

California Debt Limit Allocation Committee (CDLAC)

**CalPERS Auditorium
400 Q Street
Sacramento, CA 95814**

September 22, 2010 Meeting Minutes

1. Call to Order and Roll Call

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee meeting to order at 1:30 p.m.

Members present were Cynthia Bryant for Governor Arnold Schwarzenegger, Cindy Aronberg for State Controller John Chiang, and Bettina Redway for State Treasurer Bill Lockyer.

Advisory Members present were Lynn Jacobs of the Department of Housing and Community Development and Tom Hughes for Cal-HFA. Steve Spears of Cal-HFA joined the meeting, replacing Tom Hughes, at 1:45pm, during Agenda Item 4.

The chairperson declared a quorum.

2. Approval of the Minutes of the July 28, 2010, Meeting

Cynthia Bryant made a motion to approve the minutes of the July 28, 2010, meeting. Cindy Aronberg seconded. There were no objections and the July 28, 2010, minutes were approved by unanimous vote.

3. Executive Director's Report

Sean Spear reported that:

- There is still a substantial amount of allocation available and Staff will be preparing recommendations on how to use remaining allocation which will be presented at the December 15, 2010 meeting;
- The 2011 CDLAC meeting schedule has been posted to the website;
- Reviewed visit to Washington DC and Federal Legislation Update, stating that several CDLAC Program-related initiatives may not be addressed by the Congress until after the election. There is pending legislation extending the Recovery Zone Program (HR5893) that may be addressed after the election. The Treasury Department announced it will extend the New Issue Bond Program into 2011.
- Tom Hughes mentioned that the program has been valuable to Cal-HFA.

4. Consideration of and Approval to Disseminate Revised CDLAC Regulations for a 30-Day Public Comment Period

Sean Spear reported that as of July 29, 2010, the California Debt Limit Allocation Committee (Committee) has been operating under approved emergency regulations that set forth the priorities and process by which potential issuers of qualified private activity bonds may apply for, and be awarded, an allocation of the annual state ceiling in accordance with the provisions and requirements of 26 U.S.C. Sections 141, et seq., as amended, and California Government Code Sections 8869.80, et seq., as amended. As a part of the process to implement permanent regulations, staff is recommending the Committee adopt a 30-Day Public Comment Period to ensure the proposed revisions to the regulations are in conformance with other similar rules utilized by state agencies and industry standards.

Regarding changes in **Sections 5060, 5061, 5062, 5063, 5064, 5065, and 5066**: From the beginning of the year, CDLAC staff has been approached by project sponsors and issuers asking for clarification on CDLAC's current policy regarding the consideration of applications calling for the public sale of non-credit enhanced bonds; especially in light of the current bond market environment. Whereas such issuance plans have been rare in the past, the current inability for many sponsors to secure credit enhancement has made

them consider going to market as a stand-alone rated or unrated transaction. CDLAC staff believed it was appropriate to examine the current market situation and the CDLAC policy on such transactions as defined in the CDLAC Regulations.

Mr. Spear continued that CDLAC's current Regulations reflect an assumption that most transactions will be either a credit enhanced public sale (usually with a resultant AAA credit rating), or a private placement to an institutional buyer (no credit enhancement and no credit rating required). The nearly complete elimination of the bond insurance sector, and the severely reduced appetite of the commercial banks for privately-placed bonds, have together made the issuance of bonds a much more difficult proposition. More bond issuers are forced to bring their issuances to the public market with lower (or no) credit ratings; relying instead on aggressively marketing individual bond issuances to potential investors.

Staff analysis (which included a survey of investment bankers and bond financial advisors, as well as a survey of some other state bond allocating agencies nationwide) reached the following conclusions:

- Bond investors are performing much more detailed underwriting of individual bond transactions; with far less reliance on the transactions' credit enhancement (if any) and individual credit rating;
- The volume of non-enhanced issuances (as a percentage of the overall number of public bond sales) has increased substantially; though the transactions often involve the same bond issuers that have historically and consistently accessed the markets (and for California private activity bonds, who have traditionally applied to CDLAC); and
- The majority of state private activity bond allocating agencies have set additional approval conditions for transactions rated BBB and lower; whereas CDLAC's current regulations do not have specific supplemental information requirements and merely suggest a menu of potential approval conditions.

CDLAC staff believes it would be prudent to revise the CDLAC Regulations to more clearly identify a set of specific additional items needed for staff to thoroughly analyze and underwrite non-credit enhanced public sale applications, as well as confirm a set of minimum approval conditions for all such transactions. With Committee consent, CDLAC staff would like to prepare suggested amendments to the CDLAC Regulations reflecting these recommendations. Following a public comment period, CDLAC staff believes they can have the draft revisions prepared for Committee consideration by the end of the year; to then be included in CDLAC's final Permanent Regulations.

In addition to changes in the Bond Sale Structure Requirements, the following are also being considered:

Mr. Spear reported that the second item was **Section 5033(b)(5)**: TEFRA Resolutions must be provided to the Committee "five (5) days prior to the first public posting of Committee recommendations." This modified requirement better suits the various CDLAC-related application review schedules while still providing staff adequate time to review public hearing outcomes prior to the public posting of any CDLAC-related recommendation or action.

The third item proposed to **Section 5193**: The minimum Debt Service Coverage Ratio will be increased to 1.15 to comply with CTCAC regulations.

The fourth item proposed to **Section 5241 (new)**: Realignment of Expiration Dates. Projects awarded a Supplemental Allocation during an Open Application Process that have not issued bonds from the original Allocation will have the expiration date of the original award extended to match the expiration of the Supplemental Allocation award.

Mr. Spear concluded with the fifth item to **Section 5052(b) (new)**: If an Applicant issues at least 80% of the Allocation awarded, the Committee will consider revising the original Committee Resolution at their next scheduled meeting to reflect the amount issued provided the Applicant can justify the amount issued was in good faith. Applicant's whose awards are amended to reflect the amount issued will not be subject to any forfeiture of deposit as provided in subdivision (a) of this section.

Cindy Aronberg commented that the Controller's Office does not agree that issue size should be a factor, but the credit quality should be the important consideration regarding BBB transactions. She requested to

make it clear that the Committee has discretion to impose potentially stricter requirements on individual transactions if merited; based upon their credit quality.

Bob Hedrick responded that it would be taken under advisement.

There were no other questions or comments. Cynthia Bryant made a motion to move approval and submit for 30 day public comment. Cindy Aronberg seconded the motion. The motion was unanimously approved to disseminate revised CDLAC regulations for a 30 day comment period.

5. Consideration and Approval of an Issuance Date Extension for Various Qualified Residential Rental Projects

Sarah Lester reported that the recently approved CDLAC Regulations state that if an Allocation was awarded during an Open Allocation Round, the Committee may extend the Project's expiration date up to the next regularly scheduled meeting at which time the Committee may elect to grant an additional extension up to ninety (90) days. Under this provision, the following projects are requesting an approval to extend their Bond Issuance Deadlines:

The Buckingham Senior Apartments Project (10-003) received an allocation award through the Community Redevelopment Agency of the City of Los Angeles ("Applicant") on January 27, 2010. Currently, the bond issuance deadline for the Project is September 22, 2010. The Applicant is requesting a 90-day extension.

The Applicant has applied for funding for the Project through the State of California Housing and Community Development Department ("HCD") under the Neighborhood Stabilization Program; offered by the U.S. Department of Housing & Urban Development to stabilize communities that have suffered from foreclosures and abandonment.

HCD has expressed concerns regarding some underwriting issues including the appraisal methodology for the Project. The Applicant was advised by the Developer (Meta Housing) of HCD's questions regarding the appraisal methodology, and is currently working with HCD and HUD to resolve these questions and obtain direction, if necessary, for delivering an "as-is" value for a partially completed, deed-restricted, affordable multi-family housing development.

Allowing an extension of the issuance deadline to December 22, 2010 will provide adequate time to address HCD's concerns and secure a final award of NSP funds for the Project. If the bond issuance date is not extended, the Project will lose their allocation and the city of Los Angeles will lose the opportunity to add 69 units of affordable senior housing to its community.

Ms. Lester continued that The Garvey Court Apartments Project (10-007) received an allocation award through the California Municipal Finance Authority ("Applicant") on January 27, 2010. The current bond issuance deadline is September 22, 2010.

The Project also has a funding award through the State of California Housing and Community Development Department under the Neighborhood Stabilization Program ("NSP"); offered by the U.S. Department of Housing & Urban Development. The NSP is a new program and has been experiencing some delays in its administration. HUD has not distributed the final loan documents and all related materials for the NSP-Affordable Housing Rental projects. In light of the delays, the project will not be able to close the NSP Loan by the CDLAC September 22, 2010 issuance deadline.

Allowing the extension to the issuance date to December 22, 2010 will ensure HCD's completion of the process of distributing final loan documents for the NSP-Affordable Housing Rental projects. If the issuance date is not extended, the Project will lose their allocation and the city of El Monte will lose the opportunity to add 67 new senior affordable housing units to its community.

Ms. Lester continued on about The Peralta Senior Project (10-025) received an allocation award through the County of Alameda on May 26, 2010 for \$18,000,000.

Ms. Redway interjected and requested that due to time constraints and the next meeting that is to follow, that Ms. Lester just summarize these items.

Ms. Lester finished this item by stating that allowing an extension to the issuance date to December 22, 2010 will ensure the completion of the HUD loan processing and the issuance of the bonds for the Project. If the issuance date is not extended, the Project will lose its allocation.

The Azahar Place Apartments Project (10-014) has a current bond issuance deadline is September 22, 2010. The Applicant is requesting a bond issuance extension consistent with the TCAC/ARRA closing deadline of December 22, 2010.

The next projects are Sunset Gardens Apartments (09-099), Miramar Way Apartments (09-100), Lenzen Gardens Apartments (09-101), Julian Gardens Apartments (09-102), Cypress Gardens Apartments (09-103) and Lucretia Garden Apartments Projects (09-104) ("The Projects"). The current bond issuance deadline for these Projects is September 22, 2010. They are requesting an extension to November 12, 2010.

Ms. Lester continued with The Casa Grande Apartments Project (10-027) has a current bond issuance deadline for the initial award is September 22, 2010, and are requesting a 60-day extension with a deadline of November 22, 2010.

The Vendome Palms Apartments Project (09-033) has a current bond issuance deadline is September 22, 2010. They are requesting an extension to the issuance date of October 22, 2010.

Ms. Lester concluded with that Staff recommends the approval of the following issuance date extensions:

09-033 Vendome Palms Apartments Project	October 22, 2010
09-099 Sunset Gardens Apartments Project	November 12, 2010
09-100 Miramar Way Apartments Project	November 12, 2010
09-101 Lenzen Gardens Apartments Project	November 12, 2010
09-102 Julian Gardens Apartments Project	November 12, 2010
09-103 Cypress Gardens Apartments Project	November 12, 2010
09-104 Lucretia Garden Apartments Project	November 12, 2010
10-027 Casa Grande Apartments Project	November 22, 2010
10-003 Buckingham Senior Apartments Project	December 22, 2010
10-007 Garvey Court Apartments Project	December 22, 2010
10-014 Azahar Place Apartments Project	December 22, 2010
10-025 Peralta Senior Apartments Project	December 22, 2010

There were no comments or questions and Cynthia Bryant moved approval of item; Cindy Aronberg seconded the motion. The motion was unanimously approved to approve the issuance date extensions as noted above.

6. Consideration and Approval of a Revision to CDLAC Resolution ARRA-21 for the Lodi Unified School District Project and CDLAC Resolution ARRA-22 for the Rancho California Water District Project

Brady Hill reported on May 26th, 2010, the Committee approved the creation of a waiting list for all complete, unfunded & partially funded QECB applications for the May 26th meeting, including the Lodi Unified School District Project and the Rancho California Water District Project. Specifically, any allocation that was waived on or before August 14th would be used to fund these waiting list projects. During this time period, the Lodi Unified School District Project and the Rancho California Water District Project (collectively, the "Districts") both received waived QECB allocation. The Districts both decided that the simplest form of QECB financing would be a lease financing structure for their respective projects. This structure requires that the District issue the bonds.

Mr. Brady advised that Staff recommends approval of a revision to CDLAC Resolutions ARRA-21 and ARRA-22 for the purpose of designating Lodi Unified School District as the Issuer of the bonds for the Lodi Unified School District Project (ARRA-039) and Rancho California Water District as the Issuer of the bonds for the Rancho California Water District Project (ARRA-043), respectively; and approval of Lodi Unified School District's issuance of bonds as a private placement.

There were no comments or questions. Cindy Aronberg made a motion for approval. Cynthia Bryant seconded the motion. Motion was unanimously approved to revise CDLAC Resolution ARRA-21 for the Lodi Unified School District Project and CDLAC Resolution ARRA-22 for the Rancho California Water District Project.

7. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation

Sarah Lester reported that the distribution criteria for the Single Family Housing (SFH) Program Pool is on a fair share basis; that is, each county receives a proportionate share of the amount reserved for Local Issuers

based on that County's population relative to the State's population. If a County has exhausted their previously-awarded fair share allocation, then they may apply for additional allocation under the Single Family Housing Bonus Pool Program.

The Committee received five (5) applications requesting their 2010 Fair Share Single Family Housing allocations for a total of \$40,743,822 for the issuance of Mortgage Credit Certificates under their respective Mortgage Credit Certificate Programs.

Ms. Lester advised that Staff recommends the approval of \$27,595,138 representing the aggregate total of the fair share allocation of all five (5) programs in the Single Family Housing Program.

There were no questions or comments and Cynthia Bryant made a motion for approval. Cindy Aronberg seconded the motion and the recommendation was unanimously approved.

10-058	County of Solano	\$2,156,280
10-059	County of Alameda	\$10,162,887
10-070	Housing Authority of the County of Tulare	\$2,882,280
10-071	Housing Authority of the County of Marin	\$1,688,429
10-073	County of San Diego	\$10,705,262

8. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects and Awards of Allocation

Brady Hill reported that the Mixed Income Pool received two (2) applications for projects requesting a total allocation of \$115,945,313. The General Pool received eight (8) complete applications requesting a total allocation of \$105,947,000.

Mr. Hill continued that the following applications exceed the \$30 million project cap per project imposed by Section 5232 of the CDLAC Regulations:

10-066	Coventry Court Apts.	\$45,280,313	CSCDA
10-076	One Santa Fe Apts.	\$70,665,000	CalHFA
10-072	Hunters View Phase I Apts.	\$41,000,000	RDA of City/County of S.F.

Mr. Hill advised that the Staff recommends: 1). Approval of a waiver of the maximum allocation amount for the above Applications based on the demand for rental projects is such that, the maximum allocation amount is not warranted. Due to the lack of competition, there will be excess allocation for the current round; 2). Approval of \$115,945,313 to fund two projects in the Mixed Income Pool; 3). Approval of \$105,947,000 to fund all eight projects in the General Pool.

There were no comments or questions and Cindy Aronberg made a motion for approval and Cynthia Bryant seconded the motion. The motion was unanimously approved.

10-066	Coventry Court Apartments	Tustin	\$45,280,313
10-076	One Santa Fe Apartments (NIBP)	Los Angeles	\$70,665,000
10-047	Terracina at Vineyard Apartments	Sacramento	\$5,000,000
10-062	Campus Commons Apartments	Arcadia	\$7,032,000
10-064	Long Beach Senior Artist Colony Apts.	Long Beach	\$29,000,000
10-068	Las Serenas Senior Apartments	Simi Valley	\$7,170,000
10-069	Terracina Cathedral City Apartments	Cathedral City	\$4,900,000
10-072	Hunters View - Phase I Apartments	San Francisco	\$41,000,000
10-074	Casa Grande Apartments (supplemental)	Ceres	\$1,015,000
10-078	South PACE Apartments (NIBP)	Fairfield	\$10,830,000

9. Consideration of Appeals and Applications for a Re-Allocation of American Recovery and Reinvestment Act - Recovery Zone Economic Development Bonds and Awards of Allocation

Crystal Alvarez reported that there were no appeals. She continued that The Recovery Zone Economic Development Bond (RZEB) Program received nine (9) complete applications for projects requesting a total allocation of \$182,823,000. However, currently there is only \$150,407,000 available in RZEDB allocation; providing enough allocation to award the authority for the full amount requested for six (6) of the nine

projects. It is important to note there were two Tier 1 submissions and one application for a Tier 2 project. Tier 1 respondents are municipalities that have voluntarily waived allocation and Tier 2 applicants are specific municipalities that did not receive an original award of allocation authority from the U.S. Treasury.

In order to make immediate use of any waived RZEDB allocation that CDLAC may receive between September 23rd and December 31st, CDLAC staff is recommending the creation of a waiting list for the three (3) complete, partially funded applications.

Ms. Alvarez advised that Staff recommends:

- 1) Approval of \$150,407,000 in reallocated American Recovery and Reinvestment Act – Recovery Zone Economic Development Bond authority to fund nine (9) projects.
- 2) Creation of a waiting list with an expiration date of December 31st, 2010, for the following complete RZEDB applications; which shall be funded in the following descending order until the available RZEDB allocation is exhausted:
 - o ARRA-054 ACE Equipment Maintenance and Layover Facility Project
 - o ARRA-032 West County Clinic Project
 - o ARRA-064 City of El Monte Public Works Yard Project

There were no comments or questions and Cindy Aronberg made a motion for approval and Cynthia Bryant seconded the motion. The motion was unanimously approved.

ARRA-067	State Route 91 Corridor Improvement Project (Tier 1)	Various	\$44,801,000
ARRA-032	West County Clinic Project	San Pablo	\$10,000,000
ARRA-055	MacArthur Transit Village Project	Oakland	\$3,000,000
ARRA-053	River Park Maintenance Facility Project	Oxnard	\$3,347,000
ARRA-054	ACE Equipment Maintenance and Layover Facility Project	Stockton	\$29,059,000
ARRA-051	Highland Hospital Acute Tower Replacement Project	Oakland	\$500,000
ARRA-058	UC Merced Student Housing Phase 4 Project	Merced	\$48,700,000
ARRA-063	Oakdale Park Redevelopment	North Highlands	\$1,000,000
ARRA-064	Public Works Yard Project	El Monte	\$10,000,000

10. Consideration of Appeals and Applications for a Re-Allocation of American Recovery and Reinvestment Act - Recovery Zone Facility Bonds and Awards of Allocation

Crystal Alvarez reported that there are no appeals. She continued that the Recovery Zone Facility Bond (RZFB) Program received six (6) complete applications for projects requesting a total allocation of \$344,608,742. It is important to note that there are two (2) Tier 1 submissions. These applicants have first and second priority respectively in the reallocation process.

Ms. Alvarez advised that Staff recommends approval of \$344,608,742 in reallocated American Recovery and Reinvestment Act – Recovery Zone Facility Bond authority to fund six (6) projects.

There were no questions or comments and Cynthia Bryant made a motion for approval. Cindy Aronberg seconded the motion. The motion to approve was unanimously approved.

ARRA-069	Citrus Tower Project (Tier 1)	Riverside	\$37,200,000
ARRA-070	Gershwin Hotel Project (Tier 1)	Hollywood	\$25,000,000
ARRA-045	Chevron U.S.A. Inc. Project	El Segundo	\$250,000,000
ARRA-057	Aerospace Dynamics International, Inc. Project	Santa Clarita	\$7,000,000
ARRA-012	Kohl's Solar Project	Various	\$5,583,742
ARRA-061	Redondo Beach Hotel Development Project (Supplemental Request)	Redondo Beach	\$19,825,000

11. Consideration of Appeals and Applications for a Re-Allocation of American Recovery and Reinvestment Act – Qualified Energy Conservation Bonds and Awards of Allocation

Brady Hill reported that there are no appeals the Qualified Energy Conservation Bond Program received two (2) complete applications for projects requesting a total allocation of \$37,425,000.

Mr. Hill advised that Staff recommends the approval of \$37,425,000 in reallocated American Recovery and Reinvestment Act - Recovery Zone Facility Bond authority to fund the two (2) projects.

Mike Brown, consulting engineer from the City of Salinas requested to make a comment on behalf of the Mayor and City Council of Salinas to express their appreciation for the Committee's consideration of their application. Their project, if approved, would help reduce Salinas' municipal energy use by 50%.

There were no other comments or questions and Cynthia Bryant made a motion for approval. Cindy Aronberg seconded the motion and the item was approved unanimously.

ARRA-056	Salinas Street Garage/Permit Center, Waste Water Treatment Plant Project	Salinas	\$2,425,000
ARRA-064	Farms to Fuel Project	Schellville	\$35,000,000

12. Public Comment

There were no other comments.

13. Adjournment

The meeting was adjourned at 2:14 p.m.