40
		TOTAL	1,507

held a webinar focused on Government Sponsored Enterprises (GSEs) and other types of agencies that are investment options for state and local governments. Topics included the current market for GSEs after the U.S. ratings downgrade, consideration of Farmer Mac (Federal Agriculture Mortgage Corporation) as an investment option, and investment in supranationals and Green Bonds.

Co-sponsored Seminars

CDIAC PROGRAM AT THE CMTA ANNUAL CONFERENCE. In Spring 2011, CDIAC held a three-quarter day workshop during the Annual Conference of the California Municipal Treasurers' Association. CDIAC coordinated three sessions addressing fiscal regulatory reform and its impact on cash management and investment strategies.

BOND BUYER PRE-CONFERENCE. In Fall 2011, CDIAC held a three-quarter day pre-conference, *Take Leadership of Your Financings* at *The Bond Buyer's* Annual California Public Finance Conference. The program drew over 130 attendees and served as an important discussion of what industry professionals learned during a period of world-wide recession, financial market collapse, and headline enforcement actions on public agencies. This marked the tenth consecutive year that CDIAC has partnered with *The Bond Buyer* on the pre-conference.

CACTTC EDUCATION, LEGISLATION, AND BANKRUPTCY CONFERENCE (CDIAC SESSION). In Fall 2011, CDIAC coordinated a two-part session, *School Debt Financing: Practices Governing General Obligation Bonds and Certificates of Participation* for the California Association of County Treasurers and Tax Collectors meeting in Burlingame. The program was aimed to provide county treasurers with more in-depth understanding of school debt financing practices.

CSDA Special District Association Regional Training for Special District Staff & Elected Officials (CDIAC Session) - In Summer 2011, upon the request of CSDA, CDIAC staff presented an educational session for special district officials focusing on what special districts should know about debt financing.

Seminar Registration

Attendance at CDIAC events in 2011 totaled 1,507 municipal professionals, reflecting a dramatic increase in attendance from 408 in 2010. This 269 percent increase can be attributed to several initiatives: the introduction of CDIAC's web-based training and additional promotion to targeted markets. Registration for web-based training alone was greater than total registration for 2010 (Figure 32).

Figure 33 displays a breakdown of the public versus private attendance at CDIAC's 2011 education programs, excluding the CMTA pre-conference.[23] If registration from CDIAC's pre-conference program at the *The Bond Buyer* conference was also excluded, 91 percent of the attendees at CDIAC programs were from the public sector.

Figure 32

ATTENDANCE AT CDIAC PROGRAMS
IN-PERSON VS. WEB-BASED TRAINING
CALENDAR YEAR 2011

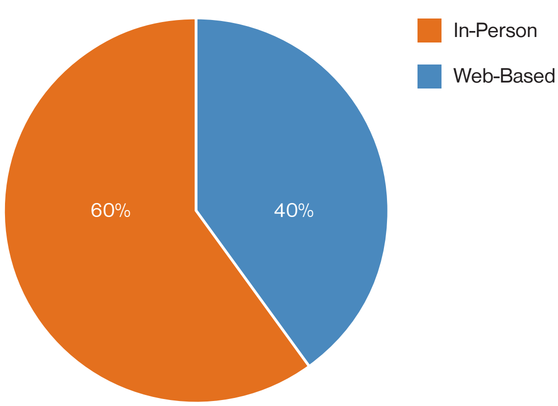
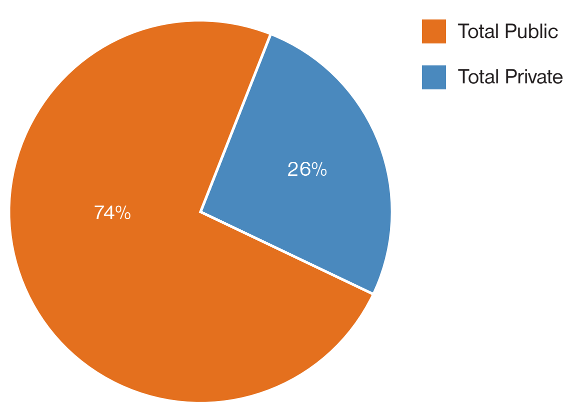


Figure 33

ATTENDANCE AT CDIAC PROGRAMS*
PUBLIC VS. PRIVATE
CALENDAR YEAR 2011



* Excludes CMTA Pre-conference.

[23] Attendee affiliation (public/private) was not available for the CMTA pre-conference program.

Figure 34

ATTENDANCE AT CDIAC PROGRAMS
BY ORGANIZATION TYPE, CALENDAR YEAR 2011

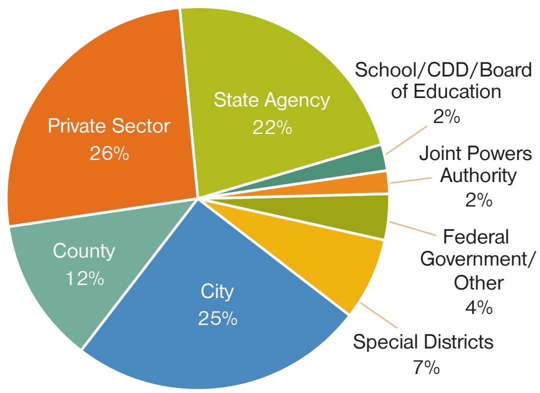


Figure 34 reflects attendees by organization type at CDIAC's educational programs for calendar year 2011 excluding attendees from the CMTA and *The Bond Buyer* co-sponsored pre-conference programs. Approximately 37 percent of all attendees of CDIAC's 2011 seminars were from cities and counties.[24]

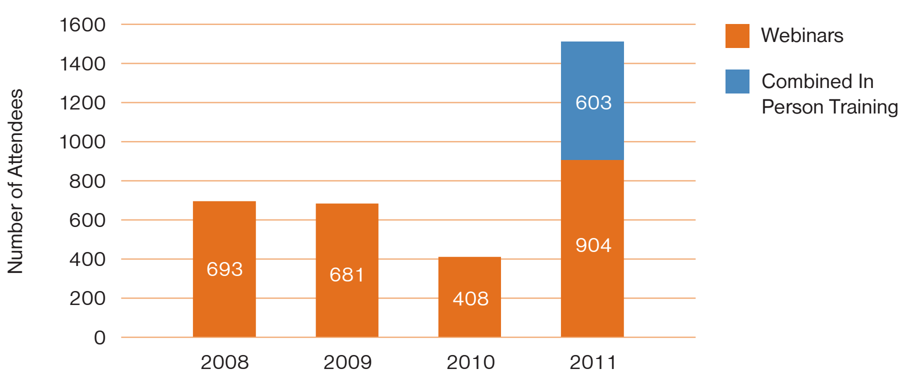
Historical Comparison of Seminar Registration

Registration in all CDIAC education programs has increased by 117 percent since 2008. The year-over-year increase is even greater with enrollment over 3 times greater in 2011 than 2010 – the dramatic increase in enrollment can be attributed to the introduction of web-based training and the additional outreach to targeted groups. Over the past four years, CDIAC has attracted approximately 3,136 attendees to its training and educational programs, including educational offerings held in partnership with other organizations. Figure 35 reflects enrollment activity in CDIAC programs over the past four years.

Based on enrollment over the past four years, CDIAC continues to serve its primary audience, public agency issuers, by a 4 to 1 ratio. Figures 36 and 37 reflect that public agencies primarily attend CDIAC programs. Cities and counties represent 40 percent of all attendees at CDIAC programs from 2008 through 2011.

Figure 35

ENROLLMENT IN ALL CDIAC PROGRAMS, CALENDAR YEARS 2008-2011



[24] Attendee affiliation (organization type) was not available for the CMTA and *The Bond Buyer* pre-conference programs.

Figure 36

ATTENDANCE AT CDIAC PROGRAMS
BY ORGANIZATION TYPE
CALENDAR YEARS 2008-2011

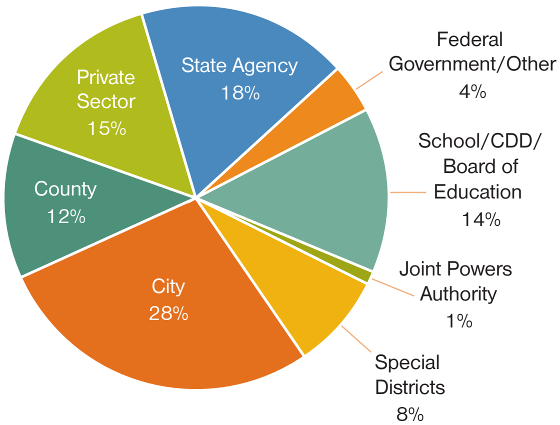


Figure 37

ATTENDANCE AT CDIAC PROGRAMS*
PUBLIC VS. PRIVATE
CALENDAR YEARS 2010-2011

YEAR	% PUBLIC	% PRIVATE
2008	73%	27%
2009	74	26
2010	74	26
2011	74%	26%

*Excludes pre-conferences.

In 2010, CDIAC implemented a two-tiered registration option allowing private market professionals to enroll in CDIAC courses; however, this has not altered the make-up of the audience at CDIAC's programs as seen in Figure 37.

2012 OUTLOOK: PROSPECTIVE EDUCATIONAL APPROACHES AND ACTIVITIES

In 2011, CDIAC began to implement the new approaches for delivering educational programming identified in the *2010 Annual Report* with some success. In 2012, CDIAC hopes to expand the use of web-based training and topical in-person seminars through partnerships with other municipal market groups. Outreach with these groups will enhance CDIAC's abilities to respond to changes occurring in the municipal market. For example, CDIAC is planning to develop a seminar that will address the financing gap left by the dissolution of redevelopment agencies. Finally, the Education Unit will research the feasibility of implementing social media tools for disseminating educational information and announce seminars.

Outreach

CDIAC will continue to utilize other allied membership-based and professional organizations as channels to reach California public finance officials.

PARTICIPATION IN REGIONAL FINANCE ASSOCIATION MEETINGS AND LUNCHEONS. CDIAC staff will resume attending regional and divisional association meetings and events to interface with professional groups to build networks and maintain a presence in the industry.

STRATEGIC PARTNERSHIPS. CDIAC staff will continue one-on-one meetings with the leadership of allied associations including the CSMFO and CMTA and broaden contact with industry leading organizations such as the Association of Government Accountants and League of California Cities to expand CDIAC's target markets for seminars and increase the reach of CDIAC's educational programs.

DIRECT PROMOTION OF SEMINARS. CDIAC will continue its approach of direct promotion of seminars through targeted mailing of printed brochures to elected officials.

EXISTING PARTNERSHIPS. CDIAC partnered for the 10th year with *The Bond Buyer* to provide a public finance pre-conference program at the California Public Finance Conference and initiated a new partnership with the Municipal Securities Rulemaking Board. CDIAC has already begun work with MSRB to plan an outreach event in San Francisco on July 24, 2012. In addition, CDIAC has begun pre-planning work on the 2012 Bond Buyer Pre-Conference program. CDIAC will work to continue both partnerships in 2012.

Future CDIAC seminars will continue to hit on timely topics and provide public officials with information on best practices. Topics under consideration for 2012 include development financing options, school debt financing issues and current practices, new rules and tools in municipal finance, and the impact of regulatory reform on public investments and debt management. In addition, CDIAC will partner with other associations to provide basic or advanced topic workshops on debt and public investments.

Strategic Planning

The Education and Outreach Unit is examining CDIAC's core programming, analyzing current gaps and opportunities, and seeking to address the education and training needs of public officials in California. In addition, a field survey of municipal market professionals will help to discover additional curriculum topics for classroom and web-based training.

RESEARCH UNIT

2011 REPORT OF OPERATIONS

In 2011, the CDIAC Research Unit produced the following articles, reports or issue briefs:

- LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2010. This guideline was published in the second half of fiscal year 2010-2011. CDIAC staff worked with a group of private and public sector professionals to provide updates to this document.
- MAKING SENSE OF PUBLIC PENSIONS. This Issue Brief provides an overview of public defined benefit plans with emphasis on plan funding, the discount rate, and the measurement of plan liabilities, as well as discussing the pension accounting changes proposed by the Government Accounting Standards Board.
- MUNICIPAL MARKET DISCLOSURE: COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FILINGS – A TEST OF COMPLIANCE AMONG CALIFORNIA ISSUERS. This research study was conducted by CDIAC to review California state and local government issuer performance in meeting the Securities and Exchange Commission Rule 15c2-12 disclosure requirement to file annual financial information. A summary of its results was highlighted in *The Bond Buyer*.
- LOCAL AGENCY RESPONSE TO FISCAL STRESS. This article describes the sources of fiscal stress experienced by local agencies over the past three years along with a discussion of the remedies employed by local agencies to mitigate shortfalls in the current and future years.
- STRUCTURING A FIXED INCOME PORTFOLIO IN A RISING RATE ENVIRONMENT. This article provides local agency investment managers and staff with strategies to protect their fixed income portfolio against losses and underperformance inherent during periods of increasing interest rates. The article describes key concepts and components of interest rate risk, methods of measuring it, and an overview of common investment strategies and portfolio structures available to manage it.
- DIGEST OF COUNTY OF LOS ANGELES SCHOOL DISTRICT GENERAL OBLIGATION BONDS – WHITE PAPER. This article presented a detailed and easily understood review and analysis of the 2011 White Paper geared toward local agency finance officials.

- RESPONSE TO CALIFORNIA SB 867 – PENSION FUND REPORTING. Staff provided a research report as a foundation to answer a series of questions posed through the legislation.

- FORENSIC RESEARCH ON THE CITY OF BELL AND VERNON. Staff identified and answered questions related to bond issuance and derivative financings.

- DODD-FRANK REFORM ACT PAMPHLET. A Pamphlet outlining, in a easy to understand format, the new municipal disclosure rules under Dodd-Frank Reform Act.

During 2010, CDIAC initiated academic research to provide insight into evaluating debt loads for state and local agencies, analyzing growth of debt issuance within California, reviewing factors that influence debt issuance, and comparing California's debt profile to other states. CDIAC staff provided management, review, and analysis of the project conducted under contract with the California State University system. The culmination of the project, a report entitled *Debt Burdens of California State and Local Governments: Past, Present, and Future*, was published in 2011.

The Research Unit is developing a database of city and county data from the years 2000 to 2010 using the reports issued by the State Controller's Office. This data can be used to analyze local agency revenue, expense, demographics, and debt obligations.

CDIAC published the monthly *Debt Line* newsletter throughout 2011, posting issuance statistics along with research articles penned by CDIAC staff and guest authors from selected areas within the public finance community.

2012 OUTLOOK–PROSPECTIVE RESEARCH PROJECTS

Future projects that address current major trends and policy issues include:

- Designing tools to interface with the CDIAC debt issuance database and outside data sources. These tools will provide the Research Unit an efficient way to access large amounts of historical data.

- A report chronicling the history of issuance within California over the past 30 years. This report will review bond issuance through economic, political, demographic, legislative periods, and events taking place within California and the US.

- An analysis of school district general obligation bond financing methods considering the relationship between school districts and counties related to bond issuance.

- An examination of conduit financing history, methods, costs and benefits, along with issues surrounding their current use in California and throughout the U.S.

- A study of variables affecting issuance costs and post issuance pricing for school district general obligation financings.

- A study of disclosure policies, procedures, and administration related to school district disclosure.

- A survey of availability, composition, and usage of a formal debt policy employed by local agencies in California.

CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

915 Capitol Mall, Room 400, Sacramento, CA 95814
p 916.653.3269 • f 916.654.7440
cdiac@treasurer.ca.gov
www.treasurer.ca.gov/cdiac