

California Debt Limit Allocation Committee (CDLAC)

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

January 16, 2013 – Meeting Minutes

1. Call to Order and Roll Call

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee meeting to order at 11:03 a.m.

Members present were Alan Gordon for State Controller John Chiang, Pedro Reyes for Governor Edmund G. Brown, Jr., and Bettina Redway for State Treasurer Bill Lockyer.

Advisory Members present were Laura Whittall-Scherfee for HCD and no one for CALHFA.

2. Approval of the Minutes of the December 12, 2012 Meeting

There were no comments or questions. Pedro Reyes made a motion to approve the minutes of the December 12, 2012 meeting. Alan Gordon seconded the motion. The December 12, 2012 meeting minutes passed unanimously.

3. Executive Director's Report

Mr. Spear reported CDLAC Staff will be posting by the end of the month the Summary of Public Benefits for 2012. The summary will detail the final figures on the amounts of allocation awarded by the Committee in the calendar year, as well as the anticipated public benefits to be delivered by the associated projects and programs.

Mr. Spear continued to explain the final figures will be reflective of the continuing headwinds that the tax-exempt conduit bond market has struggled with since 2007. 2012 was much of the same, with historically low margins between taxable and tax-exempt rates, and the continuing scarcity of credit enhancement for small to midsized businesses who had traditionally come to CDLAC for allocation. Applications for new authority under the Industrial Development and Exempt Facility pools continue to be far below traditional norm; with conditions not expected to substantially change in 2013.

Mr. Spear described a bright-spot has continued to be the robust demand for multifamily housing allocation under the QRRP Program Pool. Much of this is attributable to the strong appetite of the commercial banks for privately-placed bonds, CalHFA's usage of the U.S. Treasury's New Issue Bond Program, and renewed usage of Fannie Mae and Freddie Mac's Forward Commitment and Credit Enhancement programs. In many cases, pricing on the debt and tax credits for these transactions continues to be better than that secured during the height of the market a few years ago. Though the number of applications in 2012 was down from a multiyear high in 2011, the number of housing units expected to be constructed or rehabilitated is only 17% less than the pre-2007 average. CDLAC is hopeful that these production numbers will continue into 2013.

Mr. Spear then mentioned that HR 8 – The American Taxpayer Relief Act of 2012 was signed into law on January 2nd. He explained that here were some sighs of relief in the development community since it did not take up the issue of the future of Municipal Bond Tax Exemption as had been feared. Instead, the Act's only related items were the reinstatement of the Pease Limitation (reducing tax deductions for high-income earners by 3%), and the extension of the AMT Exception. The effective ability to use Housing Tax Credits was also extended by 2 years.

However, talk continues on the Hill around Muni Bonds; centered on whether to make them and other deduction items subject to a 28% Cap, or to completely eliminate their tax exemption status. Either action would present a sizeable impact on the ability of State and Local Governments to finance infrastructure projects and support community development. The latest reports seem to suggest that this question may not be taken up with the pending Debt Ceiling & Sequestration negotiations in March; instead to be discussed as part of a possible comprehensive Tax Reform package to be taken up at some point thereafter. Mr. Spear concluded with a statement that CDLAC staff will continue to monitor the developments and provide information to the Committee and other involved parties as necessary.

4. Consideration and Approval of an Issuance Date Extension for Various Projects – Qualified Residential Rental Project Program

Staff recommends the approval of the extension of an issuance deadline up to 90 days for the following projects:

- 12-081 Broadway Sansome Apartments
- 12-117 Gridley Spring Apartments
- 12-118 Valencia Grove Apartments
- 12-111 Gold Country Village Apartments
- 12-096 COMM22 Family Housing Apartments
- 12-098 9th & Broadway Apartments
- 12-070 Columbia Apartments
- 12-113 Wagon Wheel Family Apartments
- 12-106 Casa De La Paloma Apartments
- 12-076 Water Garden Apartments
- 12-089 Round Walk Village Apartments
- 12-077 Marygold Apartments

There were no questions or comments.

Pedro Reyes moved for approval of date extensions on all projects with the exception of 9th & Broadway. Alan Gordon seconded the motion. The motion passed unanimously.

Alan Gordon moved for approval of date extension on 9th & Broadway. Bettina Redway seconded the motion. Pedro Reyes abstained. The motion passed 2-0-1.

Note: Upon adjournment, Laura Whittall-Scherfee pointed out that the issuance delay for 12-118 Valencia Grove Apartments (formerly Lugonia Apartments) was due to approval delays involving the Department of Housing and Urban Development (HUD), not the Department of Housing and Community Development (HCD). Staff confirmed that this was in fact a typo in the staff report.

5. Consideration of a Request for a Waiver of the Forfeiture of Performance Deposit and Assessment of Negative Points for Tres Lagos Apartments (12-114) – Qualified Residential Rental Program

Sarah Lester reported that on September 26, 2012, the Tres Lagos Apartments Project (“Project”) was awarded \$13,634,145 in tax-exempt bond allocation. The Project’s issuance deadline was December 26, 2012. After some discussion in December, on January 3, 2012, the California Statewide Communities Development Authority (the Applicant) notified CDLAC by letter that PC Wildomar Tres Lagos, LP (the “Project Sponsor”) wanted to return the awarded allocation.

The Project’s financing relied on a \$10.5 million subordinate loan originally from the Riverside County Redevelopment Agency. The County of Riverside (“County”), the successor agency of the Riverside County Redevelopment Agency, submitted their first Recognized Obligation Payment Schedules (“ROPS”) to the State Department of Finance (“DOF”) on April 12, 2012; showing the \$10.5 million loan obligation to the Project. The County followed up with a second ROPS submission on May 3, 2012. DOF responded on April 25, 2012 and May 18, 2012, respectively, with lists of items that did not qualify as enforceable obligations, which the Project was not listed on either.

On May 26, 2012, DOF issued a letter approving all items on the ROPS that were not objected to in their two preceding responses. Following this, the Project Sponsor then submitted their CDLAC application to us on July 27th. On August 30, 2012, the County submitted their third (now periodic) ROPS, showing the \$10,500,000 obligation. On October 14, 2012, DOF responded; denying a portion of the obligation and deeming the \$10,500,000 loan agreement between the Project and the County not enforceable.

At the Committee’s direction, CDLAC Staff publicized an informational memorandum stating that, as a policy and in alignment with the CDLAC Regulations, “...all RDA-related projects that receive an award of allocation **after March 16, 2011** and subsequently fail to issue bonds will be subject to all non-issuance penalties as described in the CDLAC Regulations.” The memorandum was sent to all CDLAC subscribers and continuously posted on the CDLAC website since March 11, 2011. The Project received an award of allocation on September 26, 2012. The Project Sponsor acknowledges that they were aware of the Committee’s direction for these situations; however, they believe that this situation merits special consideration by the Committee since the DOF denial occurred sometime after a set of initial approvals by DOF.

Staff is not aware of any other projects that have faced a similar situation, and therefore concludes that a situation such as this one would have been unforeseen at the time of application. Thus, when applying the waiver request tests (namely that the fatal issue was wholly unforeseen, and that the issue was out of the control

of the Issuer and Project Sponsor), Staff believes this request meets the standard CDLAC uses for a recommendation of approval of a waiver of penalties.

In light of the circumstances described, staff recommended the approval of the Waiver of Forfeiture of the Performance Deposit and Negative Points for the Tres Lagos Apartments (12-114).

- Bettina Redway asked if there were any questions or comments.
- Pedro Reyes described some of the processes and procedures the DOF follows. The DOF will use a sample of data submitted to determine if it meets approval. The project may receive an approval for just that portion of time covered under that subject periodic ROPS submission. The letter that is generated explains this is a conditional approval and the project still may not receive subsequent approval(s) in future ROPS submissions.
- Alan Gordon asked if the letter the DOF sends out explains that it is not a final approval. He went on to explain he would like to review this further with the Controller before voting.
- Pedro Reyes also described the availability of Final Determination Letters for individual obligations identified in the ROPS at the request of the successor entities. He then referenced the DOF website where people can find samples of these letters.
- Bettina Redway introduced William Leach as the Project Sponsor.
- William Leach explained the project sponsor was under the impression the project had DOF approval. Mr. Leach had not heard of the Final Determination option that was available. Had he heard of that, he would have applied.
- Bettina Redway asked Mr. Leach if he would mind if they can put this decision over until next meeting.
- Mr. Leach responded that he would be fine with that.
- The Committee took no action; asking staff to research the previous DOF ROPS approval letters for Riverside County, and the nature and availability of the DOF Final Determination Letters. Staff agreed to provide these items for the next Committee meeting in March, when the Committee may elect to act on this waiver request.

6. Determination and Adoption of the 2013 State Ceiling on Qualified Private Activity Bonds

Misti Armstrong reported The Internal Revenue Service has announced that for 2013, the volume limit on public qualified private activity bonds was adjusted for inflation, is \$95 multiplied by the state's population of 38,041,430. For 2013, this translates to \$3,613,935,850 in qualified private activity bond volume cap for California.

There were no questions or comments.

Pedro Reyes moved for approval of the 2013 State Ceiling for Qualified Private Activity Bonds. Alan Gordon seconded the motion. The motion passed unanimously.

7. Consideration and Adoption of the Apportionment of the 2013 State Ceiling among the State Ceiling Pools

Pedro Reyes moved for approval of Adoption of the Apportionment of the 2013 State Ceiling.

Alan Gordon asked to hear the staff presentation.

Misti Armstrong reported this item is for the reservation amounts for the State Ceiling for 2013. The staff recommended reservation amounts reflect CDLAC's statutory emphasis on affordable housing. Staff recommended the following sub program pool amounts: For the Qualified Residential Rental Program Pool; \$1.25 billion in allocation for the multifamily housing program pool. For the Single Family Housing Pool; \$750 million. For CDLAC's new Home Improvement and Rehabilitation Bond Program; \$250 million. Lastly, on the non-housing side, for the Small Issue Industrial Development Program Pool; \$50 million.

Staff is not recommending a reservation for the exempt facility pool at this time since CPCFA has a significant amount of past year carryforward allocation available to them for distribution. Nothing for the student loan

program is recommended either since this program has been dormant for a couple years now. In addition to these pool reservations, staff is asking that \$1.53 billion in allocation be held as undesignated for the time being. Should other program pools seek additional allocation throughout the year, the Committee could take allocation from this particular pool and reassign it where needed.

There were no questions or comments.

Alan Gordon seconded the motion for passage of the allocation pools. The motion passed unanimously.

8. Consideration of a \$50 million Award of Allocation for the California Industrial Development Financing Advisory Commission for the Small-Issue Industrial Development Bond Program

Misti Armstrong reported, as mentioned in the previous item, that the California Industrial Development Financing Advisory Commission is seeking \$50 million in allocating authority for the IDB program for 2013. Last year they were able to award a total of \$12.837 in allocation. That amount supported two applications and created approximately 18 jobs in the state of California with an average hourly wage of \$20.53. Staff again recommends \$50 million in industrial development bond allocation for CIDFAC.

There were no questions or comments.

Alan Gordon moved to approve the \$50 million Award of Allocation for the IDB program. Pedro Reyes seconded the motion. The motion passed unanimously.

9. Public Comment

There was no public comment.

10. Adjournment

The Chairperson adjourned the meeting at 11:41pm.