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## **Economy & Efficiency Commission Presentation**

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**PRESENTATION BY**  
**Peter W. Schaafsma, Assistant State Treasurer**  
**Executive Director, Debt and Investment Advisory Commission**  
**Topic: Current Issues Facing the California Debt and Investment Advisory Commission**  
**June 10, 1998**

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Chairman Abel welcomed Mr. Schaafsma to the Commission. Mr. Schaafsma thanked the Commission for inviting him to speak and stated that he would be presenting an overview of the California Debt and Investment Advisory Commission (CDIAC). The CDIAC was originally called the CDAC but after the Orange County bankruptcy, and its investment problems, the Commission was renamed and charged with providing technical assistance to local government agencies on investment practices, in addition to providing assistance on debt issuance which is their primary focus.

The CDIAC was created by statute in 1981 and is an offshoot of Proposition 13. The state treasurer (at the time) was concerned about what was happening to local government in the post Prop. 13 era and wanted to ensure that government agencies had somewhere to turn for information on the issuance of debt. The CDIAC, since 1982, has had a database of all public debt issued in the State of California and that is how the Commission's operations are supported. Whenever a public agency issues a bond, there is a fee imposed upon that transaction that goes into the CDIAC fund. This fund supports the CDIAC's operation on appropriation by the state legislature.

Commissioner Padilla asked how commissioners are appointed. Mr. Schaafsma stated that there are nine members on the Commission. The CDIAC is composed of: the State Treasurer, Matt Fong, who is the chair; a representative of the governor; the state controller; two local public agency representatives appointed by the treasurer; and four members of the legislature.

### **Mission**

The CDIAC more clearly defined its goals this year through the use of a strategic planning process. Out of this process came the following mission statement:

"The CDIAC's mission is to improve the practice of public finance in California by providing responsive and reliable information, education, and advice."

An important part of this statement is its focus on education. The CDIAC does not serve any regulatory role.

### **Primary Functions**

The CDIAC has three functions:

1. Data Clearinghouse. Anyone who has questions about who is issuing debt, the type of debt or related

trends can call the Commission for answers.

2. **Technical Assistance.** The CDIAC offers 8-10 seminars on debt issuance, how to put together an investment policy and other related financial concerns for local public officials every year. This past week the CDIAC released a new edition of their California Debt Issuance Primer.

3. **Policy Research.** The CDIAC has a staff that examines trends in public debt issuance and investments to look for concerns that may be raised by private practitioners or local public agencies. The staff then develops an understanding of these trends. After careful research, the CDIAC makes recommendations to the legislature. Recently, the governor signed into law a bill, SB 147, based on a recommendation of the CDIAC.

Last year the CDIAC issued a report, Disclosure Guidelines for Land-based Securities, intended to help local agencies adjust to the new FCC rule 15C 212 that requires public agencies to provide ongoing disclosure of material fact whenever they issue a bond issue. This report won an award from the Government Finance Officers Association.

In response to laws enacted as a result of the Orange County bankruptcy, the CDIAC worked jointly with the League of California Cities, the Association of California Municipal Finance Officers, et. al., to put together a document that answers questions agencies faced in implementing new laws. This was also a popular and successful document.

### **Current Projects**

**1. Inter-Agency Municipal Bond Task Force.** In the wake of suspect bond deals that have taken place since 1996, Treasurer Fong became concerned that these deals could violate substantial provisions of state laws. He recognized that there was no agency in place to monitor this activity. The CDIAC asked the Attorney General to give an opinion on these practices. This informal opinion stated that laws were being violated. The Treasurer asked the CDIAC to put together a task force of state agencies and organizations that have jurisdiction in this area. This task force consists of: the CDIAC, representatives of the State Treasurer's office, State Department of Corporations, Attorney General's office, and the California State Bar. The task force has met for the past fifteen months discussing the question of how the state approaches the enforcement of its own bond laws. The task force found that across the board there is a void in enforcement of laws dealing with bonds. This encourages individuals to be creative in the interpretation of bond laws.

Commissioner Sylva commented that within the law there is a lot of gray area.

Chairman Abel inquired about the report the task force will be delivering. Mr. Schaafsma stated that the report will document the findings of the task force -- that there is an enforcement void -- and turn the matter over to the legislature for a policy response.

**2. Study of Marks-Roos Act.** The legislature put this act in place in 1985 to broaden substantially the flexibility local agencies have in issuing bonds. The treasurer thought it was time to study how people use this act. In its study of the act, the CDIAC found that the joint-powers agencies that use the act use it for bond pooling about half of the time and for single project issues the other half of the time. The CDIAC hopes that finding out how the act is used will help to preserve it as a tool for local government finance in the future.

Chairman Abel asked Mr. Schaafsma to comment on the thesis that Proposition 13 is responsible for governments over reliance on debt. Mr. Schaafsma stated that many people believe that Prop. 13 was the beginning of the end for local government. He believes that Prop. 13 eliminated one way that governments accommodated the situation they were in, which is raising taxes. Governments still accommodate costs. They now shift them to fees and service charges, shifting costs to the private sector, etc. Although these methods may be less visible to taxpayers, they are still accommodating for costs much like the methods before Prop. 13. One method of financing that has increased is certificates of participation.

Commissioner Buerk asked if Mr. Schaafsma thought there would be another county bankruptcy in the near future. Mr. Schaafsma replied that many conditions connected to the Orange County situation still exist, and it is a possibility for small governments.

Chairman Abel asked Mr. Schaafsma to share his reports with the EEC as they are published and the EEC will do the same.

Commissioner Buerk asked how the strategic plan helps the CDIAC. Mr. Schaafsma stated that the strategic plan helped the CDIAC realize that it needed to get feedback on its operations. Once the feedback was processed, they discovered that they needed to improve the value of the data collected, improve focus on current issues in the marketplace and include other points of view in the process by which they arrive at conclusions. They are addressing all these concerns.

Chairman Abel thanked Mr. Schaafsma for his presentation.