

California Debt Limit Allocation Committee

Jesse Unruh Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

March 16, 2016
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Alan Gordon, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:02 am.

Members Present: Alan Gordon for John Chiang, State Treasurer
Eraina Ortega for Edmund G. Brown, Jr., Governor
Alan LoFaso for Betty T. Yee, State Controller

Advisory Members Present: Tia Boatman Patterson for the California Housing Finance Agency (CalHFA)
Ben Metcalf for the Department of Housing and Community Development (HCD)

Board Chair, Alan Gordon, welcomed new Committee Member, Ben Metcalf, recently appointed Executive Director of HCD.

2. Approval of the Minutes of the January 20, ~~2015~~ 2016 Meeting (Action Item)

Alan LoFaso moved approval of the minutes, as corrected with a non-substantive change, for the January 20, ~~2015~~ 2016 meeting. Upon a second by Eraina Ortega, the minutes passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

3. Executive Director's Report (Informational Item)

Ms. Glasser-Hedrick apprised the Board of a few revisions to the Agenda packet. Item 7.14, Buckingham Apartments, updated its financing section to reflect a permanent loan status. Item 7.27, City Center Plaza Apartments, clarified appropriate appraisal and contingency costs in the Sources and Uses Section of the staff report. The revised Exhibit A of the Agenda reflects the withdrawal of Vista del Mar Apartments effective March 15, 2016.

Ms. Boatman Patterson stated that in the Sources and Uses Section of the City Center Plaza Apartments staff report was the project that she noted as having very high construction contingencies. Ms. Boatman Patterson inquired whether that had been moved. Ms. Glasser-Hedrick replied that this year the CDLAC updated its Sources and Uses Form and is now relying on the California Tax Credit Allocation Committee's (TCAC) form. TCAC groups appraisals and

contingencies in the same heading. Many of the March staff reports are reflected accordingly. In the future, staff will break out the appraisal and construction contingency costs. There are some very sizable appraisal costs which are not reflective of actual appraisal costs in the marketplace, but are reflective of the cost of appraisals plus construction contingency costs.

Ms. Boatman Patterson stated that she would wait until Item 7 of the Agenda to go into further detail regarding the high construction contingency costs.

Ms. Glasser-Hedrick reported that CDLAC did roll out its online compliance system as scheduled on February 1, 2016. There were a number of issues that needed to be addressed during the roll out and as a result the compliance reporting deadline was extended from March 1st to April 1st of this year. The CDLAC staff have been working diligently with the affected Issuers to correct the problems so that each Issuer's portfolio would be accurately reflected in the new online system. Staff have received positive feedback regarding the new system and feel confident that this was the correct decision despite a few hiccups along the way.

Ms. Glasser-Hedrick stated that she would be back before the Board in late 2016 to discuss this year's compliance rates and possible alternative means of addressing non-compliance moving forward.

Ms. Glasser-Hedrick further reported that since her arrival in January 2015, 99% of the CDLAC discussions have been focused on Multifamily Housing. To remind the Board, CDLAC oversees a number of different pools of resources including the Industrial Development Bond Program (IDB) which the California Industrial Development Financing Advisory Commission (CIDFAC) administers on CDLAC's behalf. The CIDFAC scoring, outlined in the CDLAC regulations, has been in place for quite some time and has become inconsistent with today's manufacturing environment. CIDFAC is currently leading an effort to update the scoring criteria and fee structure to better reflect today's current environment. Any changes in point scoring that are recommended as a result of the stakeholder group would come before the CDLAC Board later this year in the form of regulation changes.

Ms. Glasser-Hedrick reported that costs for tax-credit funded projects continue to escalate. On the 9% side, TCAC has put into place some cost parameters which the Board will hear more about at the TCAC meeting which convenes upon adjournment of this meeting. On the 4% bond side, there are basis limitations but not a measure that gets at costs particularly. Ms. Glasser-Hedrick stated that she is concerned about the trend of escalating costs associated with bond and 4% deals. Since TCAC controls the tax credit resources that go to projects, it is likely that the TCAC regulations would best address the high cost issues. Mr. Stivers and Ms. Glasser-Hedrick are working to convene a group of industry experts to discuss the implications and potential policy alternatives of addressing the ever increasing cost of projects in California. Ms. Glasser-Hedrick stated that we should keep in mind that TCAC and CDLAC are stewards of public resources that are limited in nature and are subject to political considerations in Washington.

Mr. LoFaso asked Ms. Glasser-Hedrick if she would elaborate as to what she knows at this juncture as it relates to what the end product might be and roughly what its timeline might be.

Ms. Glasser-Hedrick replied that normally TCAC has a historic process of proposing and adopting regulations at year end. Ms. Glasser-Hedrick and Mr. Stivers hope that there will be some new ideas garnered from the community that may potentially find its way into the regulation change package toward the end of this year.

4. Consideration and Approval of Issuance Date Extensions for Various Projects – Qualified Residential Rental Program:

<u>App.</u>	<u>Project</u>
15-381	Green Gardens Apartments
15-423	Casa de Oro Apartments
15-426	Los Ositos Apartments
15-442	East Bluff Apartments
15-457	Columbia Park Apartments

(Action Item)

Devon King stated that Issuance date extensions are requested for five (5) awarded QRRP projects. The need for the extensions relate to delays in securing all necessary closing approvals. Staff believed it was appropriate to grant additional time to resolve the outstanding issues and close on the bonds as required.

RECOMMENDATION:

Staff recommended the approval of the following issuance date extensions:

15-381	Green Gardens Apartments	April 27, 2016
15-423	Casa de Oro Apartments	April 28, 2016
15-426	Los Ositos Apartments	April 28, 2016
15-442	East Bluff Apartments	April 15, 2016
15-457	Columbia Park Apartments	April 30, 2016

Alan LoFaso moved approval of staff’s recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

5. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for an Exempt Facility Program and Awards of Allocation (Action Item)

a. Consideration of appeals

Richard Fischer reported that there were no appeals.

b. Consideration of applications – See Exhibit A for list of Applications

Mr. Fischer reported that the Committee received one application for a Single Exempt Facility award. The application received from Carmichael Water District requested \$8,315,000 of Exempt Facility allocation for the issuance of Mortgage Revenue Bonds for the Bajamont Water Plant. Mr. Gordon inquired as to how Mortgage Revenue Bonds would pay for a water infrastructure project.

Mr. Perry Israel, tax counsel working on the Bajamont project, stated that the bonds were, in fact, Water Revenue Bonds not Mortgage Revenue Bonds that would pay for the project.

Mr. Israel introduced Steve Nugent, General Manager of Carmichael Water.

Mr. LoFaso thanked Mr. Fischer for all the background information he provided regarding the Bajamont project.

Mr. LoFaso inquired, for clarification purposes, about the contract that Carmichael Water District has with Golden State Water which he understands is an investor owned water utility. Mr. LoFaso stated that Golden State's private ownership structure gives rise to the nexus warranting the private activity bond approval in the first place. Mr. LoFaso asked if Mr. Israel would confirm that Golden State Water has no interest in the Carmichael treatment plant or other attachment to the bonds other than just being the revenue source via this contract.

Mr. Israel stated that this was an unusual case as the bonds have already been issued; therefore, the application being made is to convert a portion of the bonds pursuant to some Treasury regulations that relate to remedial action.

Mr. Israel stated that the plant was originally built with excess capacity anticipating future growth. With the water crisis and the rationing of water, the expected growth did not happen. At the same time, the plume from Aerojet, which is polluting the ground water, has spread and is now adversely impacting the wells from which Golden State pumps its water. Golden State has water rights to surface river water; however, there is no means of treating said water. Carmichael Water District has been approached and asked to sell what is called "capacity" which is effectively a contract right. Golden State will have no ownership interest in any facility; however, it will have a contractual right to have its water coming from the river to be processed at the Carmichael Water District's plant. Since Golden State is a private entity, it will have the contractual right to process water at the Carmichael facility. This is able to occur because the initially issued governmental bonds will be replaced with private activity bonds facilitating private business activity. This is what gives rise to this remedial action which allows the bonds to remain outstanding as tax-exempt private activity bonds as long as the various parameters are met. One of these parameters is getting an allocation of private activity volume cap for the portion of the bonds that are outstanding and will reflect the pro rata amount of the plant which is being used by Golden State Water. The facility will still be owned and operated by the Carmichael Water District.

Mr. LoFaso thanked Mr. Israel for his response.

Mr. Gordon asked Mr. Israel about the outstanding term of the bonds.

Mr. Israel replied November 2029.

Mr. Gordon then inquired about the length of the water contract.

Mr. Israel stated indefinitely.

RECOMMENDATION:

Staff recommended approval of \$8,315,000 to provide funding for the Carmichael Water District's Bajamont Water Plant.

Alan LoFaso moved approval of staff’s recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

16-002	5.1	RF	Carmichael Water District	Bajamont Water Plant	Carmichael	Sacramento	\$8,315,000
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6. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for the Single Family Housing Program and Awards of Allocation (Action Item)

a. Consideration of appeals

Brian Clark reported that there were no appeals.

b. Consideration of applications - See Exhibit A for a list of Applications

Mr. Clark reported that the Committee received one application for single family awards. The application received from the County of Riverside requested \$17,840,083 of Single Family Housing allocation for the issuance of Mortgage Credit Certificates under the counties single-family homeownership program.

RECOMMENDATION:

Staff recommended approval of \$17,840,083 to provide funding for the County of Riverside’s Single Family Housing Mortgage Credit Certificate Program as noted above

Alan LoFaso moved approval of staff’s recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

16-003	6.1	BC	County of Riverside	MCC	Various Cities	Riverside	\$17,840,083
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7. 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 (Action Item)

a. Consideration of appeals*

Devon King reported that there were no appeals.

b.Consideration of applications – See Exhibit A for a list of Applications**

General Pool

Mr. King reported that the General Pool reflects thirty (30) projects requesting a total allocation of \$581,809,966.

Ms. Boatman Patterson stated that Ms. Glasser-Hedrick made an earlier statement regarding cost parameters and escalating costs. Are there any parameters regarding construction contingencies that would currently allow us to assist in cost containment when it comes to construction contingencies.

Ms. Glasser-Hedrick replied that the CDLAC regulations do not currently prescribe certain limitations for construction cost contingencies. When staff reviews projects, they are reviewing the cost structure, but staff is not grouping projects with high contingency costs and following up on those related matters.

Ms. Boatman Patterson stated that new construction contingency generally runs in the industry about 5%. Agenda Item 7.9, a new construction project, has a construction contingency cost of 18.1%. On acquisition rehabilitation projects, Ms. Boatman Patterson stated that the US Department of Housing and Urban Development (HUD) generally requires a construction contingency of approximately 10 – 12%. Her colleagues could confirm that. On Agenda Item 7.16, she sees no construction contingency; on Item 7.7, she sees a 20.8% construction contingency; on Item 7.21, a 19% contingency.

Ms. Glasser-Hedrick reiterated that staff is using the TCAC Sources and Uses Form. On the TCAC staff reports form, the appraisal line item includes both the appraisal and the contingency costs. It was not that the developer was not including the contingency cost, it was more a case that each line item was not labeled appropriately. Staff is going to break out the contingency and appraisal costs and make these updates to the online versions of the staff reports.

Ms. Boatman Patterson then asked if she were seeing a very high construction contingency cost, could other costs be included in that line item.

Ms. Glasser-Hedrick stated that that was not necessarily the case. The high construction contingency costs likely reflect market forces. Ms. Glasser-Hedrick concurs with regard to the fact that any construction contingency above 10% for a new construction project is a reason to ask questions regarding those costs. At this time, it is not currently a part of the review process.

Ms. Boatman Patterson wanted to bring this cost discrepancy to the Committee's attention as we discuss affordable housing and the additional associated costs. The four housing agencies were very proactive and came together to do an affordable housing cost study. A 25% construction contingency cost when the industry standard may be 10 - 12% causes one to begin asking questions.

Mr. Gordon stated that the Treasurer shares Ms. Boatman Patterson's concerns regarding affordable housing. The problem is that there are two competing interests colliding. The 9% tax credit side has a limited pool and more applicants than pools. When dealing with the 4% side, there is a very large residual pool from previous years. Mr. Stivers is putting together a task force and hopefully it will find a balance particularly when looking at 4% deals in the coastal zones of California where the prices are just escalating. One acquisition rehabilitation project in San Francisco has over a \$1 million per unit in costs. When a Congressperson from a Midwestern state looks at a million dollar per unit project for housing in California, the whole program gets called into question. There is also a situation in California as last year the Governor signaled very strongly that he does not think that tax credits are the way to fund affordable housing. Mr. Gordon stated that he has the upmost confidence in Mr. Stivers and Ms. Glasser-Hedrick's ability to solve this problem in short fashion. Ms. Glasser-Hedrick stated that there are no parameters in the CDLAC regulations to force contingencies to be within certain limits. Staff may start flagging those that are large and ask the question why. Given the interest rate environment people are hedging a bit, and changing dynamics create different reflections of a point in time for a project. Ms. Glasser-Hedrick assured Ms. Boatman Patterson that staff would be happy to start asking these questions going forward.

Ms. Boatman Patterson thanked Ms. Glasser-Hedrick.

Mr. Ben Metcalf wanted to know of the \$581 million of authority, what portion of that share is available to the State of California at this point in time.

Ms. Glasser-Hedrick replied approximately 1/6 of the allocation amount. There is also significant carryforward. This is the first round and 1/6 of the allocation granted is doing rather well. Also, half of the projects in this pool are new construction projects which is a significant improvement over past years.

Mr. Metcalf had a further question regarding the construction contingency costs. He stated that construction contingency costs were not used in the final certification of these projects down the road for TCAC purposes, and he inquired if the ceiling cap reverts back to the State in a future year if unused. On the tax credit side, there is a cost certification that actually determines the final eligible basis.

Ms. Glasser-Hedrick stated that that is CDLAC's process as well.

Mr. Metcalf stated that that may give a little comfort to the State.

RECOMMENDATION:

Staff recommended approval of \$581,809,966 to fund thirty (30) previously reviewed projects in the General Pool.

Alan LoFaso moved approval of staff's recommendation. Upon a second by Eraina Ortega the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

16-004	7.1	RF	Richmond Housing Authority	Friendship Manor and Triangle Court Apartments	Richmond	Contra Costa	\$1,000,000
16-302	7.2	DK	Housing Authority of the County of Santa Barbara	Positano Apartments	Santa Barbara	Santa Barbara	\$20,000,000
16-303	7.3	DK	California Municipal Finance Authority	Laurel Grove Family Apartments	San Jose	Santa Clara	\$47,696,218
16-304	7.4	RF	County of Contra Costa	Riviera Family Apartments	Walnut Creek	Contra Costa	\$19,200,000
16-305	7.5	SL	County of Contra Costa	Virginia Lane Apartments	Concord	Contra Costa	\$15,988,000
16-306	7.6	BC	City of Los Angeles	Camino del Mar Apartments	Los Angeles	Los Angeles	\$24,475,000
16-308	7.8	RF	County of Contra Costa	Tabora Gardens Senior Apartments	Antioch	Contra Costa	\$24,000,000
16-309	7.9	LE	City and County of San Francisco	1036 Mission Family Housing	San Francisco	San Francisco	\$32,100,000
16-310	7.10	DK	California Municipal Finance Authority	Jardin de Las Rosas Apartments	Santa Barbara	Santa Barbara	\$9,873,929
16-311	7.11	SL	California Statewide Community Development Authority	Hampton Square Apartments	Stockton	San Joaquin	\$15,000,000

16-312	7.12	BC	California Municipal Finance Authority	Watts- Athens Apartments	Los Angeles	Los Angeles	\$14,000,000
16-313	7.13	SL	California Statewide Community Development Authority	Casa Blanca Apartments	Antioch	Contra Costa	\$14,500,000
16-314	7.14	RF	California Municipal Finance Authority	Buckingham Apartments	Los Angeles	Los Angeles	\$16,400,000
16-315	7.15	SL	California Statewide Community Development Authority	Courtyard Plaza Apartments	San Jose	Santa Clara	\$18,000,000
16-317	7.16	RF	Housing Authority of the City of San Diego	Vista La Rosa Apartments	San Diego	San Diego	\$48,756,000
16-318	7.17	LE	California Municipal Finance Authority	Barrett Plaza Apartments	Richmond	Contra Costa	\$15,700,000
16-319	7.18	DK	California Municipal Finance Authority	Casa Montego Apartments	Walnut Creek	Contra Costa	\$22,480,000
16-320	7.19	SL	California Statewide Community Development Authority	ETHIC Paramount Family Apartments	Irvine	Orange	\$17,500,000
16-321	7.20	SL	California Statewide Community Development Authority	RCC Cadence Family Apartments	Irvine	Orange	\$17,000,000
16-322	7.21	DK	California Municipal Finance Authority	Mackey Terrace Apartments	Novato	Marin	\$15,933,000
16-323	7.22	DK	California Municipal Finance Authority	Walnut Place Apartments	Point Reyes Station	Marin	\$7,000,000
16-324	7.23	DK	City of Hayward	Glen Berry and Glen Eden Apartments	Hayward	Alameda	\$14,821,819
16-325	7.24	BC	California Municipal Finance Authority	Mission Village Apartments	Los Angeles	Los Angeles	\$12,500,000
16-326	7.25	BC	California Municipal Finance Authority	Saint Mary Tower Apartments	Long Beach	Los Angeles	\$32,726,000
16-327	7.26	BC	California Municipal Finance Authority	Portola Senior Apartments	Lake Forest	Orange	\$11,100,000
16-328	7.27	DK	California Municipal Finance Authority	City Center Plaza Apartments	Redwood City	San Mateo	\$16,660,000
16-329	7.28	RF	Housing Authority of the City of San Diego	Mesa Verde Apartments	San Diego	San Diego	\$22,400,000
16-330	7.29	SL	California Statewide Community Development Authority	Esencia Norte Apartments	Rancho Mission Viejo	Orange	\$22,000,000
16-331	7.30	SL	California Statewide Community Development Authority	Sendero Bluffs Apartments	Rancho Mission Viejo	Orange	\$17,700,000
16-332	7.31	RF	Housing Authority of the City of San Diego	Fairbanks Terrace Apartments	San Diego	Ventura	\$15,300,000

8. Public Comment (Action Item)

There was no public comment.

9. Adjournment

The Chairperson adjourned the meeting at 11:27 a.m.