

California Debt Limit Allocation Committee

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

March 13, 2013
Meeting Minutes (Agenda Item 2)

OPEN SESSION

Call to Order and Roll Call (Agenda Item 1)

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:04 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Jennifer Rockwell for Edmund G. Brown, Jr., Governor
Alan Gordon for John Chiang, State Controller

Advisory Members Present: Claudia Cappio for California Housing Finance Agency (CALHFA)
Laura Whittall-Scherfee for Department of Housing and Community Development (HCD)

Approval of the Minutes of the January 16, 2013 Meeting (Agenda Item 2) (Action Item)

Alan Gordon moved approval of the minutes from the January 16, 2013 meeting. Upon a second by Jennifer Rockwell, the minutes passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Bettina Redway: Aye.

Executive Director's Report (Agenda Item 3) (Informational Item)

Mr. Spear began his report with a review of CDLAC policy regarding Redevelopment Agency (RDA) supported applications and Committee actions. He stated that this item is a follow-up to a discussion that began at the January 16, 2013 meeting regarding the status of former RDA-supported projects and the nature of the Recognized Obligation Payment Schedule (ROPS) approvals by the Department of Finance (DOF).

As discussed at the January 16th meeting, both staff and Committee members learned that awarded projects may still be subject to the denial of their RDA-related commitments even after receiving an earlier ROPS approval by DOF. Specifically, DOF reserves the right to re-evaluate obligations in subsequent periodic ROPS submissions. However, staff also learned that Successor Entities now have the ability to request a Final Determination Letter from DOF on the individual commitments if they so choose. Statutory authority to provide these final determination letters was conveyed to DOF through AB-1484 which was signed into law on June 27, 2012.

On March 11, 2011, CDLAC issued and posted a memorandum describing the Committee's general policy determination that developers of RDA-supported projects that failed to issue bonds, or failed to deliver the public benefits detailed in the project CDLAC resolution due to a loss of an RDA related commitment, would be fully subject to whatever penalties are called for in the CDLAC regulations. However, given the new information provided by DOF, staff recommended that an updated policy determination was merited.

Mr. Spear stated that since the Governor first proposed the elimination of the RDA's in January 2011, CDLAC approved 42 Qualified Resident Rental Projects (QRRP) that relied on some form of RDA support. Of these projects, 33 have had bond closing and moved forward to construction; five are prepared to close within 90 days; two have reverted allocation due to non-RDA related issues and two have encountered fatal RDA related issues including the Tres Lagos Apartment Project.

Mr. Spear noted that each of the five projects nearing closing have received the DOF ROPS approval, or are not subject to a ROPS review, but none have received a DOF final determination letter. It should also be noted that though it is a decreasing occurrence, CDLAC does still receive new applications with RDA related commitments and expects to do so for the next several rounds.

In summary, staff recommended that the Committee post a revised memo that would: 1) strongly recommend that all recently approved projects seek a Final Determination Letter from DOF; 2) going forward after a grace period, require

all applications to include a Final Determination Letter with their submission if applicable; and 3) provide some consideration for previous projects that proceeded believing that a DOF ROPS approval was final, and/or if they did not have a realistic opportunity to secure a Final Determination Letter prior to their previous application submission.

Ms. Redway asked if there were any questions or comments from the Board.

Ms. Rockwell stated that the DOF office was inundated with Bond Counsel stating that the DOF told them they could not rely on the ROPS. Bond Counsel, staff and the Legislature stated that DOF sees the ROPS every six months, so how can DOF expect any bonds to be issued in this environment. AB 1484 was changed to give the certainty needed to go forward on projects.

She further stated that there are certain Bond proceeds that have transferred over via the Housing Asset Transfer forms from the RDA, and there are certain functions that are gone. What used to be done by a RDA may now be done by a housing successor. If a project started as a RDA project, it would still be an RDA project because if it is done by a housing successor the rules have changed a bit. There may need to be some fine tuning on that aspect as the project may not be subject to a ROPS. It will be case-by-case.

Ms. Rockwell then asked if staff had a ballpark idea as to what the population is in the project locations that would fall under scenario three of the Executive Director's report. Perhaps then DOF could proceed within four to six week timeframe for Final Determination Letter.

Mr. Spear stated that there were four applicants that came in for this round and none for the previous round.

Ms. Rockwell stated that there are only a few projects left that fall under scenario three.

Ms. Redway stated that there may be some waiver requests and time extension requests. Ms. Redway stated that there should be further discussion at a later date regarding this matter.

Mr. Spear stated that an updated memo would be prepared laying out the policy going forward.

Continued from the January 16, 2013 Meeting: Consideration and Approval of a Waiver of Negative Points and Forfeiture of Performance Deposit for Tres Lagos Apartments (12-114) – Qualified Residential Rental Program (QRRP) (Agenda Item 4) (Action Item) – Sarah Lester

ACTION:

Consider the approval of a Waiver of the Forfeiture of Performance Deposit and Negative Points for Tres Lagos Apartments (12-114). This item was originally heard for consideration and continued by the Committee at the meeting held on January 16, 2013.

On September 26, 2012, the Tres Lagos Apartments Project ("Project") was awarded \$13,634,145 in tax-exempt bond allocation. Prior to the application submission deadline of July 27th, DOF had essentially indicated approval of the RDA loan associated with the Project on three separate occasions, but later reversed their decision. Loss of the RDA loan created a fatal financing gap for the project and the developer was unable to issue bonds by our deadline of December 26, 2012.

At the Committee's direction back in March, 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 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 months after three written (de facto) approvals by DOF. The Project Sponsor has pointed out that they actually purposely waited until after DOF's approval of the ROPS before submitting an application to CDLAC.

At the January 16th CDLAC Meeting, the Committee learned that each of DOF's ROPS Letters include language reserving their ability to reconsider any approval of an obligation if it should appear in a subsequent ROPS submission. Additionally, the Committee learned that AB 1484 now provides the Successor Entities with the ability to secure an unqualified approval of an enforceable obligation from DOF.

At the time of application submission and subsequent CDLAC approval, the DOF ROPS approval was commonly seen as the final hurdle to concluding that the RDA-related commitment was valid and could be relied upon, even though DOF included conditional language in their approval correspondence. Lenders, investors, public agencies, and Bond Counsels all concluded that a subject project could close and proceed through the development process. Further, few appear even today to be aware of the availability of the DOF Final Determination Letter option provided by AB 1484; as evidenced by the fact that only four (4) of these letters have been issued since June.

As a matter of course, CDLAC relies upon the Bond Counsel's determination that a project can proceed based upon a review of the legal and regulatory circumstances at the time. Staff does not believe that CDLAC should penalize the Project Sponsor for relying upon the Bond Counsel's Opinion, the good-faith actions of the Successor Entity, and the financing entities that understood all necessary commitments to be in-place at the time of CDLAC approval. Based upon these collective opinions, staff still concludes that for Tres Lagos, this situation would still have been unforeseen by the Project Sponsor at the time of application and award acceptance. 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.

RECOMMENDATION:

In light of the circumstances described and the additional information gathered following the January 16, 2012 CDLAC Meeting, staff recommends the approval of the Waiver of Forfeiture of the Performance Deposit and Negative Points for the Tres Lagos Apartments (12-114).

Alan Gordon moved approval of staff's recommendation. Upon a second, the motion passed 2-0 with the following votes: Alan Gordon: Aye; Bettina Redway: Aye; Jennifer Rockwell: Abstained.

Consideration and Approval of Issuance Date Extensions for Various Projects – Qualified Residential Rental Program (QRRP): (Agenda Item 5) (Action Item) – Richard Fischer

ACTION:

Approve various Issuance Date Extensions for the following projects:

Application No. Project

- 12-104 Freeman Villas Apartments
- 12-085 Sequoia Manor Apartments
- 12-086 Fuller Lodge Apartments
- 12-090 EC Magnolia Apartments
- 12-091 Redwood Lodge Apartments
- 12-092 Eden Issei Terrace Apartments
- 12-093 Olive Tree Apartments
- 12-120 Delta Prado Apartments and Delta Manor Apartments
- 12-112 Palo Verde Apartments
- 12-129 Congregational Tower Apartments
- 12-127 Los Robles Apartments
- 12-139 MacArthur Apartments

Each extension is for justifiable reasons, and presents no policy or programmatic issues.

Issuance date extensions are requested for twelve (12) awarded QRRP projects. All relate to project development, and/or fellow agency assistance processing issues. None involve RDA processing issues.

RECOMMENDATION:

Staff recommends the approval of the following issuance date extensions:

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|--------|--|----------------|
| 12-085 | Sequoia Manor Apartments | June 11, 2013 |
| 12-086 | Fuller Lodge Apartments | June 11, 2013 |
| 12-090 | EC Magnolia Apartments | June 11, 2013 |
| 12-091 | Redwood Lodge Apartments | June 11, 2013 |
| 12-092 | Eden Issei Terrace Apartments | June 11, 2013 |
| 12-093 | Olive Tree Apartments | June 11, 2013 |
| 12-104 | Freeman Villas | June 11, 2013 |
| 12-120 | Delta Prado and Delta Manor Apartments | June 11, 2013 |
| 12-112 | Palo Verde Apartments | May 10, 2013 |
| 12-127 | Los Robles Apartments | June 11, 2013 |
| 12-129 | Congregational Tower Apartments | March 25, 2013 |
| 12-139 | MacArthur Apartments | June 11, 2013 |

Alan Gordon moved approval of staff's recommendation. Upon a second by Jennifer Rockwell, the motion passed 3-0, with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Bettina Redway: Aye.

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

(Agenda Item 6) (Action Item) – Sarah Lester

a. Consideration of appeals

There are no appeals.

b. Consideration of applications

This Item should not present any substantive policy or programmatic issues.

The Committee received two (2) applications requesting their 2013 Fair Share Single Family Housing allocations for a total of \$55,000,000, all for the issuance of Mortgage Credit Certificates (MCC) under their respective Mortgage Credit Certificate Programs.

RECOMMENDATION:

Staff recommends approval of \$22,218,356 to fund two (2) programs in the Single Family Housing Program as noted above.

Ms. Redway stated that the Board reduced the amount of the allocation; however, if there is allocation left at the end of the year the applicants may reapply.

Alan Gordon moved approval of staff’s recommendation. Upon a second, the motion passed 3-0, with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Bettina Redway: Aye.

<i>Mortgage Credit Certificate Programs:</i>							
6.1	13-011	CA	County of Alameda	MCC		Alameda	\$10,165,840
6.2	13-012	SL	County of Santa Clara	MCC		Santa Clara	\$12,052,516
	MCC Count	0	Subtotal - Mortgage Credit Certificate Program Applications:				\$22,218,356
	Total SFH Count	0	Total - Single Family Housing Programs:				\$22,218,356

Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects (QRRP), \$30 million Maximum Allocation Limit Waivers, and Awards of Allocation (Agenda Item 7) (Action Item) – Sarah Lester

Mr. Spear commented on the Sierra Vista project based on new information received. Sierra Vista is an acquisition rehab project in Mountain View. At the time the application was submitted to CDLAC, it identified a project cost of \$520,000 which is extremely higher than any other project considered for acquisition rehab. CDLAC has just recently learned through information shared with the California Tax Limit Credit Allocation Committee (CTCAC) via its application process that the total development cost for the project has gone up even higher to \$589,000 per unit.

Staff is still recommending approval; however, staff has been paying close attention to project costs on development on both new construction and acquisition rehab sides. Both CTCAC and CDLAC staff will work with the developer and the project sponsor to arrive at a uniform amount in terms of the project cost. Going forward, staff is anticipating having recommendations for the Committee in terms of regulation changes that would address project costs going forward.

Mr. Gordon asked if there was a representative for Sierra Vista present.

Mr. Spear replied yes.

Mr. Gordon asked the representative to come forward and explain the project to the Board. Mr. Gordon stated that he is familiar with the Mountain View area. He recognizes that it is very expensive and lots of Silicon Valley land use in the area. The question he would like explained is the intersection between the state planning law which requires every community to have a low income housing component as part of its city plan, and the regional approach which would look at a broader region that would lump Mountain View in with surrounding communities thereby significantly reducing Bay area housing prices. What component is land cost and what is the actual rehab cost to bring these units to a marketable condition?

Ms. Ward, Senior Project Manager Charities Housing, stated that the acquisition cost was 60% of the total development cost. The project is maximizing the density that is available on the project site, and the units are also three and four bedroom large family units. Also, the sky rocketing rental market, all cash offers, no contingencies and short closings explains why 60% of costs are acquisition related. The buildings are 40 years old and the scope of the rehab work is quite substantial accounting for 22% of the total development costs. The wiring in the building needs to be replaced, the building is not structurally up to code, there is asbestos in the ceiling and there is no insulation between the walls and the exterior T-11 siding. The T-11 siding also needs to be replaced as it is a product that is no longer used. The sewage line along the property needs to be replaced in addition to some ADA compliance upgrades and parking. All of these factors contribute to the large cost of the rehab.

Mr. Gordon stated that Mountain View is zoned as a low density area in a very expensive community surrounded by lower cost communities. He would like to know what the thought process is in Santa Clara that it would place the units in this particular location which has every possible cost driver there is.

Ms. Ward stated that the units are currently affordable units that Charities Housing bought 20 years ago. If an effort is not made to keep these units, Charities Housing will not be able to compete in the market due to rising costs.

Mr. Spear stated that CDLAC's general policy is to encourage development in all communities regardless of income levels.

Ms. Redway added that perhaps staff could provide some extra explanation and analysis for Board members if any very pricey projects come before the Board in the future to help the Board have a discussion and make an informed decision.

Ms. Redway further commented that CTCAC and CDLAC are here to provide financing that follows state policies that are established elsewhere, whether it's the Legislature or in local jurisdictions. The Board needs to consider that there are a lot of other policy makers who are driving decisions here and the Board is just trying to help finance policy established elsewhere.

Ms. Ward stated that a large portion of the acquisition money is being reinvested into the project.

Ms. Rockwell stated that the Board is very aware of the importance of continuing this conversation not just at this meeting but elsewhere. It is a very large set of issues.

a. Consideration of appeals

There are no appeals.

b. Consideration of applications

This Item should not present any substantive policy or programmatic issues.

General Pool

The General Pool received seventeen (17) complete applications for projects requesting a total allocation of \$218,151,885.

RECOMMENDATION:

Staff recommends: Approval of \$218,151,885 to fund seventeen (17) projects in the General Pool.

Alan Gordon moved approval of staff's recommendation. Upon a second, the motion passed 3-0, with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Bettina Redway: Aye

7.7	13-010	RF	Housing Authority of the City of Oakland	Lion Creek Crossing Apartments	Oakland	Alameda	\$18,500,000
7.8	13-014	SL	California Statewide Communities Development Authority	Huntington Plaza Apartments	Huntington Park	Los Angeles	\$11,750,000
7.9	13-015	SL	California Statewide Communities Development Authority	Anton Legacy Apartments	Tustin	Orange	\$29,700,000
7.10	13-016	RF	California Statewide Communities Development Authority	Belwood Arms Apartments	Long Beach	Los Angeles	\$5,000,000
7.11	13-017	CA	California Statewide Communities Development Authority	Voorhis Village Apartments	San Dimas	Los Angeles	\$9,500,000
7.12	13-018	RF	California Statewide Communities Development Authority	Chestnut Apartments	Fresno	Fresno	\$8,700,000
7.13	13-019	RF	California Statewide Communities Development Authority	St. John's Apartments	Richmond	Contra Costa	\$23,000,000
7.14	13-020	RF	California Statewide Communities Development Authority	Park Village Apartments	Compton	Los Angeles	\$1,750,000
7.15	13-021	RF	Housing Authority of the City of San Diego	COMM22 Family Housing Apartments	San Diego	San Diego	\$700,000
7.16	13-023	SL	California Municipal Finance Authority	Eldridge Gonaway Commons Apartments	Oakland	Alameda	\$11,250,000
7.17	13-026	CA	City of Los Angeles	Banning Villas Apartments	Los Angeles	Los Angeles	\$10,100,000
7.18	13-028	SL	Housing Authority of the City of Santa Barbara	Villa Santa Fe Apartments I	Santa Barbara	Santa Barbara	\$13,070,000
7.19	13-029	SL	Housing Authority of the City of Santa Barbara	Villa Santa Fe Apartments II	Santa Barbara	Santa Barbara	\$7,430,000
	General Pool Count	17	Subtotal - General Pool Project Applications:				\$218,151,885
	Total QRRP Count	17	Total - Qualified Residential Rental Project Applications:				\$218,151,885

Public Comment (Agenda Item 8)

There was no public comment.

Adjournment (Agenda Item 9)

The Chairperson adjourned the meeting at 11:41pm.