

# 2012 ANNUAL REPORT

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CDIAC

CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION

September 5, 2013

To Our Constituents:

I am pleased to present the California Debt and Investment Advisory Commission (CDIAC) *2012 Annual Report*.

The effects of the Great Recession continued to exact a toll on state and local budgets. This is manifest in lower revenues and higher program expenditures needed to address the social impacts of the collapse of both the job and real estate market. At the local agency level, declining property tax revenues combined with the dissolution of redevelopment and, in some cases, an overdependence on development led several communities to declare fiscal emergencies. Near simultaneous bankruptcies in the Cities of Stockton, San Bernardino, and Mammoth Lakes raised the specter of a more systemic problem facing local government finance in California.

As with the 2011 Annual Report, this report provides the context for CDIAC's efforts to develop and deliver programs and services in terms of the environment in which public agencies operate. Specifically, CDIAC convened the 2012 Pre-Conference at *The Bond Buyer's* California Municipal Finance Conference to consider the impact of fiscal stress on project financing, borrowers' access to the market, and the analytics used to rate and price California public agency debt. CDIAC also funded research through the Center for Government Studies at Sacramento State University to compare the debt load of California state and local governments to other states and factors explaining any differences.

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 training programs or launched research projects that provide timely information. For example, capital accumulation by banks and the collapse of the bond insurance market are two factors driving banks to lend directly to public agencies rather than use an investment bank as an intermediary. Direct loans often require less administration. However, regulators and investors have concerns about the fact that municipalities aren't required to disclose direct loans to the market. CDIAC is undertaking research to better understand the scope and character of this new type of lending.

I continue to believe in the importance of the services CDIAC offers. We are uniquely positioned to provide research, education, and creative problem-solving to address changing market conditions and the needs of public agencies to manage the issuance of debt and investment of public funds.

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.

Figure 1 summarizes the CDIAC’s statutory provisions.

To meet its statutory responsibilities, 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 30<sup>th</sup>. 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.<sup>1</sup>

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

**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.

<sup>1</sup> While CDIAC has collected information since January 1, 1982, the database contains information from 1984 to present day.



to the bond issuance and investment processes; (2) contribute to the development of public officials involved in the issuance of debt and the investment of public funds; and (3) inform public officials about current topics that may affect debt issuance and the investment of public funds. The majority of the public officials who attend CDIAC seminars are from local agencies. 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 between three and nine members, depending on the number of appointments made by the Treasurer or the Legislature. Three statewide-elected officials — the State Treasurer, State Controller, and Governor or 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 2012 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, 15<sup>th</sup> 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 15<sup>th</sup> 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, 21<sup>st</sup> 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 44<sup>th</sup> 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, 49<sup>th</sup> District*

*Residence: Monterey Park, California*

Background: Assemblymember Mike Eng represents the 49<sup>th</sup> 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, 31<sup>st</sup> District*

*Residence: Fresno, California*

Background: Assemblymember Perea represents the 31<sup>st</sup> 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: Mr. Goldstone retired as Chief Operating Officer in June 2012. While in that role he oversaw the City's daily operations and implemented 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.



# HIGHLIGHTS FROM THE 2012 CALIFORNIA MUNICIPAL MARKET

More than two years after the “official” end of the Great Recession, California public agencies are still feeling the effects of the downturn. Public revenues continue to lag intermittent and uneven economic growth. The chaos wrought by the Recession on the financial markets impedes borrowers’ access to capital and new forms of lending have emerged as a substitute for bond financing. At the same time, the market is subject to greater regulatory pressure that unfolded as a result of the Dodd-Frank legislation. The following discussion recognizes some the seminal events of 2012 that marked the course of the California municipal market and, consequently, the activities of CDIAC.

## **BANKRUPTCIES AND FISCAL STRESS**

The financial strain resulting from the Great Recession led to two California municipal bankruptcies in 2012. The City of Stockton filed for protection in the U.S. Bankruptcy Court on June 28, 2012, making it the third largest municipal issuer of debt to file for bankruptcy protection after Jefferson County, Alabama and Orange County, California. The action followed a 90-day period of negotiations between the city and its creditors, a process required under a law (AB 506 (Chapter 675, Statutes of 2011)) put

in place last year. Stockton had more than \$300 million of bonds outstanding tied to its general fund, and more than \$700 million in bond debt overall. The filing drew an immediate challenge from bond issuers who claimed the city had not acted in good faith nor tapped all of its financial resources to meet outstanding obligations. On April 4, 2013, the bankruptcy court ruled that the city was eligible for bankruptcy, thus beginning the process of addressing outstanding claims, including bonded debt.

In mid-summer, after months of trying to resolve its budget crisis, the City of San Bernardino acknowledged it had more than \$1 billion in liabilities owed to between 10,000 and 25,000 creditors. The city council voted on July 11, 2012 to declare a fiscal emergency and to file for Chapter 9 protection. More than a year later, on August 28, 2013, the bankruptcy court ruled that the city was eligible for bankruptcy protection.

In 2012, the City of Mammoth Lakes also filed for protection under Chapter 9. However the cause of the City’s bankruptcy differed from the other two cases. The city faced a \$43 million legal judgment that it couldn’t pay, but after settling with the developer, the city requested that the case be dismissed.

The number and rapid succession of bankruptcy filings sent the municipal market into a spin. Media attention turned to the prospect that still other California municipalities would seek Chapter 9 protection. But as the underlying causes of each event became clearer, the conjectures and prognostications lessened. The City of Mammoth Lakes was recognized as an outlier – its bankruptcy the result of an adverse court decision. Stockton and San Bernardino were hit especially hard by the recession and real estate crisis, recording some of the highest unemployment and foreclosure rates in the state.

The uncertain fate of local agencies stirred State Treasurer Lockyer to call for the development of indicators that would assist the state in identifying communities under stress. This “early warning” system would enable community leaders and the state to work to avert a financial crisis that might lead to bankruptcy. The Treasurer recognized the efforts of the New York Comptroller’s Office to develop a monitoring system that would rate the financial status of the state’s local governments. The New York monitoring system, announced in September 2012, will identify municipalities and school districts experiencing signs of budgetary strain to allow for preemptive corrective action. Several other states have developed similar processes as reported by a Pew study in July 2013.<sup>2</sup>

## PENSION DISCLOSURE

Given the financial liability imposed by public pensions and retiree health care plans the municipal market has been mulling the form and content of disclosures issuers should make to the market. Actions brought by the Securities Exchange Commission (SEC) against the City of San Diego and the State of New Jersey reflect its expectation that issuers tell the whole credit story. Behind each of these actions was a failure on the part of the issuer to clearly disclose the risks that its long-term responsibilities to make contribu-

tions to its pension system posed to bondholders. According to the SEC, the “credit story” the issuers failed to tell was that the long-term liquidity of their general fund was threatened by projected increases in pension contributions resulting from chronic pension plan underfunding. Disclosures made to investors failed to adequately inform them of that risk.

On May 15, 2012, the National Association of Bond Lawyers released a 28-page document containing guidance and suggestions to help issuers provide appropriate disclosures about their public pension systems in bond documents. The document, which was approved by a dozen muni market and other groups, had been in the works for more than 15 months.

## APPROPRIATION DEBT SECURITY

Municipal bond investors have long known that annual appropriation-type debt, such as certificates of participation, are riskier debt structures. Those investors who bought them had faith, at the time of purchase, in the issuer’s responsibility to stand behind the debt. But default events in Jefferson County, Alabama and Stockton involving non-general obligation debt or other forms of appropriation debt have investors concerned about the safety of these securities. If a municipality files and is awarded Chapter 9 bankruptcy protection, the pledge in favor of bondholders may be affected. Bondholders’ rights to pledged revenue may be impaired after the commencement of the bankruptcy case unless the court determines that the pledged revenues are “special revenues” within the meaning of the Bankruptcy Code. “Special revenues” are defined to include receipts from the ownership, operation, or disposition of project or systems that are primarily used or intended to be used to provide transportation, utility, or other services, as well as other revenues or receipts derived from particular functions of the debtor.

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<sup>2</sup> *The State Role in Local Government Financial Distress*, The Pew Charitable Trusts, July 2013.

If pledged revenues are not “special revenues” there could be delays or reductions in bond payments. Also, even if a court determines that pledged revenues are “special revenues,” under the provisions of the Bankruptcy Code governing special revenues, the municipality may be able to use pledged revenues to pay operating and maintenance costs of the project or system involved notwithstanding any provision of the governing indenture to the contrary.

In the end, an individual issuer’s state laws on bankruptcy filing may determine whether alternative debt securities are exempt from municipal bankruptcy. Market participants are keenly aware of whether a general obligation bond has a specific tax-lien pledge, or whether it’s an obligation of the general fund, or a moral obligation, or a COP structure. Investors have raised concerns, not only with the ability of municipalities to make debt service payments in bankruptcy, but also with the willingness of the municipality to continue to repay its debt.

## CAPITAL APPRECIATION BONDS

A Capital Appreciation Bond (CAB) is a financing structure, similar to a zero coupon bond, that allows an issuer to borrow funds from investors and defer the payment of interest and principal into the future — sometimes as long as 40 years. In a standard CAB, the interest, which would normally be paid on a semi-annual basis, is compounded and paid in a lump sum at the bond’s maturity. Outside public finance, this type of bond is known as a “zero-coupon bond.”

In 2011, CABs came under the scrutiny of local and national news organizations after a Southern California school district issued a \$105 million CAB that required it to repay close to \$1 billion to investors over the term of the bond. When it was determined that many other school districts employed CAB financings with similar repayment obligations, the San Diego County Treasurer and the California Association of County

Treasurers and Tax Collectors (CACTTC) proposed to limit the use of CABs.

The recent controversy over the way some California school districts use CABs may reflect the law of unintended consequences. CABs allow issuers to defer debt-service payments in the short term, avoiding near-term property-tax rate increases, but incurring much higher costs in the long run. Some school districts faced with legal limits on the amount of tax revenues they may collect turned to CABs as a way to finance construction projects despite sluggish property-tax revenues. In California, a unified school district’s outstanding and new general obligation bond debt may not exceed 2.5 percent of the assessed value of taxable property within the district. With the passage of Proposition 39 in 2000 the voter threshold to approve local school bonds dropped to 55 percent from two-thirds, however, it required that the projected tax rate as the result of any single bond election be no more than \$60 per \$100,000 of taxable property value for a unified school district. After property values dropped in the wake of the real estate bust some school districts found ways around the limits by issuing CABs.

On January 24, 2013, Assemblymember Joan Buchanan introduced Assembly Bill 182 to limit the use of CABs by school districts. State Treasurer Lockyer along with State Superintendent of Schools, Tom Torlakson, urged the state’s school districts to halt the issuance of CABs until the Legislature had time to act on the proposed restrictions. The bill was signed into law as Chapter 477, Statutes of 2013 on October 2, 2013.

CDIAC undertook a study of CAB issuance in California. A dataset of all issuance between January 2007 and November 2012 was compiled and used to better understand both the structure and cost of these issues. The data and accompanying analysis of CABs carried out by CDIAC played a role in discussions between policy makers, issuers, and the public. We use this data to report on CAB issuance later in this report.

## REGULATING PAY-TO-PLAY ACTIVITIES IN THE MARKET

In 2012, *Bloomberg*<sup>3</sup>, *The Bond Buyer*<sup>4</sup>, *The Fresno Bee*<sup>5</sup>, and *California Watch*<sup>6</sup> all published articles shedding light on the coincidence between public finance professionals' contributions to a bond election campaign of a municipal bond issuer and their membership on the financing team that issued the bonds. An investigation of the practice of pay-to-play in California found that "[I]n the past five years in California, five major underwriters donated \$1.8 million to help pass 111 ballot measures, authorizing \$15.5 billion in debt...Overwhelmingly, bond underwriters who donated to these campaigns were granted contracts by school districts."<sup>7</sup> In another article, *The Bond Buyer* reported that it "found a nearly perfect correlation between broker-dealer contributions to California school bond efforts in 2010 and their underwriting subsequent bond sales."<sup>8</sup> The risk inherent in this relationship is that "[H]iring an underwriter based on whether it supports a campaign rather than its ability to market bonds can lead to issues from mispricing, which can hurt investors, to higher fees and borrowing costs for taxpayers."<sup>9</sup>

The practice of pay-to-play has been a concern of both market participants and regulators for several years. Some states, such as Missouri, prohibit firms that contribute to a bond campaign from participating in the bond sale. In California state law prohibits the use of public funds for campaigns and obligates issuers to find alter-

native funding sources to support an initiative campaign and election. Additional provisions of state law require that the expenditure of funds by a public agency be related to the purposes for which the agency was created.

Securities laws are beginning to take shape around the concern that financial incentives paid or received by dealers and municipal advisors pose a possible conflict of interest. In 2010, the Municipal Securities Rulemaking Board (MSRB) began to require underwriters to provide information on their bond campaign contributions. On May 31, 2012, the MSRB issued a concept proposal to require public disclosure of third-party payments made by or to the underwriters and municipal advisors as well as other potential conflicts of interest. In that notice the MSRB recognized that municipal securities offerings that involve conflicts of interest or undisclosed payments to third-parties are "more likely to be the issues that later experience financial or legal stress or otherwise perform poorly as investments..."<sup>10</sup>

And yet, as the media has reported, the practice of linking, through direct or indirect agreement, contributions paid by financial advisors, underwriters, bond counsel and other consultants to a bond election campaign and their participation in the sale of the bonds is a common practice in California. The relationships established through direct or indirect agreements, understandings, or arrangements among these market participants are thought to be sufficiently obtuse or ambiguous to circumvent the existing statutory and

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<sup>3</sup> "MSRB Tackles Bond Elections." Bloomberg Brief, *Municipal Market*, May 24, 2012

<sup>4</sup> "Some California Face Use Pay-to-Play Tactics, Critics Say." *The Bond Buyer*, May 25, 2012

<sup>5</sup> "With campaign contributions, school bond underwriters also secure contracts." *The Fresno Bee*, May 2, 2012

<sup>6</sup> "With campaign donations, bond underwriters also secure contacts." *California Watch*, May 3, 2012 and "School bond measures receive donations from contractors." *California Watch*, June 4, 2012.

<sup>7</sup> "With campaign donations, bond underwriters also secure contacts." *California Watch*, May 3, 2012

<sup>8</sup> "Brokers' Gifts That Keep Giving." *The Bond Buyer*, Jan. 17, 2012.

<sup>9</sup> *Ibid.*, 1

<sup>10</sup> Municipal Securities Rulemaking Board, MSRB Notice 2012-28 (May 31, 2012).



regulatory framework intended to guide the actions of municipal issuers and municipal market participants in relation to an issuer's bond election campaign and the subsequent sale of that issuer's bonds. As a result, these municipal market participants may hold interests in the sale of the bond that conflict with the interests of the issuer, thereby exposing the issuer and taxpayers to higher costs and greater risk.

Since it is uncommon for school parents, taxpayers, or other citizens to contribute to bond election campaigns, the campaigns are funded often solely by contributions from consultants that expect to earn substantial profits directly from the passage of ballot measures. This is not disclosed to the public until after the election at which time reports filed with county officials identify the source of funding for campaign literature mailed to voters, media advertisements, or other campaign activities.

As a result, some public officials, including senior school officials, may be engaging in practices designed, at the extreme, to circumvent the laws related to financing of bond election campaign by tying fees paid to underwriters and other consultants to campaign services. Municipal bond professionals (financial advisors, underwriters and bond counsel), as well as other consultants interested in public construction projects (architects, engineers, and construction companies or managers) may be knowing and willing participants in these practices.

On February 20, 2013, Assemblymember Wagner introduced AB 621 to prohibit a local agency from entering into a financial advisory, legal advisory, underwriting, or similar relationship with an individual or firm, with respect to a bond issue that requires voter approval on or after January 1, 2014, if that individual or firm provided or will provide bond campaign services to the bond campaign. On March 18, 2013, State Treasurer Lockyer asked Attorney General Kamala Harris

to opine on the legality of arrangements that link bond campaign services with the payment of fees to underwriters and financial advisors that subsequently work on the bond financing.

## DIRECT LENDING

Roughly 50 percent of the \$400 billion of municipal bond issued in 2007 carried municipal bond insurance. In 2012 just over 4 percent of the new issue bonds carried bond insurance. What caused this transformation of the market? Bond insurers fell victim to the financial crisis, having taken risks during the peak of the market that came back on them in the recession. Rating agencies took note and summarily downgraded bond insurers. Municipal issuers, who had used municipal bond insurance on variable rate bonds or auction rate securities, were forced to scramble to refund or restructure bonds or their credit or liquidity support. In the realignment that followed, banks came to see the benefits of taking these loans on directly rather than providing the liquidity support for bonds. Smaller, less frequent issuers, faced with an increasingly complex regulatory framework and tightening capital market, were inclined to turn to direct lending.

Some municipalities are now borrowing more money directly from banks receiving more favorable rates and terms than they would receive in the bond market. While the practice has grown as a proportion of the total market, some of the risks associated with the use of direct loans are still unknown. In April 2012, the MSRB urged municipal bond issuers to voluntarily disclose information about their direct bank loans on the Electronic Municipal Market Access (EMMA) system.<sup>11</sup> Doing so, the MSRB said, will help ensure that investors and market participants have access to key market information that they can use when making investment decisions. The MSRB argued that many investors don't know about issuers' bank loans, or how those loans im-

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<sup>11</sup> "Notice Concerning Voluntary Disclosure of Bank Loans to EMMA" MSRB Release 2012-18 (April 3, 2012)

pact municipalities' finances, because bank loans generally do not require the same amount of disclosure as municipal securities.

## FEDERAL REGULATION AND RELATED ACTIONS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 brought the most significant changes to financial regulation in the United States since the regulatory reforms that came out of the Great Depression. It made changes in the regulatory environment that affected all federal financial regulatory agencies and almost every part of the nation's financial services industry.

As a part of the Dodd-Frank Act, municipal advisors will be regulated for the first time. Advisors who help municipal issuers determine when and how to issue bonds as well as how to invest the proceeds from the sale will be required to register with the SEC and the MSRB as a "municipal advisor." This means they will have fiduciary duty to the issuers and they will be regulated. The SEC is delegated the responsibility for developing the specific regulations, however, this is delayed until the SEC adopts a definition of "municipal advisor."

Since the passage of the Dodd-Frank Act, the SEC has taken enforcement actions against and implemented regulations concerning municipal issuers. It formed the Office of Municipal Securities and a Municipal Securities and Pensions Unit that is responsible for oversight of the municipal market. On July 31, 2012, the SEC Office of Municipal Securities released a report on the municipal market that found, among other things a greater need to regulate the content of primary and continuing disclosures, filing requirements, and financial statements. The SEC reported it would seek a "mechanism" to enforce issuers' compliance with their continuing or secondary market disclosure agreements, possibly by allowing the SEC to require trustees or other entities to enforce the terms of those agreements.

The Dodd-Frank Act charged the General Accounting Office (GAO) to compare the disclosure requirements for municipal issuers with those for corporate issuers and recommend whether the Tower Amendment should be repealed. The Tower Amendment, which was added in 1975 to the Securities Exchange Act of 1934, prohibits the SEC and MSRB from requiring issuers to file any information with them prior to the sale of municipal bonds. In addition, the MSRB cannot require issuers to provide it or investors with any information after the sale of bonds. However, through Rule 15c2-12, the SEC indirectly requires municipal issuers to provide disclosure to the market by requiring underwriters to obtain an Official Statement from an issuer prior to marketing their securities. The same rule prohibits underwriters from marketing a municipal issuer's securities unless the issuer has entered into a written agreement to provide certain ongoing information to the market. Municipal issuers are subject to the antifraud provisions of securities law.

These SEC reports made several things clear. First, secondary market disclosure is inadequate and it needs to improve. Second, the SEC has and will bring enforcement actions under federal securities laws where disclosure is so inadequate or misleading that it is deemed fraudulent. Third, the SEC wants more power to take action against issuers and regulated market participants.

The SEC, MSRB, and the Financial Industry Regulatory Authority (FINRA), a securities industry self-regulatory organization, have made changes to elements of the broker-dealer regulatory regime. The MSRB's adopted rules governing how underwriters deal with issuers by amending Rules G-23 and G-17. The SEC released interpretative guidance relating to continuing disclosure due diligence. The SEC recognized in its municipal market report that the markets were not sufficiently transparent when it comes to pricing and that it hopes to develop best execution rules that will affect how bonds are traded. Finally, both the MSRB and FINRA have warned broker-dealers about secondary market disclosure to investors.

**CAPITAL APPRECIATION  
BOND ISSUANCE: JANUARY  
2007-FEBRUARY 2012**

Capital Appreciation Bonds (CABs) have long been used in public finance to achieve various outcomes, including securitizing the projected growth in revenues or smoothing out debt service costs over a period of time. But CABs drew the public’s ire as well as that of several public officials with the publication of an article in the Voice of San Diego recounting the sale of CABs by the Poway Unified School District. The District sold \$105 million in general obligation (GO) bonds that committed them to pay back over \$1 billion to investors. The ratio of debt service to principal (DS ratio), in this case, roughly 10:1, became the rallying cry for school finance reform.

A CAB is a debt obligation that pays the investor no interest over the term of the bond, but instead accrues that interest at a stated rate until the bond matures, at which point the investor receives both the principal and the accrued interest. CABs are sold at a deep discount eventually maturing to full value through interest compounding.

CDIAC identified all CABs issued by all public agencies in California between January 2007 and November 2012 using its database and records available on EMMA. CAB issuance during the study period accounted for 650 issues amounting to \$9.4 billion in principal. (Figure 2).<sup>12</sup>

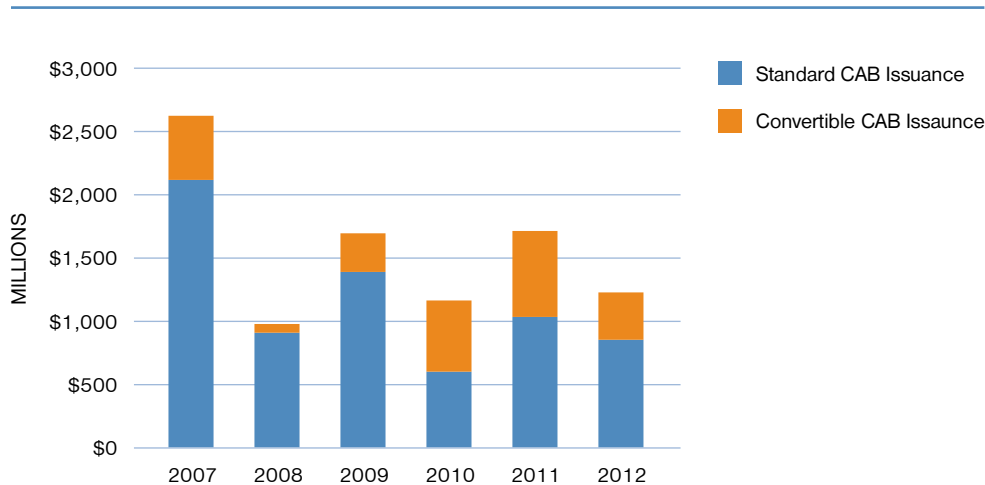
School and community colleges were the largest issuers of CABs based on the number of deals and volume of transactions (Figure 3 & 4).

**Characteristics of CABs**

CDIAC performed a detailed analysis of the 650 issues containing a CAB component for the period 2007-2012. This included all bonds issued during the period with a standard CAB component or a convertible CAB component. A standard CAB is a bond that accrues and compounds interest until it matures, sometimes 40 years after the date of issuance. A convertible CAB compounds interest for a fixed period, then converts to a bond that pays semi-annual interest on the accreted value (principal plus compounded interest) until maturity. The conversion date is the final compounding date for the accretion period at which time the bond begins to pay current interest. What follows is a discus-

**Figure 2**

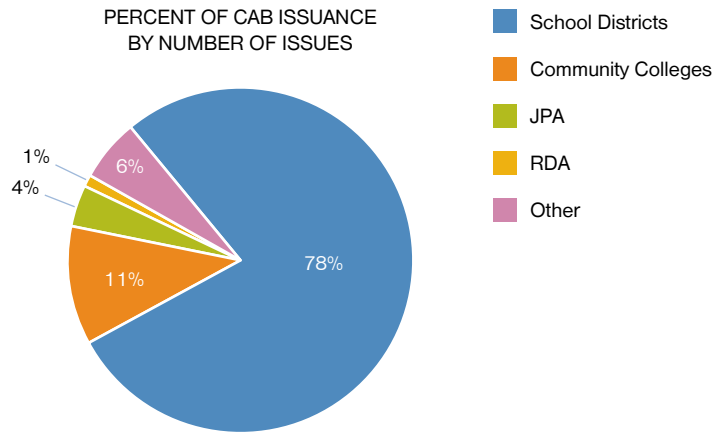
TOTAL CAB PRINCIPAL, ALL CALIFORNIA ISSUERS, JANUARY 2007–NOVEMBER 1, 2012



<sup>12</sup> Unless specified, all CAB principal data includes the combination of standard and convertible CAB issuance.

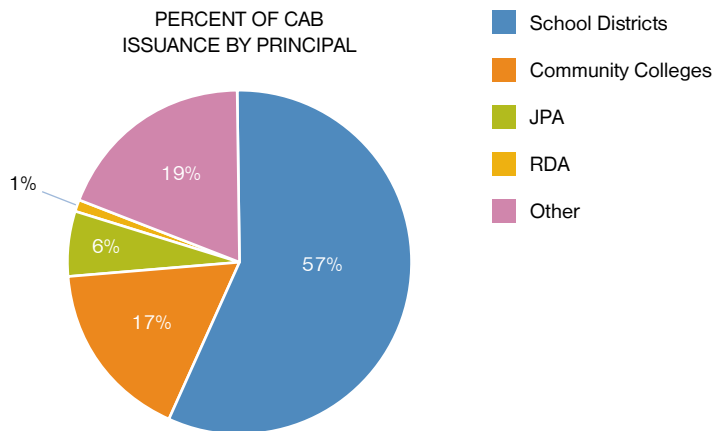
**Figure 3**

PERCENT OF CAB ISSUANCE BY TYPE OF ISSUER  
BY NUMBER OF ALL DEBT ISSUES WITH CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012



**Figure 4**

PERCENT OF CAB ISSUANCE  
BY PRINCIPAL OF ALL DEBT ISSUES WITH CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012



sion of some of these characteristics for standard CABs and convertible CABs.

**SOURCES OF REPAYMENT**

The most common source of repayment for CAB issuance is ad-valorem property taxes (Figure 5). Property tax accounted for about 70 percent of the repayment source for CABs issued during the study period. The concentration of repayment

sources reflects the high rate of CAB issuance by school and community college districts.

**AUTHORITY**

CABs composed a portion or all of a variety of different bond types. The majority, however, were issued as general obligation bonds (Figure 6), again reflecting the proportion of CABs issued by school and community college districts.

**Figure 5**

CAB SOURCE OF REPAYMENT  
 ALL ISSUERS OF DEBT WITH CAB COMPONENT  
 JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS AND DEBT TYPES			
SOURCE OF REPAYMENT \$ VALUE	REG CABs \$ VALUE	CONV CABs \$ VALUE	TOTAL CABs \$ VALUE
Bond proceeds	\$422,584,685	\$41,229,931	\$463,814,616
General fund of issuing jurisdiction	283,916,802	520,366,047	804,282,849
Local obligations	78,780,297	7,630,538	86,410,834
Other sources*	611,561,387	449,104,389	1,060,665,776
Private obligor payments	69,788,834	6,939,294	76,728,129
Property tax revenues	5,161,830,241	1,445,772,113	6,607,602,353
Public enterprise revenues	86,614,484	-	86,614,484
Special tax revenues	112,924,571	27,373,778	140,298,349
Tax increment	\$80,502,008	\$10,396,031	\$90,898,039

\*All related to tobacco securitization bonds

**Figure 6**

CAB BOND AUTHORITY  
 ALL ISSUERS OF DEBT WITH CAB COMPONENT  
 JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS			
DEBT TYPE \$ VALUE	REG CABs \$ VALUE	CONV CABs \$ VALUE	TOTAL CABs
Bond anticipation note	\$496,852,513	\$ -	\$496,852,513
Certificates of participation/leases	155,635,231	167,222,915	322,858,146
Conduit revenue bond	69,788,834	23,253,371	93,042,206
General obligation bond	5,153,125,381	1,473,422,914	6,626,548,295
Limited tax obligation bond	51,346,901	27,373,778	78,720,679
Other bond*	633,897,086	449,104,389	1,083,001,475
Other note	17,627,115	-	17,627,115
Pension obligation bonds	113,052,313	275,919,820	388,972,133
Public enterprise revenue bond	14,563,080	6,136,866	20,699,945
Public lease revenue bond	65,668,249	68,351,499	134,019,748
Revenue bond (Pool)	56,444,598	7,630,538	64,075,135
Tax allocation bond	\$80,502,008	\$10,396,031	\$90,898,039

\*All related to tobacco securitization bonds

## USE OF PREMIUM

Issuers generate additional funds by selling their bonds at a premium to par value by offering higher interest rates to investors. During the study period, 481 of the 650 (75 percent) CABs issued included a premium bond structure (Figure 7). In general, the premium was used to pay for the cost of issuance.

## CONVERTIBLE CABs

Approximately 18 percent of the CABs issued during the study had a convertible CAB component. Figure 8 illustrates the range of years to the conversion date.

## CALL FEATURE

CABs may be issued with a call feature that gives the issuer the right to redeem all or a portion of an outstanding issue prior to their stated maturities, at specified prices. Approximately ten percent of CABs issued during the study period contained call features with the majority set for a 10 year call date.

**Figure 7**

USE OF PREMIUM  
ALL ISSUERS OF DEBT WITH CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS AND DEBT TYPES STANDARD CABs ONLY	
# SERIES W/ PREMIUM*	TOTAL # SERIES
481	650

\* Indicates if premium is present for entire series, not just for the CAB portion

**Figure 8**

CONVERTIBLE CABs  
ALL ISSUERS OF DEBT WITH A CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS AND DEBT TYPES CONVERTIBLE CABs ONLY	
YEARS TO CONVERSION DATE*	# OF SERIES
5 years or less	16
>5 - 10 years	24
>10 - 15 years	40
>15 - 20 years	24
>20 - 25 years	12

\*Measures longest conversion date per series as of issuance date

**Figure 9**

USE OF CALL FEATURE  
ALL ISSUERS OF DEBT WITH A CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS AND DEBT TYPES STANDARD CABs ONLY	
YEARS TO OPTIONAL CALL DATE*	# OF SERIES
9 years or less	12
>9 - 11 years	54
>11 years	4

\*Measures longest call date per series as of issuance date

## MATURITY

Figure 10 provides a distribution of maturities by number and volume for the standard CAB issues over the study period. School and community colleges may issue general obligation bonds under either the California Government Code or the Education Code. Maturities for bonds issued under California Government Code cannot exceed 40 years. Under Education Code, the maximum maturity is 25 years. As a result, the distribution tends to coalesce at these longer terms.

CAB maturity is a primary driver of their cost. It is not unusual for CABs to be used with relatively short maturities, but the majority of issuers use CABs to defer current and near term debt service payments causing their maturities to be longer. Due to the deferral and compounding of interest, the CAB's accreted value (principal plus compounded interest) grows at a rate that accelerates the longer the bond is outstanding.

### Figure 10

STANDARD CAB MATURITY  
ALL ISSUERS OF DEBT WITH A CAB COMPONENT  
JANUARY 2007-NOVEMBER 1, 2012

ALL ISSUERS AND DEBT TYPES; STANDARD CABs ONLY			
CAB TERM LENGTH	# OF SERIES	\$ VALUE	PERCENT OF TOTAL
5 years or less	45	\$519,263,799	7.9%
>5 - 10 years	41	189,412,800	2.9
>10 - 15 years	37	101,957,684	1.6
>15 - 20 years	56	517,855,298	7.9
>20 - 25 years	207	1,952,607,295	29.8
>25 - 30 years	103	960,975,579	14.7
>30 - 35 years	65	862,999,813	13.2
>35 - 40 years	69	1,184,519,728	18.1
>40 years	4*	\$ 268,407,512	4.1%

\*3 of 4 series related to tobacco securitization bonds





# STATE AND LOCAL BOND ISSUANCE

In 2012, state and local issuers in California issued \$67.4 billion in debt – 16.9 percent higher than the amount issued in 2011 (Figure 11).<sup>13, 14</sup> The number of debt transactions increased 34

percent from 1,498 in 2011 to 2,008 in 2012. State and local debt issuance in 2012 is nearly 10 percent below the average of issuance (\$74.4 billion) from 2002-2012 (Figure 12).

**Figure 11**

DOLLAR VOLUME AND NUMBER OF CALIFORNIA PUBLIC DEBT BY TYPE OF ISSUER  
2011 AND 2012 (VOLUME IN MILLIONS)\*

ISSUER TYPE	2011		2012		PERCENT CHANGE IN VOLUME FROM 2011 TO 2012
	VOLUME	NUMBER	VOLUME	NUMBER	
State Issuer	\$24,078	147	\$25,989	245	7.9%
K-12 School District	8,311	594	10,084	599	21.3
City Government	5,348	99	7,053	178	31.9
Joint Powers Agency	4,869	260	7,292	566	49.7
County Government	3,539	39	2,960	45	-16.4
City and County Government	2,277	20	2,009	16	-11.7
Student Loan Corporation	0	0	213	1	N/A
Other Issuer	9,220	339	11,809	358	28.1
<b>TOTAL</b>	<b>\$57,641</b>	<b>1,498</b>	<b>\$67,408</b>	<b>2,008</b>	<b>16.9%</b>

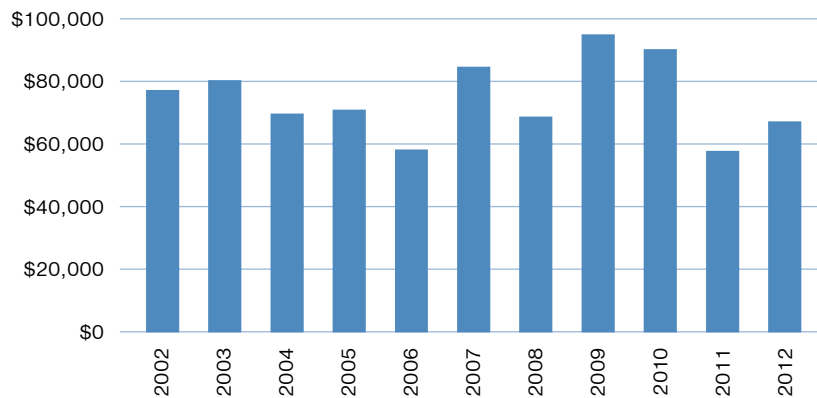
\*Totals may not add due to rounding.

<sup>13</sup> Total includes short-term and long-term debt.

<sup>14</sup> 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.

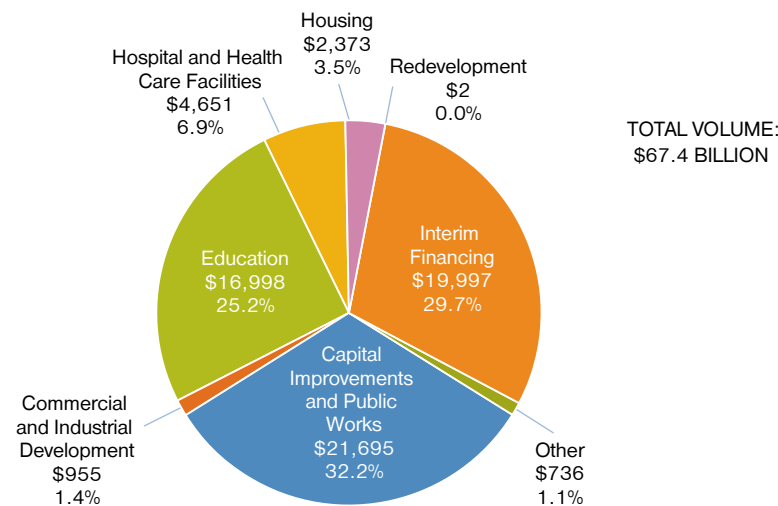
**Figure 12**

CALIFORNIA PUBLIC DEBT, ALL ISSUERS  
TOTAL PAR AMOUNT BY CALENDAR YEAR  
2002 TO 2012 (VOLUME IN MILLIONS)



**Figure 13**

CALIFORNIA PUBLIC DEBT BY PURPOSE  
ALL ISSUERS, 2012 (VOLUME IN MILLIONS)



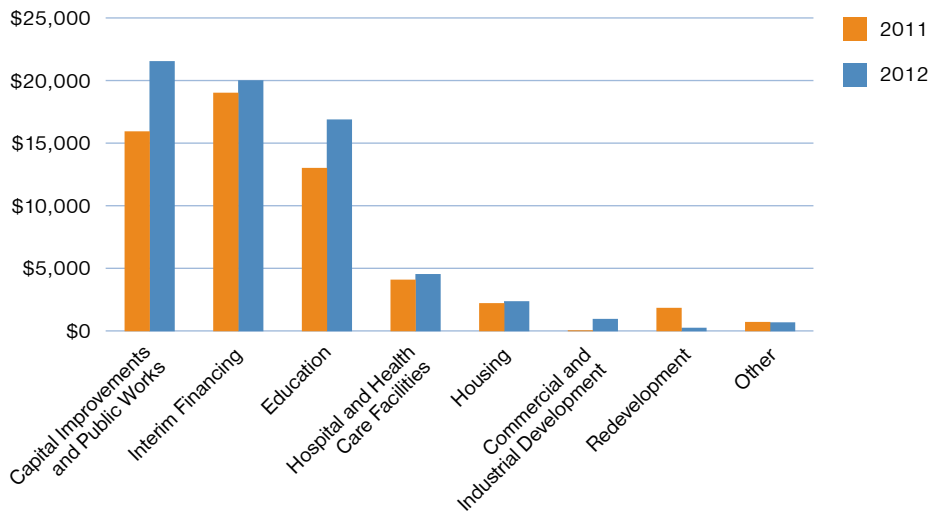
Nearly 30 percent of the debt issued by state and local agencies was issued for interim financing (Figure 13). Approximately 32 percent was used for capital improvements and public works and approximately 25 percent for education facilities. All other uses accounted for almost 13 percent of the total debt issued in 2012.<sup>15</sup>

Debt issued for capital improvements and public works increased by almost 35 percent between 2011 and 2012 (Figure 14). Other purposes for which debt issuance increased during this period were commercial and industrial development (827 percent), education (29 percent), hospital and health care facilities (12 percent), housing

<sup>15</sup> “Other” projects include pensions, economic recovery, working capital, and residential energy conservation/improvements.

**Figure 14**

CALIFORNIA PUBLIC DEBT BY PURPOSE  
ALL ISSUERS, 2011 AND 2012 (VOLUME IN MILLIONS)



(5 percent), and interim financing (4 percent). Multiple bond issuances by the California Pollution Control Financing Authority, particularly in the fourth quarter when issuance totaled \$783 million, contributed to the considerable increase in commercial and industrial development. Redevelopment and “other” projects are the only categories for which issuance decreased (100 percent decline and 2.7 percent decline, respectively). The decline in redevelopment issuance is due to the 2011 passage of AB1X26 (Chapter 5, Statutes of 2011), which dissolved redevelopment agencies.

#### LONG-TERM DEBT VS. SHORT-TERM DEBT ISSUANCE

In 2012, public agencies issued \$47 billion in long-term debt – approximately 70 percent of total issuance for the year (Figure 15). The remaining \$20.4 billion was issued as short-term debt instruments, maturing in 18 months or less.<sup>16</sup> Total long-term debt issuance increased by ap-

proximately 23 percent from 2011 to 2012, and short-term issuance rose by almost 6 percent.

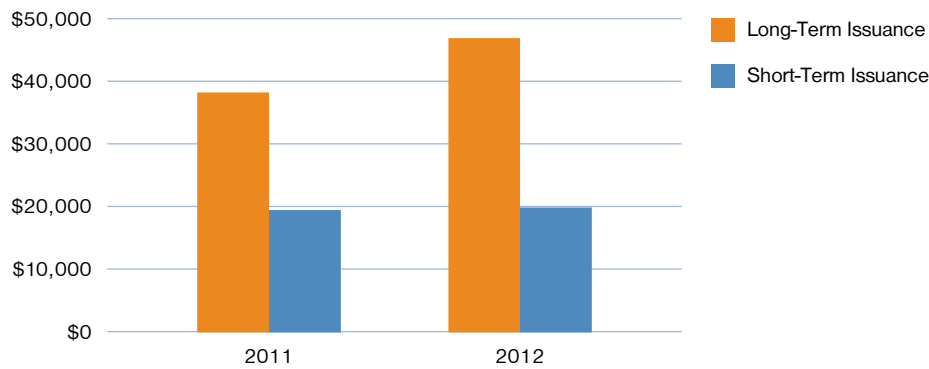
In 2012, long-term issuance consisted primarily of general obligation bonds, public enterprise revenue bonds, and conduit revenue bonds. Major increases from 2011 to 2012 occurred in bank/other institution loans (243.6 percent), limited tax obligation bonds (138.4 percent), sales tax revenue bonds (121.7 percent), and public lease revenue bonds (113.5 percent). While most of the principal volume for bank loans and public lease revenue bonds was for new money, bond financings for limited tax obligation bonds and sales tax revenue bonds accounted mostly for refunding (72.4 percent and 59.5 percent, respectively).

The 5.7 percent increase in short-term issuance is due primarily to tax anticipation notes (4,083.5 percent) and commercial paper (74.1 percent). In 2011, tax anticipation note issuance totaled \$4 million; however in 2012, issuance totaled \$147 million, hence the unusually large surge. Other short-term instruments that experienced an in-

<sup>16</sup> Definitions of short-term debt differ within the finance community. CDIAC considers all forms of debt with an 18 month term or less as short-term and applies this definition to all reports and analyses of public debt it issued.

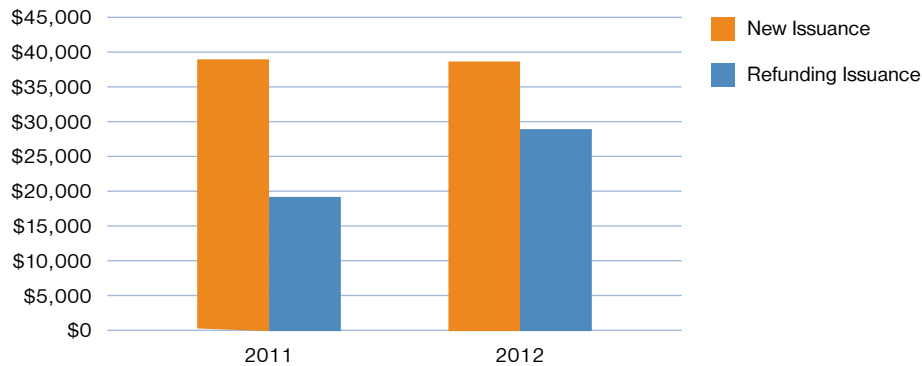
**Figure 15**

CALIFORNIA PUBLIC DEBT, ALL ISSUERS  
COMPARISON OF LONG-TERM AND SHORT-TERM DEBT  
2011 AND 2012 (VOLUME IN MILLIONS)



**Figure 16**

CALIFORNIA PUBLIC DEBT, ALL ISSUERS  
COMPARISON OF NEW AND REFUNDING ISSUANCE  
2011 AND 2012 (VOLUME IN MILLIONS)



crease in issuance are tax and revenue anticipation notes (9.2 percent) and revenue anticipation notes (3.2 percent). While agencies issued short-term tax allocation bonds and revenue anticipation warrants in 2011, none were issued in 2012.

#### NEW MONEY ISSUES VS. REFUNDINGS

Although issuance of new money decreased by a mere 0.5 percent from 2011 to 2012, the vol-

ume of refundings increased by 52.7 percent (Figure 16). California's trend of increased issuance and refunding, and a decrease in new money issuance in 2012, kept pace with national municipal issuance. On the national level, new money issuance decreased one percent and refundings increased 73 percent. One reason for the increase in refundings is continued low interest rates.<sup>17</sup>

<sup>17</sup> National Association of Health and Educational Facilities Finance Authorities, *Supporting Access: 2012 Year in Review: The Year of Refundings* (March 2013) 1.

The State of California refunded \$8.1 billion in outstanding debt, 31.3 percent of the nearly \$26 billion it issued in 2012. Similar to 2011, the largest metropolitan counties issued the greatest volume of debt in 2012. Much of the debt issued by these counties was to refund prior debt. For example, Alameda County issued \$2.5 billion in debt, of which nearly 82 percent was refunding debt. Contra Costa County issued \$1.5 billion in debt; \$971 million or 66.2 percent was issued to refund outstanding debt. Across all local agencies, 50.3 percent of the debt issued in 2012 was new debt and 49.7 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, 91 percent of debt sales by volume in 2012 were negotiated sales. The trend over time has favored

negotiated sales over a competitive sales approach (Figure 17).

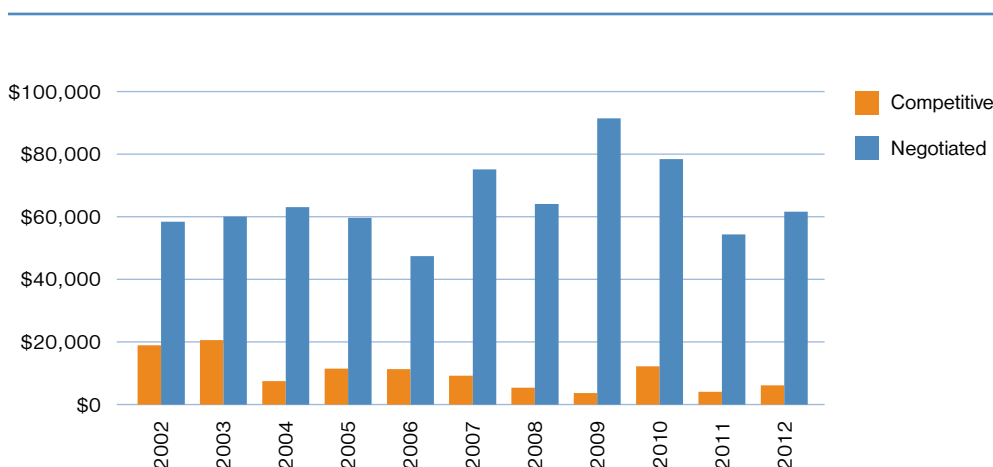
When considering the choice of sales methods, all issuers preferred a negotiated sale, except the City and County of San Francisco, which chose a competitive process (67.9 percent) over the negotiated process (32.1 percent) (Figure 18). Student loan corporations, utility districts, and successor agencies 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 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 percentage of taxable issuance in

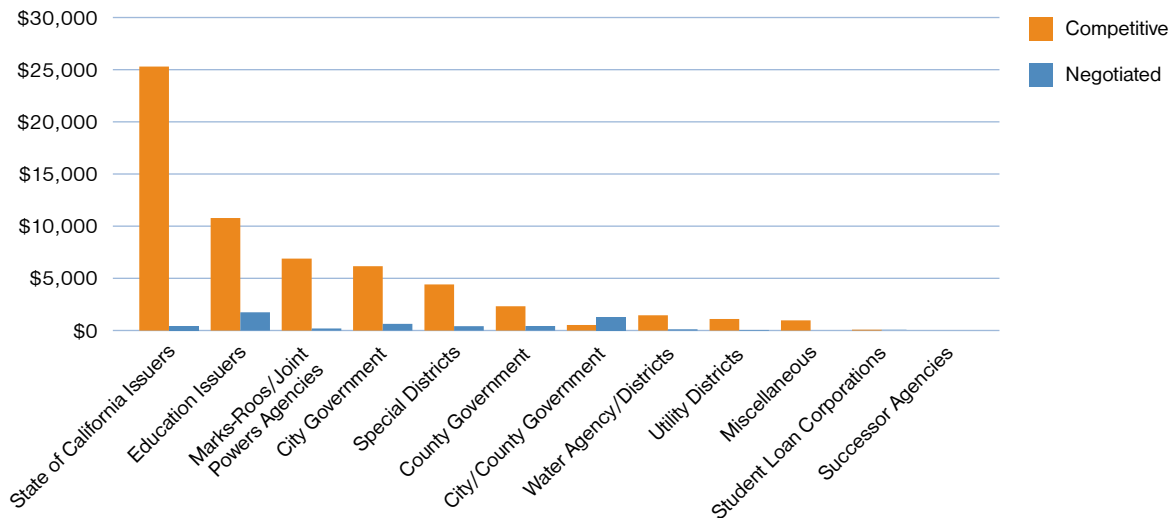
**Figure 17**

CALIFORNIA PUBLIC DEBT, ALL ISSUERS, COMPETITIVE AND NEGOTIATED FINANCINGS 2002 TO 2012 (VOLUME IN MILLIONS)



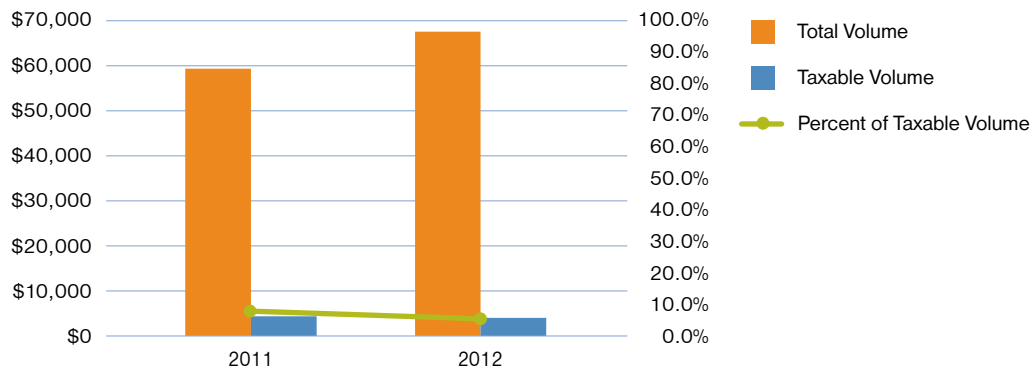
**Figure 18**

CALIFORNIA PUBLIC DEBT, COMPARISON OF NEGOTIATED AND COMPETITIVE SALES BY ISSUERS TYPE, 2012 (VOLUME IN MILLIONS)



**Figure 19**

CALIFORNIA PUBLIC DEBT, ALL ISSUERS, COMPARISON OF TOTAL VOLUME TO TAXABLE FINANCINGS 2011 AND 2012 (VOLUME IN MILLIONS)



2012 decreased from nearly 9 percent in 2011 to 6.3 percent in 2012 (Figure 19).

**CREDIT ENHANCEMENTS**

In 2012, the volume of credit enhanced debt decreased to 7.4 percent from 9.9 percent in 2011, a contrast to 2011 when enhanced debt increased from the previous year (Figure 20). Slightly more than half the debt types maintained the same

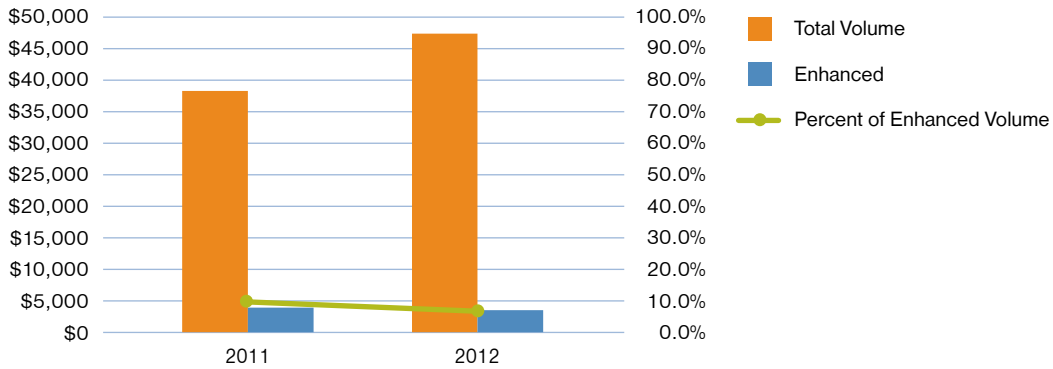
percentage of credit enhancements or marginally increased. Enhancements for conduit revenue bonds experienced the most significant change from 3.3 percent in 2011 to 2.6 percent in 2012.

**STATE DEBT ISSUANCE IN 2012**

In 2012, the State of California issuers sold \$21.9 billion in debt, of which approximately \$10.9 billion was in the form of long-term debt and

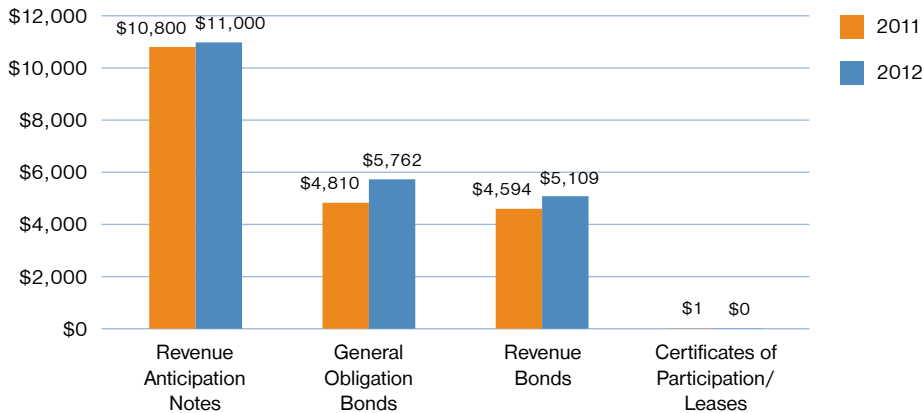
**Figure 20**

CALIFORNIA PUBLIC DEBT, COMPARISON OF TOTAL VOLUME TO ENHANCED VOLUME  
2011 AND 2012 (VOLUME IN MILLIONS)



**Figure 21**

STATE DEBT, 2011 AND 2012, (VOLUME IN MILLIONS)



\$11 billion in short-term notes.<sup>18</sup> State issuance accounted for approximately 32.4 percent of all debt issued by public agencies in California.

Between 2011 and 2012, the issuance of revenue anticipation notes, general obligation bonds, and revenue bonds by state entities increased (Figure 21). However, the issuance of certificates of participation/leases decreased.

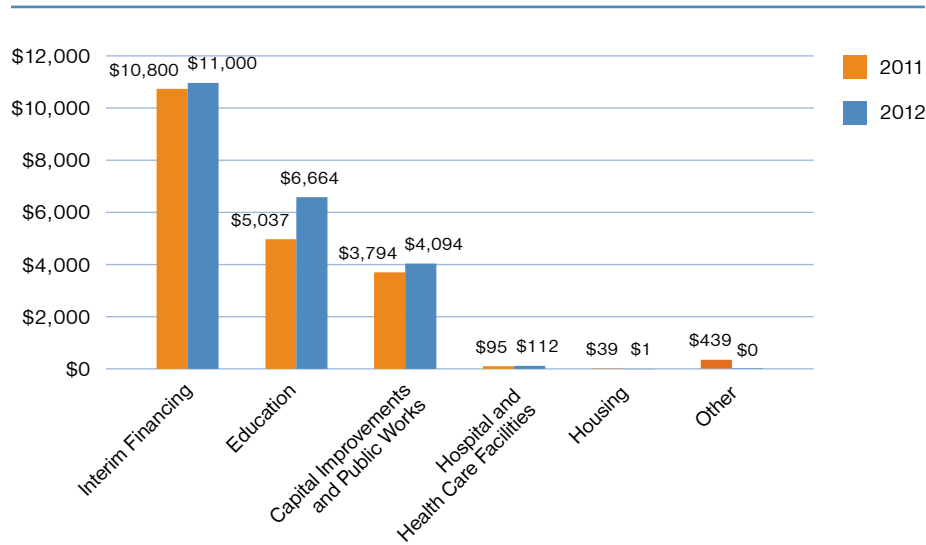
Between 2011 and 2012, state issuance increased for education (32.3 percent), hospital and health care facilities (18.3 percent), capital improvements and public works (7.9 percent), and interim financing (1.9 percent) (Figure 22). Decreases in state issuance only occurred with housing (98.4 percent decline) and “other,” which had no issuance in 2012.<sup>19</sup>

<sup>18</sup> 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.

<sup>19</sup> “Other” purposes include economic recovery and insurance and pension funds.

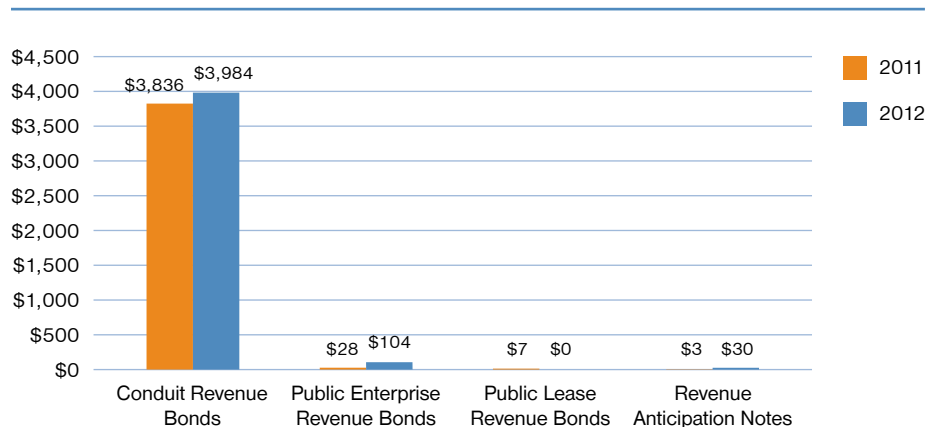
**Figure 22**

STATE DEBT ISSUANCE BY PURPOSE, 2011 AND 2012 (VOLUME IN MILLIONS)



**Figure 23**

VOLUME OF CONDUIT STATE DEBT ISSUANCE  
2011 AND 2012 (VOLUME IN MILLIONS)



### OTHER STATE ISSUERS AND CONDUIT ISSUANCE IN 2012

Issuance by state instrumentalities, including conduit bond issuers, comprised nearly 6.1 percent (\$4.1 billion) of all public agency issuance in 2012.<sup>20</sup> Only the issuance of public lease revenue

bonds by state instrumentalities and conduits decreased between 2011 and 2012 as there was no issuance in this category in 2012 (Figure 23). Public enterprise revenue bonds (272.8 percent), conduit revenue bonds (3.9 percent), and revenue anticipation notes (889.3 percent) financings all increased between 2011 and 2012.

<sup>20</sup> State instrumentalities include the California Department of Veterans Affairs, California Educational Facilities Authority, California Health Facilities Financing Authority, California Housing Finance Agency, California Infrastructure and Economic Development Bank, California Pollution Control Financing Authority, and California School Finance Authority.



Between 2011 and 2012, state conduit bond issuance for commercial and industrial development (all for pollution control) and interim financing increased approximately 10 times (Figure 24). Issuance fell for hospital and health care facilities (25.6 percent decline) and capital improvements and public works (38.5 percent decline).

### STUDENT LOAN FINANCE CORPORATION ISSUANCE 2012

CDIAC typically receives filings from three classifications of student loan entities: private corporations, non-profit corporations and the California Education Facilities Authority. In 2012, there was only one student loan issuance for \$213 million, by a non-profit corporation, which was a re-

funding for bonds issued in 2005 and 2006. This is an increase from 2011 as there were no student loan financings during that year.

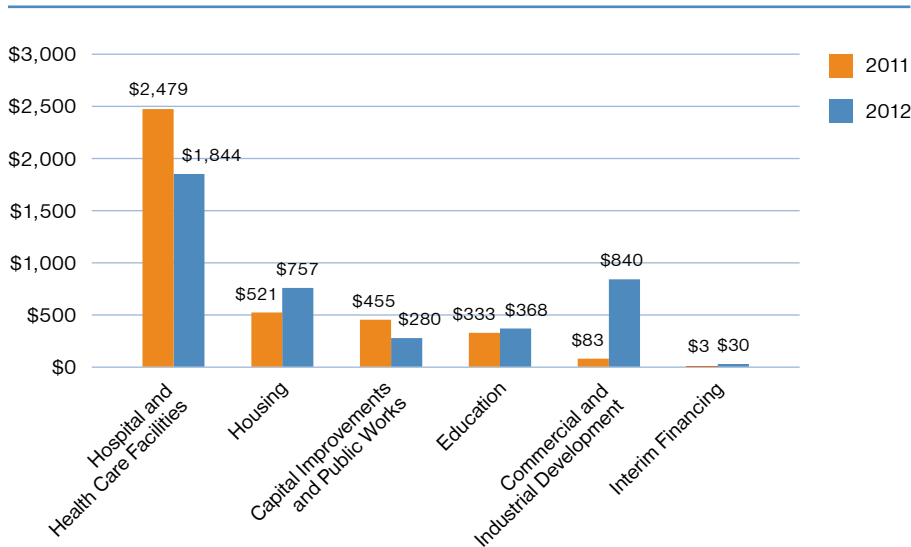
### LOCAL DEBT ISSUANCE IN 2012

In 2012, local agencies issued \$41.2 billion in short- and long-term debt, a 22.8 percent increase from 2011. Among short-term instruments, only the issuance of commercial paper increased between 2011 and 2012. Local agencies increased their issuance of all types of long-term debt in 2012 except “other” forms of bonds (Figure 25).

Between 2011 and 2012, local agencies increased the use of debt for all purposes except housing and redevelopment (Figure 26).

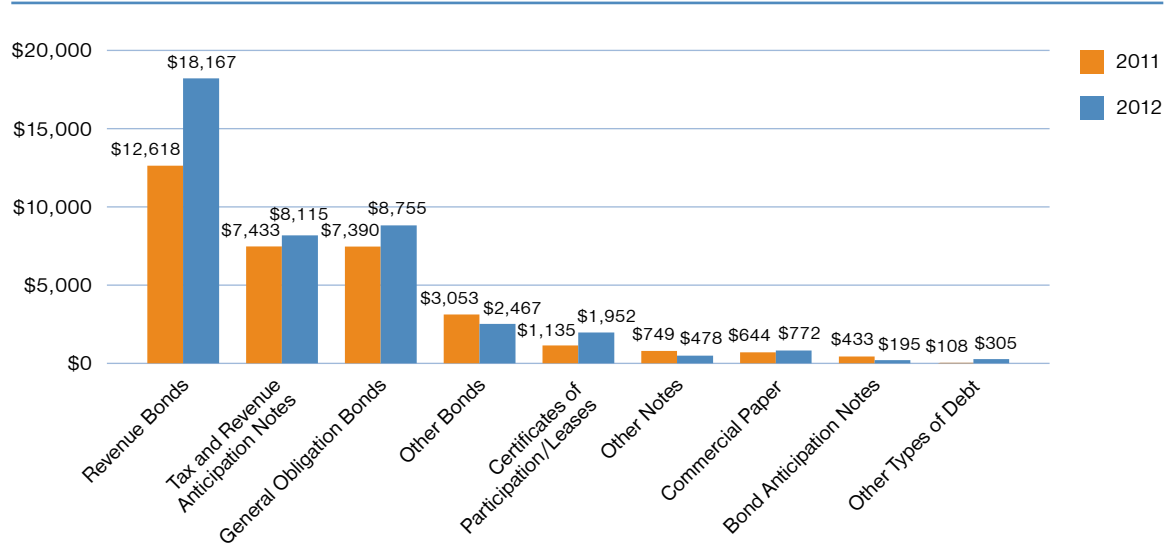
**Figure 24**

CONDUIT STATE DEBT ISSUANCE BY PURPOSE 2011 AND 2012 (VOLUME IN MILLIONS)



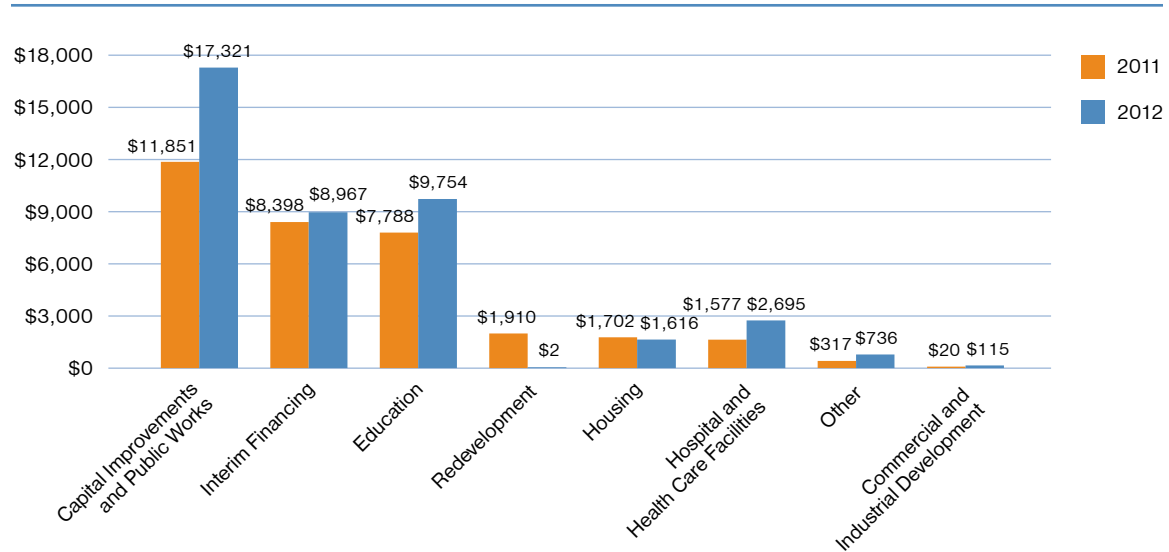
**Figure 25**

VOLUME OF LOCAL AGENCY BOND ISSUANCE BY DEBT TYPE, 2011 AND 2012 (VOLUME IN MILLIONS)



**Figure 26**

VOLUME OF LOCAL AGENCY ISSUANCE BY PURPOSE, 2011 AND 2012 (VOLUME IN MILLIONS)



# 2012 REPORT OF OPERATIONS

## DATA COLLECTION AND ANALYSIS UNIT

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.<sup>21</sup> The Database contains information from 1984 to the present and is updated on a daily basis by Data Unit staff. As of December 31, 2012, the Database contained more than forty-eight thousand records.

For calendar year 2012, the Data Unit received and processed 6,760 reports including Reports of Proposed Debt Issuance (RPDIs)<sup>22</sup>, Reports of Final Sale (RFSs)<sup>23</sup>, 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 27 contains a breakdown of the reports processed by the Data Unit during calendar year 2012.

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.

2012 on-line submission of RPDIs and RFSs accounted for 53 percent of all submissions, an

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<sup>21</sup> 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.

<sup>22</sup> Per Government Code Section 8855(i) issuers of proposed new debt must give notice no later than 30 days prior to the sale date.

<sup>23</sup> 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.

**Figure 27**

REPORTS PROCESSED, CALENDAR YEAR 2012

TYPE OF REPORT	TOTAL
Reports of Proposed Debt Issuance	2,129
Reports of Final Sale	1,901
Mello-Roos Yearly Fiscal Status Reports	1,261
Marks-Roos Yearly Fiscal Status Reports	1,432
Mello-Roos/Marks-Roos Draw on Reserve/Default/Replenishment Filings	38

increase from 39 percent in 2011. Thirty-five percent of the 4,030 RPDIs and RFSs 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 on-line submissions, including conducting customer outreach to determine the reasons for hardcopy submissions and quickly resolving any issues that may be impeding the use of online forms.

Figure 28 displays the methods used to submit RPDIs and RFSs in 2012.

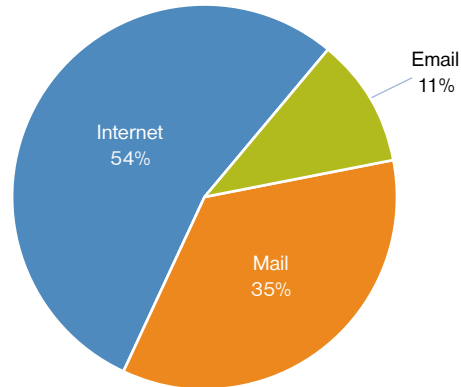
When all types of CDIAC reports are considered, internet submission of all reports increases to approximately 69 percent (Figure 29). Reports received by traditional mail drop to 23 percent. CDIAC’s anticipated automation of the submission of Tax and Revenue Anticipation Note (TRAN) Pools has been delayed. The State Treasurer’s Office Information Technology Division (STO-IT) and Data Unit staff recently began reviewing CDIAC’s TRAN Pool process so that STO-IT could move forward on automating the submission of these reports. 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 and the length of maturity (long-term versus short term).

**Figure 28**

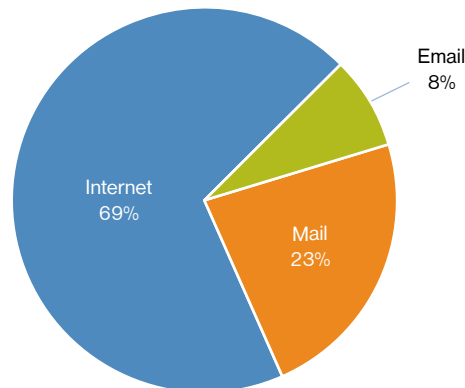
STATE AND LOCAL ISSUANCE  
METHODS OF SUBMITTAL  
RPDIs AND RFSs, 2012



TOTAL REPORTS RECEIVED: 4,030

**Figure 29**

STATE AND LOCAL ISSUANCE  
METHODS OF SUBMITTAL, ALL REPORTS, 2012



TOTAL REPORTS RECEIVED: 6,760

In general, a flat fee of \$150 is assessed for short-term maturities (eighteen months or less). Long-term maturities (greater than eighteen months) are assessed a fee equal to 1.5 basis points (0.00015) not to exceed \$3,000. A detailed fee schedule is available on CDIAC's website.<sup>24</sup>

For 2012, the Data Unit issued 1,088 invoices totaling approximately \$1.9 million. Of these, one was cancelled and one remains uncollected. Figure 30 reflects the breakdown of fees assessed for state and local agencies in 2012.

### Public Access to Data

CDIAC makes available the information submitted by public agencies through the CDIAC website. These web-based resources were accessed more than 6,300 times during 2012. 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.

**ONLINE ISSUANCE DATA.** Excel Format. Data is posted on all public debt issued in California within each calendar year as reported to CDIAC on the RFSs. For the current year, the information is provided by month as received within the dates shown, and is the same information on "sold" issues that is published in the Calendar portion of *Debt Line*.

**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 3,700 times during 2012.

**Figure 30**

FEES ASSESSED IN CALENDAR YEAR 2012  
STATE VS. LOCAL

	FEES ASSESSED	# OF INVOICES
<b>STATE</b>		
Long-Term Debt	\$159,935	64
Short-Term Debt	1,050	7
<b>LOCAL</b>		
Long-Term Debt	1,678,099	888
Short-Term Debt	49,650	129
<b>TOTAL</b>	<b>\$1,888,734</b>	<b>1088</b>

**MARKS-ROOS AND MELLO-ROOS DRAW ON RESERVES/DEFAULT REPORTS.** The Data Unit posts data on draws on reserve and defaults as the reports are received. Reports are listed by issuer and date of occurrence.

Figure 31 displays the number of "hits" or inquiries to CDIAC's online public data during 2012.

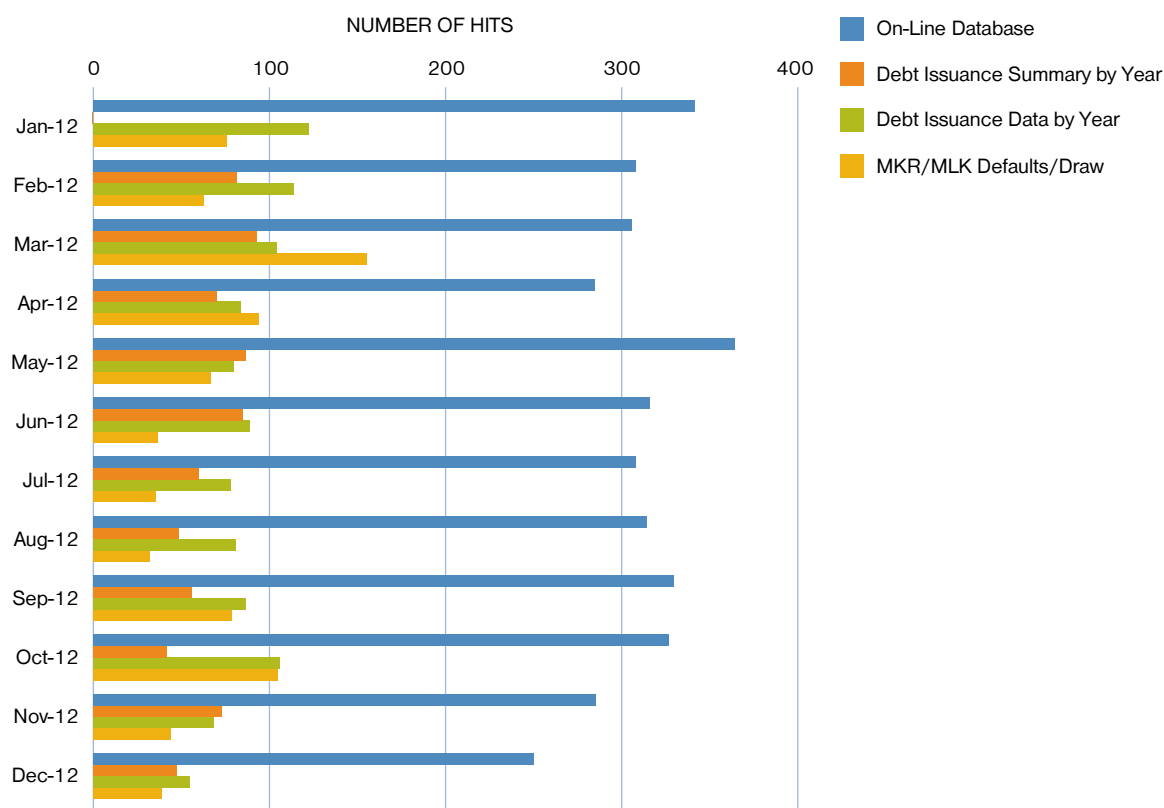
**REPORTS.** CDIAC publishes a number of summary reports using data reported through the year. The Marks-Roos and Mello-Roos Yearly Fiscal Status Reports received by the Data Unit during the fiscal year (July 1 through June 30) are the basis for CDIAC's Marks-Roos Yearly Fiscal Status Report and the Mello-Roos Community Facility District Yearly Fiscal Status Report.<sup>25</sup> In an effort to bring The Marks-Roos Bond Pooling Act Participants Yearly Fiscal Status Report to a current status, the Data Unit published two reports during 2012, the reports for fiscal years 2002-2003 and 2003-2004. The report for fiscal year 2004-05 was published in early 2013. Staff is currently compiling and verifying data for the remaining intervening fiscal years and expects to post the remaining reports to the CDIAC website prior to the end of 2013. The Mello-Roos Community Facilities District Yearly Fiscal Status Re-

<sup>24</sup> 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.

<sup>25</sup> 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.

**Figure 31**

CDIAC CONSTITUENT ON-LINE ACTIVITY, 2012



ports for fiscal years 2009-2010 and 2010-2011 were published in 2012. Staff has completed the Mello-Roos Community Facilities District Yearly Fiscal Status Reports, covering the period of July 1, 2011 through June 30, 2012 and expects this report to be published shortly. The Mello-Roos annual reports are now current with yearly fiscal status reports for FY 2012-13 due to CDIAC by October 30, 2013.

Yearly data is summarized in three report forms:

1. **CALENDAR OF PUBLIC DEBT ISSUANCE.** This annual report lists details of each public debt 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, 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 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 refundings. 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.

### 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, 2012, the Data Unit has digitized 95 percent of the 2009 files and has begun the process with the 2010 files.

MARKS-ROOS YEARLY FISCAL STATUS REPORT FOR LOAN OBLIGATIONS. Developed in 2011, this new form is now available for electronic submission through CDIAC's website.

FILLABLE PDF REPORT OF PROPOSED DEBT ISSUANCE (RPDI). Working with the STO-IT, CDIAC has replaced the mail-in version of this report with a form that can be completed online and submitted electronically. STO-IT developed and CDIAC replaced the non-fillable mail-in version of the RPDI with one that can now either be printed out for manual completion or completed and submitted electronically.

DATABASE UPDATES. APPLICATION BASED REPORTS. Working with STO-IT, CDIAC is to updating several reports currently generated within CDIAC debt issuance database software. Many of these reports were created several years ago and must be updated to require less manual manipulation by staff and reduce the man-hours spent producing them.

CAPTURING PROCESS EFFICIENCIES. The Data Unit continues to work with STO-IT to enable issuers to more easily submit data to CDIAC via the Internet. The online submission rate has remained virtually unchanged from 2011. CDIAC's goal is to receive ninety-five percent of reports online. 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 STO-IT and online submitters, CDIAC has been able to identify and resolve many issues encountered by filers when submitting and printing our reports. CDIAC is concentrating on two main goals for the remainder of this year:

1. Updating our current online forms into a format that will remain user friendly even if the web-browsing software changes.
2. Creating online RPDIs and RFSs for electronic submission of TRAN Pool sale. Currently all TRAN Pool data must be manually entered by Data Unit staff. Developing web-based reports that can be electronically submitted by users will improve staff processing time.

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

TECHNICAL ASSISTANCE. The Data Unit responded to 45 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.

### 2013 Outlook – Debt Issuance Database Review and Development Project

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

## EDUCATION AND OUTREACH UNIT

CDIAC's "core" programming, offered on an annual or biennial basis is described in Figure 32:

**Figure 32**

### CDIAC'S CORE SEMINAR PROGRAM

SEMINAR	DESCRIPTION
MUNICIPAL DEBT ESSENTIALS	<p>CDIAC combined three individual core debt classes (each class was held over 1 ½ days) into Municipal Debt Essentials a 3-day seminar. Participants can attend a single day or a combination of days.</p> <p>DAY ONE: Debt Basics provides 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 <i>Fundamentals of Debt Financing</i>)</p> <p>DAY TWO: Accessing the Market provides 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 bond market investors. (Formerly <i>Mechanics of a Bond Sale</i>)</p> <p>DAY THREE: Debt Administration provides 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 include, managing debt service, post-issuance compliance, investment bond proceeds, or reorganizing debt obligations and refunding, and the continuing disclosure. (Formerly <i>Living with an Issue: On-Going Debt Administration</i>)</p>
INVESTING PUBLIC FUNDS	This one and a half-day seminar covers investment related topics. CDIAC varies the course material to address basic to advanced investment topics in alternating years.
MUNICIPAL MARKET DISCLOSURE	This one-day seminar covers 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 focuses on the use of Mello-Roos and assessment district financing techniques including how to form a district, issue debt, and administer liens.

In 2012, CDIAC conducted 13 educational programs including four "core" courses, six web-based trainings, and three co-sponsored seminars in locations throughout the state.

#### CDIAC Seminar Programs

CDIAC conducted four core debt programs during 2012.

**MUNICIPAL MARKET DISCLOSURE: APPLICATION TO PENSION DISCLOSURE.** In Spring 2012, CDIAC held its one-day seminar on Municipal

Market Disclosure. New to this program in 2012 was a ½ day discussion on pension disclosure.

#### Webinars

In 2012, CDIAC offered six webinars to augment CDIAC's core seminars. The webinars enabled CDIAC to address timely issues and focus on topics that warrant an in-depth discussion that cannot be accommodated in a seminar format.

**MUNICIPAL MARKET OUTLOOK 2012.** In Winter 2012, CDIAC held a webinar which provided



an anticipatory look at market conditions for issuing debt during the year. The webinar discussed volume and trends for munis, treasuries, and corporates, as well as the credit conditions for the 1st quarter of 2012. This session addressed the status of tax-exempt munis and the push for direct subsidies.

**INVESTMENT ANALYSIS: DURATION CALCULATION.** In Winter 2012, CDIAC held a webinar on duration analysis. This webinar focused on the concept of duration and the factors that are considered when applying it to a portfolio of investments, including coupon rates, maturities, yields, and option features.

**INVESTMENT STRUCTURES AND RISK MANAGEMENT OF PUBLIC INVESTMENT PORTFOLIOS.** In Spring 2012, CDIAC held a webinar on managing risk in a public investment portfolio. This webinar focused on the tools for portfolio risk assessment and principles of portfolio risk management including risk tolerance, duration analysis, and risk mitigation strategies.

**NEW FRONTIERS IN PUBLIC FINANCE: A RETURN TO DIRECT LENDING.** In Fall 2012, CDIAC held a webinar on direct lending. This webinar focused on the various forms of direct lending, including private placements and direct loans and the increase in popularity of this municipal financing strategy. This webinar explained why direct lending may present a cost effective and risk appropriate form of financing for local agencies.

**A DOUBLE-EDGED SWORD: THE ECONOMICS OF PENSION OBLIGATION BOND FINANCING FOR LOCAL GOVERNMENTS.** In Fall 2012, CDIAC held a webinar on pension obligation bonds (POBs). This webinar provided an examination of the benefits and risks of utilizing POBs and a discussion of the policy considerations, financing options, and disclosure requirements for financing pension liabilities.

**ACHIEVING THE GRADE: SCHOOL DISTRICT CONTINUING DISCLOSURE PRACTICES IN TODAY'S MARKET.** In Fall 2012, CDIAC held a webinar

that provided school district issuers with information on how to fulfill their continuing reporting requirements to the municipal market by providing timely, accurate, and compliant disclosures.

## Co-sponsored Seminars

**CSMFO PRE-CONFERENCE.** In Winter 2012, CDIAC held a half-day pre-conference, *Stepping Forward: The Role of the Finance Officer in Today's Changing Market* at the California Society of Municipal Finance Officer's (CSMFO) Association Annual Conference. The program addressed what industry professionals have learned during the past few years and served as a reminder of how public agencies can better serve their constituencies.

**CDIAC AND MSRB DISCLOSURE PROGRAM.** In Summer 2012, CDIAC, in partnership with MSRB, held a program that addressed changes in market regulation as well as the MSRB's long-range plan for greater market disclosure and transparency.

**BOND BUYER PRE-CONFERENCE.** In Fall 2012, CDIAC held a three-quarter day pre-conference, *Exploring the Dimensions of Municipal Credits at The Bond Buyer's* annual California Public Finance Conference. The program drew over 130 attendees and served as an important discussion of the impacts of the recession on public-sector credit analysis including credit quality, collateral, and capacity to repay debt. This marked the eleventh consecutive year that CDIAC has partnered with *The Bond Buyer* on the pre-conference.

## Seminar Registration

Attendance at CDIAC events in 2012 totaled 988 municipal professionals, a decrease in attendance from 1,507 in 2011. This decrease can be attributed to topics that CDIAC chose to address during the year through its webinar presentations. The webinar topics, even though relevant, drew fewer participants because the specialized topics appealed to a more targeted audience than the general debt topics (Bond Math 1 & 2) offered in 2011.

**Figure 33**

**PARTICIPATION AT CDIAC EVENTS, 2012**

EVENT TITLE	DATE	LOCATION	TOTAL PARTICIPANTS
<b>CDIAC SEMINARS</b>			
Municipal Debt Essentials 1	3/13/2012	Pomona, CA	63
Municipal Debt Essentials 2	3/14/2012	Pomona, CA	56
Municipal Debt Essentials 3	3/15/2012	Pomona, CA	64
Municipal Market Disclosure: Application to Pension Disclosure	5/3/2012	West Sacramento, CA	51
<b>CDIAC WEBINARS</b>			
Municipal Market Outlook	1/11/2012	Online	43
Investment Analysis: Duration Calculation	2/15/2012	Online	45
Investment Structures and Risk Management of Public Investment Portfolios	3/28/2012	Online	57
New Frontiers in Public Finance: A Return to Direct Lending	10/3/2012	Online	104
A Double Edge Sword: The Economics of Pension Obligation Bond Financing for Local Governments	10/24/2012	Online	82
Achieving the Grade: School District Continuing Disclosure Practices in Today's Market	11/14/2012	Online	67
<b>OTHER CDIAC ENGAGEMENTS</b>			
Pre-Conference at CSMFO 2012 Annual Conference	2/29/2012	Anaheim, CA	38
CDIAC and MSRB Disclosure Program	7/24/2012	San Francisco, CA	181
<i>The Bond Buyer</i> Pre-Conference 2012	10/17/2012	San Francisco, CA	137
TOTAL			988

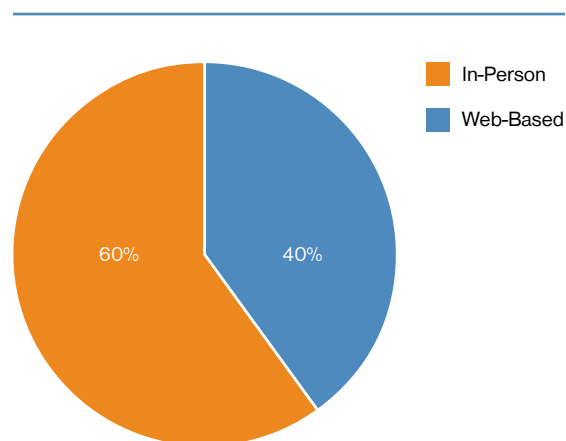
While overall registration was down for 2012, the composition of attendance for in-person and web-based training remained the same (Figure 34).

Figure 35 displays a breakdown of the public versus private attendance at CDIAC's 2012 education programs, including CDIAC's partnership programs. If registration from CDIAC's partnership with the MSRB and the pre-conference program at the *The Bond Buyer* conference were excluded, almost 89 percent of the attendees at CDIAC programs were from the public sector.

Figure 36 reflects attendees by organization type at all CDIAC's educational programs for calendar year 2012. Approximately 37 percent of all

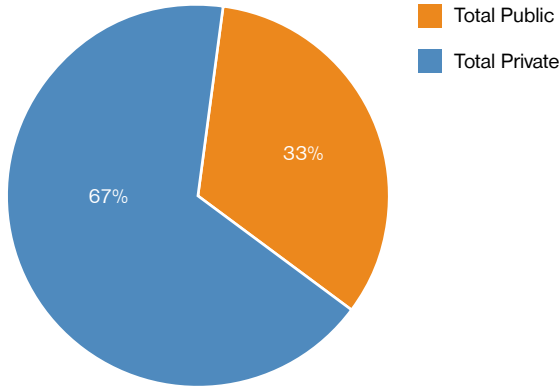
**Figure 34**

**ATTENDANCE AT CDIAC PROGRAMS IN-PERSON VS. WEB-BASED TRAINING, 2012**



**Figure 35**

ATTENDANCE AT CDIAC PROGRAMS BY ORGANIZATIONAL AFFILIATION PUBLIC VS. PRIVATE, 2012



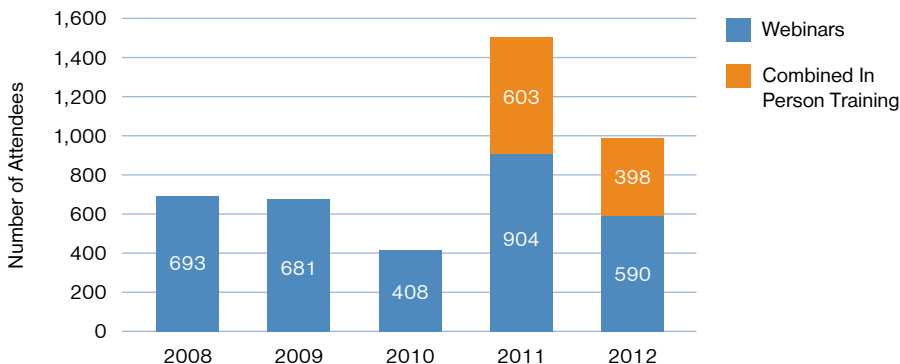
attendees of CDIAC’s 2012 seminars were from cities and counties.

**Historical Comparison of Seminar Attendance**

Attendance in 2012 represented the second highest year of attendance at CDIAC programs in the past five years. Over the past five years, CDIAC has attracted approximately 4,277 attendees to its training and educational programs, including educational offerings held in partnership with other organizations. Figure 37 reflects enrollment activity in CDIAC programs over the past five years.

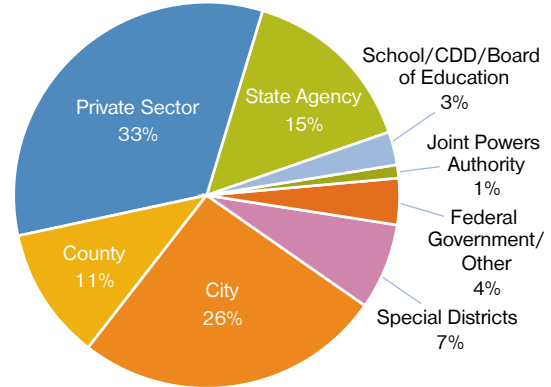
**Figure 37**

ATTENDANCE AT CDIAC PROGRAMS, 2008 TO 2012



**Figure 36**

ATTENDANCE AT CDIAC PROGRAMS BY ORGANIZATION TYPE, 2012

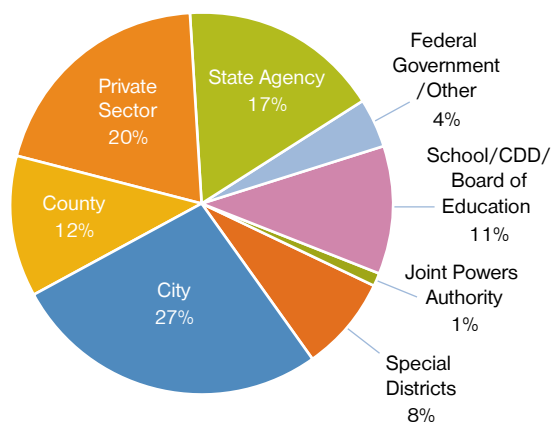


Based on enrollment over the past five years, CDIAC continues to serve its primary audience, public agency issuers, by a 4 to 1 ratio. Figures 38 and 39 reflect that public agencies primarily attend CDIAC programs. Since 2012, cities and counties represent almost 40 percent of all attendees at CDIAC programs.

In 2012, there was a small increase in private participation; this increase is directly tied to CDIAC’s program with the MSRB, where a high number of private municipal market professionals were in attendance (Figure 39).

**Figure 38**

ATTENDANCE AT CDIAC PROGRAM BY ORGANIZATION TYPE, 2008 TO 2012



**Figure 39**

ATTENDANCE AT CDIAC PROGRAMS PUBLIC VS. PRIVATE, 2008 TO 2012

YEAR	% PUBLIC	% PRIVATE
2008	73%	27%
2009	74	26
2010	74	26
2011	74	26
2012	70%	30%

### 2013 Outlook-Prospective Educational Approaches and Activities

California public agencies are experiencing the retirement of senior debt and treasury staff in record numbers. In response, CDIAC must continue to focus its educational programs on training their replacements. CDIAC will continue to deliver classroom and electronic training through seminars, workshops, conferences and live-streaming webinars. In addition, CDIAC will research the opportunity and feasibility of using electronic media that would give public finance professionals ready access to debt financing curricula-based on CDIAC’s Debt Issuance Primer. Finally, CDIAC will continue its efforts to stay abreast of topical issues related to both the

municipal finance and public investment markets and collaborate with CDIAC’s research unit to expand educational offerings.

Future CDIAC seminars will continue to have a timely and topical focus, providing public officials with information on best practices. Topics under consideration for 2013 include refunding redevelopment debt, infrastructure financing districts, debt financing policies, fiscal stress, private placements, and other investment instruments. CDIAC will offer a pre-conference workshop with *The Bond Buyer* in September 2013 and a program with CMTA in 2014. In addition, should tax reform impact the tax-exempt status of municipal bonds, CDIAC will seek to address the ramifications and revised approaches to municipal debt financing.

### 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 CHAPTER MEETINGS AND DIVISIONAL AND STATE-WIDE COMMITTEES AND ADVISORY GROUPS.** CDIAC staff will attend regional and divisional association meetings and events to interface with professional groups to build networks and maintain a presence in the industry. In addition, the education unit will collaborate on public finance association boards and technical advisory committees, including the Council of Development Finance Agencies (CDFA) California Roundtable Technical Advisory Committee.

**STRATEGIC PARTNERSHIPS AND MARKETING.** CDIAC staff will continue one-on-one meetings with the leadership of allied associations including the CSMFO and California Municipal Treasurer’s Association (CMTA) and broaden contact with industry leading organizations such as the Association of Government Accountants (AGA), League of California Cities, California State Association of Counties (CSAC), California Special

District Association (CSDA), CDFA, Government of Finance Officer's Association (GFOA), Government of Investment Officer's Association (GIOA), and regional government associations, 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 cities and elected officials.

**EXISTING PARTNERSHIPS.** CDIAC partnered for the 11<sup>th</sup> 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 CDFA. CDIAC plans to participate in roundtable discussions and webinars regarding the issues following the dissolution of California redevelopment agencies. In addition, CDIAC will become more involved with delivering collaborative seminars with the city public investment associations on core and current topics to help prepare investment officials for the probability of rising interest rates.

## RESEARCH UNIT

In 2012, the CDIAC Research Unit produced the following articles, reports or issue briefs:

- CDIAC produced and published data on capital appreciation bond issuance between January 2007 and November 1, 2012, assembling and individually analyzing bond sales using the Database along with data from the EMMA database and bond official statements. Results of this research have provided the analytical foundation for many news articles and reform efforts currently being considered by the State Legislature under Assembly Bill 182 (Buchanan and Hueso).
- A SURVEY OF THE COUNTY TREASURER'S ROLE IN SCHOOL DISTRICT GENERAL OBLIGATION BOND FINANCING. CDIAC published the results of a survey examining the relationship between California school districts and the 58 county treasurers' offices with regard to GO bond financings. The publication examined the authorities and processes underlying the approval, sale, and administration of school district GO bonds to better understand the roles of other governing bodies including the school board and the county board of supervisors in the issuance of school district GO bonds.
- PUBLIC WORKS BORROWING BY LOCAL AGENCIES 2001-2011. CDIAC produced a history and general view of public works infrastructure financing used by cities, counties, agencies and special districts in California from 2001 through 2011.
- CALIFORNIA LOCAL AGENCY GENERAL OBLIGATION BOND COST OF ISSUANCE 2009-2011. CDIAC published a review and analysis of cost of issuance for local agency GO bonds issued during calendar years 2009 through 2011 with the intent of assisting issuers in identifying and planning costs associated with future bond issuance.
- AN HISTORICAL REVIEW OF LOCAL PUBLIC ENTERPRISE REVENUE BOND ISSUANCE. CDIAC published a history of public enterprise revenue bonds over the last quarter century. This type of financing instrument has been the most widely used method of bond funding for capital improvement projects in California. With the need for future infrastructure financing in California, this report provides an overview of the sources and uses of public enterprise revenue bonds in California.
- CONDUIT REVENUE BOND SPOTLIGHT. CDIAC prepared this article to give an overview of conduit revenue bond issuance and default history, regulations controlling their use, and other related current events.
- REDEVELOPMENT BOND ISSUANCE. In light of the dissolution of redevelopment in California, CDIAC conducted a review of redevelopment agencies debt issuance from 1985

to 2011 and provided a summary of issuance derived from information reported to CDIAC as of April 4, 2012.

- LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2012. CDIAC, working collaboratively with industry contacts, reviewed and updated the CDIAC Local Agency Investment Guidelines. CDIAC research staff presented the Local Agency Investment Guidelines at the CACTTC education conference and at a regional CMTA conference.
- CDIAC researched the City of Stockton's outstanding bonds in conjunction with the City's bankruptcy action.
- CDIAC participated in crafting and reviewing the *California Municipal Treasurer Investment Policy Certification Program*.
- CDIAC published its monthly newsletter, *Debt Line*, throughout 2012, posting issuance statistics along with research articles penned by

CDIAC staff and guest authors from selected areas within the public finance community.

#### Initiated Projects in Process

ACADEMIC RESEARCH. In the second half of 2012, working in collaboration with the Center for California Studies at Sacramento State University, CDIAC commissioned academic research to provide a methodology to assess bond default probabilities in 250 California cities.

ASSESSMENT OF CDIAC'S DEBT ISSUANCE PRIMER. Since the original CDIAC *Debt Issuance Primer* was published, many changes in the legal, financial policy, and technological environments have changed. In late 2012, CDIAC commissioned an update of the contents and presentation of the Primer to provide users a comprehensive and easy to use tool that reflects the improvements in display presentation and information retrieval available through current publishing technology.





**CDIAC**

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