DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

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June 28, 2017

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
Washington, DC 20549

Re: Comment Letter on Release No. 34-80130; Proposed Amendments to Exchange Act Rule 15c2-12 (the "Rule"), File No. S7-01-17

Dear Mr. Fields:

The California Department of Finance respectfully submits the following comments regarding the proposed amendments (the Proposed Amendments) to Exchange Act Rule 15c2-12, as identified above.

The Department of Finance is the Governor's chief fiscal policy advisor and has authority over financial policies of the state. As such, Finance assumes a large role in disclosure responsibilities for nearly all state-issued municipal debt. In addition, the Director of Finance chairs, and Finance employees staff, the State Public Works Board, the state's issuer of lease-revenue bonds. The Board finances a vast capital outlay program for a variety of public buildings including, but not limited to, prisons, courthouses, office buildings, hospitals, forest fire stations, and university and community college facilities.

These comments focus on the applicability of the Proposed Amendments to state-issued debt and concerns regarding California's ability to comply with disclosure obligations under the Proposed Amendments, and thus continue to access the municipal markets. Finance is deeply concerned that because the Proposed Amendments are overbroad, they would be impossible to implement and unduly burdensome in state financings. One specific example of how the Proposed Amendments could negatively affect the state is their application to the Board and the state's lease-revenue program for capital outlay.

The Board is the largest state issuer of lease-revenue bonds in the country and regularly issues bonds twice a year. As of June 1, 2017, the Board had $9,167,490,000 in lease-revenue bonds outstanding and the state legislature had authorized the issuance of $3,320,772,281 aggregate principal amount of lease revenue bonds that are currently unissued. The Board is a party to over 75 Continuing Disclosure Agreements, and approximately two dozen different participating agencies and the State Treasurer are also involved in ensuring compliance with disclosure obligations at issuance and on a continuing basis.

The Proposed Amendments appear to expand the applicability of the Rule in ways that would make compliance by the Board and its participating agencies virtually impossible given the size, complex structure and decentralization of California state government. For example, there are over 150 state entities and over 363,000 state employees. As other commentators have noted, the Proposed Amendments seem to presume a very simple and unified state administrative structure that relies upon a single coordinating party with the ability to (1) access information regarding all "financial obligations" and agreements that might require reporting and (2) make determinations of materiality and then provide the required notices within 10 business days. This assumption is not accurate.

Participating agencies, the end users of the lease-revenue proceeds, operate under various and separate statutory or Constitutional schemes. Many have annual budgets that total in the billions of dollars (California's total budget for fiscal year 2017-18 is $183 billion, and its General Fund budget is $125 billion). Because the Board's lease-revenue obligations are payable from a participating agency's annual operating budget (which are largely, but not entirely, appropriated from the General Fund of the state), any "financial obligation" entered into by a participating agency, if "material," or any event reflecting "financial difficulties" as set forth in the Proposed Amendments could trigger a reporting obligation. Given the vast amount of obligations entered into by participating agencies, determining which obligations may be a "financial obligation" and, further, whether such are "material" raises enormous, if not impossible, logistical problems in determining compliance with the Proposed Amendments for each participating agency.

Given these potential problems, if the Proposed Amendments are finalized as written, the state will need to reconsider the use of state-issued debt and its lease-revenue program. Finance urges the withdrawal of the Proposed Amendments, or at the least the significant narrowing and clarification of the Proposed Amendments, because the state may be forced to curtail its participation in the municipal markets if the Proposed Amendments, as drafted, become final.

Sincerely,

Erama Ortiza for

MICHAEL COHEN
Director