

**CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**

**October 21, 2015**

**CONSIDERATION AND ADOPTION OF THE QUALIFIED RESIDENTIAL RENTAL PROGRAM (QRRP) MINIMUM POINT THRESHOLDS AND NON-COMPETITIVE APPLICATION PROCESS FOR THE 2016 PROGRAM YEAR**  
**(Agenda Item No. 8)**

**ACTION:**

For the 2016 program year, approve minimum point thresholds and an open application process for the Qualified Residential Rental Program (QRRP).

**BACKGROUND:**

**Open Application Process**

Staff recommends that the Committee approve and maintain an open application process for the 2016 Qualified Residential Rental Program (QRRP) year. This recommendation is made on the basis that the QRRP pool continues to be non-competitive in 2015 and is expected to be non-competitive for the 2016 program year. However, if at any time during the open application process the QRRP pool appears to become competitive, staff will return to the Committee with a recommendation to close the open application process and return to a competitive allocation round process.

**Minimum Point Thresholds**

Staff recommends minimum point thresholds as follows: Forty-five (45) points in the General Pool and Rural Pool and twenty (20) points in the Mixed Income Pool.

Throughout CDLAC's history of administering the State Ceiling for qualified private activity bonds, the program has enjoyed robust utilization. This trend dramatically changed in the late 2000's in conjunction with the downturn and has continued despite the economic recovery. As a result of factors including but not limited to the dissolution of redevelopment, the exhaustion of State Bond funds specifically dedicated to affordable housing preservation and production, and the historically low spreads between tax-exempt and taxable financing the State Ceiling has been underutilized since 2009. To preserve this underutilized resource, CDLAC has been making lump sum awards which are carried forward and preserved.. There are federal limitations to preserving the bond authority and, in 2014, CDLAC was required to abandon nearly \$1.429 billion. Additionally, in 2014 CDLAC carried forward \$7.884 billion of unused resources into 2015.

Reducing the CDLAC threshold was raised as a mechanism to increase utilization of CDLAC's resources and accordingly to increase production of affordable housing during the TCAC/CDLAC Listening Tour and in written comments during the public comment period associated with the regulation change package. Due to the fact that the threshold score remains outside the current regulatory framework, it was not included in the regulation change package currently before you.

In addition to feedback received from the Development Community, CDLAC staff initiated an outreach effort to discuss the impacts of a threshold reduction with the Issuer Community throughout the state. Most Issuers are either supportive or impartial to the proposed reduction. When discussing the magnitude of the reduction, all supportive Issuers indicated a forty-five (45) point threshold for the Rural and General Pools would be helpful to assist projects currently economically constrained, while still encouraging public benefits in excess of the federal requirements. For the Mixed Income Pool, CDLAC is proposing a reduction to a twenty (20) point threshold. This is a more significant reduction than the

proposal for the General and Rural Pools based on the lack of current interest in the Mixed Income Pool. In 2014 and to date in 2015, CDLAC has not received any Mixed Income Pool applications. The twenty (20) point threshold reflects CDLAC's belief that there are inherent benefits to Mixed Income housing and the desire to encourage Mixed Income transactions by reducing costs. All supportive Issuers were also supportive of this reduction.

Opposition to the threshold reduction is limited, but CDLAC is sensitive to opponents' argument regarding the potential reduction in public benefits associated with the threshold change for certain projects and geographies. In response to these concerns, the proposed reduction will be in place only for the 2016 calendar year and will be reevaluated again at the end of 2016.

In summary, as a result of these unprecedented circumstances affecting State Ceiling utilization combined with our dire need to increase the supply of affordable units in California, CDLAC supports a reduction in the threshold criteria this year. CDLAC is hopeful that this reduction, combined with the effects of the proposed CDLAC and TCAC regulation changes will push more projects into the realm of economically viable and accordingly increase production and preservation of affordable housing throughout the state.

**RECOMMENDATION:**

Staff recommends the approval of minimum point thresholds for the General and Rural Pools of forty-five (45) points and twenty (20) points for the Mixed Income Pool as noted and an open application process for the Qualified Residential Rental Program for 2016.

*Prepared by Jeree Glasser-Hedrick*