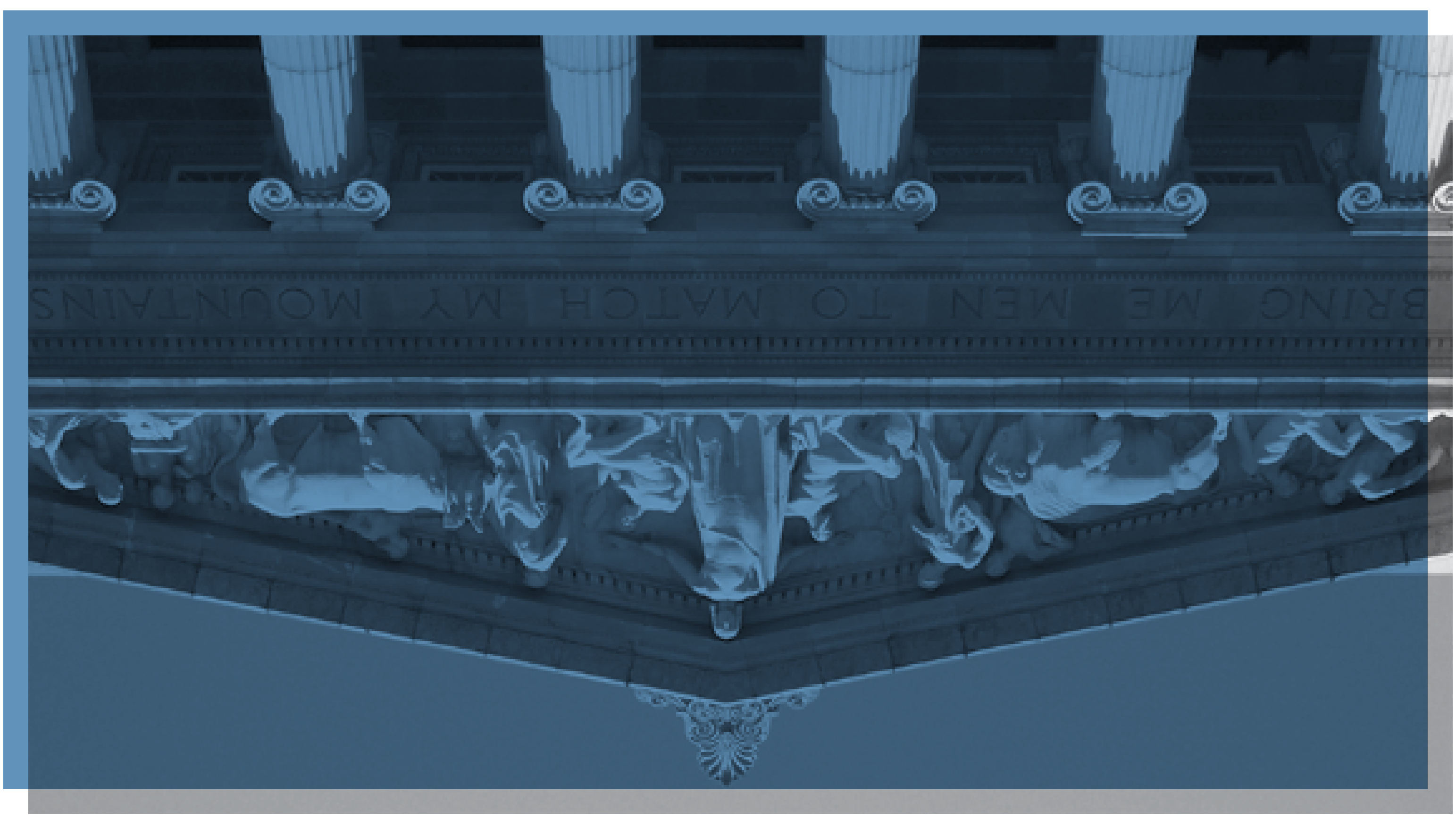
2014 ANNUAL REPORT

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION | CDIAC No. 15.03



CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

July 01, 2015

To Our Constituents:

I am pleased to present the California Debt and Investment Advisory Commission (CDIAC) *2014 Annual Report*.

In preparing this report each year, CDIAC reviews its accomplishments against the backdrop of municipal market activities, including the regulatory, policy, and economic changes that affect issuers and other market participants. In 2014 two California cities were nearing the end of a multi-year journey through chapter 9 bankruptcy. Both proceedings raised important questions about public finance. In Stockton, a single investor challenged the court's treatment of the City's pension obligation vis-à-vis bondholders. In San Bernardino, the bankruptcy raised questions about whether the pension plan had priority over bondholders to the City's limited general fund. The question of the priority of repayment and nature of revenues in a bankruptcy was the incentive for CDIAC to convene a symposium on California general obligation bonds. The discussion helped to clarify the strength of this credit with the hope of lowering the cost of financing for those local agencies that issue this type of debt.

In 2014, CDIAC actively paired its research with its education agenda to expand the discussion and inspire issuers and public finance professions to consider new and improved practices. The webinar on developing and administering a debt policy is possibly the clearest example of this. As revealed by research conducted by CDIAC, an unacceptable number of issuers have not developed nor maintained policies with respect to the use of debt. This research evidenced the need to address the scope, purpose, and benefits of debt policies through education.

CDIAC also deserves special mention for the manner in which it has used webinars. Since 2012, CDIAC has complemented its in-person, classroom training with webinars—the latter most effectively used to deliver technical or time-sensitive information. This was best demonstrated by CDIAC's quick response to the Security and Exchange Commission's (SEC) launch of the Municipal Continuing Disclosure Cooperative Initiative (MCDC). The CDIAC webinar, aired just one month after the SEC announced the MCDC program, was the first to address the anxiety of the market over the program.

CDIAC's role in providing timely and relevant training is matched by its long-standing commitment to its core debt and investment seminar program. In 2014, CDIAC offered basic training in public investment management, disclosure, and land-secured finance. These programs serve the needs of new as well as experienced public finance professionals.

As we move into 2015, CDIAC is committed to providing the highest level of service with planned improvements to its data collection and reporting processes, an expansive agenda of research projects, and training that avails public officials of the tools needed to properly manage and safeguard the public's resources.

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 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 21 days after the actual sale date.[1] 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, for as long as their bonds are outstanding, must submit a yearly fiscal status report on or before October 30th. Data compiled from these reports are the basis for public issuance statistics and analyses released by CDIAC. Since 1984, CDIAC has maintained this information in the California Debt Issuance Database – a portion of which is available on CDIAC's website.[2]

Figure 1

CDIAC STATUTORY PROVISIONS

FUNCTION	CALIFORNIA CODE SECTION	DESCRIPTION OF PROVISIONS
CDIAC Authorizing Statute	Government Code Section 8855 - 8859	Establishes CDIAC's duties
Report of Proposed Debt Issuance	Government Code Section 8855(i)	Requires the issuer of any proposed debt issue of state or local government to, no later than 30 days prior to the sale, submit a report of the proposed issuance to CDIAC.
Report of Final Sale	Government Code Section 8855(j)	Requires the issuer of any debt issue of state or local government to submit, not later than 21 days after sale, 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, specific events affecting the value of outstanding bonds, and annual status.
Marks-Roos Reporting Requirements	Government Code Section 6586.5, 6586.7, 6599.1(a), 6588.7 (e) (2), 6599.1(c)	Reporting requirements: notice of hearing authorizing bond sale, copy of resolution authorizing bonds, written notice of proposed sale, debt issuance, annual debt service, default, reserve draw, rate reduction bond savings, and annual status.
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 through a public sale.
School District Reporting	Education Code Section 15146(c) and (d)	Reporting requirements: cost of issuance of bonds issued by a school district and report of sale or planned sale by a school district.

[1] AB 2274, Gordon (Chapter 181, Statutes of 2014) reduced the time period for submission of final reports of debt issuance from 45 days to 21 days.

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

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 new public finance staff to the bond issuance and investment processes; (2) strengthen the expertise of public officials familiar with the issuance and the investment processes; and (3) inform public officials about current topics that may affect public issuance and the investment of public funds.

CDIAC COMMISSION MEMBERS

Pursuant to statute, 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 2014 Commission members serving as of June 30, 2014 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.

MIMI WALTERS

State Senator, 37th District
Residence: Laguna Niguel, California

Background: Mimi Walters was a member of the California State Senate for the 37th District from 2012 to 2015. She previously represented the 33rd Senate District from 2008 to 2012 before redistricting. She also served in the California State Assembly from 2004 to 2008, where she served in the Republican leadership as Assistant Republican Leader and Vice Chair of the Appropriations Committee. She was elected to the United States House of Representatives representing the 45th Congressional District on November 4, 2014.

CAROL LIU

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

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

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

STEVE FOX

Assembly Member, 36th District
Residence: Palmdale, California

Background: Los Angeles County Assemblymember Steve Fox is a life-long resident of Los Angeles County. He earned a bachelor's degree in political science from California State University, Northridge in 1976 and worked as a teacher in the Los Angeles Unified School District. After passing the bar exam in 1994, he opened his own law firm in Lancaster, California. He has been a public servant throughout his adult life. He was a member of the board of the Northwest Los Angeles Resource Conservation District from 1979 to 1983 and also served as a student trustee of the L.A. Community College District from 1982 to 1983. In 1990, he was elected to the Antelope Valley Health Care District's Board of Trustees and chaired the panel from 2000 to 2002. From 2005 to 2009, Assemblymember Fox sat on the Board of the Antelope Valley College District.

HENRY T. PEREA

Assembly Member, 31st District
Residence: Fresno, California

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

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

JOSÉ CISNEROS

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

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.

DAVID BAUM
City of San Leandro
Residence: San Francisco Bay Area, California

Background: David Baum is the Director of Finance for the City of San Leandro. In this capacity, he is responsible for budget, treasury function, debt administration, revenue management, general accounting, payroll, and purchasing. He has more than 20 years of local government experience including serving as the Chief Financial Officer of the San Jose Redevelopment Agency and manager of the financial rehabilitation of the City of Hercules. In addition, he served over 10 years as a board member of an elementary and middle school in Saratoga.

Mr. Baum holds a Bachelor of Arts Degree in economics from Stanford University.

Highlights from the 2014 California Municipal Market

THE LINGERING IMPACTS OF MUNICIPAL BANKRUPTCIES

In October, Judge Christopher Klein approved the City of Stockton's plan to exit bankruptcy without impairing its obligations to the City's pension plan. However, Klein had earlier ruled that it would be legal under federal bankruptcy law to reject Stockton's contract with California Public Employees' Retirement System (CalPERS) to provide pensions for city employees. The single holdout from the settlement, Franklin Advisors, filed an appeal. Franklin objected to taking a significant loss on the $35 million of bonds it holds while CalPERS was left whole. Although the plan of adjustment provided only a one-percent recovery rate for Franklin, it also eliminated future health benefits for retirees.

Judge Steven Rhodes approved the City of Detroit's plan of adjustment in November 2014 marking the end of the largest municipal bankruptcy in history. The court-approved plan of adjustment, which took effect on December 11th, reduced the city's long-term debt by $7 billion. Much of the saving came from reductions in retiree health care benefits.

Finally, the City of San Bernardino entered into negotiations with creditors in November 2013 after it was unable to make payments to its retirement plan. While negotiations continued through 2014, Judge Meredith Jury gave the City until May 2015 to file a plan of adjustment. At odds in those negotiations are the City's obligations to pension bondholders vis-a-vis continuing to fund its pension plan maintained by CalPERS.

In Stockton and Detroit, the presiding judges both affirmed the theoretical ability to impair pensions in a municipal bankruptcy, but pensions were untouched in Stockton and only lightly impaired in Detroit. In both those workouts, however, bondholders took significant losses. Neither case, however, answered the difficult question of whether pensions can be impaired. In Stockton, Judge Klein ruled that they could be, but the City choose not to do so. As details of the agreement between San Bernardino and CalPERS become apparent it appears that it will allow the city to continue to meet its obligations to the pension system but cut payments to bondholders.

Of equal importance are the questions raised in these negotiations about the nature of the general obligation security. Detroit revealed the often contradictory perspectives of creditors and bondholders with regard to what is considered a secured obligation in a Chapter 9 bankruptcy. Detroit treated its general obligation bondholders as unsecured creditors, arguing that because the debt lacked a statutory lien it was unsecured, the same as retiree health care or any other unsecured obligations. Bondholders had assumed that the city's general obligation bonds we backed by a full faith and credit pledge and therefore protected. But for bankruptcy attorneys, secured debts are only those in which state law recognizes that the creditor has an interest in the debtor's property. The treatment of general obligation bonds in bankruptcy differs from state to state, causing investors and credit analysts to hope that the courts themselves might help to clarify which elements of the general obligation security are susceptible to interpretation.

PENSION DISCLOSURE

The bankruptcy exit plans approved in Detroit and Stockton favoring pensioners over bondholders and the rating downgrades in fiscally strained Illinois and Pennsylvania intensified the discussion concerning pension liabilities. The Great Recession pushed to the fore the burden represented by the unfunded pension liabilities of many state and local governments. In December, Securities and Exchange Commission (SEC) Commissioner Daniel Gallagher acknowledged the need for greater disclosure of pension and other post-employment benefits obligations. Even though the Government Accounting Standards Board (GASB) has adopted new reporting requirements that seek to better characterize these liabilities, he suggested additional regulations and oversight may be needed to protect bondholders.

The Tower Amendment, which was added to the Securities Exchange Act of 1934 in the mid-1970s, prevents the SEC or the Municipal Securities Rulemaking Board (MSRB) from directly requiring issuer disclosures in connection with a bond offering. The SEC's 2012 Report on the Municipal Securities Market recommended legislative action to grant the SEC authority to directly dictate aspects of issuer disclosure.[3] Others have called for the repeal of the Tower Amendment, paving a way for greater regulation of municipal disclosures. In August 2014, the SEC charged the State of Kansas with fraudulently misrepresenting the condition of the State's pension plan in bond documents. In settling the administrative action against the state, the SEC affirmed that failure to report the fact that the pension plan was underfunded violated the antifraud provisions of Section 17(a) of the Securities Act of 1933.

In April 2014, the U.S. Treasury Department created the Office of State and Local Finance to address the increasing challenges facing municipalities. The office will focus initially on the impact of public employee pensions on state and local agencies. It will also attempt to address the mismatch between available capital and the need for financing to build and maintain the nation's public infrastructure.

MUNICIPAL CONTINUING DISCLOSURE COOPERATIVE INITIATIVE

The SEC announced on March 10, 2014 the launch of a new program to encourage self-reporting of specific continuing disclosure violations made by issuers and underwriters. The program, named the Municipal Continuing Disclosure Cooperative Initiative (MCDC), allowed both to get favorable settlement terms if they voluntarily reported that an official statement failed to state that the issuer did not file annual disclosure and operating information at some point during the five years prior as "promised" by the issuer. The SEC's Rule 15c2-12 on disclosure requires that an issuer's official statement (OS) specify if the issuer failed, at any time dur-

[3] Available at www.sec.gov/news/studies/2012/munireport073112.pdf

ing the five years prior to the preparation of the OS, to file annual financial information in accordance with its continuing disclosure agreement. The SEC made it clear that issuers who decided not to participate could face fraud charges and could be hit with financial penalties.

The program created substantial anxiety among both issuers and underwriters, who claimed that it created a "prisoner's dilemma" that pitted each against the other. State and local officials expressed concern that small issuers of municipal bonds would be put at greater risk because they often lack the resources or support to comply with annual disclosure obligations. Others expressed concern about the workload required to trace prior disclosures or the cost associated with determining the materiality of any perceived lapses. But the SEC, unmoved by complaints, required underwriters to report lapses in their disclosures by September 10th while issuers were given to December 1st to report.

Beginning with its 2012 comprehensive muni market report, the MCDC is yet another illustration of the attention the SEC is now paying to the municipal market. Municipal issuers should consider the fact that the SEC is likely to continue to use the antifraud provisions in federal securities laws to spur disclosure reforms.

REGULATORY CHANGES AFFECTING MARKET PARTICIPANTS

The Municipal Advisor Rule (MA Rule) became effective on January 6, 2014, carrying forward policy recommendations contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) (Dodd-Frank). Dodd-Frank, which required for the first time that non-dealer municipal advisors become subject to MSRB rules, imposes a fiduciary duty on, and requires the registration of, individuals and firms who provide municipalities with advice about bond issuance, muni derivatives, or muni escrow funds. The MSRB proposed core standards for the conduct of municipal advisors, including a fiduciary duty to put clients' interests first. In addition, the standards set forth responsibilities regarding disclosure and professional conduct responsibilities, and established minimum levels of expertise.

The MA Rule as drafted generated questions from both the broker-dealer community and issuers about the nature of communications between the two. Of concern was the extent to which broker-dealers could provide information to issuers in advance of being hired by the issuer to underwrite the bonds. The SEC provided guidance on this topic in January, 2014, but concerns remained with regard to the scope of the communication underwriters can have with issuers of municipal bonds without becoming MAs and whether role-switching from MA to underwriter in the same transaction is possible under some circumstances. The Securities Industry and Financial Markets Association (SIFMA) released model documents designed to help its members comply with the MA Rule.

Elements of the MA Rule were the subject of additional rulemaking during 2014. Among them were requirements that MAs must register with the MSRB and the SEC and adhere to the MSRB's Rule G-17 on fair dealing. In April, the MSRB filed a new rule, Rule A-11, requiring MAs to pay a $300 annual fee. In August, the MSRB proposed rules to extend the pay-to-play restrictions contained in Rule G-37 to MAs. While rules implementing Dodd-Frank seek to protect issuers, they have simultaneously uprooted long-standing business relationships between issuers and financial advisors. In many cases, the burden of fees, registration, recordkeeping, and certification is proving to be too much for small firms to bear and many have closed their doors or merged with other, larger firms.

The MSRB also announced that a major objective for the new fiscal year would be price transparency. In June, the MSRB announced enhancements to its EMMA site allowing investors to enter the nine-digit CUSIP of any municipal security and find other municipal bonds that have the same maturity dates, interest rates, and other features.[4]

The Internal Revenue Service (IRS) and the SEC proposed rules for determining the price of a bond issue. Issue price is important because it is used to help determine the yield on bonds and whether the issuer is complying with arbitrage rebate or yield restriction requirements, as well as the amount of federal subsidy payments issuers receive for direct-pay bonds such as Build America Bonds. Issue price also plays a role in complying with other muni tax rules such as the two-percent limit on issuance costs for private-activity bonds and the size of debt service reserve funds. The proposed rules base the determination of issue price on actual sales of the bonds. According to the proposed rule, the issue price would be determined to be the price at which the first 25 percent of the bonds is actually sold to the public.

[4] CUSIP stands for the Committee on Uniform Security Identification Procedures and represents the unique coding associated with a security and used to clear and settle trades of that security.

Alternative Financing in the Municipal Market: Financial and Policy Considerations for Municipal Borrowers

Standard & Poor's (S&P) defines "alternative financing" as:

> "(D)ebt other than traditional long-term-fixed rate debt, notes, variable-rate demand bonds, and commercial paper commonly sold in the U.S. municipal market. Alternative financing typically includes bank loans, direct purchase bonds, and other types of privately placed debt."[5]

S&P recognizes that this type of financing has grown in response to the decline in variable-rate demand bonds, which were supported by letters of credit or other bank liquidity facilities. But the rise of alternative lending reflects other structural changes in the capital markets as well. These include:

- Liquidity facilities becoming less economical causing banks to move to restructure their auction rate securities and variable rate demand obligations (VRDOs) to fixed-rate loans;
- Deepening of the Great Recession and increasing importance of counterparty risk as a critical factor, leading borrowers to substitute credit enhancement or terminate swap agreements whenever possible;
- Dips in short and long-term rates and credit spread stabilization, precipitating borrowers refunding outstanding debt, including variable-rate obligations; and
- Experation of federal supports for new money issuance under ARRA, inducing borrowers to accelerate projects and their search for capital.

The increasingly limited capital base resulting from structural changes in the market expanded the menu of financing options available to public borrowers to include floating rate notes (FRNs), callable debt, extendable debt, century bonds, municipal guaranteed bonds, and vendor financing.[6] This also included more creative financing approaches like privately placed debt and direct loans from new market participants including

[5] Standard & Poor's Ratings Services, *RatingsDirect: How Standard & Poor's Considers U.S. Public Finance Alternative Financing In Its Rating Process*, March 26, 2014.

[6] FRNs are a debt instrument with a variable interest rate tied to a benchmark. Callable debt can be redeemed by the issuer prior to maturity, usually by paying a premium to the bondholder. Extendable commercial paper and bonds give the issuer or investor the option to extend the maturity date. Century bonds mature in 100 years whereas traditionally bonds mature within 40 years of issuance. With municipal guaranteed bonds, the municipality guarantees the debt of a third party. Vendor financing consists of a vendor providing a new service that is paid for by the issuer through regular rates over the life of the service.

hedge funds and private investors. Some borrowers were attracted by lower issuance costs or the absence of disclosure obligations provided by these new products. But as the debt market further fragmented with the introduction of alternative products, the debt portfolios of borrowers took on additional complexities. To manage this risk, borrowers need to exercise levels of due diligence not present in a traditionally structured debt portfolio that has relied on long-term, fixed rate borrowing.

ISSUER CONSIDERATIONS– ASSESSMENT OF RISK

The emergence of the alternative lending market undoubtably provides benefits to issuers by offering diversification and, often times, new sources of capital. But issuers should recognize that the structural character of these loans may differ from the traditional forms of borrowing they have used in the past. Specifically, many of these loans contain covenants that lead to acceleration, create demands on liquidity, or contain cross-default provisions for other outstanding debt of the borrower.[7] These claims may subordinate the claims of other lenders even if those lenders negotiated terms with the borrower prior to the latter borrowing in the alternative market.

Issuers' debt management policies should be updated to account for changes in the municipal market. Issuers should conduct a cost/benefit analysis for alternative debt products. They should also fully understand the proposed debt structure, what assets are pledged, the potential impacts and interdependencies, as well as how it will affect budget and operational performance. Different debt structures do not eliminate risks but they allocate them differently. In issuing any type of debt, issuers should be aware of what risks they are retaining and how those risks might be realized.

When considering alternative financing options, municipal issuers should contemplate the following:

- How does this product differ from traditional fixed-rate debt?
  - What is the rate structure?
  - How is the interest rate reset?
  - How often is the interest rate reset?
  - Are there counterparties involved?
  - How often do counterparties need to be replaced?
  - Are there any early payment provisions outside of maturity, including an acceleration or tender option?
  - Are there future burdens such as low initial costs that build over time?
- What are the key benefits and risks?
- How does this product fit into and impact the current debt portfolio and asset/liability management?
- What types of issuers have used it?
- Has it been tested in an adverse situation?
  - What was the outcome and impact on the issuer?
- What is the current market for this product?
  - Is the investor base broad?
  - Are there any limitations to the investor base?
- What transaction features are most attractive to investors?
  - Do they come with a certain cost for the issuer?
  - Do these costs outweigh the benefits?

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7 Acceleration provisions require full payment of the debt on default or give private lenders priority in default and repayment (commonly called "most favored nation" clauses).

- What structural features are investors most concerned about?
- What are the accounting and disclosure requirements?
- What is required and what do investors expect in terms of disclosure?
- What are the rating agency's views on the product and the likely impact on credit quality?
- Does the product require expert knowledge of financial products or more intensive work to monitor markets and counterparties?
- Is there a risk that the issuer could be responsible to cover a payment of another party, such as the U.S. government, that is relied upon for repayment of the debt?
- What is the worst theoretical outcome for an issuer that uses this product?

DISCLOSURE AND REPORTING – EXPOSING THE INTERSECTION BETWEEN MUNICIPAL SECURITIES AND OTHER FORMS OF DEBT

Rating agencies have expressed concerns about alternative financing, in particular the structural risks associated with direct loans. The terms and conditions of these loans or obligations are often different from other forms of municipal debt and they tend to be less transparent. This fact raises concerns among credit analysts who are unable to ascertain the nature of risk pertaining to the whole portfolio of a borrower's obligations precisely because it may not be fully disclosed.[8] The increased focus on disclosure for alternative financing is, in part, due to the financial crisis during which the near total collapse of the bond insurance industry revealed the underlying credit quality of borrowers. A delay in or lack of disclosure of bank loans impairs the bond investor's ability to make a timely assessment of the loan's influence on the borrower's credit profile, hold-sell decisions, rating deterioration, and appropriate bond valuation.

In addition to increased investor interest in and demand for disclosure of alternative financings, municipal borrowers may find it prudent to disclose for the sake of transparency and in order to maintain strong relationships with investors and rating agencies. Although there are no securities laws compelling such disclosure for alternative financings, there is widespread support of voluntary disclosure by the municipal market, as evidenced in part by the creation of the Bank Loan Disclosure Task Force.[9] The Task Force published "Considerations Regarding Voluntary Secondary Market Disclosure about Bank Loans."[10] Additionally, municipal market agencies have published guidelines and briefs in support of voluntary disclosure.[11] Is-

[8] S&P, *Not All Loans Are Equal: Some Terms and Conditions That Make Disclosure Critical in Evaluating Credit Risk*, July 23, 2014, *available at* www.treasurer.ca.gov/cdiac/seminars/2014/20141008/risk.pdf; Moody's Investors Series, *Direct Bank Loans Carry Credit Risks Similar to Variable Rate Demand Bonds for Public Finance Issuers*, Sept. 15, 2011, *available at* www.treasurer.ca.gov/cdiac/seminars/2014/20141008/loans.pdf.

[9] The Bank Loan Disclosure Task Force is comprised of: American Bankers Association (ABA), Bond Dealers of America (BDA), Government Finance Officers Association (GFOA), Investment Company Institute (ICI), National Association of Bond Lawyers (NABL), National Association of Health and Educational Facilities Finance Authorities (NAHEFFA), National Association of Independent Public Finance Advisors (NAIPFA), National Federation of Municipal Analysts (NFMA), and Securities Industry and Financial Markets Association (SIMFA).

[10] SIFMA, *White Paper: Considerations Regarding Voluntary Secondary Market Disclosure about Bank Loans*, May 1, 2013, *available at* www.sifma.org/issues/item.aspx?id=8589943360.

[11] S&P, *Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance*, Feb. 18, 2014, *available at* www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1260447&SctArtId=215585&from=CM&nsl_code=LIME&sourceObjectId=8463571&sourceRevId=1&fee_ind=N&exp_date=20240219-21:48:41; MSRB Notice 2012-18, *Notice Concerning Voluntary Disclosure of Bank Loans*, Apr. 3, 2012, *available at* http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2012/2012-18.aspx; GFOA, *Understanding Bank Loans*, Sep. 2013, available at www.gfoa.org/understanding-bank-loans.

suers may file disclosure documents with the market through the MSRB.[12]

The application of federal securities laws as they relate to initial disclosure of an alternative financing hinges on whether it is considered a "loan" or a "security." Loans are not subject to the disclosure rules, while securities are.[13] However, this distinction is not always clear in the language of the financing documents, and the accounting treatment of the debt is completely separate from its securities treatment. As to continuing disclosure, there are several instances where it is inapplicable to privately placed debt. First, if the issue is sold to 35 or less sophisticated investors with no intent to resell no continuing disclosure is required. Second, Rule 15c2-12 is inapplicable where there is no underwriting or no "municipal security." Because Rule 15c2-12 applies directly to underwriters – who obtain a commitment from the borrowers to provide continuing disclosures – borrowers may reasonably defer to the direct purchaser or another party in determining whether continuing disclosure is required.[14]

Borrowers may also consider whether to report a direct purchase or direct loan as part of the continuing disclosure for a previous issue. Rule 15c2-12 requires issuers to report specified "material events." However, taking on new debt is not a specified material event. As a result, issuers are not required to report it. As a best practice, an issuer should consider voluntarily disclosing when they take on additional debt if the issuer has outstanding public debt.

Issuers may also consider reporting their alternative financings on the basis of Rule 10b-5 which makes it unlawful to make a material misstatement or omit a material statement in the purchase or sale of a security. Again, where such a financing is not deemed a security, the securities laws will not apply. A fact is material where "there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest."[15] Common practice is for issuers to address Rule 10b-5 concerns absent a disclosure document. This is generally accomplished by disclosing material facts to the investor, allowing investors to ask questions and perform their due diligence, or obtaining an investor letter. Rule 10b-5 applies when issuers are speaking to the market; there is no requirement for issuers to continuously update investors. Generally, the rule is applicable upon a new offering, annual filings, material events notices, and any voluntary filing.

Alternative financing should also be disclosed in audited financial statements. The Governmental Accounting Standards Board (GASB) has particular accounting requirements for bank loans.[16]

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[12] MSRB's Electronic Municipal Market Access (EMMA) system is used for most debt, but the Short-term Obligation Rate Transparency (SHORT) system can be used for securities bearing interest at short-term rates, such as auction rate securities (ARS) and VRDOs.

[13] The distinction was established in *Reves v. Ernst & Young, Inc.*, 494 U.S. 56 (1990). *See also* MSRB Notice 2011-52, *Potential Applicability of MSRB Rules to Certain "Direct Purchases" and "Bank Loans"*, Sep. 12, 2011, *available at* http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2011/2011-52.aspx.

[14] "Borrower" is used here in the context of a loan, but securities laws refer to a borrower who issues debt as an "issuer." As a result, we may use them interchangeably.

[15] *In the Matter of the City of Miami, Florida, Cesar Odio, and Manohar Surana*, A.P. File No. 3-10022, Initial Decision Release No. 185 (June 22, 2001).

[16] GASB Statement 34, Appendix C illustrates a schedule of long-term liabilities. GASB Statement 38, Appendix C, Illustration 7 is an example of disclosure of debt service requirements. Illustrations 5 and 6 of the same appendix are examples of disclosures of legal or contractual provisions violations.

POLICIES AND PROCEDURES – HOW TO PROTECT THE INTERESTS OF BORROWERS AND THE MARKET ALIKE

Municipalities can incorporate alternative financings into their debt policies to diversify their portfolios, access capital, or merely decrease overall market risk. However, it is critical for issuers to understand the terms of alternative financings and communicate that information to rating agencies and, at their discretion, to the market. Even with these precautions, alternative financings present a number of challenges that may not be present in more traditional borrowing. To address the challenges, borrowers may consider the following points.

First, municipalities may wish to evaluate their debt and investment management policies and ensure that alternative financings are properly addressed. Public investment managers and their counterparts on the debt side commonly structure their portfolios conservatively, but independently. As a result, the management approach used for debt issuance may be incompatible with the approach used for investing. For example, the agency may have only long-term, fixed rate debt but be invested in short-term, variable rate securities. To the extent that they make conflicting assumptions about changes in interest rates, borrowers may not be capturing the benefits of diversification or they may be taking on unrecognized market risk.

Borrowers should be aware of the terms of their obligations and avoid provisions that expose them to unknown or unreasonable risk. Alternative financings generally use legal structures similar to those used in commercial lending. Issuers may be less familiar with the transactional terms, requiring specialized expertise from bond counsel or a financial advisor. Even absent this support, a borrower is free to negotiate the terms of the financing contract. Borrowers should be wary of acceleration provisions, regulatory gross-up requirements, corporate tax change gross-up requirements, and even downgrade provisions that increase the rate.[17]

Public borrowers should also keep in mind the potential consequences that exist when they fail to disclose privately held debt or direct loans. Rating agencies rely on audit reports to review a borrower's credit position and in each review factor in the issuance of new debt and its priority with respect to other liabilities. A borrower that does not release an audit in a timely fashion may receive a ratings downgrade. Because audit reports are often late, issuers are encouraged to voluntarily disclose the terms of new debt when it is issued.

The existing alternative financing practices also have the potential to hurt bondholders, both through unfair pricing and because bondholders may have a lower priority to alternative lenders in the distribution of cash flow. Because bondholders do not currently have full and timely information about alternative financing, the pricing for traditionally financed debt may not have been fully risk-adjusted.

The current state of the municipal market leads to inconsistencies in how alternative financings are considered and disclosed. There are several approaches that may be taken to address the current discrepancies in disclosure.

1. Market-based reform;
2. State-based reform;
3. Revision of 15c2-12; or
4. Repeal of the Tower Amendment

While some market-based reforms are beginning to appear, to be truly effective the market has to

[17] A gross-up requirement usually appears as a provision of a loan agreement that obligates the issuer to pay a higher loan rate upon the occurrence of a specified event, such as a change in municipal regulations or tax law that would negatively affect the bank's after-tax yield.

reward and penalize borrowers who fail to fully disclose other obligations to bondholders. At present, there are no formal penalties for borrowers who fail to disclose. The fact that the audited financial statements of most borrowers are significantly delayed remains a concern to many investors. Market-based reform would be more effective if investors insisted on fair pricing based on full disclosure of all debt issuance. In the absence of disclosure requirements regarding alternative financing, it falls on the market to establish standards. Investors could identify the relevant information they would like borrowers to disclose. For example, issuers could be asked to develop a one-page summary of each alternative financing stating the events that could cause rates to increase or cause the debt to be due and payable immediately, any covenants that differ from the issuer's bonds, and the priority of debtholders. Alternately, investors could require issuers to provide links to proprietary documents – redacted if necessary – to allow interested parties to assess the importance and impact of new debt.[18] Both methods are in line with the voluntary disclosure guidelines published by MSRB and GFOA.[19]

There has been little state-based reform. The passage of AB 2274 (Chapter 181, Statutes of 2014) in California clarifies that loans are to be considered a "reportable" form of debt by the California Debt and Investment Advisory Commission. There is no requirement, however, that borrowers disclosure their alternative loans to EMMA where it may be more readily accessible to investors. Further, it is unknown whether other states will adopt similar measures. Absent widespread adoption of these standards disclosure will remain inconsistent from state to state.

The third approach is to revise SEC Rule 15c2-12 to deem the issuance of any new debt a material event. This is the most straightforward means of addressing investor concerns and ensuring uniform disclosure of alternative financings. While the SEC is currently seeking comment on Rule 15c2-12 in conformity with federal regulations, it is unclear whether and at what time any substantive changes will be made to the Rule.

Finally, full and complete disclosure may only be achievable if municipal issuers are required to conform to the rules that apply to corporations. This is only possible if Congress moves to overturn the protections provided by the Tower Amendment, an unlikely scenario and one that has great adverse implications for the market.

[18] Voluntary disclosure of alternative financings should include the core financing documents: bank loan agreements, lines of credit, compliance certificates and accompanying worksheets, swap documents, intercreditor agreements, and any other private placement agreements.

[19] *See* supra note 11.

State and Local Bond Issuance

Public debt issuance fell 5.4 percent between 2013 and 2014 (from $64.9 billion to $61.4 billion) (Figure 2).[20, 21, 22] However, the number of debt transactions increased 3.6 percent (from 1,979 to 2,051). State and local debt issuance in 2014 was 14.5 percent below the 10-year average of $71.9 billion (Figure 3).

Nearly 42 percent of the debt issued was for capital improvements and public works, approxi-

Figure 2

PRINCIPAL AMOUNT ISSUED AND NUMBER OF ISSUES
ALL CALIFORNIA ISSUERS, 2013 AND 2014 ($ IN MILLIONS)*

ISSUER TYPE	2013		2014		PERCENT CHANGE IN VOLUME FROM 2013 TO 2014
	VOLUME	NUMBER	VOLUME	NUMBER	
State Issuer	$24,254	267	$16,082	197	-33.7%
K-12 School District	10,195	555	8,640	436	-15.3
City Government	5,935	153	5,235	113	-11.8
Joint Powers Agency	6,539	524	11,562	810	76.8
County Government	3,695	36	2,754	33	-25.5
City and County Government	1,425	19	1,216	16	-14.7
Student Loan Corporation	447	1	0	0	-100.0
Other Issuer	12,416	424	15,941	446	28.4
TOTAL	$64,906	1,979	$61,430	2,051	-5.4%

*Totals may not add due to rounding.

[20] Total includes short-term and long-term debt.

[21] 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, successor agencies to redevelopment agencies, community facilities districts, and community college districts.

[22] A “transaction” is defined as any financing or portion of a financing for which a CDIAC number was generated.

Figure 3

CALIFORNIA PUBLIC DEBT, ALL CALIFORNIA ISSUERS
TOTAL PAR AMOUNT BY CALENDAR YEAR
2004 TO 2014 ($ IN MILLIONS)

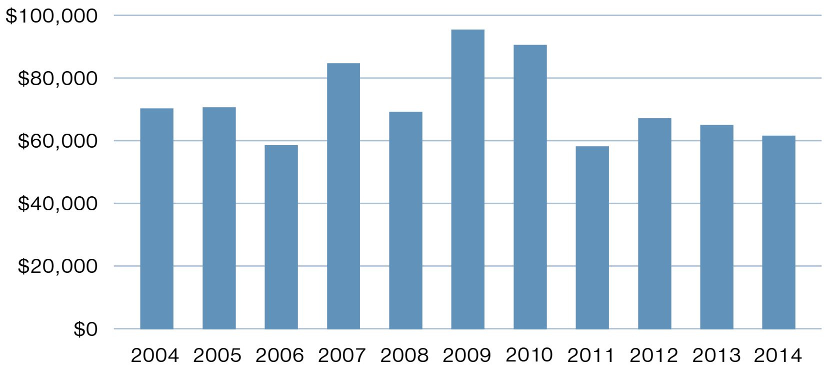
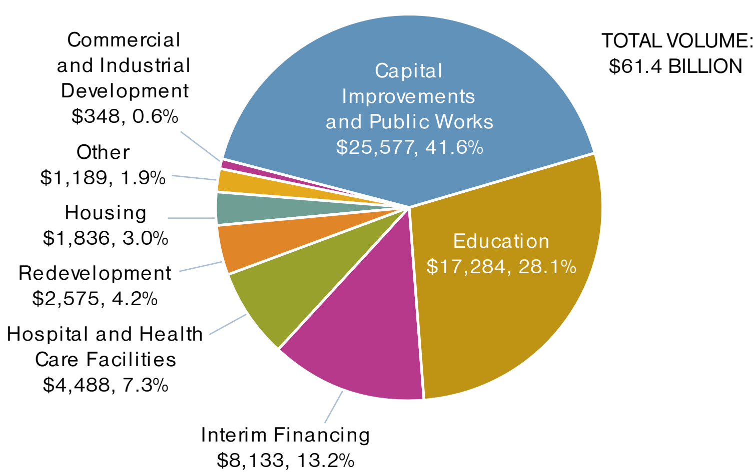


Figure 4

CALIFORNIA PUBLIC DEBT BY PURPOSE
ALL CALIFORNIA ISSUERS, 2014 ($ IN MILLIONS)



mately 28 percent was for education and approximately 13 percent for interim financing (Figure 4). All other uses accounted for 17 percent of the total debt issued in 2014.[23]

The notable purposes for which debt issuance decreased from 2013 were interim financing (40 percent decline) and education (18.5 percent decline) (Figure 5). Issuance for capital improvements and public works increased from 2013 (nearly 23 percent). The most significant year-over-year increase in issuance was for redevelopment purposes (173 percent); much of this due to refundings ($2.4 billion).

[23] "Other" projects include commercial energy conservation/improvement, human resources, insurance and pension funds, residential energy conservation/improvement, state revolving fund, delinquent tax financing, and tax receivables.

Figure 5

CALIFORNIA PUBLIC DEBT BY PURPOSE
ALL CALIFORNIA ISSUERS, 2013 AND 2014 ($ IN MILLIONS)

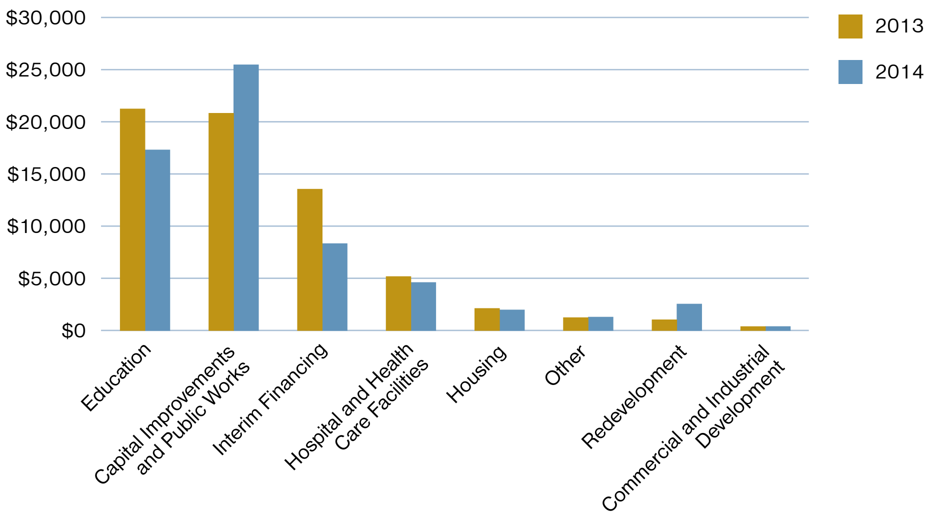
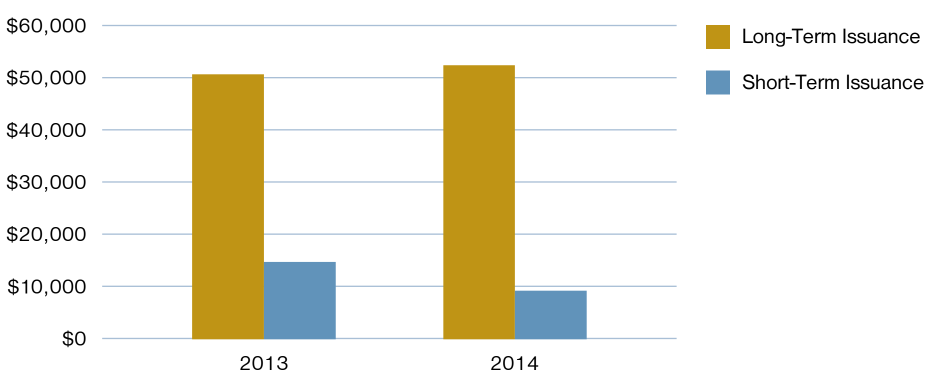


Figure 6

COMPARISON OF LONG-TERM AND SHORT-TERM DEBT
ALL CALIFORNIA ISSUERS, 2013 AND 2014 ($ IN MILLIONS)



LONG-TERM DEBT VS. SHORT-TERM DEBT ISSUANCE[24]

In 2014, public agencies issued nearly $53 billion in long-term debt – approximately 85 percent of total issuance for the year (Figure 6). The remaining $9 billion was issued as short-term debt instruments, maturing in 18 months or less. Total long-term debt issuance increased by approximately 3.5 percent from 2013 to 2014 while short-term issuance declined by nearly 37 percent.

In 2014, long-term issuance consisted primarily of general obligation bonds, conduit revenue bonds, and public enterprise revenue bonds. Ma-

[24] 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.

jor increases from 2013 to 2014 occurred in tax allocation bonds associated predominately with the refunding of redevelopment debt.

The decrease in short-term issuance (36.9 percent decline) was due primarily to the decreases in bond anticipation notes (75.8 percent decline), revenue anticipation notes (47.1 percent decline), and tax and revenue anticipation notes (38.5 percent decline). Other types of short-term debt declined as well, including commercial paper (22.1 percent decline) and tax anticipation notes (19.7 percent decline).

NEW MONEY ISSUES VS. REFUNDING

As with debt issuance overall, new money decreased in California by nearly 16 percent. However, refundings increased by 9.3 percent, from 2013 to 2014 (Figure 7).

The State of California refunded approximately $4.6 billion in outstanding debt in 2014, a decrease of nearly 60 percent from the $11 billion refunded in 2013. Among local issuers with debt issuance of more than $1 billion, more than half of their total issuance in 2014 was done to refund existing debt (53.7 percent).

COMPETITIVE VS. NEGOTIATED TRANSACTIONS

Public agencies have the ability to sell their debt through either a competitive or negotiated sale method. In a negotiated sale the issuer selects the underwriter 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. In 2014, 86.8 percent of sales by California public debt issuers were negotiated. The trend over time has consistently favored negotiated sales by a wide margin. Since 2004, roughly 87.3 percent of California public debt has been issued through a negotiated sales approach. (Figure 8).

When considering the choice of sales methods, all issuers preferred a negotiated sale (Figure 9). Both issuer characteristics and financial conditions may contribute to the selection of one method over another. For example, the strength of the credit, size of issue, type of debt instrument, and/or complexity of the structure may warrant the use of a negotiated sale method. However, as clearly evident in the prevalence of the method in the California municipal market, the negotiated sale method is very commonly used in more routine "vanilla" offerings, as well.

Figure 7

COMPARISON OF NEW AND REFUNDING ISSUANCE
ALL CALIFORNIA ISSUERS, 2013-2014 ($ IN MILLIONS)

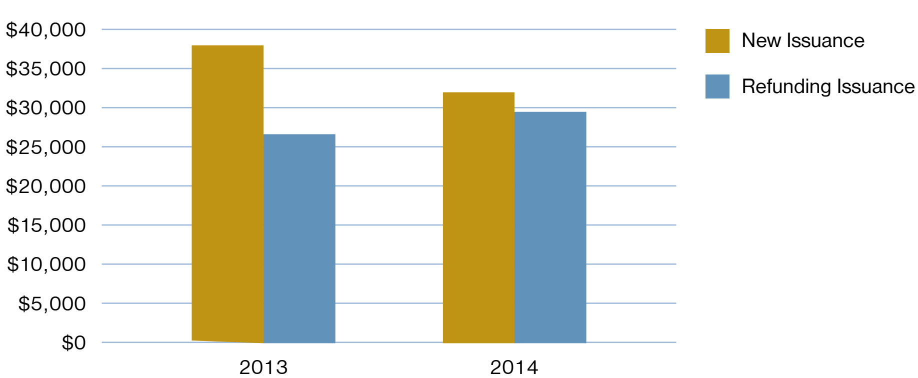


Figure 8

COMPETITIVE AND NEGOTIATED FINANCINGS
ALL CALIFORNIA ISSUERS, 2004-2014 ($ IN MILLIONS)

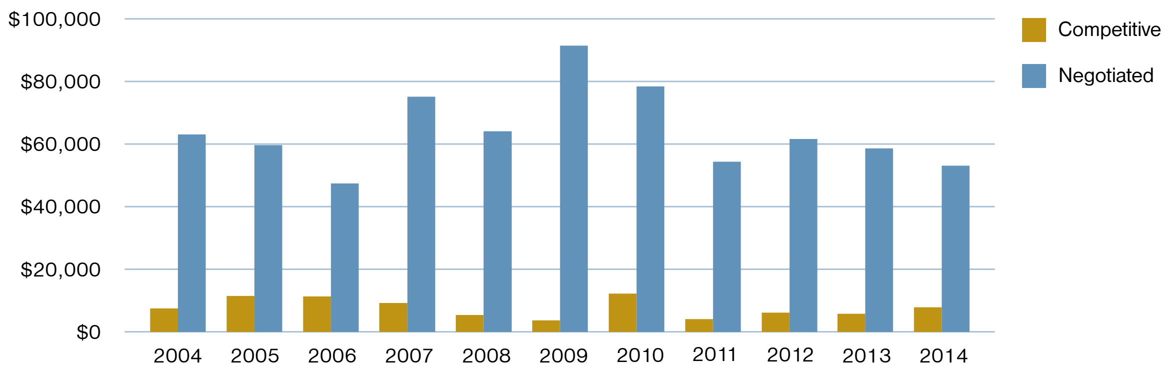
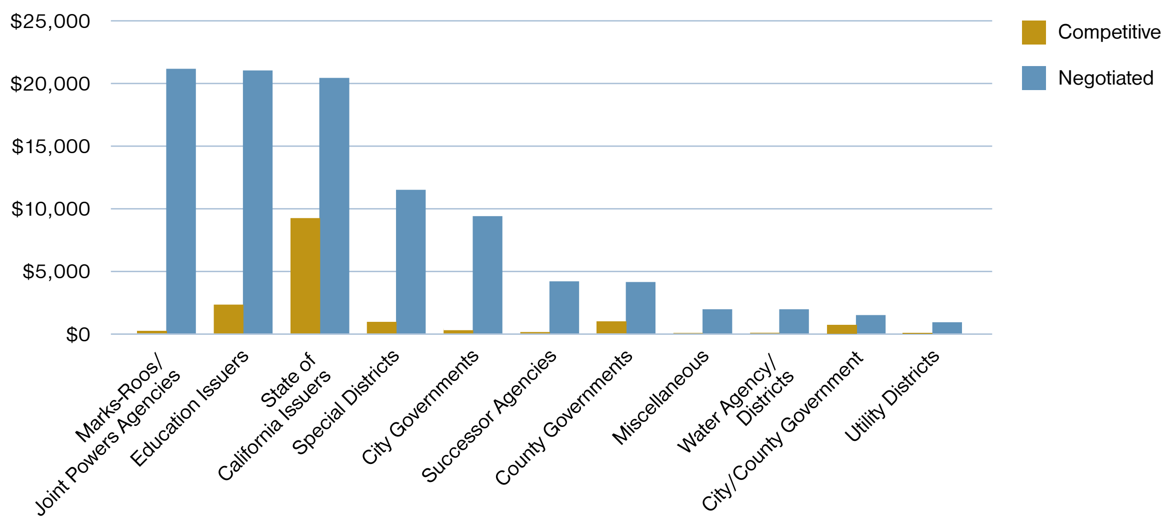


Figure 9

COMPARISON OF NEGOTIATED AND COMPETITIVE SALES
BY ISSUERS TYPE, ALL CALIFORNIA ISSUERS, 2014 ($ IN MILLIONS)



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 2014 increased to 8.2 percent from 7.8 percent in 2013 (Figure 10).

CREDIT ENHANCEMENTS

In 2014, the percentage of credit enhanced debt increased to 14 percent from 8.1 percent in 2013 (Figure 11). Additionally, the overall volume of credit enhanced debt increased 81 percent to $7.5 billion in 2014 from $4.1 billion in 2013.

STATE DEBT ISSUANCE IN 2014

In 2014, the State sold $13.4 billion in debt, of which approximately $10.6 billion was in the form of long-term debt and $2.8 billion in

Figure 10

COMPARISON OF TOTAL VOLUME TO TAXABLE FINANCINGS
ALL CALIFORNIA ISSUERS, 2013 AND 2014 ($ IN MILLIONS)

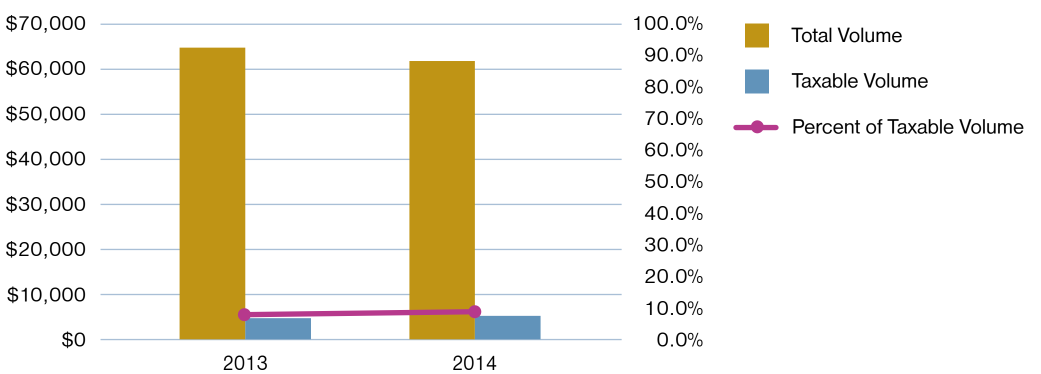
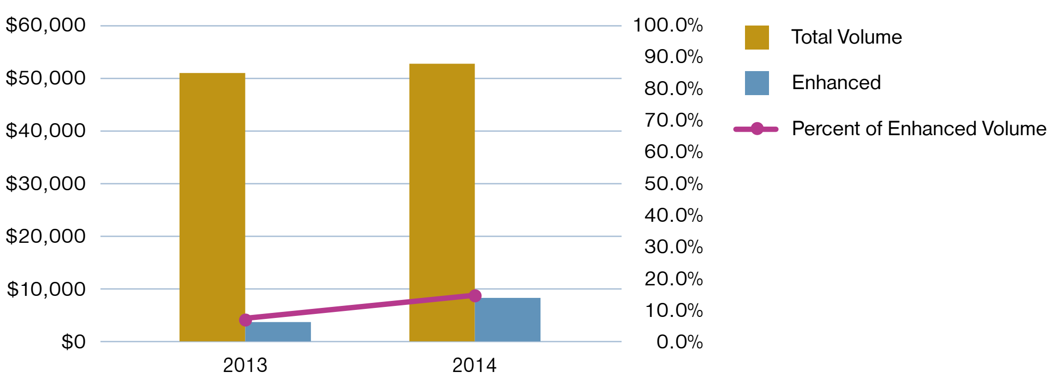


Figure 11

COMPARISON OF TOTAL VOLUME TO ENHANCED VOLUME
(DOES NOT INCLUDE INTERIM FINANCING)
ALL CALIFORNIA ISSUERS, 2013 AND 2014 ($ IN MILLIONS)



short-term notes.[25] State issuance accounted for approximately 22 percent of all debt issued by public agencies in California.

Between 2013 and 2014, state entities decreased the issuance of general obligation bonds (26.1 percent decline), revenue bonds (38.5 percent decline), revenue anticipation notes (49.1 percent decline) and other bond (100 percent decline) (Figure 12).

Between 2013 and 2014, state issuance increased for capital improvements and public works (8.6 percent). State housing issuance, minor in terms of volume, showed a large year-over-year increase from under a million dollars in 2013 to $300 million in 2014 (Figure 13). Decreases in state issuance occurred with education (59.9 percent decline), interim financing (49.1 percent decline), and hospital and health care facilities (42.6 percent decline). There was no issuance in the "Other" category in 2014.

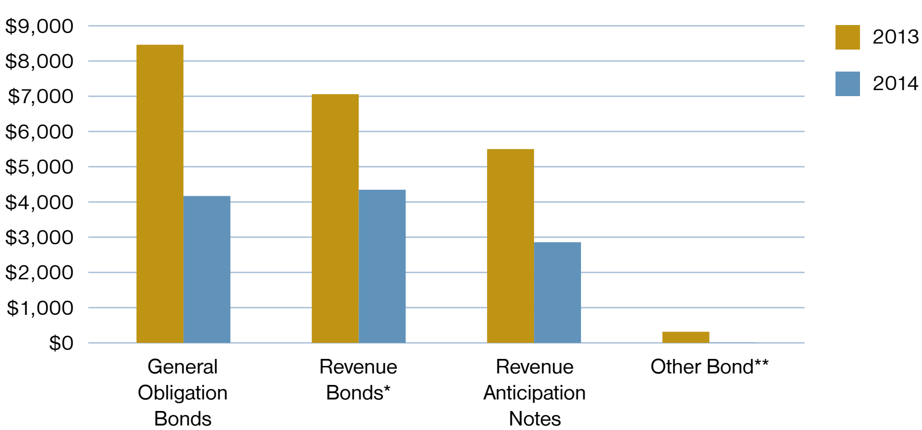
OTHER STATE ISSUERS AND CONDUIT ISSUANCE IN 2014

Issuance by state instrumentalities, including conduit bond issuers, decreased nearly 17 percent in 2014, but comprised approximately 4 percent ($2.7 billion) of all public agency issuance in 2014.[26]

Between 2013 and 2014, state conduit issuers decreased the issuance of revenue anticipation notes (54.3 percent decline) and revenue bonds (34.4 percent decline). Issuance of pension obligations bonds increased from no issuance in 2013 to $350 million in 2014. Loans from a bank or other institution grew from $9 million to $226 million (Figure 14).

Figure 12

VOLUME OF STATE DEBT, 2013 AND 2014 ($ IN MILLIONS)



* Revenue bonds include public lease and public enterprise revenue bonds.

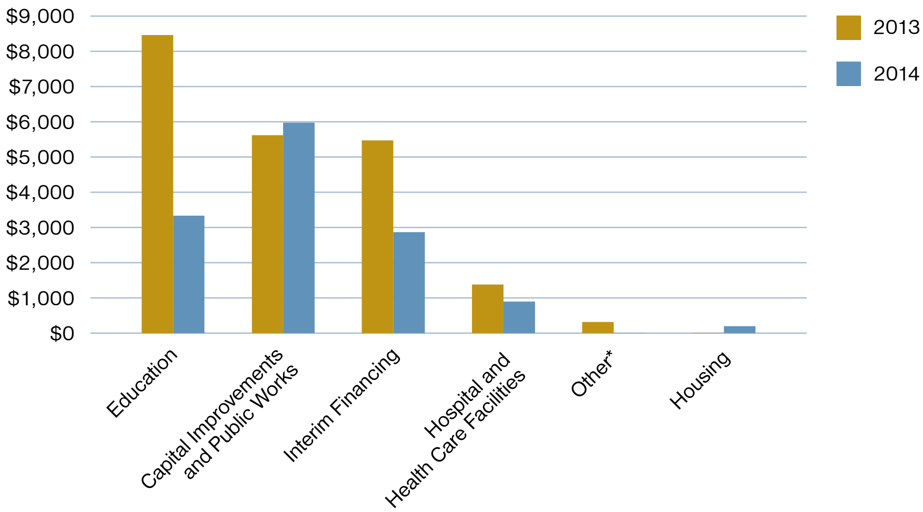
** Other bond is a tobacco securitization bond.

[25] In addition to the State of California, state issuers include the California Department of Water Resources, California State Public Works Board, Golden State Tobacco Securitization Corporation, The Regents of the University of California, and the Trustees of the California State University.

[26] State instrumentalities include the California Earthquake Authority, California Educational Facilities Authority, California Health Facilities Financing Authority, California Housing Finance Agency, California Infrastructure & Economic Development Bank, California Pollution Control Financing Authority, and the California School Finance Authority.

Figure 13

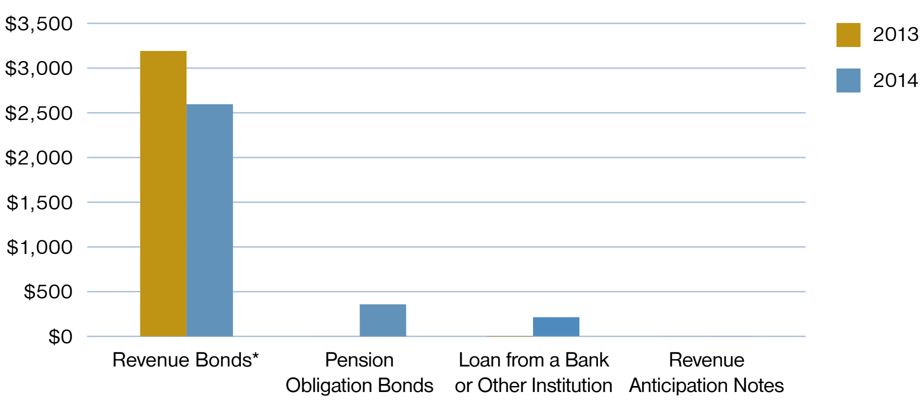
STATE DEBT ISSUANCE BY PURPOSE, 2013 AND 2014 ($ IN MILLIONS)



*Other purpose is for a tobacco securitization bond.

Figure 14

STATE CONDUIT AND DEBT ISSUANCE, 2013 AND 2014 ($ IN MILLIONS)



*Includes conduit and public enterprise revenue bonds.

Among state conduit bond issuers, financings for most purposes decreased from 2013 to 2014 with the exception of commercial and industrial development (159.9 percent increase), education (38.5 percent increase) and "other", for which there was no issuance in 2013 (Figure 15). The volume in "other" for 2014 consists mostly of a $350 million public enterprise revenue bond for the California Earthquake Authority policy claims. Decrease in issuance occurred in capital improvements and public works (94.5 percent decline), interim financing (54.3 percent decline), hospital and health care facilities (42.4 percent decline), and housing (12.1 percent decline).

STUDENT LOAN FINANCE CORPORATION ISSUANCE IN 2014

CDIAC typically receives filings from three classifications of student loan entities: private corporations, non-profit corporations, and the California Education Facilities Authority (CEFA). CDIAC received no reports of debt issuance by student loan entities in 2014.

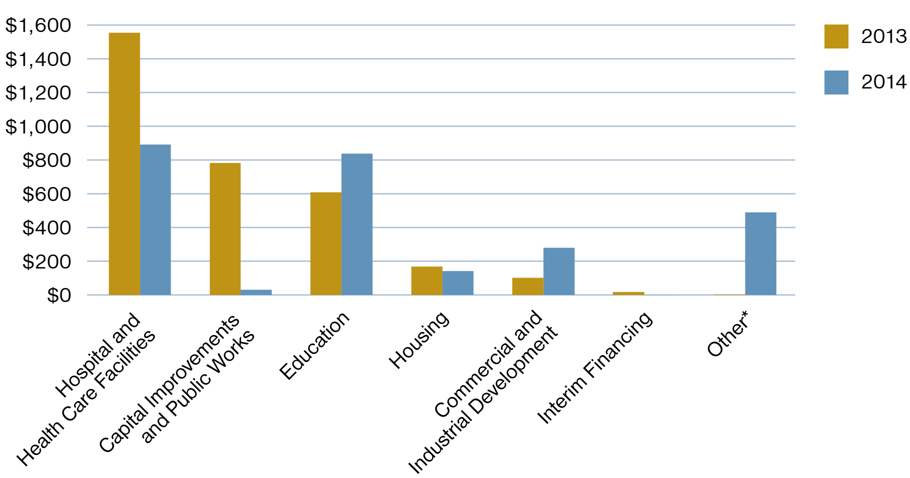
LOCAL DEBT ISSUANCE IN 2014

In 2014, local agencies issued $45.3 billion in short- and long-term debt, a 13.9 percent increase from 2013. Even though total local issuance increased from 2013 to 2014, issuance for the following debt types declined: bond anticipation notes (a 44.8 percent decline), tax and revenue anticipation notes (a 38.8 percent decline), and other types of debt (a 12.1 percent decline) (Figure 16).

Between 2013 and 2014, there was an increase in local issuance in most purpose categories except interim financing (34 percent decline), housing (23.3 percent decline) and other (11.6 percent decline) (Figure 17). There was a substantial increase in redevelopment issuance due to the refunding activity of successor agencies.

Figure 15

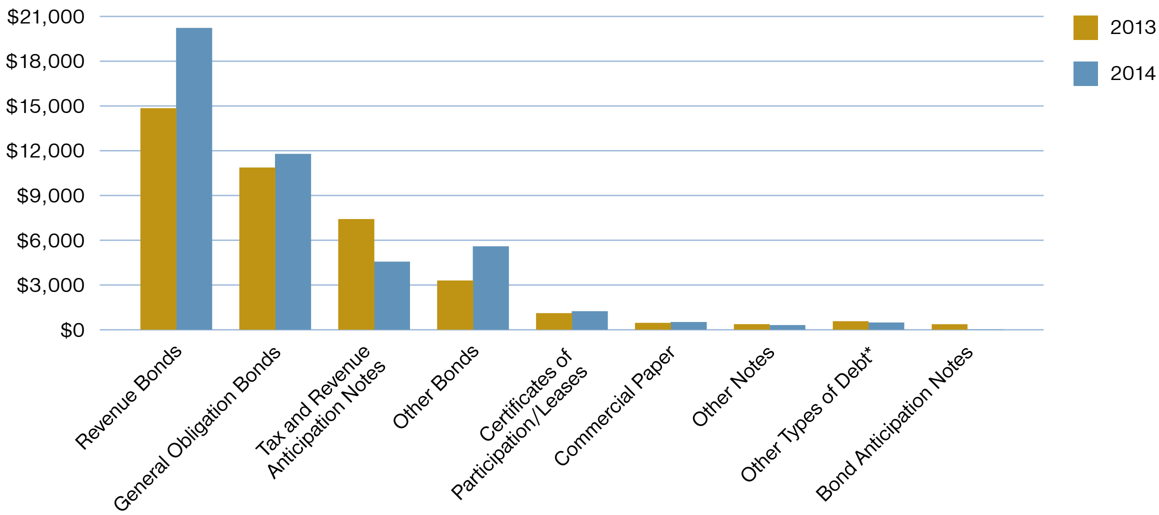
CONDUIT STATE DEBT ISSUANCE BY PURPOSE
2013 AND 2014 (VOLUME IN MILLIONS)



*Other includes human resources, California Earthquake Authority claims, and a State revolving fund.

Figure 16

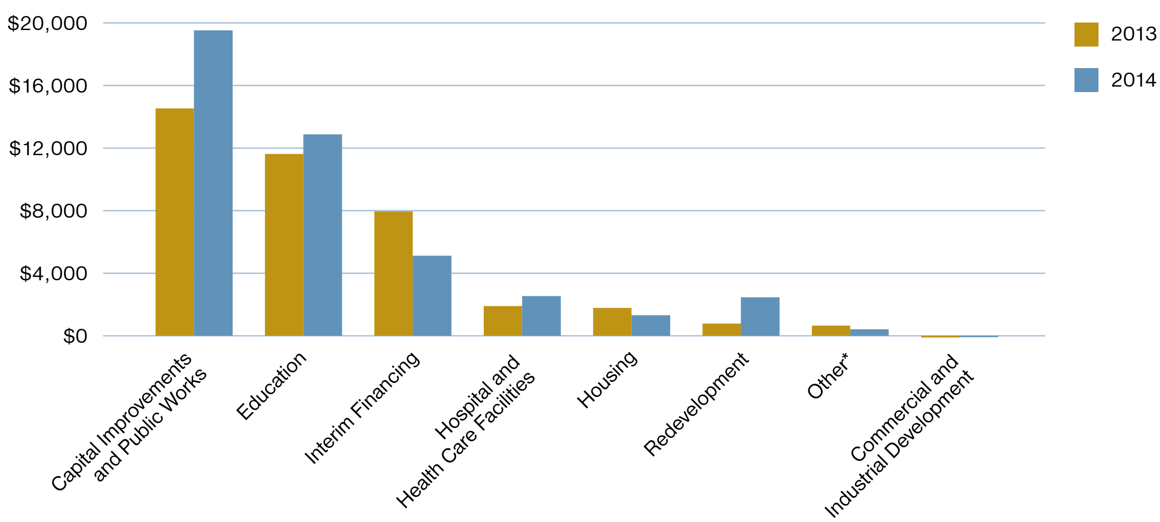
VOLUME OF LOCAL AGENCY BOND ISSUANCE, BY DEBT TYPE, 2013 AND 2014 ($ IN MILLIONS)



*Other Types of Debt: Loan from a bank or other institution and a warrant.

Figure 17

VOLUME OF LOCAL AGENCY ISSUANCE BY PURPOSE, 2013 AND 2014 ($ IN MILLIONS)



*Other includes residential and commercial energy conservation/improvement, human resources, insurance and pension funds, and residential energy.

2014 Report of Operations

DATA COLLECTION AND ANALYSIS UNIT

In compliance with its statutory requirements, CDIAC's Data Collection and Analysis Unit (Data Unit) maintains the California Debt Issuance Database (Database) which is considered the most comprehensive and accessible database of California public debt issuance in existence. The Database is the source for the debt statistics and analysis regularly released by CDIAC.

Data Collection

Reports of proposed and issued debt, as well as annual fiscal status reports for Mello-Roos and Mark-Roos bonds submitted by public issuers to CDIAC, are maintained in the Database, a large portion of which can be accessed on CDIAC's website.[27] The Database contains information from 1984 to the present and is updated continuously by Data Unit staff. As of December 31, 2014, the Database contained more than 50,000 records.

For calendar year 2014, the Data Unit received and processed 7,839 reports including Reports of Proposed Debt Issuance (RPDIs),[28] Reports of Final Sale (RFSs),[29] Marks-Roos Local Bond Pooling Yearly Fiscal Status Reports (MKR YFSRs), Mello-Roos Community Facilities Districts Yearly Fiscal Status Reports (MLR YFSRs), and Mello-Roos/Marks-Roos Draw on Reserve/Default filings (DFDs). Figure 18 contains a breakdown of the reports processed by the Data Unit during calendar year 2014.

The Data Unit has continued its transition to electronic (on-line) submission of data and reports as the primary means of data collection. Electronic submissions enhance data collection efficiencies and help to ensure reporting accuracy. Currently, public agency issuers can submit reports using CDIAC's web-based forms, email, or traditional mail.

[27] 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.

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

[29] During 2014, per Government Code Section 8855(j), issuers were required to submit reports of final sale no later than 45 days after the signing of the bond purchase agreement or acceptance of bid.

Figure 18

REPORTS PROCESSED, CALENDAR YEAR 2014

TYPE OF REPORT	REPORTS PROCESSED
Reports of Proposed Debt Issuance	2,177
Reports of Final Sale	2,003
Mello-Roos Yearly Fiscal Status Reports	1,471
Marks-Roos Yearly Fiscal Status Reports	2,167
Mello-Roos/Marks-Roos Draw on Reserve/Default/Replenishment Filings	21
TOTAL	7,839

During 2014, online submissions of RPDIs and RFSs accounted for 67 percent of all submissions, an increase over 2013 when they accounted for 62 percent. Of the 4,180 RPDIs and RFSs received for the year, 1,388 were sent in hardcopy form by mail or e-mail. Staff must manually enter the data contained on reports received in this manner. CDIAC continued its customer outreach to determine the reasons for hardcopy submissions to quickly resolve issues that may be impeding the use of online forms.

Figure 19 displays the methods used to submit RPDIs and RFSs in 2014.

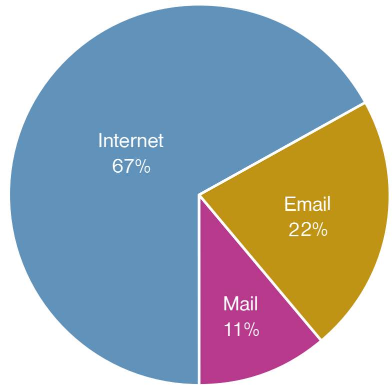
The online submission rate greatly increases when all reports are considered. More than 79 percent of all reports were submitted electronically during 2014 versus the 75 percent filing rate during 2013 (Figure 20). Even though only 21 percent of all reports were filed by traditional mail and email, this translated to approximately 1,600 reports that required manual data entry by Data Unit staff.

Debt Issuance Fees

A critical function of the Data Unit is the collection of CDIAC debt issuance fees, the source of CDIAC's operational funding. CDIAC's issuance fees are assessed based on the principal amount issued and maturity length.[30] In gen-

Figure 19

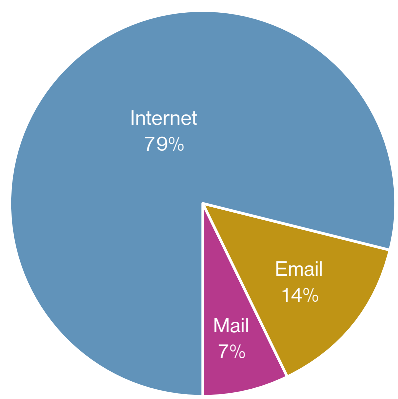
STATE AND LOCAL ISSUANCE
METHODS OF SUBMITTAL, RPDIs AND RFSs
JANUARY 1, 2014 TO DECEMBER 31, 2014



TOTAL REPORTS RECEIVED: 4,180

Figure 20

STATE AND LOCAL ISSUANCE,
METHOD OF SUBMITTAL
ALL REPORTS RECEIVED
JANUARY 1, 2014 TO DECEMBER 31, 2014



TOTAL REPORTS RECEIVED: 7,839

[30] Maturities of 18 months or less are considered as short-term maturities for the purpose of assessing the issuance fee. Maturities greater than 18 months are considered as long-term maturities for fee assessment.

eral, a flat fee of $150 is currently assessed for short-term maturities. Long-term maturities are assessed a fee equal to 1.5 basis points (0.015%) times the principal amount issued, not to exceed $3,000. A detailed fee schedule is available on CDIAC's website.[31]

For 2014, the Data Unit issued 1,107 invoices totaling approximately $1.8 million. Figure 21 reflects the breakdown of fees assessed for state and local agencies in 2014.

Figure 21

FEES ASSESSED, STATE AND LOCAL ISSUERS
JANUARY 1, 2014 TO DECEMBER 31, 2014

	FEES ASSESSED	# OF INVOICES
STATE		
Long-Term Debt	$131,623	57
Short-Term Debt	600	4
LOCAL		
Long-Term Debt	1,660,701	942
Short-Term Debt	28,350	104
TOTAL	$1,821,274	1,107

Public Access to Debt Issuance Data

CDIAC used a variety of online methods to provide public officials and members of the public immediate access to debt issuance data, including:

DEBT LINE NEWSLETTER. CDIAC publishes a monthly newsletter describing the operations of the Commission during the prior month.[32] CDIAC's monthly publication, *Debt Line*, includes a monthly calendar of issues which provides comprehensive information on all reports of proposed and finalized debt issuances received during the prior month.

ONLINE TABLES AND GRAPHS. CDIAC posts monthly California state and local debt issuance data to its website in the form of tables and graphs. Data on principal amount issued, the type of debt, and the purpose of issuance is summarized year-to-date and by the month. Tables showing data for the two prior calendar years is also available on line.

ONLINE ISSUANCE DATA - EXCEL FORMAT. This report contains the same information reported on the monthly calendar of issues, but only for debt for which CDIAC has received a report of final sale. The information is provided by month, as received. Aggregated data for prior years is also available.

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 2,040 times during 2014.

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

CDIAC recorded 4,956 hits to its website in 2014. Each "hit" or inquiry is recorded as well as the purpose for which the individual visited the site (Figure 22).

Reports

CDIAC published a number of summary reports, compiling data reported throughout the year and comparing current year versus prior year(s) issuance activity.

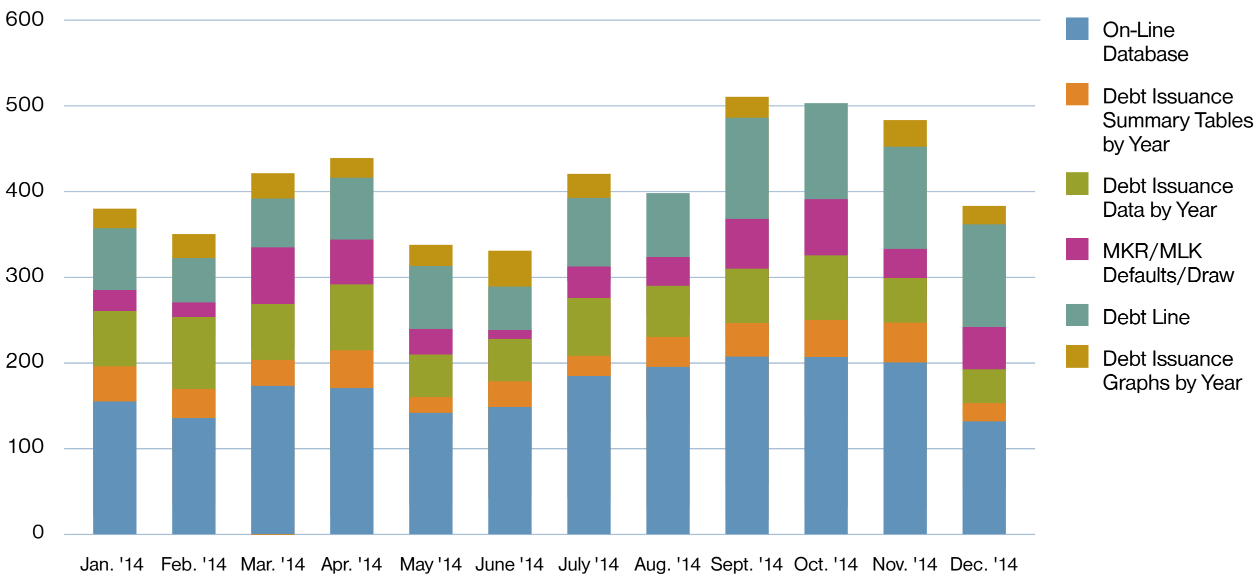
MARKS-ROOS LOCAL BOND POOLING ACT YEARLY FISCAL STATUS REPORT AND MELLO-ROOS COMMUNITY FACILITIES DISTRICT YEARLY FISCAL STATUS REPORT. The Marks-Roos and Mello-Roos Yearly Fiscal Status Reports received by

[31] www.treasurer.ca.gov/cdiac/reporting/feeschedule.asp.

[32] Government Code Section 8855(h)(9).

Figure 22

DEBT ISSUANCE DATA WEBSITE ACTIVITY, JANUARY 1, 2014 TO DECEMBER 31, 2014



CDIAC during the fiscal year (July 1 through June 30) are the basis for these annual reports.[33] 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 2014, reports for fiscal years 2006-2007 and 2007-2008. The report for fiscal year 2008-2009 will be published in mid-2015 and 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 2015.

CDIAC expects that the Mello-Roos Community Facilities District Yearly Fiscal Status Report, covering the period of July 1, 2013 through June 30, 2014 will be published by mid-2015. All prior year reports have been published.

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

SUMMARY OF CALIFORNIA PUBLIC DEBT ISSUANCE. This annual report provides aggregate summary information by issuer on major components of debt, such as long-term and short-term debt, tax-exempt and taxable debt, and refunding existing indebtedness. The tables included in the report contain statistics on both state and local agencies broken out by type of issuer, type of debt, purpose of financing, federal taxability, and whether the issue is a refunding or not.

[33] 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.

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 report includes comparisons of previous years' debt issuance; 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 2014 Data Unit Projects and Initiatives

ELECTRONIC DOCUMENT STORAGE. In late 2009 the Data Unit began a project to reduce the amount of archived materials stored on site by systematically reviewing, digitizing, and electronically storing all paper documents in an electronic document storage facility (FileNet). Staff began digitization with calendar year 2008 documents. To date, all 2008 through 2010 documents have been scanned and stored. The scanning process for the 2011 files is approximately 50 percent complete.

DATABASE UPDATES - APPLICATION BASED REPORTS. Working with the State Treasurer's Office Information Technology Division (ITD), the Data Unit was able to add a field in the Database that will allow staff to identify the community facility district type when compiling the Mello-Roos Yearly Fiscal Status Summary Report. This change will help staff by reducing the time spent manually manipulating the data.

REPORT OF PROPOSED DEBT ISSUANCE (RPDI) AND FINAL SALE (RFS). The Data Unit updated these two reports to reflect changes in statute and reduce staff time for manual entry. Recent legislation requires local governments to report additional information to CDIAC both before and after the sale of debt. CDIAC updated the RPDI and the RFS to ensure ease and consistency. CDIAC also updated the types of debt issued and the purpose of issuance to reflect market changes.

MARKS-ROOS AND MELLO-ROOS YEARLY FISCAL STATUS REPORTS. In concert with ITD, the Data Unit accomplished changes to both the Database and reports. To reduce the time required by staff to manually enter contact data, the online report will now automatically update the contact fields when staff processes the report. In response to suggestions made by report filers, data fields were added to the report to clarify reserve fund balance status and issue identification.

CAPTURING PROCESS EFFICIENCIES. The Data Unit continues to work with ITD to enable issuers to easily submit data to CDIAC via the internet when submitting RPDIs and RFSs for TRAN pool sales. 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.

TECHNICAL ASSISTANCE. Data Unit staff responded to 59 requests for technical assistance during the year. Inquiries for cost of issuance data on fees paid to financing team members and information on school district debt were the two most common requests. Data on Mello-Roos bonds was the third most requested item.

2015 Outlook

SOCRATA OPEN DATA PORTAL PROJECT. In order to provide broader and more useful access to the data collected in the Database, CDIAC and ITD are developing a new online interface. The interface will be driven by technology, sourced from Socrata, Inc., that will provide full public data access to CDIAC's debt data. This will allow users to compare, contrast, and analyze debt issuance data in unique, user-specific ways. The anticipated launch for the project is July 27, 2015. The Data Unit is currently exploring opportunities to use Socrata to reduce or eliminate the need to produce many issuance reports now published by CDIAC and to provide public access to CDIAC's rapidly expanding library of digitized issuance documents.

DEBT ISSUANCE DATABASE REVIEW AND DEVELOPMENT PROJECT. CDIAC has undertaken an extensive analysis of the Database to identify improvements in functionality, performance, and utility. As a result of this effort, CDIAC has developed a detailed vision that reflects current uses, third-party data, and the potential to embrace new technologies to achieve expanded program and policy goals. Over the next twelve months, CDIAC expects to pursue efforts to gain approval and budget authority to procure the needed resources to create a new Debt Issuance Database. CDIAC, in conjunction with ITD, must complete a business case analysis and feasibility study report, required precursors to receiving budget authority to pursue the project.

SECONDARY DATA SOURCING. CDIAC staff will explore opportunities to develop or procure secondary data sets that can be used to expand information provided through both the Socrata Open Data Portal and the new Debt Issuance Database. For example, CDIAC is aligning data it has collected since 2004 on bond elections with its debt issuance data to tie the issuance of debt to the relevant bond measure. In this regard, CDIAC will work with ITD to identify strategies to provide electronically stored bond documents, including official statement (OSs), to the public.

SYSTEM AND PROCESS IMPROVEMENTS. CDIAC staff continue to evaluate opportunities to improve efficiency and produce higher valued outcomes. Towards the end, staff will be implementing a program to achieve a 95 percent on-line submission rate for RFS and RPDI submittal by June 2016. In concert with this effort, staff will continue to identify ways to maximize the existing system's performance by modifying work processes and reports whenever possible. For example, CDIAC has identified and requested an update to the Marks-Roos report that notifies issuers of their reporting responsibilities. In the past, staff had to print each notice as a separate report. This will greatly reduce staff time in preparing this report. The updated report should be available for the next reporting period which begins in July 2015.

DEBT DATABASE REGULATIONS. With the passage of AB 2274, Gordon (Chapter 181, Statutes of 2014), making technical changes to Government Code Section 8855, CDIAC's data collection processes are better aligned with current municipal financing practices. Specifically, AB 2274 made explicit CDIAC's authority to capture reports of debt issuance and collect issuance fees on traditional financing structures as well as new and emerging structures that public entities may employ in the future, including direct loans. To clarify and communicate these reporting requirements to the issuing community, CDIAC plans to establish regulations through the state's rulemaking process.

ELECTRONIC DOCUMENT STORAGE. In order to support the improvements made to the Database in the future and to support the functionality provided by the Open Data Portal, staff are digitizing bond documents, including reports and supplemental documents submitted by issuers pursuant to law. Although CDIAC now requests and many issuers submit these documents in an electronic form, hard copy documents must be scanned and indexed in a searchable database. CDIAC hopes to complete digitization of issuance documents received between 2008 and 2012 by the end of 2015.

EDUCATION AND OUTREACH UNIT

CDIAC's Education and Outreach Unit (Education Unit) provides continuing education to municipal finance officers, elected officials, and the public; develops and maintains relationship with allied organizations to provide training and monitor the informational and educational needs of its constituents.

Education Programs

CDIAC's education programs include "core" seminars given on an annual or biennial basis (Figure 23), webinar trainings that allow for a

Figure 23

CDIAC'S CORE SEMINARS

SEMINAR	DESCRIPTION
MUNICIPAL DEBT ESSENTIALS	This 3-day seminar covers the following areas: DAY ONE: *Debt Basics* covers the fundamental elements of debt financing, including an introduction to the bond market, definition of bond financing terms and concepts, description of the variety of short and long-term financing options, discussion of roles and responsibilities of issuers and consultants, explanation of the various costs of issuance, and description of initial disclosure requirements. (Formerly *Fundamentals of Debt Financing*) DAY TWO: *Accessing the Market* is focused on the preparation, planning, and processes involved in issuing publically offered municipal debt, including understanding and measuring debt capacity and affordability, the importance and utility of debt policies, the function of a plan of finance, sizing and debt structuring options, the relevance of credit quality and ratings, bond pricing and marketing dynamics, and effectively reaching key investors. (Formerly *Mechanics of a Bond Sale*) DAY THREE: *Debt Administration* provides a foundational understanding of the issuer's roles and responsibilities after the sale of debt, including the management of debt service, post-issuance tax compliance, investment of bond proceeds, reorganization and refunding of debt obligations, and continuing disclosure. (Formerly *Living with an Issue: On-Going Debt Administration*)
INVESTING PUBLIC FUNDS	This one and a half-day seminar covers investment related topics. The course material varies covering basic to more advanced municipal investment topics in alternating years.
MUNICIPAL MARKET DISCLOSURE	This one and a half-day seminar is an in-depth presentation on 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, including the applicability of each to various projects, how to form a district, issue debt, and administer liens.

timely response to current issues or technical training needs, and co-sponsored seminars with allied organizations that expand CDIAC's reach.

In 2014, CDIAC conducted 15 educational programs: three core seminars, eight webinars, and four co-sponsored seminars.

CDIAC Seminars

TOOLS AND STRATEGIES FOR TODAY'S PUBLIC INVESTMENT PORTFOLIO MANAGER. In Spring 2014, CDIAC hosted a seminar to provide public agency investment officers and other public officials with an introduction to the concepts, tools, and strategies necessary to manage and oversee public investment portfolios. Panelists focused on the components of portfolio management, including establishing policy objectives, managing cash flow, understanding permitted investments, assessing and mitigating risk, and structuring portfolios.

MUNICIPAL MARKET DISCLOSURE: CURRENT TOPICS AND PRACTICES. After the SEC and the Government Accountability Office noted that the municipal market needed to improve market transparency, CDIAC focused greater effort in programming addressing market disclosure. In spring 2014, a seminar was devoted to a discussion of the current rules and proposed reform initiatives for primary and secondary disclosure practices by public agencies and also focused on recommended disclosure practices for direct loans and general obligation debt.

FUNDAMENTALS OF LAND-SECURED FINANCING. In Spring 2014 CDIAC offered a seminar focused on the land-secured financing process from district pre-formation through project implementation to on-going administration. Both Mello-Roos Community Facilities District and Assessment District financings were covered in-depth.

CDIAC Webinars

AN UPDATE ON SWAPS: WHAT'S DIFFERENT AND WHAT TO DISCLOSE?. This webinar, hosted in January 2014, examined how the implementation of Dodd-Frank subjected derivatives and interest rate swaps to regulation by the Commodity Futures Trading Commission and the SEC. The discussion focused on the implications for the municipal market, including the rules and regulations that pertain to "Special Entities" and the disclosure and reporting requirements under GASB 53.

SECURITIES AND EXCHANGE COMMISSION MUNICIPALITIES CONTINUING DISCLOSURE COOPERATION (MCDC) INITIATIVE, PART 1: A CALL TO ALL MUNICIPAL ISSUERS. The SEC's MCDC Initiative encouraged issuers and underwriters of municipal securities to self-report materially inaccurate statements in a final official statement regarding the issuer's prior compliance with its continuing obligations as described in Rule 15c2-12. This webinar, hosted in April 2014, provided information on the MCDC Initiative, including the origins of the Initiative, the implications for those issuers and underwriters who chose to participate, a discussion of issuers and underwriters who should consider self-reporting, and the process of self-reporting under the Initiative.

SECURITIES AND EXCHANGE COMMISSION MCDC INITIATIVE, PART 2: ISSUER CONSIDERATIONS AND ACTIONS. Hosted in June 2014, this follow-up program to the MCDC webinar held in April focused on the rigorous analysis that issuers would have to undertake in deciding whether to self-report under the MCDC Initiative. Also discussed were some of the key steps that issuers should initiate and the decision points they should recognize in their deliberations, including what steps should be taken to determine their status, how issuers should address the standard of "materiality", who needs to be involved in the decision process, the implications of participating in the MCDC Initiative, and the consequences of a consent decree between the issuer and the SEC.

REGULATORY UPDATE: THE MUNICIPAL ADVISORY (MA) RULES AND THEIR EFFECT ON PUBLIC INVESTMENTS. With the effective date of the MA Rule approaching, the municipal market was focused on the role and responsibilities of those persons providing advice with respect to the issuance of municipal securities. In June 2014, this webinar considered the MA Rule and the implications for treasury management by addressing the circumstances under which a broker-dealer is providing investment advice that would result in the broker-dealer being considered a municipal advisor; the exemptions and exclusions for broker-dealers selling and managing public investments; the alternatives, exemptions, and exclusions that may apply for the investment of bond proceeds; whether government entities can rely upon an independent registered municipal advisor (IRMA) or registered investment advisor (RIA) for advice and thereby exempt broker-dealers who sell securities to an issuer for the investment of bond proceeds; how the rules apply to pooled investments; and the different rules and assumptions that apply depending on whether the bond proceeds relate to municipal securities issued before or after July 1, 2014 (the effective date of the MA Rule).

INTERMEDIATE BOND MATH PART 1: BOND CASH FLOWS LITERACY. This webinar, held in August 2014, covered the analytics of pricing and built on the fundamental concepts presented in CDIAC's Debt Essentials seminar, including the concepts that form the basis of bond structuring considerations and decisions. This webinar also included a discussion of yield curves, the calculation of debt service, the bond pricing formula and pricing conventions, cash flow and amortization schedules, and bond pricing with Microsoft Excel.

INTERMEDIATE BOND MATH PART 2: ECONOMICS AND STRUCTURES. Building upon the concepts discussed in Intermediate Bond Math Part 1, this webinar introduced alternative bond structures, such as different call features and bullets, and their impact on long-term borrowing costs and bond pricing. Also included in the discussion were callable bonds and their effect on bond pricing; the mechanics and math of refundings; a comparison of non-callable and callable bonds; the differences between current interest, capital appreciation, and convertible capital appreciation bonds; and an evaluation of call options for refunding savings.

PRINCIPLES AND PRACTICES OF DEBT MANAGEMENT: EMPLOYING A DEBT POLICY. This webinar conducted in November 2014 built upon the findings of a CDIAC study, *Employing a Debt Management Policy; Practices among California Local Agencies*, and addressed the importance of establishing a debt policy by highlighting how a debt management policy can assist an agency in making decisions and identifying conflicts, inconsistencies, and gaps in the agency's approach to project finance and debt management. The webinar also discussed best practices for developing and maintaining a debt management policy and how policies are instrumental in setting a proper balance between limits on the use of debt financing and providing sufficient flexibility to respond to unforeseen circumstances and opportunities.

STEPS FOR REPORTING DEBT ISSUANCE TO CDIAC: REPORT OF PROPOSED DEBT ISSUANCE & REPORT OF FINAL SALE. In December 2014, CDIAC hosted this webinar to clarify updates made to its reporting forms, the Report of Proposed Debt Issuance and Report of Final Sale, in response to market and legislative changes. This session guided submitters through the reporting process and addressed CDIAC's mandate to collect, maintain, and provide comprehensive information of all state and local debt authorization and issuance.

Co-sponsored Seminars

CDIAC AND CALIFORNIA SOCIETY OF MUNICIPAL ANALYSTS (CSMA) – CALIFORNIA GENERAL OBLIGATION BONDS: POLICY SYMPOSIUM ON CREDIT ISSUES. Bankruptcies of Jefferson County, Alabama, and Detroit generally caused investors to call into question whether the term "general obligation bond" means what they thought it meant. These were followed by the bankruptcies in Stockton and San Bernardino, which did not involve GO bonds, but revealed the fiscal struggles many California local agencies face. In an effort to better understand and disclose the nature of the security for California local agency GO bonds, this symposium, conducted in conjunction with the CSMA, provided a structured discussion of the California local agency GO security in the context of bankruptcy.

CDIAC WITH UNIVERSITY OF CALIFORNIA, DAVIS (UCD) EXTENSION – SPECIAL ASSESSMENTS FINANCING SEMINAR. In summer 2014, CDIAC partnered with the UCD Extension to conduct this seminar, which considered the implications of recent court actions, how practicing assessment engineers and other public finance professionals have responded, and the opportunities to use assessment districts in the future.

CDIAC AND *THE BOND BUYER*, PRE-CONFERENCE TO 2014 CALIFORNIA PUBLIC FINANCE CONFERENCE - ALTERNATIVE FINANCING IN THE MUNICIPAL MARKET: FINANCIAL AND POLICY CONSIDERATIONS. This pre-conference symposium marked the thirteenth consecutive year that CDIAC has partnered with *The Bond Buyer*. Several recent trends, including the decline in liquidity products and other credit supports along with regulatory and tax reforms, have led to the reemergence of bank lending and the entry of other capital providers in the municipal market. This program was designed to explore the changing practices of municipal borrowers and lenders and the implications of alternative financing on municipal finance. The program also highlighted the confluence of economic, market, and policy trends that may introduce yet unperceived risks that require new forms of analysis and reporting.

CDIAC WITH STATE TREASURER'S OFFICE PUBLIC FINANCE DIVISION (PFD) – BASICS OF DEBT

FINANCING. In December 2014, CDIAC collaborated with PFD in a two and a half hour question and answer forum for the staff at the Legislative Analyst's Office. The discussion highlighted the role municipal bonds play in public debt financing, which are governed by State constitutional debt limits, and the current condition of the bond market. The basic debt types used by local public agencies and the State and its departments and agencies to finance capital assets and manage cash flows were addressed in detail.

Seminar Registration

During 2014, 1,929 municipal finance professionals attended CDIAC educational programs, a dramatic increase from 918 in 2013. This change may be attributed to an increase in the number of educational offerings. In 2014, CDIAC hosted three core seminars and eight webinars as compared to one seminar and three webinars in 2013. Event dates, locations, and number of participants are given in Figure 24.

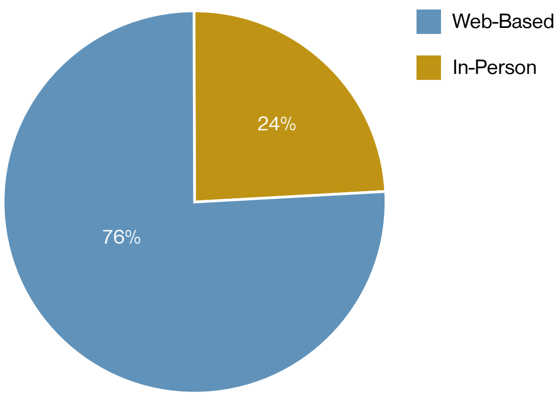
Figure 24

PARTICIPATION AT CDIAC EVENTS, JANUARY 1, 2014 TO DECEMBER 31, 2014

EVENT TITLE	DATE	LOCATION	TOTAL PARTICIPANTS
CDIAC SEMINARS			
Tools and Strategies for Today's Public Investment Portfolio Manager	3/12-13/2014	Concord, CA	40
Municipal Market Disclosure: Current Topics and Practices	3/18-19/2014	Pomona, CA	57
Fundamentals of Land-secured Financing	4/25/2014	San Diego, CA	57
CDIAC WEBINARS			
An Update on Swaps: What's Different and What to Disclose?	1/9/2014	Online	61
Securities and Exchange Commission Municipalities Continuing Disclosure Cooperation Initiative, Part 1: A Call to All Municipal Issuers	4/28/2014	Online	254
Securities and Exchange Commission Municipalities Continuing Disclosure Cooperation Initiative, Part 2: Issuer Considerations and Actions	6/2/2014	Online	161
Regulatory Update: The Municipal Advisory Rules and Their Effect on Public Investments	6/23/2014	Online	237
Intermediate Bond Math Part 1: Bond Cash Flows Literacy	8/7/2014	Online	218
Intermediate Bond Math Part 2: Economics and Structures	8/20/2014	Online	182
Principles and Practices of Debt Management: Employing a Debt Policy	10/2/2014	Online	238
Steps for Reporting Debt Issuance to CDIAC: Report of Proposed Debt Issuance & Report of Final Sale	12/10/2014	Online	118
OTHER CDIAC ENGAGEMENTS			
CDIAC and CSMA California General Obligation Bonds Policy Symposium on Credit Issues	3/14/2014	San Francisco, CA	120
CDIAC and UCD Extension Special Assessments Financing Seminar	9/18/2014	Sacramento, CA	47
The Bond Buyer Pre-conference	10/8/2014	San Diego, CA	119
CDIAC and State Treasurer's Office PFD Basics of Debt Financing	12/3/2014	Sacramento, CA	20
		TOTAL	1,929

Figure 25

ATTENDANCE AT CDIAC PROGRAMS
IN-PERSON VS. WEB-BASED
JANUARY 1, 2014 TO DECEMBER 31, 2014



Seventy-six percent of attendance in CDIAC's educational events was via web-based participation (Figure 25). In 2013, 36 percent of participants attended web-based trainings and 64 percent were in-person. This shift can be attributed to two factors: first, an increase in the number of webinars from three to eight between 2013 and 2014 and to the importance of topics covered in the 2014 webinars.

In 2014, 73 percent of the participants were from the public sector, a three percent decrease from 2013 (Figure 26).

Of the public and private sectors, approximately 40 percent of attendees were from cities and counties; 32 percent were from state agencies, special districts, school districts, and joint powers authorities; and 28 percent were from private agencies (Figure 27).

Historical Comparison of Seminar Attendance

Over the past six years CDIAC has attracted approximately 6,431 attendees to its programs, including educational offerings held in partnership with other organizations. Figure 28 reflects enrollment activity in CDIAC programs from 2009 through 2014.

Figure 26

ATTENDANCE AT CDIAC PROGRAMS
BY ORGANIZATIONAL AFFILIATION
PUBLIC OR PRIVATE
JANUARY 1, 2014 TO DECEMBER 31, 2014

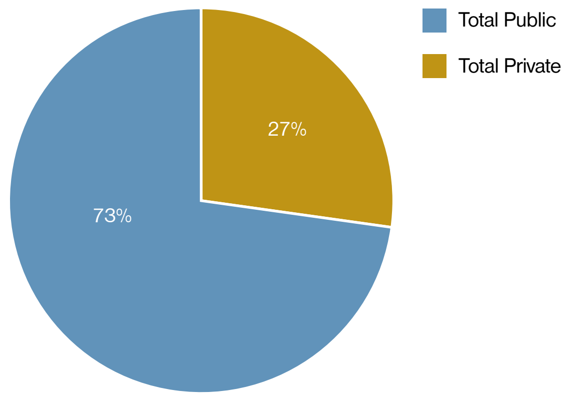


Figure 27

ATTENDANCE AT CDIAC PROGRAMS
BY ORGANIZATION TYPE
JANUARY 1, 2014 TO DECEMBER 31, 2014

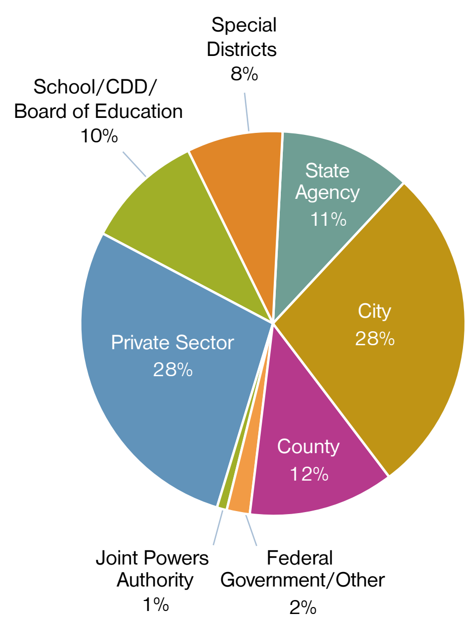
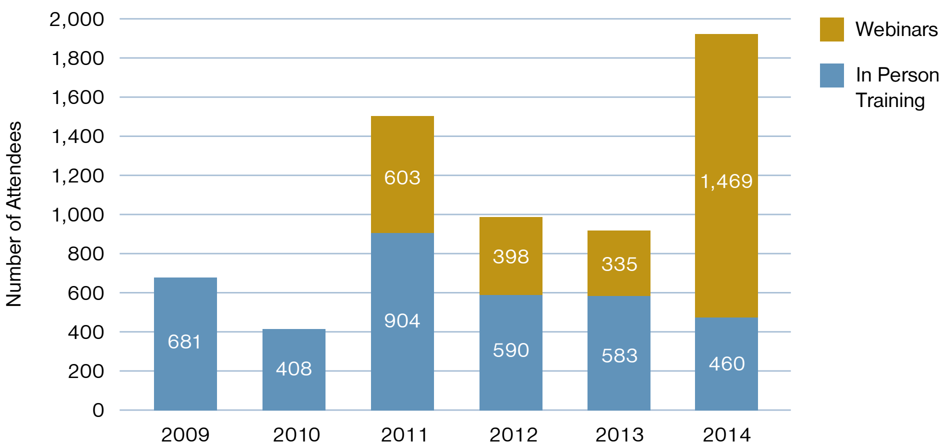


Figure 28

ATTENDANCE AT CDIAC PROGRAMS, 2009 TO 2014



Based on this six year time span, CDIAC continues to serve its primary audience, public agencies, as reflected in Figures 29 and 30. Since 2009, cities, counties, and special districts represent 48 percent of all attendees at CDIAC programs.

Figure 29

ATTENDANCE AT CDIAC PROGRAMS PUBLIC VS. PRIVATE, 2009 TO 2014

YEAR	% PUBLIC	% PRIVATE
2009	74%	26%
2010	74	26
2011	74	26
2012	67	33
2013	76	24
2014	73%	27%

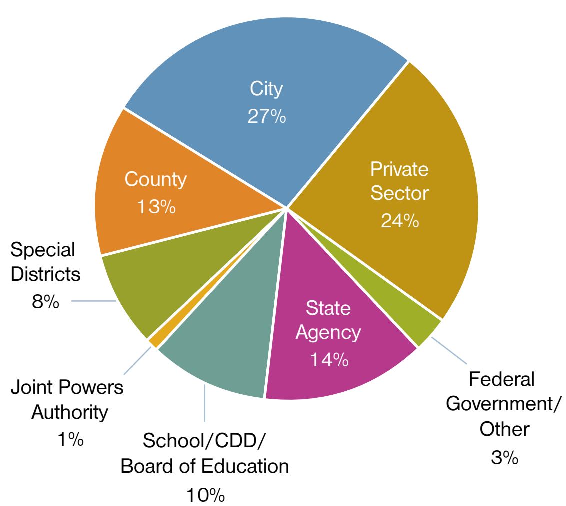
2015 Outlook

EDUCATIONAL GOALS. California public agencies continue to experience the retirement of senior debt and treasury staff in record numbers and the evolution of the municipal market. In response, CDIAC must continue to develop programming that addresses these two critical environmental forces. To do so, CDIAC will convene a focus group on curriculum development to assist CDIAC in developing education programming. CDIAC will continue to deliver classroom and web-based training through seminars, workshops, conferences, and webinars.

ELECTRONIC TRAINING PROGRAM. CDIAC will continue to build and maintain a media library that houses agendas, presentation materials, and recordings of past seminars and webinars. CDIAC's goal is to provide its constituents with 24-7 access to prior educational programs. In addition, CDIAC will develop electronic training based on the content of CDIAC publications that may include the Debt Issuance

Figure 30

ATTENDANCE AT CDIAC PROGRAM BY ORGANIZATION TYPE, 2009 TO 2014



Primer, Investment Primer, and Local Agency Investment Guidelines. This training will be based on modules that incrementally build upon the information presented to provide comprehensive coverage of the subject. CDIAC will seek to use emerging technologies to deploy on-demand web-based training and interactive training opportunities in the areas of debt financing and public funds investing.

OUTREACH AND COLLABORATION. CDIAC will continue to work with allied membership-based and professional organizations to identify and develop educational programs and expand its access to public finance officials. Staff will continue to attend the meetings of membership organizations and whenever possible contribute to these organizations by participating in planning and event coordination or as a member of their governance committees. Finally, CDIAC will continue to explore opportunities to reach and engage its constituents through the use of social media platforms.

MAINTAINING EXISTING PARTNERSHIPS. In 2015, CDIAC will continue to commit to relationships with its partners, including *The Bond Buyer*, the University of California, Davis Extension program, the California Society of Municipal Finance Officers, and the California Society of Municipal Analysts, to offer educational programs and conduct symposia on selected topics. 2015 will mark the 14th consecutive pre-conference held in conjunction with *The Bond Buyer*'s California Public Finance Conference.

DIRECT PROMOTION OF PROGRAMS. CDIAC will continue to promote its programs through its subscribed email list and newsletter e-blasts with association groups, postings on association webpages and when necessary, through direct promotion of seminars using targeted mailings to local public agency officials. CDIAC will also coordinate communication and marketing with the State Treasurer's Office to more effectively target program announcements and notices.

State Financing Boards, Commissions, and Authorities

CDIAC will continue to support the goals of the State Treasurer's financing boards, commissions, and authorities (BCAs) through training and program support, including working with ITD to support the needs of BCAs offering webinars.

RESEARCH UNIT

California Government Code Section 8855(h)(5) authorizes CDIAC to undertake research projects that improve practices or reduce the borrowing costs of public issuers in California. For calendar year 2014, CDIAC staff have either completed or initiated the following research projects:

CDIAC Projects Completed

BOND AND TAX MEASURES APPEARING ON THE 2014 PRIMARY BALLOTS: RESULTS OF THE 2014 PRIMARY ELECTION. This bi-annual report provided an analysis of the certified results of the bond and tax elections held in June 2014 General Election as well as a detailed listing of each bond and tax measure by county, region, type of tax or debt, and purpose.

BOND AND TAX MEASURES APPEARING ON THE 2014 GENERAL BALLOTS: RESULTS OF THE 2014 GENERAL ELECTION. In this bi-annual companion to the report on the primary election, CDIAC provided an analysis of the certified results of the bond and tax elections held in November 2014 General Election and a detailed listing of each bond and tax measure by county, region, type of tax or debt, and purpose.

EMPLOYING A DEBT MANAGEMENT POLICY – PRACTICES AMONG CALIFORNIA LOCAL AGENCIES. CDIAC examined the debt management policies of cities, counties, and school districts and assessed the degree to which the policies of these local issuers conformed to the Government Finance Officers Association (GFOA) best practices. The report also highlighted several well-developed policies that local agency issuers could reference to gain an understanding of how best practices translate into actual debt policy construction.

GREEN BONDS. This issue brief provided a short summary of Green Bonds, how they are structured, how they differ from traditional bonds, and whether they are viable debt structures or investment instruments for local governments in California.

K-14 VOTER APPROVED GENERAL OBLIGATION BONDS: AUTHORIZED, BUT UNISSUED. CDIAC undertook research to cross reference K-14 general obligation bond issuance with the underlying voter approved authority to determine the amount of general obligation bonds that were authorized, but unissued since 2002.

LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2014. CDIAC, working collaboratively with investment professionals, reviewed and updated the CDIAC Local Agency Investment Guidelines. This document provides references and recommendations (developed by public and private sector professionals) for interpreting and applying California statute to common public fund investment topics related to local agencies. The 2014 Update reflected statutory changes effective January 1, 2014.

Commissioned Study Completed

THE BAY DELTA CONVEYANCE FACILITY: AFFORDABILITY AND FINANCING CONSIDERATIONS. In 2012, the California Resource's Agency requested that the State Treasurer's Office produce an independent financial review of the Bay Delta Conveyance Facility. To fulfill this request, CDIAC contracted with Blue Sky Consulting LLC to provide a preliminary assessment of the affordability and financing considerations of the Bay Delta Conveyance Facility. The final report was delivered November 2014.

2015 Outlook

PROPOSED OR INITIATED PROJECTS AND ACTIVITIES

TASK FORCE ON BOND ACCOUNTABILITY. At the direction of the State Treasurer, CDIAC has formed a Task Force on Bond Accountability to develop best practices for the administration of bond proceeds, including the reporting and accounting of expenditures and the means by which public agencies make this information available to constituents. CDIAC at the direction of the Task Force intends to produce a report to include guidelines and recommendations on how to better ensure the legal and authorized use of bond proceeds by public agencies.

ASSET BACKED/MORTGAGE BACKED SECURITIES. This issue brief will provide an overview of asset-backed and mortgage-backed securities, identify the risk associated with these investment products in a public portfolio, and describe the current status of proposed federal initiatives that may affect these securities.

DIRECTED COMMUNITY INVESTMENTS. This issue brief will provide an overview of directed community investment programs, identify characteristics of successful investment programs, and discuss how California public agencies have made these investments under the existing Government Code.

INFRASTRUCTURE FINANCING DISTRICTS (IFDs). CDIAC will examine IFDs in this issue brief with a focus on the newly authorized Enhanced Infrastructure Financing Districts (EIFDs). This review will analyze the limitations of the new law, explain how tax increment revenues are diverted, identify eligible projects, and compare IFDs to EIFDs.

UPDATE OF LOCAL GOVERNMENT GENERAL OBLIGATION BOND ISSUANCE TRENDS (2006-2015). In 2008, CDIAC published *An Overview of Local Government General Obligation Bond Issuance Trends (1985-2005)*, which focused on the changes in the volume of general obligation (GO) bonds. This issue brief will update the 2008 report by addressing GO bond issuance activity from 2006 to 2015 and examine any changes in issuance patterns.

PRIVATE ACTIVITY BONDS (PABs). This issue brief will provide an overview of private activity bonds (PABs) including issuance trends, eligible projects/purposes, and limitations on use. The brief will also examine potential changes to the market that may affect the use of PABs.

UPDATE TO THE CALIFORNIA PUBLIC FUND INVESTMENT PRIMER. CDIAC will conduct an assessment of the *California Public Investment Primer* to determine the scope of updates needed.

DISCLOSURE PRIMER. CDIAC will develop a concept to create a primer on municipal market disclosure. It is envisioned this primer would be a companion to the *California Debt Issuance Primer* and provide a detailed desk-reference for public finance officials on disclosure requirements and best practices.

INDEPENDENT REGISTERED MUNICIPAL ADVISOR (IRMA) DISCLOSURE. This issue brief will review the IRMA exemption contained in the MA Rule and address how issuers utilize this exemption. The brief will examine the steps municipal issuers have taken to address the IRMA exemption and incorporate it into their debt issuance process, assess which municipal issuers have publicly posted IRMA exemption letters, provide a profile of issuers that have publicly posted IRMA exemption letters, and compare the text of the existing letters.

RESEARCH RESOURCE DATABASE. CDIAC will develop a proposal to create a research resource database that will bring together municipal finance information from a variety of sources in a searchable central repository to facilitate the development and enhancement of CDIAC's research, data analysis, and educational programming.

ON-LINE REGULATORY RESOURCES. CDIAC will develop a webpage that contains information on evolving regulatory topics in public finance including the Municipal Advisor Rule and MSRB Rule G-17.

DEVELOPMENT OF A DATA WAREHOUSE. CDIAC will develop a plan to procure or create parallel or complementary data sets to expand the utility of CDIAC debt issuance data and create a Data Warehouse. The concept of the Data Warehouse is to provide internal and external researchers with a "go-to" source for data relevant to the study of public financial management by combining CDIAC's municipal debt data with a wide variety of available economic and demographic data.

PROPOSITION 218 – MEETING THE FINANCING NEEDS OF CALIFORNIA PUBLIC AGENCIES. CDIAC will develop a white paper on the outcomes of a proposed symposium that CDIAC's intends to host on the public finance challenges posed by Proposition 218.

SUMMARY OF CDIAC'S PRECONFERENCE AT *the Bond Buyer* ON ALTERNATIVE TRADING SYSTEMS. CDIAC will publish a summary of the discussion on Alternative Trading Systems to be held at CDIAC's proposed Preconference at *The Bond Buyer*'s annual California Public Finance Conference on October 21, 2015.

OUTREACH AND COLLABORATION WITH PUBLIC FINANCE ORGANIZATIONS. CDIAC will continue to work with public finance organizations, public agencies and research organizations to identify and assess new forms of public debt and investments coming into the market. This collaboration helps to keep CDIAC informed of market trends and emerging products and practices to produce research that is timely and relevant.

DEBT AND INVESTMENT LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENTS. CDIAC will continue to monitor the status and maintain an inventory of important state and federal legislation affecting public finance, municipal bond issuance, and public funds investing. Published periodically in Debt Line during the legislative session, the online inventory includes helpful links to the most current information on pending legislation.

DEBT LINE. CDIAC will continue to publish Debt Line, a monthly newsletter including issuance statistics and analysis, research articles, important dates and details arising from MSRB and SEC regulatory activities, and announcements of educational programming provided by CDIAC and allied organizations.

UPDATE TO THE CALIFORNIA DEBT ISSUANCE PRIMER. As a result of the market crisis of 2008 and the resulting market reform, CDIAC contracted with Nixon Peabody LLP to update and redesign of the *California Debt Issuance Primer*, a nationally recognized resource for debt issuance information. CDIAC expects to continue to work closely with Nixon Peabody LLP and its team of professionals to bring the new *California Debt Issuance Primer* to completion in the first half of 2016.

CDIAC

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