

California Debt Limit Allocation Committee (CDLAC)

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

December 16, 2009 Meeting Minutes

1. Call to Order and Roll Call

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee meeting to order at 1:46pm.

Members present were Thomas Sheehy for Governor Arnold Schwarzenegger, Rick Shivaro for State Controller John Chiang, and Bettina Redway for State Treasurer Bill Lockyer.

Advisory Members present were Steven Spears of Cal-HFA and Elliott Mandell for Lynn Jacobs of the Department of Housing and Community Development.

The chairperson declared a quorum.

2. Approval of the Minutes of the November 18, 2009, Meeting (Action Item)

Thomas Sheehy made a motion to approve the minutes of the November 18, 2009 meeting. Rick Shivaro seconded. There were no objections and the November 18, 2009 minutes were approved by unanimous vote.

3. Executive Director's Report (Informational Item)

Mr. Spear advised that if the projects in today's meeting were approved, that would leave approximately \$1.8 billion in remaining allocation. He advised that Item 9 will address the recommendations on how to utilize the remaining allocation on a carry-forward basis for 2010.

Mr. Spear also advised of the status of the Treasury GSE Bond Purchase Program. The Program is designed to assist state and local housing finance agencies who have had difficulty in selling private activity tax exempt bonds on the open market. As an alternative provided by the Housing and Economic Recovery Act of 2008 (HERA), the Program calls for such bonds to be sold to the Treasury through the GSEs. State-level housing finance agencies would also be eligible to receive a (temporary) Line of Credit from the Treasury; enabling them to cover their short-term payment obligations on their existing variable-rate bonds. Lastly, individual multifamily projects can seek credit enhancement for their bonds from the GSEs; provided they can meet the December 31, 2009 issuance deadline.

In October, housing finance agencies wishing to participate in each of these programs were required to identify the amount of bonds (and credit facility) they would hope to have the Treasury assist them on. A few weeks later, Treasury announced the amounts they were willing to support (the "Cap"); with a set of ten (10) California issuers receiving a total of \$2.3 billion in Cap, and CalHFA receiving authority for a Line of Credit up to \$3.8 billion. Six (6) issuers have since withdrawn from participating in the Program; reducing the California aggregate Cap amount from \$2.3B to \$2.0B.

Participating issuers are required to issue short-term taxable securities through the GSEs by December 31, 2009. These securities will then be refunded through the sale of private activity tax exempt bonds to the Treasury over the course of 2010 as the issuers require the bond proceeds for their projects and/or programs. The GSEs will only permit a maximum of three (3) of these partial refundings, so each issuer must carefully time when they will need access to the bond proceeds.

By the December 31st Program deadline, each of the four (4) remaining participating issuers will have sufficient previously awarded carryforward allocation to make full use of their approved Cap amounts. However, each of these carryforward awards has CDLAC-imposed bond issuance deadlines that may hinder their ability to execute the GSE-required refunding issuances at the most opportune times.

On December 14th, CDLAC facilitated a conference call with representatives from the participating issuers and industry experts to discuss the implementation issues with the Program. For the single family program issuances, the consensus among the call participants was that the issuers could immediately start making mortgage loans again, with the Program refunding probably only needing to occur once towards the end of 2010. As such, they strongly recommended that CDLAC agree to extend their issuance deadlines to the end of 2010. It should be noted that CalHFA has HR 3221 carryforward allocation, which also has a federally-imposed issuance deadline of December 31, 2010.

For the multifamily project issuances, the consensus was that they would need to bundle projects and have them close simultaneously on each of the three GSE-imposed refunding dates. This becomes particularly difficult when trying to coordinate with the CDLAC deadlines imposed on each individual project that may receive a Committee approval. After some discussion, the call participants were supportive of the idea of timing the Committee project-level approvals with these refundings if possible. It should be noted here that the end-of-the-year carryforward resolutions provided to the multifamily oriented participating issuers still require them to submit the individual projects to CDLAC for their review and approval by the Committee.

The Treasury-GSE Bond Purchase Program offers a long-awaited means for California's housing finance agencies (as issuers) to sell their bonds for multifamily projects and single family loan programs. In the current financial market, issuers are having very little success in selling their bonds at market; in part due to the severely reduced pool of credit enhancement providers. Issuers have allocation from CDLAC for both worthy and financially sound projects, and loan programs with high demand; but simply cannot access the bond market to use this resource. For many issuers, the Program presents the only avenue for them to issue bonds and receive the bond proceeds needed to fund these activities.

Since the bond allocations being used by the participating issuers are all 2008 and 2009 carryforward, Section 13 of the CDLAC Procedures provide the Committee and Executive Director with some discretion in assisting these projects and programs with meeting the requirements of the Program. To assist the participating issuers, CDLAC Staff recommend the following:

- For Single Family Carryforward Issuers participating in the Treasury-GSE Bond Purchase Program, as permitted under Section 13 of the CDLAC Procedures, the Executive Director shall extend the issuance expiration date to December 31, 2010; and
- For Multifamily (QRRP) Carryforward Issuers participating in the Treasury-GSE Bond Purchase Program, as permitted under Section 13 of the CDLAC Procedures and subject to the Committee's approval of Item 9 on the December 16, 2009 Agenda, the Executive Director shall receive and review QRRP applications for individual projects that the participating issuers hope to employ the Program for. If the application is complete and meets the minimum points threshold, then the Executive Director shall issue a Staff Recommendation Letter detailing this status, with the actual Committee award consideration to follow shortly before the GSE-scheduled bond sale/purchase. This plan of action mirrors the process developed earlier this year with HUD for projects seeking FHA mortgage insurance.

No changes to, or waivers from, the CDLAC Procedures would be required to act on these recommendations. Since the Treasury-GSE Bond Purchase Program terminates at the end of 2010, the need for this corresponding policy is temporary. If the Committee is supportive, then staff will inform the participating issuers that they may pursue their participation in the Program with the expectation that CDLAC will act when needed pursuant to this policy. CDLAC Staff will also host a monthly conference call with the participating issuers to share information and monitor the progress of the Program's implementation.

- Tom Sheehy asked if a major component of this is the problem that the GSE's have with the variable rate bonds not being able to re-price themselves and then turning into bank bonds?
- Sean Spear responded an element of the program is a credit facility that is provided to the State.
- Tom Sheehy asked why it was necessary to line up multiple multi-family projects to close on the same day.
- Sean Spear responded that there would only be 3 opportunities to do this over the next year.
- Steven Spears added this is the other element of the program, if it is viewed as an escrow, that the bonds are actually sold at escrow by the end of the year. Out of that escrow you get 3 draws next year. The draws have to be completed by the end of 2010.
- There were no other comments or questions.

4. Consideration and Approval of a Modification to Resolution 09-95 for the Southern California Home Financing Authority Single Family Housing Program

Sarah Lester reported that on November 18, 2009, the Southern California Home Financing Authority (the "Authority") received \$25 million in 2009 allocation for a Single Family Housing Mortgage Revenue Bond Program. In its original request, the Authority

did not include the refinancing of Qualified Subprime Loans as a use of the allocation. Under the exception to the IRS Code provided under the Housing Assistance Tax Act of 2008, a Qualified Subprime Loan is defined as “an adjustable-rate single family residential mortgage loan made after December 31, 2001, and before January 1, 2008, that the bond issuer determines would be reasonably likely to cause financial hardship to the borrower if not refinanced.” The Authority is now requesting to include the utilization of the allocation as such. The refinancing of qualified loans will represent one component of the Authority’s participation in the GSE/Treasury Single Family New Issue Bond Program that will, in addition, provide loans to qualified homebuyers of REO properties in conjunction with federal Neighborhood Stabilization Program funds, and downpayment assistance for the standard First-Time Homebuyer Program.

Sarah stated that Staff recommends the approval of a modification to Resolution No. 09-95 for the Southern California Home Financing Authority Single Family Housing Program to include the refinancing of Qualified Subprime Loans as allowed by the Housing and Economic Recovery Act of 2008.

- There were no comments or questions.
- Tom Sheehy made a motion for approval.
- Rick Shivaro seconded the motion.
- The motion was unanimously approved for a modification to Resolution 09-95 for the Southern California Home Financing Authority Single Family Housing Program.

5. Consideration of an Issuance Period Extension for Orvieto Family Apartments and Brookwood Terrace Apartments to January 29, 2010 (Action Item)

Richard Fischer reported that on November 18, 2009, the Committee extended the issuance deadline for Brookwood Terrace Apartments and Orvieto Family Apartments (the “Projects”) through December 31, 2009 to provide each project with adequate time to take advantage of the GSE Bond Program.

The Committee was also informed that if the GSE Bond Program did not materialize as projected by December 4, 2009, the Applicant would abandon the alternative path and proceed as originally planned – and, if necessary, seek another extension from the Committee to issue bonds by the end of January 2010, in accordance with the original plan of finance.

While the Applicant has aggressively pursued using the GSE Bond Program, they are no longer confident that the bonds will be issued by the CDLAC and GSE Bond Program deadlines of December 31, 2009. Therefore, the Applicant is now requesting such extension in addition to a carryforward allocation for the Projects so that bonds may be issued under the original plan of finance.

Richard advised that Staff recommends:

- 1) Approval of a carryforward allocation to the City of San Jose for Brookwood Terrace Apartments in the amount of \$13,600,000 and Orvieto Family Apartments in the amount of \$14,200,000; and
- 2) Approval of an issuance expiration date of January 29, 2010 for both projects.

- There were no comments or questions.
- Rick Shivaro made a motion for approval.
- Tom Sheehy seconded the motion.
- The motions were unanimously approved to an Issuance Period Extension for Orvieto Family Apartments and Brookwood Terrace Apartments to January 29, 2010.

6. Consideration of an Award of 2009 Carryforward Allocation for Various Qualified Residential Rental Program Projects Previously Awarded 2009 Allocation (Action Item)

Misti Armstrong reported that the American Recovery and Reinvestment Act of 2009 (ARRA) has created opportunities to assist 4% tax credit projects that either have been unable to secure an equity investor, or have a committed equity partner yet still have a funding gap. For 2009, TCAC 4% tax credit applicants facing these types of situations were eligible to compete for either cash in lieu of tax credit or gap financing.

TCAC has awarded ARRA funds to various multifamily housing projects previously awarded tax-exempt bond allocation in 2009. On September 23, 2009, the Committee granted each 2009 project identified below an extended issuance deadline of December 31, 2009 to accommodate ARRA loan closing deadlines. However, TCAC has since indicated that the ARRA loan closing for these projects will not take place until early 2010.

In an effort to provide the 2009 projects below adequate time to take advantage of the ARRA funds and finalize project financing in 2010, staff recommends the Committee grant an award of 2009 carryforward allocation to St. Joseph’s Senior Apartments (09-052) and Windsor Redwoods Apartments (09-024) in place of each project’s outstanding current year allocation. Staff also recommends a CDLAC bond issuance deadline consistent with each project’s TCAC ARRA award closing deadline.

Under the CDLAC Procedures, the CDLAC Executive Director has the authority to approve an issuance extension for projects in receipt of a carryforward allocation. In alignment with the two projects mentioned above, the CDLAC Executive Director will grant such an extension to the following projects to the project specific TCAC ARRA award closing deadline:

09-084 2235 Third Street Apts.	\$50,000,000 (2007 carryforward)
09-073 36th and Broadway Apts.	\$5,700,000 (2008 carryforward)
09-048 Tonner Hills Apts.	\$21,000,000 (2008 carryforward)

Misti advised that Staff recommends Committee approval of a 2009 carryforward allocation for the following projects and a bond issuance deadline consistent with each project’s TCAC ARRA award closing deadline:

09-052 St. Joseph’s Senior Apts.	\$27,700,000
09-024 Windsor Redwoods Apts.	\$14,100,511

- There were no comments or questions.
- Rick Shivaro made a motion for approval.
- Tom Sheehy seconded the motion.

- The motion was unanimously approved for an Award of 2009 Carryforward Allocation for Various Qualified Residential Rental Program Projects Previously Awarded 2009 Allocation.

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 (Action Item)

John Weir reported the distribution criteria for the Single Family Housing (SFH) Program Pool is on a fairshare 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.

For 2009, the SFH Program Pool has experienced increased participant demand. As a result, many local program administrators have requested that additional 2009 allocation in excess of their 2009 fairshare allocation be provided to meet the needs of these active SFH programs.

To support all December 16, 2009 SFH Applicant requests for allocation, staff recommends the Committee transfer \$9,993,764 of unused Reserve Pool allocation to the SFH Program Pool and waive the fairshare allocation limitation of each Applicant. The Reserve Pool was created to provide staff the flexibility to provide additional allocation to various program pools on an "as needed" basis. The current balance of the Reserve Pool is \$461,076,665.

John advised there were no appeals.

The Committee received twelve (12) applications requesting 2009 Single Family Housing allocation of \$153,034,574 for the issuance of Mortgage Credit Certificates; and

The Committee received two (2) applications requesting 2009 Single Family Housing allocation of \$428,676,197 for the issuance under the Mortgage Revenue Bond Program.

John advised that Staff recommends:

- 1) Approval of the transfer of \$9,993,764 from the Reserve Pool to the SFH Program Pool;
- 2) Approval of 2009 tax exempt bond allocation to various SFH Program Applicants in excess of each Applicant's designated fairshare allocation amount; and
- 3) Approval of \$581,710,771 to fund all fourteen (14) programs in the Single Family Housing Program as noted above.

- There were no comments or questions.
- Rick Shivaro made a motion for approval
- Tom Sheehy seconded the motion
- The motion was unanimously approved for the Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation.

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)

Brady Hill reported that there are no appeals.

He also reported that the Rural Pool received three (3) applications for projects requesting a total allocation of \$28,771,424 and the Mixed Income Pool received three (3) applications for projects requesting a total allocation of \$26,000,000. Also, the General Pool received nine (9) applications requesting a total allocation of \$104,281,900.

Brady advised that Staff recommends:

- 1) Approval of \$28,771,424 in bond allocation for all three projects in the Rural Pool;
- 2) Approval of \$26,000,000 to fund all three projects in the Mixed Income Pool; and
- 3) Approval of \$104,281,900 to fund all nine projects in the General Pool.

- There were no comments or questions.
- Rick Shivaro made a motion for approval.
- Tom Sheehy seconded the motion.
- The motions were unanimously approved for the Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects and Awards of Allocation.

9. Consideration of Staff’s Recommendation to Transfer and Award Unused 2009 Allocation to Various Issuers (Action Item)

Sarah Lester reported that after the December 16, 2009 allocations have been made, there will be a 2009 volume cap balance of approximately \$1,788,574,371 remaining. This amount is likely to increase as projects that have received bond authority may issue only a portion of their allocation or fail to issue bonds entirely. Staff surveyed 12 highly active issuers that on average issued bonds in excess of \$50 million per year between 2006 and 2008. Seven of these issuers responded with interest in receiving a lump sum 2009 carryforward allocation. The recommended awards are based on the average percent of volume cap each qualified issuer issued between 2006 and 2008 and according to the actual amount requested in response to the survey. The Exempt Facility bond issuer, CPCFA also indicated that they anticipate a sufficient number of projects over the next three years to support a 2009 lump sum allocation.

In order to ensure that no amount of 2009 allocation is lost, staff is recommending that the remaining allocation as of December 16, 2009 be made available to the following issuers:

NAME OF ISSUER	RECOMMENDED TRANSFER AMOUNT
California Statewide Communities Development Authority	\$399,960,000*

California Municipal Finance Authority	\$135,000,000*
City of Los Angeles	\$288,000,000*
California Housing Finance Agency	\$199,920,000*
Redevelopment Agency of the City & County of San Francisco	\$50,000,000*
ABAG Finance Authority for Nonprofit Corporations	\$75,000,000*
Housing Authority of the County of Sacramento	\$50,000,000*
CPCFA	\$590,694,371

*This carryforward allocation will be applied to future individual QRRP requests for allocation made by the issuer to the Committee until the amounts are exhausted.

Sarah advised that Staff recommends that \$1,197,880,000 of the remaining \$1,788,574,371 in unused 2009 allocation be transferred to the seven aforementioned issuers of multifamily housing projects for the Qualified Residential Rental Project Program and all allocation remaining thereafter be transferred to the California Pollution Control Financing Authority for the Exempt Facility Program all on a carryforward basis.

- Tom Sheehy wanted to know if there was \$1.8 Billion in carryforward why the recommendation was only \$1.2 Billion.
- Sean Spear responded that the \$1.2 would go to the multi-family issuers and the remainder would go to CPCFA.
- Misti Armstrong added that the entire remaining balance must be allocated; there can be no unallocated amount.
- Bettina Redway added that historically the year end remaining balance was allocated to Cal-HFA; however, with the current market, an alternative distribution was created for the remaining allocation.
- There were no other comments or questions.
- Tom Sheehy made a motion for approval.
- Rick Shivaro seconded the motion.
- The motions were unanimously approved to Transfer and Award Unused 2009 Allocation to Various Issuers.

10. Consideration and Adoption of the Qualified Residential Rental Program Non-Competitive Application Process and Minimum Point Thresholds for 2010 Program Year (Action Item)

Crystal Alvarez reported that the Staff recommends that the Committee approve and maintain an open application process for the 2010 Qualified Residential Rental Program (QRRP) year. This recommendation is made on the basis that the QRRP pool continues to be non-competitive in 2009 and is expected to again be non-competitive for the 2010 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.

Crystal advised that Staff recommends point thresholds remain consistent with previously established open application thresholds. The Rental Project Pool has had a minimum threshold such that all projects must meet a minimum point threshold of 60 points in the Rural and General Pools and 50 points in the Mixed Income Pool to be eligible for an award of allocation.

Crystal advised that Staff recommends:

1) Approval of an open application process for the Qualified Residential Rental Program for 2010; and

2) Approval of minimum point thresholds for the Qualified Residential Rental Program Pools as indicated.

- There were no comments or questions.
- Rick Shivaro made a motion for approval.
- Tom Sheehy seconded the motion.
- The motions were unanimously approved to the Adoption of the Qualified Residential Rental Program Non-Competitive Application Process and Minimum Point Thresholds for 2010 Program Year.

11. Public Comment (Action Item)

- There were no comments or questions.

12. Adjournment

- The Chairperson adjourned the meeting at 2:23pm.