

# California Debt Limit Allocation Committee

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

**January 15, 2014**  
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 11:10 a.m.

Members Present: Michael Paparian 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 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 December 11, 2013 Meeting** (Action Item)

Alan Gordon moved approval of the minutes from the November 13, 2013 meeting. Upon a second by Jennifer Rockwell, the minutes passed 3–0 with the following votes: Alan Gordon: 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 documents in the Agenda packet. The first revision was related to Item 9 which deals with three Qualified Residential Rental Properties (QRRP) projects that were either withdrawn or rolled over to a future meeting. The beige sheet in the packet reflects these changes. The changes have also been reflected on the updated Exhibit A green sheet. There is also an update to the 2013 summary, the pink sheets, which are behind the Item 3 tab in the binders. This summary updates the actual number of units that were identified as being possible public benefits from 2013 under the QRRP program.

Mr. Spear then reported that the amount of allocation for 2013 in comparison to 2012 was down by a substantial number, close to 25%. This reflects some of the continuing headwinds that CDLAC has had to deal with in the programs both in terms of the broader sense of the value of the tax-exemption for bonds being issued for projects as well as individual issues that are related to some of the program pools. For instance, with the QRRP program some of the traditional sources of public subsidies for those deals have gone away. In the Industrial Development Bonds (IBD) program small business are having a very tough time accessing credit enhancement for their deals. Collectively, expectations are that 2014 will face the same issues as seen in 2013.

Mr. Spear stated that State and local government agencies and joint powers authorities can issue tax-exempt private activity bonds. These tax-exempt bonds are used to assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units, to assist first-time homebuyers in purchasing or rehabilitating homes through mortgage revenue bonds (MRB) or mortgage credit certificates (MCC), to assist manufacturing facilities finance capital expenditures, and to finance primarily solid waste disposal and waste recycling facilities.

CDLAC is responsible for administering California's annual tax-exempt private activity bond program, known as "the annual State ceiling". For calendar year 2013, California's State ceiling was \$3.613 billion. Each year the Committee divides the annual State ceiling among several bond programs, known as "Program Pools", including the Qualified Residential Rental Project Pool (Rental Project Pool). For calendar year 2013, the Committee reserved approximately \$1.25 billion or 34.6% of the

State ceiling for the Rental Project Pool. The \$1.25 billion of bond authority was allocated throughout the calendar year under three sub-pools: General Pool (consists of projects having 50.1% or more of its total units designated as Restricted Rental Units); Mixed Income Pool (consists of projects having 50% or fewer of its total units designated as Restricted Rental Units); and the Rural Project Pool (consists of projects located in a rural area as defined by California Health and Safety Code Section 50199.21 and not including Mixed Income projects).

### **Private Activity Bond Volume Cap Programs**

For program year 2013, the Committee awarded a total of \$1.17 billion (past year carry-forward and current year cap) for rental projects, \$482,740,980 (past year carry-forward and current year cap) for SFH programs, \$3,891,340 under the IDB Program, and \$273,000,000 under the EXF Program billion (past year carry-forward and current year cap). After the December 11, 2013 allocations were made, there was a 2013 volume cap balance remaining of approximately \$2.789 billion. In order to ensure that no amount of 2013 allocation was lost, at the December 11, 2013 allocation meeting the Committee transferred \$1.65 billion of this remaining balance to various multifamily housing project issuers; with all allocation remaining thereafter transferred to the California Pollution Control Financing Authority (CPCFA) for the Exempt Facility Program, all on a carry-forward basis.

Mr. Spear reported that the public benefits for these awarded allocations are as follows:

#### **Qualified Residential Rental Projects**

The allocations awarded for the rental project pool for program year 2013 will fund 90 multifamily rental housing projects. These allocations financed an estimated 7,975 total units, of which approximately 7,690 were Restricted Rental Units. Restricted Rental Units are units within a Project that are restricted to households earning 60% or less of the Applicable Median Family Income. Of the 7,690 Restricted Rental Units, 3,268 will be restricted to very low income households with income at or below 50% of the area median income and approximately 4,422 units will be restricted to low income households with incomes at or below 60% of the area median income.

Of the estimated 7,975 units financed with the allocation, approximately 2,075 will be new construction units, 1,976 will be senior citizen units, 1,716 will be large family (3-4 bedrooms) units and 4 will be special needs units. In addition, this allocation will preserve approximately 968 income- and rent-restricted units that were at-risk of losing their existing affordability restrictions.

The Committee transferred a total of \$1.65 billion of unused 2013 volume cap to four (4) issuers for the Qualified Residential Rental Project Program. This represents 59.15% of the \$2.789 billion in unused 2013 volume cap and 45.66% of the overall 2013 \$3.613 billion State Ceiling.

#### **Single Family Housing**

The Committee awarded a total of \$482,740,980 of the 2013 State Ceiling and past year carry-forward allocation under the Single-Family Housing Program for various city, county, statewide and multi-jurisdictional Mortgage Credit Certificate programs and one statewide Mortgage Revenue Bond program. These allocations will assist approximately 2,371 first-time homebuyers; of whom at least 948 will be low income households, and approximately 424 will purchase newly constructed homes.

#### **Industrial Development Bond Program**

The single IDB project awarded allocation is anticipated to create a total of five (5) new jobs in California, of which all five (5) are skilled and semi-skilled jobs. The new jobs will produce a weighted average hourly wage of \$24.89.

#### **Exempt Facility Program**

Two qualified exempt facility projects were awarded a total of \$273,000,000 in allocation in 2013. \$235,000,000 of that award was provided to the University of California system for its refinancing related to its facilities.

The Committee transferred a little over \$1 billion of unused 2013 volume cap for exempt facility projects to the California Pollution Control Finance Authority. This represents 35.8% of the \$2.789 billion in unused 2013 volume cap and 27.6% of the overall 2013 \$3.613 billion State Ceiling.

### **Qualified Energy Conservation Bond Projects**

Qualified Energy Conservation Bond Projects are taxable tax credit or interest subsidy bonds used for either governmental purposes or private activity that facilitate energy efficiency or green technology projects or programs. In 2013, a total of \$8,605,765 was issued for one (1) QECB project, representing

100 % of the remaining allocation waived back to the State. This project is expected to reduce approximately 47.5% of street light energy used per year in the City of Oakland.

Mr. Spear concluded his report by stating that staff anticipates about the same level of volume coming in this year; however, there are some possible scenarios that may happen in 2014 that could translate to additional volume. The Federal Reserve is looking to taper its quantitative **easing(?)** portion which will possibly translate to an additional increase in the interest rates, and possibly some spread between taxable versus tax-exempt which may make tax-exempt bonds more attractive going forward.

There are also a couple of different proposals both by the Legislature and the Governor around additional resources that may be used for affordable housing development in terms of public subsidy that could translate to some additional deals being done. Lastly, CDLAC is looking at a couple of new programs. One is to assist small farmers, which is an eligible use under the Internal Revenue Code, and also the possibility of developing a program for public education facilities which will operate as P3 type structures that would make use of allocation. The program would carry its own separate volume cap, but it could translate to additional business for CDLAC.

Robert Feyer, Senior Counsel Orrick, Herrington & Sutcliffe, inquired as to whether the bulk of the \$1.93 billion in tax-exempt bonds that were issued last year was from prior year carry-forward as opposed to 2013 cap.

Mr. Spear stated that that was correct. Going in to 2014, there is a little over \$6 billion in carry-forward allocation.

**4. Consideration and Approval of a Revised Resolution 12-012 for the Oak Center Homes Apartments Project (12-012) – Qualified Residential Rental Program (Action Item)**

Sarah Lester reported that the project received allocation in January 2012 and issued its bonds in September 2012. The rehabilitation work is nearly complete. In their original CDLAC application, the Project Sponsor (Hampstead Properties) erroneously included a certification committing them to energy efficiency improvements that would make the development exceed Title 24 by 25%. The Project Sponsor wishes to revise the CDLAC resolution by removing this commitment, but replacing it with a commitment for on-site resident classes. This will allow the project to still meet CDLAC's minimum point threshold.

**RECOMMENDATION:**

Staff recommended approval of the amended resolution as presented.

Alan Gordon moved approval of the amended resolution. Upon a second by Jennifer Rockwell, the minutes passed 3–0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye.

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

<u>App.</u>	<u>Project</u>
13-090	Eden House Apartments
13-076	Berkeley Scattered Site Housing Apartments
13-094	Rocky Hill Apartments
13-088	Covenant Manor Apartments
13-083	Santa Monica RHCP Apartments
13-084	Villa Nueva RHCP Apartments
13-067	Rio Vista Apartments
13-068	Rancho Algodon Homes Apartments
13-086	Sonoma Court Apartments

Leslie Campaz reported that issuance date extensions are requested for nine (9) awarded QRRP projects. Most relate to project financing, and/or fellow agency loan processing issues. Staff believes it is appropriate to grant them additional time to resolve the outstanding issues and close on the bonds as required.

**RECOMMENDATION:**

Staff recommended the approval of the following issuance date extensions up to ninety (90) days for all projects as noted:

13-083	Santa Monica RHCP Apartments	April 4, 2014
13-084	Villa Nueva RHCP Apartments	April 4, 2014
13-094	Rocky Hill Apartments	April 15, 2014
13-088	Covenant Manor Apartments	April 15, 2014
13-090	Eden House Apartments	April 15, 2014
13-067	Rio Vista Apartments	March 15, 2014
13-068	Rancho Algodon Homes	February 15, 2014
13-076	Berkeley Scattered Site Housing Apartments	April 15, 2014
13-086	Sonoma Court Apartments	April 15, 2014

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; Michael Paparian: Aye.

**6. Determination and Adoption of the 2014 State Ceiling on Qualified Private Activity Bonds**  
(Action Item)

Sarah Lester reported that the State's allocation of private activity bond volume cap is increasing by \$219,316,250, to a new total of \$3,833,252,100 for 2014. Both the population increased by nearly 300,000 people over last year, and the U.S. Treasury increased the per capita formula by \$5 to \$100 per person.

**RECOMMENDATION:**

Staff recommended adoption of a resolution establishing the 2014 State Ceiling for qualified private activity bonds at \$3,833,252,100.

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; Michael Paparian: Aye.

Michael Paparian stated that the state ceiling volume cap increase was a notable amount due to the \$5.00 increase. It looks like a 6% increase more or less.

Sarah Lester replied that that was correct.

Sean Spear stated that the ceiling has steadily gone up due to the increase in population of the state. This year, as part of the formula in calculating the per capita number, there was an inflation increase which translated to an additional \$5.00 per capita. Every state in the nation is getting an additional amount since, nationwide, all allocations were not used up.

**7. Consideration and Adoption of the Apportionment of the 2014 State Ceiling among the State Ceiling Pools** (Action Item)

Sarah Lester stated that in making recommendations for the 2014 pool amounts, staff surveyed key issuers to determine their estimated demand. However, due to uncertain financial market trends, it is difficult to project allocation usage for 2014. As a result, staff has reserved an estimated 38.7% of the 2014 allocation as "undesignated". This reservation will provide staff the flexibility to allocate additional volume cap to various program pools (including any potential new program pools) on an "as needed" basis.

Staff recommended reducing the yet-to-be used Home Improvement and Qualified Rehabilitation Program Pool from \$250 million to \$150 million in allocation for 2014, but increasing the other Single Family programs by \$150 million due to the emerging ability of issuers to restart their mortgage revenue bond backed first position mortgage programs using mortgage revenue bonds.

**RECOMMENDATION:**

Staff recommended reservation amounts that reflect the statutory emphasis on affordable housing. Staff recommended the following amounts for each of the State Ceiling Pools for 2014.

Mr. Feyer requested that the total reserves for each pool be read aloud for those in the audience who do not have a copy of the staff report. Ms. Lester read the amounts for the audience.

Mr. Paparian asked if the figures will be posted to the website.

Mr. Spear stated yes.

<u>State Ceiling Pool</u>	<u>Reservation</u>	<u>Percent of Ceiling*</u>
<b>Qualified Residential Rental Project Pool</b>	\$850,000,000	22.2%
<b>Mixed Income Pool</b>	250,000,000	6.5%
<b>Rural Project Pool</b>		<u>3.9%</u>
	150,000,000	
<b>Sub-Total – Multifamily Projects</b>	<b>\$1,250,000,000</b>	<b>32.6 %</b>
<b>Single-Family Housing Program Pool</b>	\$600,000,000	15.7%
<b>Single-Family Housing Program Bonus Pool</b>	<u>300,000,000</u>	<u>7.8%</u>
<b>Sub-Total – Single-Family Programs</b>	<b>\$900,000,000</b>	<b>23.5%</b>
<b>Extra Credit Teacher Home Purchase Program Pool</b>	\$0	0%
<b>Single-Family Home Improvement and Rehabilitation Program</b>	<u>\$150,000,000</u>	<u>3.9%</u>
<b>Housing Total</b>	<b>\$2,300,000,000</b>	<b>60.0%</b>
<b>Small-Issue Industrial Development Project Pool</b>	\$ 50,000,000	1.3%
<b>Exempt Facility Project Pool</b>	\$0	0%
<b>Student Loan Program Pool</b>	<u>\$0</u>	<u>0%</u>
<b>Non-Housing Total</b>	<b>\$ 50,000,000</b>	<b>1.3%</b>
<b>Allocation on Hold (undesignated reserve)</b>	<b>\$1,483,252,100</b>	<b>38.7%</b>
<b>GRAND TOTAL</b>	<b>\$3,833,252,100</b>	<b>100.0%</b>

\* Percentages are rounded.

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; Michael Paparian: Aye.

**8. Consideration of a \$50 million Award of Allocation for the California Industrial Development Financing Advisory Commission (CIDFAC) for the Small-Issue Industrial Development Bond (IDB) Program (Action Item)**

**a. Consideration of appeals\*\***

Richard Fischer stated that there are no appeals.

Mr. Fischer reported that the Committee approved a similar transfer of \$50 million to CIDFAC for 2013, though only \$3.8 million was used. For 2014, CIDFAC anticipates a higher volume of projects which may make full usage of the proposed \$50 million allocation.

**RECOMMENDATION:**

Staff recommended the Committee award CIDFAC \$50,000,000 in IDB Allocation for the purpose of allocating portions of the award to Project Sponsors for the purpose of issuing bonds for IDB projects.

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

8	14-001	RF	California Industrial Development Financing Advisory Commission	CIDFAC IDB Program	Various	Various	\$50,000,000
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**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\*\***

Sarah Lester stated that there are no appeals.

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

Ms. Lester stated that one (1) project, Huntington Villa Yorba Apartments, will necessitate a \$30 million allocation limit waiver.

Alan Gordon moved approval of staff’s recommendation to allow Huntington Villa Yorba Apartments to exceed the \$30 million cap for application # 14-002. Upon a second by Jennifer Rockwell, the motion passed 3-0 with the following votes: Alan Gordon: Aye; Jennifer Rockwell: Aye; Michael Paparian: Aye/

General Pool

The General Pool received ten (10) applications for projects requesting a total allocation of \$123,005,731. Two (2) were subsequently withdrawn, but will reapply in the March Round. Two (2) projects that previously-received a HUD Forward Commitment Letter from CDLAC Staff have recently received their HUD Firm Commitment approvals and are now ready to be heard by the Committee for an award of allocation at this time.

**RECOMMENDATION:**

Staff recommended approval of \$114,192,531 to fund ten (10) projects in the General Pool.

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; Michael Paparian: Aye.

9.1	14-002	SL	California Statewide Communities Development Authority	Huntington Villa Yorba Apartments	Huntington Beach	Orange	\$31,000,000
9.2	14-003	SL	California Housing Finance Agency	Regency Court Apartments	Monrovia	Los Angeles	\$6,700,000
9.3	14-004	LC	California Housing Finance Agency	Esperanza Colosimo Apartments	San Francisco	San Francisco	\$11,500,000
9.4	14-005	RF	Housing Authority of the City of Richmond	Triangle Court and Friendship Manor Apartments	Richmond	Contra Costa	\$13,536,146
9.5	14-006	SL	California Municipal Finance Authority	Garfield Park Village Apartments	Santa Cruz	Santa Cruz	\$19,019,585
9.6	14-007	LC	California Municipal Finance Authority	Strawberry Creek Lodge Apartments	Berkeley	Alameda	\$2,000,000
9.7	14-008	LC	City of Los Angeles	The Park Plaza Apartments	Los Angeles	Los Angeles	\$8,050,000
9.8	14-010	LC	California Municipal Finance Authority	Main Street Park I Apartments	Half Moon Bay	San Mateo	\$6,200,000
9.11	14-013	LC	California Statewide Communities Development Authority	Naomi Gardens Apartments	Arcadia	Los Angeles	\$10,300,000
9.13	14-015	LC	California Municipal Finance Authority	Montgomery Plaza Apartments	Hayward	Alameda	\$5,886,800

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

There was no public comment.

**11. Adjournment**

The chairperson adjourned the meeting at 11:32 a.m.