CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

October 8, 2003

Consideration and Approval of a Fourth Allocation Round for Qualified Residential Rental Projects in 2003 (Agenda Item D.)

ACTION: Approve staff's request to establish a fourth allocation round in 2003; transfer all available allocation balances to the Rental Project Pool; approve the amount of allocation to be set-aside in each rental project pool; approve a point threshold for each pool; approve a priority for projects that will be disadvantaged by waiting until 2004 for allocation; and establish the schedule for the round.

DISCUSSION:

In January of this year the California Debt Limit Allocation Committee established three application cycles, the application schedules and the dollar amounts to be made available in each Qualified Residential Rental Project Pool. On September 24, 2003 the Committee completed the application rounds that were established in January however allocation remains unused in the 2003 program year.

The bulk of the allocation, totaling approximately $190 million, remains in the Exempt Facility, Energy Finance and IDB Program Pools. In years past, the Committee has transferred all balances remaining at year's end to the Single Family Program and awarded all such allocation to CalHFA on a carry forward basis. However, in light of the large amount of allocation remaining and potential cost increases associated with the award of allocation in 2004, staff recommends a fourth allocation round for rental projects this year. In addition to establishing a fourth round as discussed below, staff recommends specific steps that the Committee may take to conduct the round with the most efficient allocation process and the least likelihood of lost or unused allocation.

Reasons for a Fourth Round

After December 31, 2003 local governments in many areas of the state will be required to provide significantly more soft second financing to projects requesting bond authority to cover increased costs. As a result of increased project costs it is anticipated that local government funds will assist fewer projects. The addition of a fourth round for rental projects will save certain local governments potentially millions of dollars in scarce local subsidy funds such as HOME, CDBG and tax increment dollars and increase the volume of affordable housing projects.

Similarly, where local soft second funding sources are not available, and where financially feasible, project sponsors may need to significantly increase their developer equity contributions in order to build projects with higher costs after 2003. Each allocation that the Committee makes in 2003 has the potential to save precious funding resources for both local governments and developers. It is for these reasons that staff recommends a fourth allocation round for 2003.

In the days leading up to the September 24, 2003 allocation meeting nine Rental Projects and three Exempt Facility projects totaling approximately $60 million withdrew from the round. With these withdrawals there is approximately $190 million in allocation available for the fourth round. This number is likely to increase as Rental Projects, the Energy Finance and Small Business programs revert allocation back to the Committee. Staff recommends that all 2003 allocation remaining as of December 17, 2003 be transferred to the Rental Project Pool and made available for the fourth round.

Amount of Allocation Per Pool

Staff recommends that the amounts available in the Rural, Mixed Income and General Pools be based on the use of allocation in each pool in the first three rounds of this year. To date in 2003 the Committee has awarded $1.4 billion in allocation to rental project pools per the following: 3% to the Rural Pool, 23% to the Mixed Income Pool and 74% to the General Pool. Using these percentages, staff recommends the following pool amounts for the fourth round:

Rural	$ 5,700,000
Mixed Income	$ 43,700,000
General	$140,600,000
TOTAL	$190,000,000

These pool amounts are a tentative framework for the round. Staff anticipates recommending the transfer of allocation between pools, as needed, at the allocation meeting and making additions based on additional allocation that reverts to the Committee between now and December 17, 2003.

Minimum Point Thresholds

To provide an incentive for projects to meet more of the Committee's public policy goals, to reduce the number of poor quality applications and to lessen the risk associated with carry forward allocation staff recommends that a minimum point threshold be established for all pools in the fourth round.

In January of this year the Committee instituted a minimum point threshold of 70 points in the General Pool. The result of this point threshold has been a dramatic increase in project scores for all pools. Increased scores result in projects that meet more of the Committee's public policy goals and applications of a higher quality in the competitive rounds.

Allocations in a fourth round would be made by the Committee to the issuer on a carry forward basis, meaning all bonds would be issued after the 2003 calendar year has ended. Carry forward allocations are permanent and in the event a project fails to issue bonds, that allocation does not revert back to the Committee to be re-allocated. Carry forward allocation stays with the issuer and can be transferred to another of the issuer's Committee approved projects. However, should the issuer not be able to transfer allocation to another project, there is a risk that the allocation may be lost.

Over the last several years of application cycles staff has seen a correlation between low scoring projects and poorly developed applications that are more likely to withdraw or revert allocation back to the Committee. A minimum point threshold should help deter the submittal of marginal project applications that have a higher likelihood of failure.

In light of the higher risk associated with carry forward allocation, and in an effort to continue the positive trend of increasing project scores, staff recommends the implementation of a 70 point minimum threshold in the General and Rural Pools and the equivalent minimum threshold of 60 points for the Mixed Income Pool.

Priority System

In the event that the round is over-subscribed staff recommends the implementation of a priority system for projects that will be negatively impacted by waiting until 2004 for an award of bond authority. Staff recommends that such projects be placed on a list (ranked by score, one list for each pool) separate from the remaining projects in the round. The Committee would consider that list first and only consider the balance of projects (on the non-priority lists) to the extent that allocation is available in that pool.

Staff believes, because of the large amount of allocation available, that it is unlikely that a priority system will be needed. However should it be necessary, staff recommends the separate "priority list system" because it establishes a priority in a manner that is easily understood and efficient to administer. If this priority system is adopted, staff will contact applicants to determine if there are specific circumstances that would make the project infeasible if it were to be considered in the first round of 2004. The Executive Director shall make the final determination as to whether a project has met the requirement to be placed on a priority list.

Schedule for the Round

The Committee will consider the establishment of a fourth round on October 8, 2003. Issuers and developers are already working on fourth round applications in anticipation that a fourth round might be approved. Staff is recommending that applications be due no later than October 31, 2003. This deadline will allow about one month for the preparation of applications. Staff recommends that allocations be made at a Committee meeting scheduled for December 17, 2003. This will allow approximately half the normal time for staff's review of applications.

RECOMMENDATION:

Staff recommends the Committee approve staff's request to establish a fourth allocation round in 2003; transfer balances available to the Rental Project Pool; approve the amount of allocation to be set-aside in each rental project pool; approve a point threshold for each pool; approve a priority for projects that will be disadvantaged by waiting until 2004 for allocation; and establish the schedule for the round.

Staff Report prepared by Laurie Weir.