

# California Debt Limit Allocation Committee

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

**July 17, 2013**  
Meeting Minutes

## OPEN SESSION

### 1. **Call to Order and Roll Call**

Michael Paparian, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:02 a.m.

#### Members Present:

Michael Paparian for Bill Lockyer, State Treasurer  
Jennifer Rockwell for Edmund G. Brown, Jr., Governor  
Julio Martinez for John Chiang, State Controller

#### Advisory Members Present:

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

### 2. **Approval of the Minutes of the May 15, 2013 Meeting** (Action Item)

Julio Martinez moved approval of the minutes from the May 15, 2013 meeting. Upon a second by Jennifer Rockwell, the minutes passed 3-0 with the following votes: Julio Martinez: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

### 3. **Executive Director's Report** (Informational Item)

Sean Spear began his report by notifying the Committee Members about changes to some of the documents in the Agenda packet. The revisions are on colored paper. The first document concerns a revised list of applications, which are subject to consideration today by the Committee, and relate to Agenda Items 8 and 9. The green sheet is a revised Project Applications sheet with detailed information. The next revision is to the staff report for Item 9.13 (Harden Ranch Apartments) which corrects the figures on the "Sources and Uses" part of that report. The final correction is the yellow sheet which is an updated allocation status report.

Mr. Spear stated that the Allocation Status Report shows that the amount of allocation committed, at this mid-year mark, is a bit less than this time last year. At this point, staff is presuming that there will be a reduced amount of allocation requested for the remainder of 2013, ultimately, producing lower allocation usage this year as opposed to last year or the year before. Some of this is reflective of the reduced availability of public subsidy on the housing side although the biggest differences thus far have been in the single family and mixed income pools. There is also a concern that there continues to be lack of a spread between taxable and tax-exempt rates thus reducing the utility of using tax-exempt bonds.

Mr. Spear then went on to update the Committee Members on the status of the housing-related state agencies Cost Containment Study. This project was undertaken by the four housing-related state agencies: CDLAC, California Tax Credit Allocation Committee (CTCAC), CalHFA and HCD. The goals were to identify, through an analysis-driven study, what appear to be the cost impacts for affordable housing projects in comparison to market rate projects. The study is wrapping up its analysis work and is working on the findings related to the information had through the surveys and other analysis information done by the consultant. The next milestone is to present the draft findings as well as have a discussion with the Advisory Committee; made up of a wide range of stakeholders in the Affordable housing industry. The next Advisory Committee meeting is scheduled for July 30<sup>th</sup>. A finalized report should be completed several weeks afterwards. Given that timeline, the report should be available sometime this fall. Mr. Spear will keep the Members posted as to the progress. It will most likely be an Information Item on the September Agenda.

Mr. Paparian asked if there were any questions or comments.

Ms. Rockwell asked if other states were finding a drop in the use of Cap.

Mr. Spear stated yes, it is a nationwide issue. No state used all of its allocation last year. Utah was the closest with slightly less than a million dollars left over at the end of the year. This reflects a trend that has been in place since the downturn. An added factor is the lack of available credit enhancement which has severely impacted usage on the Industrial Development and Exempt Facilities bond programs nationwide.

**4. Consideration and Approval of a Waiver of Negative Points for the Horizons at Olive Street Apartments (07-205) Qualified Residential Rental Program (Action Item)**

Richard Fischer stated that on December 5, 2007 the Horizons at Olive Street Apartments Project ("Project") was awarded \$9,100,000 in tax-exempt bond allocation. The Project's bonds were issued March 20, 2008 and a minimal amount of proceeds were placed in a guaranteed investment contract (GIC); essentially as a "Dry Closing". CDLAC's program regulations and related scoring criteria emphasize the readiness of a project to deploy the issued bond's proceeds and move forward with construction. While CDLAC strongly recommends against Dry Closings, it is not a prohibited act under the Internal Revenue Code or the CDLAC Regulations. Nevertheless, negative points were assessed against Hesperia Housing Investors, L.P. (including its owners and principals, the "Project Sponsor") for failure to use bond proceeds and deliver the public benefits as required by the approved and accepted CDLAC Resolution. The penalty was assessed on October 18, 2011 (when CDLAC first learned of the non-compliance), and is set to expire on October 18, 2014.

In June of 2009, the Hesperia City Council approved and later executed an Owner Participation Agreement ("OPA") with the Project Sponsor. The OPA included the provision of \$7.25 million in funding for the construction of the Project. However, on March 15, 2011, the City terminated the OPA, claiming that certain conditions were not met. The Project Sponsor disputed this, and subsequently submitted a claim against the City in May of 2011 for damages in the amount of \$5,669,000. With the claim pending, and without the \$7.25 million available for the construction of the Project, the Project Sponsor was forced to redeem the bonds in July 2011.

On November 4, 2011, the Project Sponsor filed a complaint against the City in San Bernardino County Superior Court charging breach of contract amongst other actions. Through mediation, the parties agreed to tentative terms for settlement on June 19, 2013. In essence, the City has agreed to purchase the Project site from the Project Sponsor for nearly the amount of the complaint's damages; \$5,650,000. The City has also acknowledged that the events that led to the litigation will not affect the future business of the Project Sponsor and its affiliates in and with the City of Hesperia.

Mr. Fischer further reported that while there was no admission of fault by the City here, the terms of the settlement agreement would make the Project Sponsor nearly whole. Further, the Project Sponsor would be free to do business with the City in the future without prejudice. Based upon these facts, CDLAC staff believes it is fair to conclude that the OPA termination was an unforeseen act by the City, and that the Project Sponsor was not demonstrably at fault. Therefore, CDLAC staff believes that the Project Sponsor's waiver request satisfies both waiver tests, and staff recommends approval by the Committee.

**RECOMMENDATION:**

In light of the circumstances described, staff recommended the approval of the Waiver of Negative Points for The Horizons at Olive Street Apartments (07-205).

Julio Martinez moved approval of staff's recommendation. Upon a second, the motion passed 3-0 with the following votes: Julio Martinez: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

**5. Consideration and Approval of a Waiver of the Forfeiture of Performance Deposit for the Gold Country Village Apartments (12-111) Qualified Residential Rental Program (Action Item)**

Richard Fischer stated that on September 26, 2012, the Gold Country Village Apartments Project ("Project") was awarded \$7,915,352 in tax-exempt bond allocation. The Committee later approved a bond issuance extension to April 16, 2013 and the Executive Director then approved a carry-forward extension moving the issuance deadline to September 30, 2013. With the approval of the carry-forward extension, came the requirement for the Project's performance deposit to be forfeited to the Committee.

According to the Project Sponsor, on November 14, 2012, Umpqua Bank informed GVGC Investors, a California Limited Partnership ("the Project Sponsor") that the bank had decided not to proceed with the financing of the Project. Umpqua Bank has indicated to CDLAC Staff that its decision to withdraw from the Project financing was unforeseen and wholly outside the control of the Project Sponsor.

**RECOMMENDATION:**

Staff recommended the approval of the Waiver of Forfeiture of the Performance Deposit for the Gold Country Village Apartments Project (12-111).

Ms. Rockwell stated that it was her understanding that a change in the bank's underwriting policy, after the applicant had already applied, resulted in the waiver request. The applicant was not at fault.

Mr. Fischer stated that that was the case.

Jennifer Rockwell moved approval of staff’s recommendation. Upon a second, the motion passed 3-0 with the following votes: Jennifer Rockwell: Aye; Julio Martinez: Aye; Michael Paparian: Aye.

Michael Paparian welcomed Claudia Cappio from CALHFA to the meeting at 11:11am.

**6. Consideration and Approval of Issuance Date Extensions for Various Projects – Qualified Residential Rental Program** (Action Item)

<u>App.</u>	<u>Project</u>
13-018	Chestnut Apartments
13-005	Orvieto B Apartments
13-004	Sierra Vista I Apartments
13-003	San Tomas Gardens Apartments

Richard Fischer stated that issuance date extensions are requested for four (4) awarded QRRP projects. One relates to a project development issue (permit approvals), while the other three relate to a fellow agency assistance processing issue or delay. None involve RDA processing issues.

**RECOMMENDATION:**

Staff recommended the approval of the following issuance date extensions:

13-018	Chestnut Apartments	October 15, 2013
13-005	Orvieto B Apartments	October 15, 2013
13-004	Sierra Vista I Apartments	October 15, 2013
13-003	San Tomas Gardens Apartments	October 15, 2013

Jennifer Rockwell moved approval of staff’s recommendation. Upon a second, the motion passed 3-0 with the following vote: Jennifer Rockwell: Aye; Julio Martinez: Aye; Michael Paparian: Aye.

**7. Consideration and Approval of a Revised Resolution 08-52 for the Pleasant Hill BART Transit Village Apartments Project (08-096) – Qualified Residential Rental Program** (Action Item)

Leslie Campaz reported that the Pleasant Hill BART Transit Village Apartments (the “Project”) received an initial allocation of \$125,000,000 in 2005 and a supplemental allocation in the amount of \$10,000,000 in 2008. Before applying for the supplemental allocation, the Project’s ownership changed from Pleasant Hill Transit Village Associates, LLC, to Avalon Bay Communities (the “Project Sponsor”). When the new Project Sponsor acquired ownership, the development characteristics were modified to make the Project design consistent with the Project Sponsor’s standard product type.

Ms. Campaz further stated that among the revisions was an overall reduction in the number of units from 447 units with two manager units to 422 with one manager unit; and a modification of the affordability requirement from 91 units to 85 units (20% of the new total of 422 units) @ 50% or less of the Area Median Income (AMI). Ten (10) of the affordable units will now be for large families, where there were none before. With this configuration, the Project will now actually serve as much as six (6) additional low-income residents.

**RECOMMENDATION:**

Staff recommended a revision to Resolution 08-52 that reflects a modified total number of units from 447 units with two manager units to 422 with one manager unit; and a modification of the affordability requirement from 91 units to 85 units (20% of the new total of 422 units) @ 50% or less of AMI, of which ten (10) of the units will now be for large families.

Julio Martinez moved approval of staff’s recommendation. Upon a second, the motion passed 3-0 with the following vote: Julio Martinez: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

**8. 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)

**a. Consideration of appeals**

Crystal Alvarez stated that there were no appeals.

**b. Consideration of applications**

Ms. Alvarez reported that the Committee received two (2) applications requesting their 2013 Fair Share Single Family Housing allocations for a total of \$8,190,573, all for the issuance of Mortgage Credit Certificates under their respective single-family homeownership programs.

**RECOMMENDATION:**

Staff recommended approval of \$8,190,573 (the calculated fair-share amount) to fund two (2) programs in the Single Family Housing Program as noted above.

Jennifer Rockwell moved approval of staff’s recommendation. Upon a second, the motion passed 3-0 with the following vote: Jennifer Rockwell: Aye; Julio Martinez: Aye; Michael Paparian: Aye.

8.1	13-052	SL	City of Oceanside	N/A	Oceanside	San Diego	\$1,123,444
8.2	13-057	CA	Contra Costa County	N/A	Various	Contra Costa	\$7,067,129

**9. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects, \$30 million Maximum Allocation Limit Waivers, and Awards of Allocation (Action Item)**

**a. Consideration of appeals**

Crystal Alvarez stated that there were no appeals.

**b. Consideration of applications – See Exhibit A for a list of Applications\*\*\***

Ms. Alvarez reported that two projects (13-059 – Tyler Park Townhomes and 13-061 – Westside Village) were to have their scores revised and then added to the list of projects recommended for approval at the CDLAC Meeting if Item #4 was approved.

Mixed-Income Pool

The Mixed-Income Pool received one (1) complete application for a project requesting \$38,600,000. The Committee will need to approve a \$30,000,000 maximum allocation limit waiver before considering the project.

Rural Pool

The Rural Pool received three (3) complete applications for projects requesting \$15,010,000; including Tyler Park Townhomes and Westside Village.

General Pool

The General Pool received nine (9) complete applications for projects requesting a total allocation of \$92,297,774.

**RECOMMENDATION:**

Staff recommended approval of \$145,907,774 to fund thirteen (13) projects in the Mixed-Income, Rural, and General Pools.

Jennifer Rockwell moved approval of the \$30,000,000 policy cap waiver and to approve the list per staff’s recommendation. Upon a second, the motion passed 3-0 with the following votes: Jennifer Rockwell: Aye; Julio Martinez: Aye; Michael Paparian: Aye.

9.1	13-060	RF	California Statewide Communities Development Authority	Anton Hacienda Apartments	Pleasanton	Alameda	\$38,600,000
9.2	13-061	RF	California Statewide Communities Development Authority	Westside Village Apartments	Shafter	Kern	\$5,010,000
9.3	13-049	SL	Housing Authority of the County of Kern	Tulare Arms Apartments	Shafter	Kern	\$3,000,000
9.4	13-059	SL	California Statewide Communities Development Authority	Tyler Park Townhomes Apartments	Greenfield	Monterey	\$7,000,000

9.5	13-008	SL	California Affordable Housing Agency	Orange Tree Senior Apartments	Oroville	Butte	\$9,823,000
9.7	13-048	LC	California Statewide Communities Development Authority	Casa de Cortez Apartments	Fallbrook	San Diego	\$3,400,000
9.8	13-053	LC	City and County of San Francisco	Western Park Apartments	San Francisco	San Francisco	\$25,000,000
9.11	13-055	LC	California Municipal Finance Authority	Villa Solimar and Cypress Court Apartments	Oxnard	Ventura	\$4,500,000
9.12	13-056	RF	California Municipal Finance Authority	Woodlands Newell Apartments	East Palo Alto	San Mateo	\$11,000,000
9.13	13-058	LC	California Statewide Communities Development Authority	Harden Ranch Apartments	Salinas	Monterey	\$8,200,000
9.14	13-062	CA	Housing Authority of Fresno	Droge Apartments	Fresno	Fresno	\$6,874,774
9.15	13-065	SL	California Municipal Finance Authority	Andres Duarte Terrace II Apartments	Duarte	Los Angeles	\$10,500,000
9.16	13-073	RF	City of Los Angeles	Silverlake Village Apartments	Los Angeles	Los Angeles	\$13,000,000

**10. Public Comment** (Action Item)

There was no public comment.

**11. Adjournment**

The Chairperson adjourned the meeting at 11:18 a.m.