

California Debt Limit Allocation Committee

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

May 18, 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 11:00 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)

2. Approval of the Minutes of the March 16, 2016 Meeting (Action Item)

Eraina Ortega moved approval of the minutes, as amended with a non-substantive change, for the March 16, 2016 meeting. Upon a second by Alan LoFaso, the minutes passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: 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. Three (3) projects were withdrawn at the last minute and those changes were reflected on the revised Exhibit A and the point scoring sheet. Agenda Item Five had minor corrections to the staff report. Two (2) projects in Section 8 also had edits to the staff reports: Item 8.18 was originally noted as a new construction project; however, it was an acquisition and rehabilitation project. Item 8.46 had issues with its funding sources which were lost after submittal of the application to CDLAC. The sources and uses then needed to be rearranged.

Ms. Glasser-Hedrick provided a couple of updates. A 2017 calendar was presented to the Committee somewhat earlier than usual. In anticipation of the large volume of applications that CDLAC staff expects in mid-June for projects that are attempting to preserve their Difficult Development Area (DDA) status, staff wanted to provide clarity regarding the options for requesting allocation. The DDA status allows projects that are engaged in the 4% bond arena to receive a 30% basis bump in their tax equity. The change at the federal level has left California as a net loser in the DDA status arena. All of these projects are required to submit applications to CDLAC by June 14, 2016. If CDLAC deems the applications complete, projects will have 730 days to close. CDLAC provided each project the option of choosing the round in which they

requested allocation. Ms. Glasser-Hedrick was hopeful that the early posting of the 2017 schedule would help developers through the planning process.

Ms. Glasser-Hedrick then provided updates regarding the progress TCAC and CDLAC have made with regard to the High Cost Task Force. Ms. Glasser-Hedrick and TCAC Executive Director Mark Stivers convened the first task force meeting in April. Ms. Glasser-Hedrick stated it was a productive and positive conversation with a number of different ideas discussed. There was quite a bit of concern from the industry, in general, regarding the need to be more cognizant of the costs of projects that are being financed. The task force is in the process of collecting some statewide data from the Issuers and the development community and it plans to reconvene to discuss the next steps after crystalizing the options needing further discussions.

Ms. Glasser-Hedrick provided an allocation usage update stating that \$1.4 billion of allocation is being requested at this meeting. If the Committee approves all the projects included in today's agenda, approximately \$2 billion of resources will have been committed this year, to date, which is essentially 2/3 of the resources that were placed in the multifamily pool or were currently undesignated. This is an amazing feat and I want to complement my staff for their very hard work processing the pipeline of applications that were submitted.

There has been some discussion about CDLAC's ability to fund all 2016 projects given the increase in demand staff has seen in the last two rounds. I want to assure the Committee that much of the allocation granted to date this year has been carryforward allocation. As a reminder, if allocation is not utilized in a given year, it can be carried forward or, in other words, preserved by individual issuers.

After this meeting, the Committee will have approximately \$2.6 million of multifamily or undesignated funds remaining to fund projects this year. In addition, there is approximately \$1.7 billion of carryforward remaining. I am confident that these resources will cover the remaining demand for 2016. I am uncertain, given the volume of expiring DDA applications, what 2017 holds. At the next allocation meeting in July, Ms. Glasser-Hedrick will have more information to share.

Ms. Glasser-Hedrick wanted to further discuss the request made by Ms. Boatman Patterson at the March 2016 allocation meeting to take a look at contingency amounts that seem high for industry standards. While industry standards vary, contingency line items for new construction projects range from 5-10% and on up to 10-15%. In this round of projects, there is a trend emerging that contingency costs are higher than those industry averages - 15%. Currently neither CDLAC nor TCAC have limitations on the amount of contingency that is underwritten at the time of application. In light of the interest in this topic, representatives from some of the identified projects have joined the meeting today.

Mr. Gordon welcomed Ms. Boatman Patterson.

Mr. LoFaso asked Ms. Glasser-Hedrick to reiterate the amount of allocation that will have been issued after approval of today's applications.

Ms. Glasser-Hedrick replied \$2 billion.

Mr. LoFaso asked if the High Cost Task Force meetings were closed to the public.

Ms. Glasser-Hedrick stated that was correct.

4. Consideration of a Request for a Waiver of the Forfeiture of the Performance Deposit for Various Projects - Qualified Residential Rental Program (Action Item)

15-387 Sylmar Court Apartments
15-354 Villa La Esperanza Apartments
14-067 & 15-015 Camino Esperanza Apartments
15-371 Bellflower Friendship Manor Apartments
14-044 & 14-125 Stevenson House Apartments

Richard Fischer stated that Waivers of the Forfeiture of the Performance Deposits for Sylmar Court Apartments, Villa La Esperanza Apartments, Camino Esperanza Apartments, Bellflower Friendship Manor Apartments and Stevenson House Apartments were being requested. Pursuant to CDLAC regulations, the Committee may grant Waivers to the Performance Deposit forfeiture if the delay prompting the need to request a Carryforward Extension is unforeseen and outside the control of the Project Sponsor and development team.

Mr. Fischer stated that Waivers of the Forfeiture of the Performance Deposit are requested for five (5) awarded QRRP projects. All forfeitures were a result of the request and approval of Carryforward Extensions, a circumstance that occurs after applicants do not issue bonds in a timely manner. In three (3) of the five (5) projects, Sylmar Court, Villa La Esperanza and Camino Esperanza, delays in issuing bonds were a result of the complex nature of the U.S. Department of Housing and Urban Development's (HUD) involvement in the transaction. The fourth project, Bellflower Friendship Manor, resulted from a miscommunication between the Applicant and CDLAC given the request for extension. The final project, Stevenson House, was delayed due to cost overruns and the extended period of time necessary to identify funding to fund the overruns. Staff supported these waivers given that the circumstances were unforeseen and outside the control of the Project Sponsor and the development team.

RECOMMENDATION:

Staff recommended the approval of the Waiver of the Forfeited Performance Deposit penalty for Sylmar Court Apartments, Villa La Esperanza Apartments, Camino Esperanza Apartments, Bellflower Friendship Manor Apartments and Stevenson House Apartments.

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

5. Consideration of a Request for a Waiver of the Forfeiture of the Performance Deposit and Negative Points for E. Boyd Esters Manor Apartments Project (15-452) - Qualified Residential Rental Program (Action Item)

Jeree Glasser-Hedrick reported that a Waiver of the Negative Points was requested for Rosecrans Manor Inc., the Managing General Partner of the E. Boyd Esters Manor Preservation, L.P. Staff recommended the imposition of negative points to Mr. Blair Williams as the President of the Rosecrans Manor Inc. Board at the time the CDLAC application was submitted.

Ms. Glasser-Hedrick stated that the E. Boyd Esters Manor Apartments received allocation on December 16, 2015 and had an issuance deadline of March 25, 2016. Bonds were not issued for this Project and accordingly were reverted to CDLAC prompting the imposition of negative points and the loss of the performance deposit.

In October of 2015, at the time the application was submitted, Mr. Blair Williams was the Chairman of the Board of Rosecrans Manor Inc., the General Partner of the E. Boyd Esters Manor Preservation, L.P. The performance deposit was provided by Blue Green Preservation and Development. Subsequent to submission of the CDLAC application, Mr. Williams resigned his position as president of the Board on December 21, 2015.

In March of 2016, shortly before the expected issuance date of the bonds but more than three (3) months after the project received an allocation of bonds, CDLAC received correspondence from Mr. Williams stating that the CDLAC application and the accompanying site control documentation had fraudulent signatures. Due to this unforeseen circumstance relating to the above described dispute, the planned recapitalization of the Project was not able to move forward and the application was withdrawn.

Ms. Glasser-Hedrick further reported that subsequent to the withdrawal of the application, CDLAC requested and received copies of the corporate resolution authorizing the sale and recapitalization of the property to occur. Additionally, CDLAC was provided copies of e-mails written to and from Mr. Williams that indicate he was in full support of the proposed recapitalization through the time the application was submitted to CDLAC and the Bond allocation was awarded in December of 2015. Other than Mr. Williams, no member of the development team including Blue Green Preservation, the project developer, nor the Rosecrans Manor Inc. Board has corroborated Mr. Williams's claims. Furthermore, despite his claims of forgery, Mr. Williams has instructed CDLAC to allow the transaction to proceed.

RECOMMENDATIONS:

Staff recommended the imposition of negative points to Mr. Williams in connection with his role in the E. Boyd Esters Manor Apartments Project (15-452). Additionally, staff recommended a waiver of the imposition of negative points to Rosecrans Manor Inc. and a waiver of the forfeiture of the performance deposit penalty for the E. Boyd Esters Manor Apartments Project (15-452).

Mr. LoFaso stated that the facts regarding this project were confusing to him. He asked if the project was going forward.

Ms. Glasser-Hedrick replied no.

Mr. LoFaso asked if the alleged fraud was related to Mr. Williams's resignation or if it was related to a different matter.

Ms. Glasser-Hedrick stated that Mr. Williams claimed he did not sign the CDLAC application nor the purchase and sale agreement that were part of the threshold requirement in order to receive allocation. The Board disputes Mr. William's claims.

Mr. LoFaso asked Ms. Glasser-Hedrick to describe why that equates to fraud.

Ms. Glasser-Hedrick stated that Mr. Williams claimed that someone else signed the documentation.

Mr. LoFaso asked if negative points were being assessed on grounds of dereliction or on grounds of fraud.

Ms. Glasser-Hedrick replied that the negative points were being assessed because the project did not move forward. Those are the standard repercussions of accepting a CDLAC allocation and not proceeding.

Mr. LoFaso inquired as whether there was anything in this action that stated any individual committed fraud.

Mr. Glasser-Hedrick replied no.

Eraina Ortega moved approval of staff's recommendations to impose negative points to Mr. Williams, to waive the imposition of negative points to Rosecrans Manor Inc. and to waive the forfeiture of the performance deposit penalty for the E. Boyd Esters Manor Apartments Project. Upon a second by Alan LoFaso, the motion passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Alan Gordon: Aye.

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

<u>App.</u>	<u>Project</u>
15-464	Buena Vida Apartments
15-458	127 th Street Apartments
15-463	E. Victor Villa Apartments
15-450	Transbay 7 Apartments
15-456	Transbay 8 80/20 Apartments
15-455	Transbay 8 Affordable Apartments
15-453	Pacific Rim Apartments
15-430	East Salinas Family Apartments
15-429	Salinas Family Apartments
15-431	Gonzales Family Apartments
15-382	Ortiz Plaza Apartments

(Action Item)

Mr. King reported that issuance date extensions were requested for eleven (11) awarded QRRP projects. The need for the extensions related 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 date extensions:

15-464	Buena Vida Apartments	August 16, 2016
15-458	127 th Street Apartments	August 16, 2016
15-463	E. Victor Villa Apartments	August 16, 2016
15-450	Transbay 7 Apartments	August 16, 2016
15-456	Transbay 8 80/20 Apartments	August 16, 2016
15-455	Transbay 8 Affordable Apartments	August 16, 2016
15-453	Pacific Rim Apartments	August 16, 2016
15-430	East Salinas Family Apartments	August 16, 2016
15-429	Salinas Family Apartments	August 16, 2016
15-431	Gonzales Family Apartments	August 6, 2016
15-382	Ortiz Plaza Apartments	June 24, 2016

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

7. 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 Contra Costa County requested \$11,429,201 of Single Family Housing allocation for the issuance of Mortgage Credit Certificates under their single-family homeownership program.

RECOMMENDATION:

Staff recommended approval of \$11,429,201 to provide funding for the County of Contra Costa’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.

16-005	7.1	BC	County of Contra Costa	MCC	Various	Contra Costa	\$11,429,201
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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 (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**

General Pool

Brian Clark reported that the General Pool reflected forty-four (44) projects requesting a total allocation of \$1,443,346,855.

RECOMMENDATION:

Staff recommended approval of \$1,443,346,855 to fund forty-four (44) previously reviewed projects in the General Pool

Ms. Boatman Patterson apologized for her tardy arrival and for missing the opening remarks of the Executive Director, Ms. Glasser-Hedrick, who may have already addressed the high cost of projects topic she wished to discuss at today’s meeting.

Ms. Boatman Patterson stated that she had been questioning some of the construction contingencies and some of the higher costs associated with those construction contingencies. There were two (2) projects this round that she considered very high – Agenda Item 8.12, the 1750 McAllister Apartments Project, and Agenda Item 8.19, the Westminster Court Apartments

Project. Ms. Boatman Patterson received an email earlier in the day regarding the Westminster Court Apartments project. The 1750 McAllister Apartments project showed a contingency cost of 34% while the industry standard is 10 – 12%.

Ms. Boatman Patterson inquired whether a developer had spoken earlier regarding this matter and apologized if she had missed the conversation.

Ms. Glasser-Hedrick replied that they had not yet spoken to the specifics. A representative from the Mayor's Office of Housing, and its financial consultant, California Housing Partnership, was available to answer any questions.

Mr. Gordon asked if any of the above mentioned representatives would like to come forward.

Kate Hurtley, Deputy Director of the Mayor's Office of Housing and Community Development in San Francisco, stated that the Mayor's Office has, as a general policy, allowed developers' of occupied rehabilitation project's to start out at a 20% hard costs contingency, then when construction bids are received the contingency costs would move to 15%. The reason for the slightly higher than industry standards of 10-12% is because developers often get into occupied rehabilitation situations in San Francisco where it is found that the representations made on structural soundness were not exactly as hoped. Serious seismic upgrades have to be made which are very expensive, and that is why the Mayor's Office requires a 15% contingency at construction start.

Ms. Hurtley stated that her records do not show a 34% contingency for the 1750 McAllister project. She would like to have an opportunity to go back and check those figures. She reiterated that their standard is 15% for all of the similarly situated projects including the McAllister project.

Ms. Glasser-Hedrick asked if the percentage was based on total cost or the amount of the construction contract.

Ms. Hurtley replied that it was based on hard costs. A separate soft cost contingency is carried, typically, on the 10% deals.

Mr. Gordon asked Ms. Boatman Patterson if that answer satisfied her.

Ms. Boatman Patterson stated that she would like to go back and look at those numbers as it shows a contingency cost of \$5.4 million.

Ms. Glasser-Hedrick stated that that the \$5.4 million contingency was confirmed with the CDLAC application.

Ms. Hurtley apologized if her information was wrong or incomplete. She was showing a contingency cost of 15%. She will get back to Ms. Boatman Patterson regarding the differential.

Ms. Boatman Patterson stated that typically hard costs are not looked at on the front end with the understanding that the 4% deals are non-competitive while the 9% deals do have some cost containment measures. From a policy perspective, we need to decide whether or not we want to look at cost containment measures on the 4% side considering that it has not, historically, been

oversubscribed. Ms. Patterson reiterated Mr. Gordon’s message at the last meeting that eyes are looking at California and its ability to look at the high affordable housing costs.

Mr. Gordon stated that if Ms. Patterson were to look at the Governor’s May revised briefing, she would see that the Governor had serious questions about these housing programs and whether California was getting the best value for its dollar. The Governor has added no new funds to affordable housing based on his comments last year and this year.

Mr. Gordon stated that California needs to figure out a way to keep the costs down. He understands that San Francisco has several issues and faces difficulties, but a half a million and above per unit, which is not criticism of San Francisco, but we need to keep those costs down. At a macro level, California is not producing housing needed and, with the scrutiny at every level, we need to drill down the costs.

Ms. Patterson thanked the folks at the San Francisco Mayor’s Office for their stellar job.

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.

16-006	8.1	DK	City and County of San Francisco	Columbia Park Apartments (supplemental)	San Francisco	San Francisco	\$2,220,972
16-007	8.2	RF	City of Los Angeles	Hancock Gardens Senior Apts (supplemental)	Los Angeles	Los Angeles	\$1,500,000
16-334	8.3	SL	City and County of San Francisco	Alemany Apts.	San Francisco	San Francisco	\$87,787,000
16-336	8.4	SL	City and County of San Francisco	320 & 330 Clementina Apts.	San Francisco	San Francisco	\$69,260,000
16-337	8.5	SL	City and County of San Francisco	Rosa Parks Apts.	San Francisco	San Francisco	\$63,890,000
16-338	8.6	SL	City and County of San Francisco	350 Ellis Apts.	San Francisco	San Francisco	\$41,640,000
16-339	8.7	SL	City and County of San Francisco	Westbrook Apartments	San Francisco	San Francisco	\$87,459,000
16-340	8.8	SL	City and County of San Francisco	2698 California Apts.	San Francisco	San Francisco	\$18,337,000
16-341	8.9	SL	City and County of San Francisco	1760 Bush Apts.	San Francisco	San Francisco	\$29,425,000

16-342	8.10	RF	City and County of San Francisco	JFK Tower Apts.	San Francisco	San Francisco	\$35,363,000
16-343	8.11	RF	City and County of San Francisco	Westside Courts Apts.	San Francisco	San Francisco	\$47,497,000
16-344	8.12	RF	City and County of San Francisco	1750 McAllister Apts.	San Francisco	San Francisco	\$34,043,000
16-345	8.13	RF	City and County of San Francisco	Ping Yuen North Apts	San Francisco	San Francisco	\$88,354,000
16-347	8.14	RF	City and County of San Francisco	Ping Yuen Apts.	San Francisco	San Francisco	\$98,065,000
16-348	8.15	RF	City and County of San Francisco	Mission Dolores Apts.	San Francisco	San Francisco	\$32,368,000
16-349	8.16	RF	City and County of San Francisco	3850 18th Street Apts.	San Francisco	San Francisco	\$33,975,000
16-350	8.17	DK	California Housing Finance Agency	Monte Vista Gardens Family Apartments	San Jose	Santa Clara	\$34,000,000
16-351	8.18	DK	California Municipal Finance Authority	Manzanita Place Apts.	Roseville	Placer	\$8,500,000
16-352	8.19	DK	California Municipal Finance Authority	Westminster Court Apts.	Bell Gardens	Los Angeles	\$9,800,000
16-354	8.20	BC	California Municipal Finance Authority	Corona Ranch - Washington Creek Apts.	Petaluma	Sonoma	\$16,112,000
16-355	8.21	BC	California Municipal Finance Authority	Maple Park Apartments	Glendale	Los Angeles	\$5,500,000
16-356	8.22	SL	California Municipal Finance Authority	Rancho Del Valle Apartments	Woodland Hills	Los Angeles	\$6,000,000
16-357	8.23	BC	California Municipal Finance Authority	Quarry Creek Apts.	Carlsbad	San Diego	\$13,300,000
16-358	8.24	SL	City of Los Angeles	PATH Metro Villas Phase 1 Apts.	Los Angeles	Los Angeles	\$17,500,000
16-359	8.25	BC	City of Los Angeles	El Segundo Boulevard Apartments	Los Angeles	Los Angeles	\$17,500,000
16-360	8.26	DK	Housing Authority of the City of Sacramento	Pensione K Apts.	Sacramento	Sacramento	\$4,500,000
16-361	8.27	BC	California Municipal Finance Authority	Life's Garden Apts.	Sunnyvale	Santa Clara	\$39,000,000
16-362	8.28	BC	California Municipal Finance Authority	Park Avenue Senior Apartments	San Jose	Santa Clara	\$39,053,609
16-363	8.29	BC	California Municipal Finance Authority	Shadow Hills Apts.	Thousand Oaks	Ventura	\$16,250,000
16-365	8.30	DK	California Statewide Communities Development Authority	D1 Senior Irvine Housing Apts.	Irvine	Orange	\$25,305,225

16-368	8.33	DK	California Municipal Finance Authority	Brookside Crossing Apts.	Lincoln	Placer	\$24,250,000
16-369	8.34	LE	Housing Authority of the City of San Diego	North Park Seniors Apartments	San Diego	San Diego	\$15,000,000
16-370	8.35	LE	California Municipal Finance Authority	Miraflores Senior Apartments	Richmond	Contra Costa	\$25,000,000
16-371	8.36	LE	City and County of San Francisco	Francis of Assisi Community Apts.	San Francisco	San Francisco	\$50,000,000
16-373	8.38	LE	California Statewide Communities Development Authority	Paradise Creek Housing II Apts.	National City	San Diego	\$30,396,317
16-376	8.39	BC	City of Los Angeles	Vista del Mar Apts.	Los Angeles	Los Angeles	\$24,475,000
16-377	8.40	DK	California Municipal Finance Authority	Pierce Park Apartments	Pacoima	Los Angeles	\$92,500,000
16-379	8.41	DK	City of Los Angeles	Crescent Villages Apartments	Los Angeles	Los Angeles	\$18,000,000
16-380	8.42	SL	California Municipal Finance Authority	Crossroads Apts.	Santa Rosa	Sonoma	\$24,895,000
16-381	8.43	BC	California Statewide Communities Development Authority	Rocky Hill Veterans Apts.	Vacaville	Solano	\$11,000,000
16-382	8.44	DK	California Statewide Communities Development Authority	Evelyn Family Apartments	Mountain View	Santa Clara	\$32,000,000
16-383	8.45	RF	California Statewide Communities Development Authority	Innovia Apts.	Fremont	Alameda	\$42,300,000
16-384	8.46	LE	California Statewide Communities Development Authority	Vista Sonoma Senior Living Apartments	Santa Rosa	Sonoma	\$25,025,732
16-385	8.47	SL	City of Los Angeles	West A Homes Apts.	Los Angeles	Los Angeles	\$5,000,000

9. Public Comment (Action Item)

There was no public comment.

10. Adjournment

The Chairperson adjourned the meeting at 11:25 a.m.