California Debt and Investment Advisory Commission

Webinar Transcript
SB 1029 – Year 3 of the Annual Debt Transparency Report (ADTR)
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Title Slide - SB 1029 – Year 3 of the Annual Debt Transparency Report (ADTR)

ROBERT BERRY: Good morning, everyone, and welcome to *SB 1029 – Year 3 of the Annual Debt Transparency Report,* a webinar presented by the California Debt and Investment Advisory Commission. My name is Robert Berry. I'm the deputy executive director here at CDIAC.

As the title indicates, this is our third reporting cycle for the Annual Debt Transparency Report. In the first year, there were just under 2,000 reportable issues. In year two, we had nearly 5,200 reportable issues. This year, the number of reportable issues is in excess of 7,000, so needless to say, we have learned a lot about how our reporting system works, or doesn't work in some cases. We've learned a lot about the tendencies of filers given different debt types, and we've made some modifications and enhancements to the process along the way. As we've rolled out our changes, we tried to keep you updated with notifications and revisions to the instructions, but we thought that it would be a good time just before we get into the heart of the reporting season to deliver a webinar that wraps up and reviews the modifications and the lessons learned over the last two reporting cycles. So we have quite a bit of ground to cover in the next hour and a half, but before we get started, I need to cover a few important items.

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CDIAC makes all of our webinars available on the CDIAC website for replay, so in about two weeks, a replay and transcript of this webinar will be posted to the web page dedicated to this program located on our Education website page. So it might be helpful to go and review this in a couple of weeks, especially in the midst of the reporting process. Lastly, you may also notice from time to time that there's embedded links within the presentation that are intended to provide you with additional supplemental information.

So it's important to note that the links are active in the PDF version of the presentation, accessible in the control panel on our web page – or on our web page, I should say. I believe all of the PDF links that are in the presentation link to documents also on our web page in the filing section. So all of those documents are there for you to review. So now let's go ahead and get started.

Slide 2 – Presenters **3:47**

ROBERT BERRY: Our presenters today are Usha Patel, who is the manager of CDIAC's Data Collection and Analysis Unit, and Jeff Field, CDIAC's lead analyst on the Annual Debt Transparency Report. Both Usha and Jeff had been with CDIAC and working on the Annual Debt Transparency Report since the inception. Usha manages all of the technological changes and corrections that go through our IT process, and Jeff is literally the person that reviews all of your filings. So they're very experienced and the best people to run this program today. So let's begin, and Usha I believe you're up first.

Slide 3 – Agenda **4:25**

USHA PATEL: Okay, good morning, everybody. Today we are going to do a short recap of materials already available via the CDIAC website to help you with the filing of the ADTR. Then, we'll address a half a dozen or so of the most frequently asked questions by filers – those items that have been the source of difficulty over the past two years. Then, we have a segment discussing the best practices and recommendations for filing reports for the debt issued under the Marks-Roos Local Bond Pooling Act. Before we get started into the meat of this program, we have a polling question.

Slide 4 – Polling Question **5:04**

USHA PATEL: Have you filed an ADTR before? Please indicate whether you're familiar with the form having filed multiple times, or if you've only filed once, or if you're new to this kind of reporting.

Polling Question Open for Responses **5:15**

USHA PATEL: I can see 52 percent or more of you have filed one or more.

Polling Question Results **5:36**

JEFF FIELD: Okay, so this looks like – this is Jeff by the way – a lot of you probably recognize my voice from having phone conversations with me in years past. But that's good we have about – it looks like about a third of the audience is, if you pardon the use of the term, "newbies." We encourage those folks to consult the existing instructional materials that are already available on the website that Robert just outlined in addition to what we're going to go over today. And then, it looks like a little over half have filed multiple reports already. And hopefully, what we're going to go over today will address a lot of the recurrent concerns. So I'll give it back to Usha.

USHA PATEL: So CDIAC has conducted several webinars already.

Slide 5 – Previous Webinars **6:37**

USHA PATEL: And these include step-by-step run-throughs on the form submission process presented such that we can follow along as if you're looking over the shoulder of someone actually submitting a form. Two of the webinars were conducted in 2017, and you can see the links that are shown here. Each of these are geared toward reporting of certain types of debt instruments. The first one focused on general obligation and revenue bonds, and the second focused on short-term debt, including commercial paper and also Mello-Roos bonds.

One thing we should mention is that between 2017 and 2018 changes were made to the section of the form dealing with how the debt is authorized. So if you look at either or both of the 2017 webinars, you should also look at the third one listed here, which is from 2018 and addresses the changes made to form, which resulted in the design you'll see when you log onto the form now. For each webinar, you'll be able to access the presentation, which consists essentially of the PowerPoint slides used, a video replay of the webinar as it was streamed live, and a recent transcript. Some more things which are helpful are these recommended readings listed here.

Slide 6 – Written Guidance **8:05**

USHA PATEL: The first is called *Guidance on Complying with SB1029*. It gives a background on the law which implemented the filing requirements and also gives detailed definitions of the terms found on the form and a breakdown of its overall design and the aid. The second is called *Issuance Authorization: Enhancements and Data Submission Guidance*, and it details the recent upgrades to the CDIAC reporting and data collection process, which added the capability to track debt authorized as well as debt issued. It explains how that data is collected by showing what has been added to the CDIAC Report of Final Sale as well as the ADTR, and it expands the intent of each new item on the form and how they work in concert. The third item is an article which ran in a recent issue of our *Debt Line* newsletter, "Filing Tips for the ADTR," and it covered a lot of the same ground that we'll cover in this webinar today.

Slide 7 – Instructions for Completion **9:21**

USHA PATEL: And we want to emphasize again, the complete step-by-step instructions for filing the ADTR are posted on the CDIAC website at the link you see here.

Slide 8 – Compliance Facts **9:34**

USHA PATEL: As we've mentioned, the upcoming 2020 filing deadline will be the third one since the implementation of SB 1029. In the two years, we've seen about 50 percent compliance, meaning that out of all the issues of debt tracked by CDIAC and deemed ADTR reportable, about 3,600 individual ADTRs have been filed. A lot of the reports have been filed by what we call "third-party filers." These are financial service providers which are hired by the issuer to handle the disclosing filing requirements, such as the ADTR as well as other compliance and oversight needs.

Of all the different types of issuing agencies, the most ADTRs were filed by or on behalf of a K-12 school district. During the filing and data collection process, we got a lot of phone calls, a lot of emails. Overall, it's safe to say people had a lot of difficulty understanding the forms, both in terms of how the form worked and the type of information that was required. Also, we realized there was a lot of misunderstanding about what SB 1029 required, as well as what it didn't, and it wasn't clear in every case who was responsible for the filings. I'm going to turn it over to Jeff for the next part of the presentation.

Slide 9 – ADTR FAQs 11:04

JEFF FIELD: Thank you, Usha. A lot of you, like I said, probably recognize my voice from having to spoken to me in years past or more recently than that regarding this very topic. Anyway, we're going to go over the ADTR FAQs, and these are some of the items which arose most frequently concerning the submittal of the ADTR. Let's look at the first one.

Slide 10 – Reporting Period 11:36

JEFF FIELD: What is the reporting period? There are several fields on the ADTR which refer to the reporting period. The reporting period is defined by statute, by SB 1029, as from July 1st to June 30th, inclusive. So it's basically the July through June fiscal year, which is common to most, but not all, public agencies. In case you're inclined to ask, “Well, why don't you just call it the fiscal year and not the reporting period?” Well, the statute specifically says reporting period so that's the terminology we like to use. Anyway, when you log on to file a report, you'll notice in the upper left of the form here, where it says "Information as of Reporting Year End: June 30th" and then it will show a year, in this case 2019. So for this particular report where you see this, if you were to see this in the top left of your form, the reporting period would be that July through June fiscal year, which ends on this date.

One of the fields where we saw we saw some misunderstanding or some misinterpretation was one which calls for debt authorized at the beginning of the reporting period. That's in Section II of the form. In this example we have here, the year-end year displayed is 2019. So in that case, the beginning of the reporting period is July 1st of 2018. So in that particular line that I just mentioned, the beginning of the reporting period, July 1, 2018, again, you would enter in an amount that was relevant, that was pertinent as of that date, as of July 1st of, again, in this case, 2018.

Slide 11 – Reporting Period - Continued 14:02

JEFF FIELD: So the upcoming due date, the upcoming filing deadline, is January 31st of 2020. And that is, again, going to cover the period inclusive 7/1/2018 through 6/30/2019, and the beginning of the reporting period where such is called for on the form is 7/1/2018. We should also mention here that if your situation is such that you have not filed in previous years – let's say you have an issue of debt that issued in fiscal 2017-18 and you did not file for that period – the system will allow you to file back reports, so to speak. On the login screen, you're going to see in addition to where you put your login information, that being your CDIAC number and your ID number, you can also put a year-end year.

So let's say you needed to file two reports because you realized you didn't file for 2017-18, you would log in and file for 2017-18 by entering 2018 on the login screen as opposed to 2019. Now, we should emphasize, also, that if you do this, please enter back reports, so to speak, in chronological order. In other words, if you need to file for 2017-18 and 2018-19, file 2017-18 first and then file 2018-19. Problems will arise if you try to do it backwards or if you don't do it in chronological order.

Also here let's discuss – I mentioned Section II Line D briefly on the last slide. This is another thing where we wanted to emphasize what the reporting period means. First year filers, in particular, are going to need to pay attention here because that line will be active on the form, meaning you're going to have to enter a value. And the important thing to remember there is if your authorization to issue happened in years prior to SB 1029 being implemented. If you have a voter authorization, a bond measure, let's say, that happened in a prior year, let's say 2012, and you've already had a couple of issuances pursuant to that authorization in years which predated SB 1029, you need to take those into account when you're entering the authorization at the beginning of the reporting period.

So let's say if you're a school district who passed a $50 million bond authorization on a 2012 ballot, and then you subsequently issued $10 million in bonds in 2014, and in 2016, both of those are going to pre-date SB 1029. But then in 2018, you issued another $10 million bond on that same voter authorization, on that same bond measure. The amount you're going to enter in Line D in Section II then is $30 million because as of July 1st, 2018, after the 2014 and 2016 issues, you had $30 million remaining on that bond measure. So let's move onto the next topic.

Slide 12 – Accreted Interest **18:40**

JEFF FIELD: And that has to do with another question that came up a lot from filers. And that is, "How do I report interest?" And a lot of people noticed that Section III contains a line calling for accreted interest during the reporting period. Accreted interest refers to a very specific type of interest calculation which only applies to a particular type of debt instrument, that being a capital appreciation bond, or CAB.

Slide 13 – Accreted vs. Accrued Interest **19:16**

JEFF FIELD: Accreted interest is interest which is added to the principal amount of the CAB, usually once or twice a year, and it increases the amount of debt that must be repaid by the issuer. This is distinct from interest which is accrued – the interest that comes into play when bond proceeds are deposited and accrue interest by virtue of their being deposited in interest-earning accounts. That's not what we're looking for in this section. We're only looking for this particular type of interest which comes into play with this particular type of bond. So as succinctly as we can put it, if your issue is not a capital appreciation bond, enter "0" on this line.

Slide 14 – Proceeds Available **20:21**

JEFF FIELD: Here's another one. This is in Section V, which is the proceeds and expenditures section, kind of in the lower part of the form. The first one is the Add Fund button. You see it kind of floating out in space here on the left-hand side of the form. Don't ignore it. Now, that might sound odd but what we found was.... Well, let me back up.

This part of the form is where you create an itemized list which breaks down how the proceeds of the debt issue were used. For example, in a general obligation or revenue bond, the proceeds might be divided among a project or a construction fund or a cost of issuance fund and a reserve fund. But not everybody reported a breakdown like that, especially with refunding issues or equipment leases in which you're likely to see all of the proceeds put in one fund, and the fund would be designated Refunding or Refunding Escrow, or Acquisition in the case of an equipment lease.

Anyway, you can see the screen shot here. I indicated the button before. What we found was that particularly in cases where they only had one fund, people simply wouldn't click the button after they entered their pertinent information over here. You know, they would select a fund category or type it themselves and then enter their amount, and then they thought they were done, particularly in those cases when there was only one application of funds. Like in the case of a refunding, they'd put, you know, instead of where it says Other here, they'd select Refunding or type “Deposit to Escrow” here, enter the whole amount of the debt issue and figured they were done. And then when they went to try to submit their report, they'd get an error message because as far as the form was concerned, the proceeds weren't accounted for. So once you get done doing this, however many times you do it, make sure you click the Add Fund button or else you're going to run into difficulties.

Slide 15 – Proceeds Spent 23:11

JEFF FIELD: Similarly, in Section V.C, Expenditure of Proceeds, this is where you give the purpose for which the amounts in the various funds were spent. You see it's designed similarly; you're supposed to create an itemized list of the different purposes and amounts of expenditures broken down by fund category. Anyway, similarly, there's a button, this time it's called Add Details. And the idea here is to every time you enter an entry for an expenditure of funds, you click this Add Details button, and then it will build a list.

But what happened was, we found similarly to what I discussed in the last slide, if there was only one expenditure and/or purpose, like in a refunding bond where all of the proceeds were applied to defease a prior debt, it was easy to think, “Okay there's only one thing to do here. I just put in my fund, my expenditure and my amount, and then I'm done.” What happened was, we got several reports back where this section was blank because people didn't click Add Details under this Expenditures section. So remember once you enter all your information, click this and then you'll see a new line show up in the bottom on the list.

Slide 16 – Adding Current Year Expenditures to a Prior Year Purpose (1) 25:06

JEFF FIELD: And then further, on kind of the same topic, this is a good time to go over this feature, which was similarly overlooked. The design of the form is such that you're really not supposed to duplicate expenditure purposes in successive years. In our example here, you have one of the items in their list of expenditures, Cost of Cap Improvements. You see they kind of spelled it funny here. Anyway, you don't want to create up here Cost of Cap Improvements in successive years. You want to establish this purpose in one year and then update it in successive years. So the way you do that is you click this Edit button here, or click the word where it says Edit – this little link.

So you see here they had Cost of Capital Improvements in prior years – 2,300,000 and change – and let's say they wanted to say, "Okay, we've had this much for capital improvements expended in Year 1 or in prior years, but we have more this year. How do we report that?"

Slide 17 – Adding Current Year Expenditures to a Prior Year Purpose (2) 26:44

JEFF FIELD: Well, again, you click here where it says Edit, and then once you click that, you see this kind of breakout box, line, whatever you want to call it, activates, and then you see here this dollar amount field is going to be activated on that line, and that's going to allow you to enter additional fund expenditure for this purpose, for Cost of Capital Improvements for this year, for the current year. So you enter in a dollar value there, and then once you do that, you see here it says Update. You click that after you enter your dollar amount.

Slide 18 – Adding Current Year Expenditures to a Prior Year Purpose (3) 27:26

JEFF FIELD: And then once you click Update, you see your new expenditure is then added to your line item, and then it's retotaled. So you have now for your Cost of Capital Improvements, you have what you spent in prior years plus what you spent this year, which gives you your total. So there's that. And what do we got next?

Slide 19 – Proceeds Spent – No Negative Numbers 27:58

JEFF FIELD: Ah yes, beware of "negativity." One of the things we saw on…I don't want to say a lot, but a significant number of reports were people entering amounts in Section V, either under Funds or under Expenditures where it had a negative dollar amount in the list of items. You see people figured out that you could enter a negative in this section, and the form would kind of allow you to do that.

Slide 20 – Proceeds Spent – No Negative Numbers (cont.) 28:48

JEFF FIELD: And so the idea behind their doing this was that they wanted to create a kind of credit as opposed to a debit. So that the total balance of a fund or the total amount of proceeds would actually increase, as opposed to decrease.

Return to Slide 19 – Proceeds Spent – No Negative Numbers 39:07

JEFF FIELD: In this example, you can see they entered….You know this says "Costs paid from interest," and this one says "Transfer from 2017 COPs." The idea is it was they wanted to show as far as issuance costs goes for this particular issue that the amount of issuance cost, the total amount of issuance cost for this issue exceeded the amount of the proceeds of the debt that were earmarked for issuance costs. In other words, they paid some of the issuance cost with proceeds of the debt issue itself, but they paid the balance of the cost with funds from other sources, with funds not being proceeds of the debt.

Return to Slide 20 – Proceeds Spent – No Negative Numbers (cont.) 30:08

JEFF FIELD: Another thing we saw, a couple more examples were, again, refunding issues. Oftentimes when you have a refunding issue, the bulk of the debt proceeds will go to defease the prior debt but additional funds are also applied to the prior debt. And so, in a lot of cases they would put a negative amount and designate that the transfer from the prior reserve fund because usually that's how refunding issues work – you know, the reserve fund for the prior issue is applied to that prior debt when it is refunded. Also, they would report an interest dividend. This goes back to our discussion about accreted versus accrued interest. The ADTR is not designed and the statute doesn't call for interest accrued by the deposit of fund proceeds. So that was another example where they'd put a negative number.

Anyway, to reiterate, the purpose of the ADTR is to satisfy what is required by SB 1029 only. It specifies that the proceeds of the debt sale only are what are to be reported on an ADTR. So in the cases of refunding issue, where funds in addition to debt proceeds go to refund prior debt, or in cases where interest is accrued by the deposit of bond proceeds into anything that can accrue interest, different kinds of U.S. securities, things like that, only report the use of the proceeds of the debt sale. In other words, don't worry about it if, you know….It's not meant to mirror, as it says here, it's not meant to mirror other financial disclosure documents. You know, don't try to put a negative number in there so that the standing balance that you have on the ADTR matches the standing balance that's reported elsewhere.

And in addition, we should also mention that we've redesigned the ADTR, implemented a feature, basically, in 2018-19 going forward, it won't allow you to do that. But basically, what we wanted to emphasize here is funds from other sources – not to be reported. Accrued interest from the deposit of debt proceeds – not to be reported. Okay.

Slide 21 – Assignment of Reporting Responsibility 33:43

JEFF FIELD: Another issue that has come up has to do with who files, who specifically files the ADTR, who is obligated to file the ADTR. And this has come up most often with conduit revenue issues. These are issues in which a public agency such as the city or a county or a JPA acts as an initiating agent and then loans the proceeds of the issue to a private obligor or borrower, which is oftentimes a 501(c)(3) organization.

After SB 1029 was implemented, when we looked at the documents for conduit issues, we started seeing items in the loan agreements like what we have in this example I've reprinted here, where you might say that the ADTR requirement is signed over to the borrowers. Basically, this says that the borrower agrees to file the ADTR. And they mention section 8855(k)(1), which is SB 1029. And again, it says that it is the borrower's responsibility per this clause and the loan agreement to file the ADTR.

Slide 22 – Assignment of Reporting Responsibility (cont.) 35:37

JEFF FIELD: However, 8855(k) says that the ADTR filing requirement lies with the issuer. And "issuer" is defined elsewhere in the CDIAC "regs" as we call it, which is Title 4, Division 9.6, of the California Code of Regulations as "the entity of State or Local Government that is legally authorized to enter into the contract through which the debt is created. An issuer retains the designation as such even though it may serve as a legal conduit through which the rights to the use of the assets and the obligations for performance on the Debt contract are assigned to a third-party Obligor." So we understand the dilemma here.

The borrowers are the ones in these cases who are most likely to have most, if not all, of the data related to the use of proceeds, in particular, the use of the project funds such that are called for by the ADTR. However, again by statute, the filing requirement does fall upon the conduit issuer, the conduit agent, not on the borrower. So in the first couple of years, we've been contacted by a lot of borrowers and by a lot of conduit issuers regarding the responsibility of filing for these issues. The borrowers, in particular, have had a lot of difficulty because they were unfamiliar with the financing terms as they're presented on the form, they couldn't figure out the form itself, or they'd never even heard of SB 1029 or CDIAC before they received the instruction to file the report. In short, they didn't have the information they needed. So this being the case, we do encourage the conduit issuers, the JPAs, the cities, the counties to work with their borrowers and ensure that they have all the information, including and in addition to this information that we're presenting here today – information they need to successfully complete the ADTR. How are we doing on questions?

ROBERT BERRY: We have a few but we can hold them until the end.

JEFF FIELD: You want to hold questions until the end? Okay, well I've talked a lot so now I'm going to turn it over to Usha.

USHA PATEL: Thank you Jeff.

Slide 23 – What is "Debt": CCR Title 4, Division 9.6, Section 6000(k) 35:37

USHA PATEL: Now, let's talk a little bit about Marks-Roos financing. First, let's look at the definition of debt. Our regulations clarify the definition of what type of transactions constitute debt, as related to the requirements to file CDIAC reports. As you can see this is a detailed definition, but in essence, debt is defined as a contractual agreement which requires a public agency, a creditor, to make principal and interest payments over time. Debt includes the type of instruments that are typically involved in a Marks-Roos transaction.

Slide 24 – Marks-Roos CDIAC Reports Required 39:24

USHA PATEL: When a joint power authority (JPA) or an authority issues debt under the Marks-Roos Act it creates at least two debt issues – one for authority issuer and one for the each of the local obligors, which is a LOB, whose project is being financed, all of which must be reported to CDIAC and therefore subject to SB 1029 reporting.

Slide 25 – MKR – Reportable Proceeds 39:48

USHA PATEL: Authority issuers will receive a CDIAC number and a password for each debt issued. Under Section I, the General Information section of the ADTR, we have inserted a method for authority issuers to reduce the amount of total reportable proceeds that would have to be accounted for. Line G, Proceeds Used to Acquire Local Obligations, should be used for authority issuers to show what portion of the proceeds were used to purchase the LOB debt or fund a loan to a LOB or enter into an installment purchase agreement – in other words, how much money would be used for the project.

This is what Section I of the authority issue should look like. In this example, you see they start with the $3 million in total proceeds. If you see E plus F comprised of $2,910,000 in principal and the $90,000 issue premium. In line G, they have entered the $2,910,000 principal amount indicating that the entire principal amount of the issue will be used to fund the project of the local district, which in this case is the Cartwright Wastewater District.

Slide 26 – MKR – Reportable Proceeds (cont.) 41:21

USHA PATEL: By entering the amount used to fund the project in Line G, the authority issuer will usually only have to make entries in Section V.B and V.C. That is the Funds/Expenditure of Proceeds section on the initial ADTR.

Going back to our example, you see that they were left only with the $90,000 issue premium on which they had to report. And as is often the case that went to pay cost of issuance. So they reported that and that left them with zero reportable proceeds remaining. Going forward, the LOB report or reports will be reporting on the use of proceeds for the fund.

Slide 27 – MKR – Reportable Proceeds (cont.) 42:20

USHA PATEL: So here we see the LOB, or local obligor report associated with the authority report we just looked at. The issuer here is the local district itself, not the JPA which issued the bonds. You see they only have $2,910,000 in principal that we zeroed out on the authority report showing as their total reportable proceeds. So here in the Expenditure section, they reported how proceeds were used, and as you can see, they went to the local district projects which were being reported by the authority bond issuance. They reported expenditures for construction and acquisition site.

Slide 28 – MKR – Reportable Proceeds (cont.) 43:10

USHA PATEL: Okay, so I've already talked about Slide 28, so if anybody has any questions.

Slide 29 – Questions? 43:23

ROBERT BERRY: Okay, we do have a few questions that have come in, so go ahead, if you would, use your control panel at the right to of your screen to ask your questions. So just a few questions. First, Jeff, there's a question from an issuer relative to filing a what we call a "back report," a report from a prior reporting period. And this filer had some problems relative to the system not accepting kind of the second report because they filed it one after the other. Can you explain that process?

JEFF FIELD: I omitted that important detail. Thank you for asking that question. The database, the system by which all this data is collected and kind of processed, is such that it updates or refreshes overnight. And since the ADTR form has this kind of year-to-year running totals functionality, basically succinctly put, you can only file one report a day. So if you're doing, like Robert was talking about, filing back reports, back-year reports, let's say you neglected to file – or I shouldn't say "neglected." Let's say you discovered that a fiscal 2017-18 report needed to be filed. You would file that report on Day 1, and then you would go ahead, file it, submit it, and then wait until the next morning so that data that you submitted for the Year 1 report for the 2017-18 report can be entered, updated into the database such that it's ready for the Year 2 report. So briefly put, file your Year 1 report, wait a day, come back, file your Year 2 report.

ROBERT BERRY: Okay. Then we have a question here relative to refundings. First of all, it's kind of a two-part question. Does the ADTR reporting requirement apply to refunding issues? And then secondly, if a filer were reporting on an issue that was reportable under SB 1029 and it was a refunding issue of an issue prior to SB 1029 – let's say, for instance, they are reporting on a bond issued in 2019 that refunded a bond issued in 2007 – what kind of information would they need to report relative to the bond in 2007?

JEFF FIELD: They would simply need to report the amount of the 2019 proceeds that were applied to refunding the 2007 proceeds. They simply need to report the amount of the refunding proceeds that were applied to the debt which was being refunded. Beyond that, I'm sure a lot of you have noticed that Section V of the form allows you to enter the CDIAC number if you have it, if you can find it, of the prior debt. That is not a required field. If you happen to know what that is or you want to look it up somewhere, let's say on the DebtWatch website, you can find it, you can enter that. Beyond that, you can in the Proceeds and Expenditures section where you go to enter the purpose of the refunding proceeds, people put things like "refunding escrow deposit," "defease 2007 bonds," "refunding escrow account," "refund prior bonds," something like that. There's a space limitation in those fields so anything that's brief like that is fine.

ROBERT BERRY: Okay, then we have another question, again, relative to refundings. Hopefully, I can ask this well enough, Jeff, that you can address it. But I think this is a case where a bond is being refunded or a debt is being refunded, and part of the proceeds that are applied to that refunding are from the debt issue that is subject to the report, the ADTR, and other outside funds. So in terms of reporting on the use of proceeds of the debt in which the ADTR is being filed, is there any priority given to the use of proceeds that are being listed? For instance, should they account for all of the cost of issuance on the bond that's being reported? Or, all of the refunding escrow? Or does it matter? Is that at their discretion?

JEFF FIELD: This kind of goes back to the section that we had about the negative numbers. The SB 1029 statute says that the proceeds of the debt sale only are what are to be reported on the ADTR. So in those cases where you have, you know, let's say that you issued a bond to refund $10 million in prior bonds. However, the escrow deposit of bond proceeds equals only $9 million. Well, the balance, the additional $1 million is going to be funds from other sources. It's going to be either a prior reserve fund or it's going to be cash on hand or it's going to be something other than the proceeds of the SB 1029 reportable debt sale. Those you leave off the report and you only report the $9 million escrow account. And you know it looks funny, you know at first glance you might look at that time and go well how are they paying off $10 million worth of debt with $9 million? Well, that's what the statute calls for. That's what you put on the report.

ROBERT BERRY: Right. So essentially you just need to account for the proceeds of the issue that is being reported, as long as they're accounted for, then you're fine. So it's really at the discretion of the filer how they display that information, how that use of proceeds is accounted for.

JEFF FIELD: Yes, if it's a degree of detail question, yeah. Again, degree of detail is at the discretion of the filer. Most people simply report an escrow deposit or make perhaps multiple escrow deposits if one issue is going to refund multiple issues. But I don't know, I think they might be getting at you know how much is going to pay off prior interest and how much is going to pay off prior principal. You don't have to do that. You just need to show that the escrow deposit of the refunding, that the amount of reportable proceeds being deposited into escrow such that it's applied to the prior debt, that amount, not funds from other sources.

ROBERT BERRY: So then another question along those lines in use of proceeds: once proceeds are 100 percent expended, do we continue to file the SB 1029 until the principal is paid off?

JEFF FIELD: That is correct. In many cases, you'll only be reporting, you know, you'll only be filling out Section V for maybe the first one, two, maybe three years. Maybe only one year if it's a current refunding. However, for the life of the bond, you're going to file the ADTR but you're probably only going to report payments on principal in Section III.

ROBERT BERRY: And if you've been filing all along, your data should be displayed cumulatively and really that's the only piece of data that you are supplying on an annual basis and how much that of principal has been paid off.

JEFF FIELD: Yeah, going forward that's going to be the case for many, if not most.

ROBERT BERRY: Okay, another question has come in. Would a conduit issuer include cities that have created agencies to issue bonds? Relative to your comments.

JEFF FIELD: Yes, you know, let's take the City of Sacramento. They have created at least one JPA under section 6500. You know, the Sacramento Public Financing Authority, as distinct from the City of Sacramento, which did issue bonds. I guess in a larger sense you can call that a conduit issuer but, going back to the section and the presentation about conduit issuers, borrowers, the relative filing responsibilities of each, we were really talking about deals in which a private entity solicits a loan via a public agency. In other words, the problems we were having with borrowers, you know, being confused and not having the background needed to do file – we didn't see those where you had, you know, let's say lease revenue bonds issued by a city’s financing authority where the borrower, so to speak, was another public agency. Specifically, we were talking in those cases about those deals where the borrower was, for example, a 501(c)(3), a private entity. I don't know if I answered that.

ROBERT BERRY: I think so.

JEFF FIELD: Yes, a city or a county can create a JPA, a financing authority, and issue bonds. Not every bond issue by a financing authority created by a city or a county or other agency is really what we were talking about in that section. The ones where we were running into problems were the ones where you had something like a….You know, we got a lot of calls from charter schools who received these tax-exempt loans via JPAs. You know, non-government entities.

ROBERT BERRY: A question relative to accreted value: is previously accreted value included in Section III.A and III.C? That's references to the actual form.

JEFF FIELD: Uh-huh.

ROBERT BERRY: I think what the questioner is getting at is, is accreted interest accrued before the reporting period? So I think this might be a case where interest is accreted and those accretion dates kind of cross over the reporting period. How have filers handled that? Have they just made an estimate of the accretion that is accrued up to the end of the reporting period and applied that? Or have you run into that issue?

JEFF FIELD: Yeah, I've looked into that and in most CABs, there are two accretion dates per year.

ROBERT BERRY: Like a coupon payment date.

JEFF FIELD: Yes, it seems like they were always in February and August. So let's say you had a CAB and the accretion dates were in February and August. Well, you know, again going back to what is the reporting period? You would report the amount of that accreted interest that was added to the principal as of June 30th. So you would report the amounts of….Oh, you know what? You know what they might be getting at – is it a running total? Is it going to keep track of….You know, in other words, let's say they had $100,000 worth of accreted interest in Year 1 that they reported. Is that going to roll over next year such that the principal amount will be updated? Yes.

So let's say you had Year 1 of your CAB. You have the original denominational amount that's going to repopulate there in Year 1. You're going to report your accreted interest in Line 2, whatever it winds up being, and then you're going to get a total in Line C of the initial denominational amount plus the accreted interest and then that total, that Line C total, is going to carry over to Year 2. So what's in Line C in Year 1, then the next year, Year 2, is going to show up in Line A. That's the way the form is designed.

ROBERT BERRY: In case our questioner was asking about the accretion periods, can you finish the answer to that question?

JEFF FIELD: Well, let's say there are two, let's say….Again, if I recall, it seemed like the accretion dates were always in February and August. So, you know, an amount of, let's say, if we're talking about the 2018-19 reporting period, you would take the amount of accreted interest added to the principal on that August date and then the amount added on that February date, the sum of the two, and enter that in Line B.

ROBERT BERRY: So there is an actual accretion calculation that can be made at the end of the reporting period for the 1029 form even if it's in the middle of an accretion period for the debt that's subject to the report?

JEFF FIELD: Well, yes. I mean, it's the amount that was added to the principal during the reporting period, during that July through June fiscal year.

ROBERT BERRY: But again, that number that you report, the accreted amount, will roll to the next reporting period so you should see your principal balance in the subsequent year of your ADTR report reflect what you would reported in the prior year. And that's generally the way the form is designed to work, that the data that you enter from year to year will accumulate to the current year report.

JEFF FIELD: Correct.

ROBERT BERRY: All right.

USHA PATEL: So let's say they establish the fund category for the first year. The next year, they come around and they want to change something in the fund category. Can they do that?

JEFF FIELD: Well, if they want to add a new fund category…. Let's say they started a new project, and they wanted to distinguish between projects, they would create…. Oh, I'm sorry. You're talking about fund categories.

USHA PATEL: Initial fund categories.

JEFF FIELD: Yes, the situation with the form is, it's still designed such that you establish all of your fund categories – we're talking about Section V.B now, where you account for how all the proceeds are dispersed, how they're all allocated at time of issue. You are, basically, locked into the funds that you create in Year 1. We realize there are cases in which in subsequent years, you would need to change that, update that for any of a number of reasons. If that's the case, you should contact us, and we can take care that of on our end.

ROBERT BERRY: Well, it looks like that's all of the questions that have come in. I realize that we have kind of gone through this quickly, and if you're a new filer, clearly there's a lot of information that we didn't cover about the real basic elements of filing a report. So I would invite you to go to our website and review the instructions and the variety of notifications and pieces that we have put out talking about filing your ADTR. Those are the references that Usha mentioned in the earlier part of the program and are linked to the PDF version of the webinar slides.

Slide 30 – SB 1029 – Year 3 of the ADTR 1:02:29

ROBERT BERRY: So if you're experiencing problems or have questions that we didn't answer today, our contact information is on the screen here so we invite you to give us a call. Don't hesitate to use it and as mentioned earlier, CDIAC makes all of our webinars available on the CDIAC website for replay. And if you'd like to review this webinar, in about two weeks a replay and a transcript of this webcast will be posted to our Education page on the CDIAC website. I would say as far as the CDIAC contacts go, Jeff is the go-to person with respect to the real details of the ADTR, but feel free to give any of us on the contact screen a call if you run into problems. We're happy to help.

Slide 31 – Upcoming CDIAC Educational Programs 1:03:20

ROBERT BERRY: So that's bringing us to the end of our webcast a little earlier than we thought so that's good for folk's schedules today. Lastly, before we close out, a quick reminder about upcoming CDIAC programming. We have three programs upcoming on surplus funds investing so for those of you that wear multiple hats and are involved in surplus funds investing, a hands-on workshop on the 19th and 20th of this month in a couple of weeks, a webinar on socially responsible investing on December 10th, and our advanced investing topics program which will be in Southern California on January 15th and the 16th. And then, on the debt issuance side of our work here, we have a disclosure program on March 3rd in Irvine. So registration for all the programming is open so please visit our website and register if you are interested in participating in any of our programming.

Also, you can stay abreast of all of our educational programs by subscribing to CDIAC's ListServ on the CDIAC website or by following CDIAC on Twitter and LinkedIn. We use social media to let people know about our upcoming programs as well.

So in closing I'd like to thank our presenters today: Usha Patel, Jeff Field, and Angela Ayala from our Education team who's provided all of our technical support behind the scenes here for this program. And of course, thank you to all of you for joining us this morning, and we look forward to you joining us for future CDIAC programming. So long and have a great day.