California Debt Limit Allocation Committee

State Capitol
Room 126
Sacramento, CA 95814

October 21, 2015
Meeting Minutes

OPEN SESSION

Alan Gordon made a statement before roll call on behalf of Treasurer Chiang. Mr. Gordon stated that the Treasurer gives his complete and continued support of the efforts of Jeree Glasser-Hedrick and Mark Stivers with the revisions to the CDLAC and TCAC regulations. Treasurer Chiang recognizes what a long and difficult process it was for the CDLAC and TCAC staff as well as Jeree and Mark. There were months of meetings in several locations as well as public comment hearings. These conversations will continue and some may have intended and unintended consequences.

Mr. Gordon stated that it is the goal of the Treasurer to increase the supply of affordable housing using the 4% and 9% credits. Currently there is $10 billion in unused allocation within the 4% credits.

1. Call to Order and Roll Call

Alan Gordon, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:00 am

Members Present:	Alan Gordon for John Chiang, State Treasurer Eraina Ortega for Edmund G. Brown, Jr., Governor Alan LoFaso for Betty T. Yee, State Controller
Advisory Members Present:	Russ Schmunk for the Department of Housing and Community Development (HCD) Tia Boatman-Patterson for California Housing Finance Agency (CalHFA)

2. Approval of the Minutes of the September 16, 2015 Meeting (Action Item)

Alan LoFaso moved approval of the minutes for the September 16, 2015 meeting. Upon a second by Eraina Ortega, the minutes passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

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

Jeree Glasser-Hedrick began her report by giving the Committee members a brief update regarding SB 1195, a non-housing related development for CDLAC. Ms. Glasser-Hedrick reported that the Treasurer sponsored legislation that was signed by the Governor this year to expand CDLAC's charter to allow it to allocate a little known federal private activity bond authority outside the current allocation that CDLAC already administers. There is approximately $380 million of Qualified Public Education Facility Bonds (QPEFB), in essence, tax-exempt financing for public schools that will be owned by private entities. CDLAC is currently working in conjunction with the California School Finance Agency (CSFA), an agency within the Treasurer's office, on a plan to develop a program to implement this legislation. Further dialog will be forthcoming in the months to follow.

Ms. Glasser-Hedrick stated that there were two non-substantive revisions to Item's 4 and 8 on the Agenda.

4. **Consideration and Approval of Proposed CDLAC Regulations for Submittal to the Office of Administrative Law for Emergency and Regular Rulemaking Consideration (**Action Item**)**

Brian Clark reported that the CDLAC regulation changes are being proposed in conjunction with significant changes to the Tax Credit Allocation Committee's program. Given that CDLAC has more than $4.1 billion of underutilized Qualified Residential Rental Program (QRRP) bond allocation, the combined TCAC/CDLAC changes are aimed at facilitating access to this underutilized resource with the goal of spurring production of affordable housing. CDLAC seeks to accomplish these goals by reducing costs and providing additional flexibility. CDLAC changes include but are not exclusively limited to the following:

- Allowing additional time to secure proof of TEFRA [Section 5033]
- Allowing longer issuance timeframes [Section 5100(b)(3)(iii)]
- Allowing alternative market studies for projects already subject to Residential Rental Regulatory Agreement [Section 5200(e)]
- Providing additional flexibility with timing of local approvals [Section 5190(b)]
- Requiring new construction projects to meet Energy Efficiency requirements in the Building Code [Section 5205 (a)(1)(b)]
- Expanding the At-Risk Category to a Preservation Category [Section 5230(b)]
- Allowing points for Substantially Renovated Projects [Section 5230(m)]
- During Non-Competitive Rounds, eliminating the requirement that projects over $30 million receive additional Committee approval and increasing the threshold to $50 million for Competitive Rounds [Section 5232]
- Expanding Financing pathways for FHA transactions [Section 5255]
- Clarifying the process to preserve Difficult Development Area (DDA) status [Section 5258]

Alan LoFaso thanked staff for their hard work and the information on how 4% deals work. He asked if there were any specific highlights on the 4% bond side.

Tia Boatman-Patterson thanked CDLAC staff and stated that she and CalHFA are supportive of the CDLAC regulation changes.

Jeree Glasser-Hedrick thanked CDLAC staff for all of their hard work.

Darren Bobrowsky, USA Properties, stated that eliminating the 10% unit type at a 50% of AMI requirement would help 4% projects. Mr. Bobrowsky thanked staff.

Ms. Glasser-Hedrick reported that state requirements are different than federal requirements. For CalHFA , as with all housing authorities, either 20% of the unit types must be rent restricted and occupied by individuals whose incomes are 50% or less of the area (county) median gross income (AMI) as determined by the U.S. Department of Housing and Urban Development (HUD) with adjustments for household size (20% at 50% AMI),or 40% or more of the unit types must be both rent restricted and occupied by individuals whose income is 60% or less of the AMI, with adjustments for HUD for household size (40% at 60% AMI): however additionally in both cases , a minimum of 10% of the unit types must be at 50% or less of AMI. An elimination of the 50% requirement would cause there to be different standards for different issuers, giving some issuers advantage over others. Additionally, the 10% at 50% requirement was established based on the public policy objective of creating projects that have income restrictions that are more targeted than federal requirement. Eliminating the 10% at 50% requirement creates some policy concerns regarding the population that is served. CDLAC continues to have ongoing dialogue with Issuers.

Ms. Glasser-Hedrick further reported that Item 8 on today's agenda will be the biggest ticket item to reduce costs, and point thresholds.

Michael Costa, Highridge Costa, thanked staff for the changes to the regulations. He added that land construction is hard to develop under the current conditions and that the 10% of unit types at 50% AMI should be a priority and to push those proposals to the top when it is an oversubscribed market. Mr. Costa stated that the State needs workhorse housing and that applications should be prioritized.

Alan Gordon stated that, putting politics aside, his take on Mr. Costa's request is to eliminate the 10% at 50% AMI and to take Federal requirements for 4% deals and stop there.

Mr. Gordon stated that the Treasurer backs the hard work of Ms. Glasser-Hedrick and Mr. Stivers. He stated that this forum is not the place to continue this conversation and that if Mr. Costa would care to continue this conversation to contact him directly.

Ms. Boatman-Patterson stated it should be 10% at 60% AMI instead of 10% at 50% AMI.

Mr. Costa stated that 100% at 60% AMI with market rate housing at 20-40%.

Tia Boatman-Patterson stated that 80% at 20% mixed income for 100% affordable units.

RECOMMENDATION:

Staff recommended approval of the proposed emergency/permanent CDLAC regulations for submittal to the OAL.

Eraina Ortega moved approval of staff's recommendation. Upon a second by Alan LoFaso, the motion passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Alan Gordon: Aye.

5. Consideration and Approval of Issuance Date Extensions for Various Projects – Qualified Residential Rental Program:

App.	**Project**
15-015	**Camino Esperanza Apartments**
15-360	**Canoas Terrace Apartments**
15-367	**Duarte Manor Apartments**
15-378	**The Lodge at Eureka Apartments**

(Action Item)

Brian Clark reported that issuance date extensions are requested for four (4) awarded QRRP projects. The need for the extensions relates to project financing delays. Staff believed it was 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:

15-015	Camino Esperanza Apartments	January 19, 2016
15-360	Canoas Terrace Apartments	November 15, 2015
15-367	Duarte Manor Apartments	December 31, 2015
15-378	The Lodge at Eureka Apartments	January 11, 2016

Alan LoFaso moved approval of staff's recommendations. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

6. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Program and Awards of Allocation (Action Item)

a. Consideration of appeals*
Brian Clark reported that there were no appeals.

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

Brian Clark stated that the Committee received one application from CalHFA requesting $150,000,000 of Single Family Housing allocation, all for the issuance of Mortgage Credit Certificates (MCC) under its respective single-family homeownership program.

RECOMMENDATION:
Staff recommended approval of $150,000,000 to fund the one program in the Single Family Housing Program as noted above.

Eraina Ortega moved approval of staff's recommendation. Upon a second by Alan LoFaso, the motion passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Alan Gordon: Aye.

15-027	BC	California Housing Finance Agency	MCC	Statewide	Statewide	$150,000,000

7. **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***

Brain Clark reported that there were no appeals.

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

Brain Clark reported that five (5) projects: Springdale West Apartments, Alice Griffith Phase 3 Apartments, American Gold Star Manor Apartments, Rowland Heights Terrace Apartments, and Bouquet Canyon Senior Apartments necessitate a $30 million allocation limit waiver.

General Pool
The General Pool reflects ten (10) projects requesting a total allocation of $327,589,917.

Rural Pool
The Rural Pool reflects three (3) projects requesting a total allocation of $10,571,975.

RECOMMENDATIONS:
Staff recommended approval of the $30 million allocation limit waiver for the Springdale West Apartments (15-374), Alice Griffith Phase 3 Apartments (15-422), American Gold Star Manor Apartments (15-425), Rowland Heights Terrace Apartments (15-427), and Bouquet Canyon Senior Apartments (15-428).

Staff recommended approval of $ $327,589,917 to fund ten (10) previously reviewed projects in the General Pool and approval of $10,571,975 to fund three (3) previously reviewed projects in the Rural Pool.

Eraina Ortega moved approval of the $30 million maximum allocation limit waivers. Upon a second by Alan LoFaso, the motion passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Alan Gordon: Aye.

Alan LoFaso moved approval of $338,161,892 to fund ten (10) projects in the General Pool and three (3) projects in the Rural Pool. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

7.1	15-383	BC	California Municipal Finance Authority	Ocean View Manor Apartments	Morro Bay	San Luis Obispo	$4,536,975
7.2	15-423	RF	Housing Authority of the County of Monterey	Casa de Oro Apartments	Gonzales	Monterey	$1,724,000
7.3	15-426	RF	Housing Authority of the County of Monterey	Los Ositos Apartments	Greenfield	Monterey	$4,311,000
7.4	15-374	DK	California Statewide Communities Development Authority	Springdale West Apartments	Long Beach	Los Angeles	$80,000,000
7.5	15-417	SL	California Municipal Finance Authority	Mill Creek Village Senior Apartments	Bakersfield	Kern	$13,000,000
7.6	15-418	RF	California Municipal Finance Authority	Las Palmas Apartments	San Leandro	Alameda	$22,901,000
7.7	15-419	BC	Housing Authority of the City of San Diego	Torrey Vale Apartments	San Diego	San Diego	$7,000,000
7.8	15-421	DK	California Housing Finance Agency	Plum Tree West Apartments	Gilroy	Santa Clara	$22,849,036
7.9	15-422	BC	City and County of San Francisco	Alice Griffith Phase 3A Apartments	San Francisco	San Francisco	$31,500,000
7.10	15-424	SL	City of Hayward	Hayward Four Apartments	Hayward	Alameda	$27,525,000
7.11	15-425	RF	California Municipal Finance Authority	American Gold Star Manor Apartments	Long Beach	Los Angeles	$55,900,000
7.12	15-427	DK	California Housing Finance Agency	Rowland Heights Terrace Apartments	Rowland Heights	Los Angeles	$30,114,881
7.13	15-428	SL	California Statewide Communities Development Authority	Bouquet Canyon Senior Apartments	Santa Clarita	Los Angeles	$36,800,000

Tia Boatman-Patterson stated that the developer for Item's 7.5 and 7.7, Chelsea Construction, had significant cost differences. Project 7.5 is a senior project in Bakersfield and project 7.7 is a family project in San Diego. Both are new construction projects. The construction and project costs for the senior Bakersfield project which one would assume to be lower than the family project in San Diego were, in fact, higher.

Ms. Boatman-Patterson further stated that when policy makers start discussing affordable housing costs there are many contributing factors that may make costs higher in a geographic region in which the costs should be lower as well as project types in which costs should be lower. When there are conversations regarding public benefit versus production, the policy makers need to take these different factors into account.

Mr. Gordon asked if the Board may be enlightened as to why it is more expensive to build in Bakersfield than it is in San Diego.

Ms. Glasser-Hedrick stated that there are significant differences in financing of the two projects. The Bakersfield project received an infrastructure grant from the Department of Housing and Community Development (HCD) which triggers the provision of prevailing wages to be paid on the project and significantly increases the cost when you are comparing it to a project that is not subject to the same requirements. Additionally, this senior project is elevator served and completely enclosed. The project also has a separate, stand-alone parking garage that is a completely contained two-story structure which added significantly to the costs.

Ms. Glasser-Hedrick further reported that the San Diego project was not subject to prevailing wage and is more of a garden-style project with all exterior corridors and the parking is onsite. According to the developer, these factors drove construction costs up on the Bakersfield project.

Jordon Path, Chelsea Corporation, stated that if there were any additional questions regarding the differing construction costs between the Bakersfield and San Diego projects, he would be happy to address them.

Mr. Gordon stated that Ms. Glasser-Hedrick had answered them satisfactorily. Mr. Gordon asked Mr. Path if he had any other comments or questions.

Mr. Path did not.

8. **Consideration and Adoption of the Qualified Residential Rental Program Minimum Point Thresholds and Non-Competitive Application Process for the 2016 Program Year** (Action Item)

Jeree Glasser-Hedrick reported that staff recommended that the Committee approve and maintain an open application process for the 2016 Qualified Residential Rental Program (QRRP) year.

This recommendation is made on the basis that the QRRP pool continues to be non-competitive in 2015 and is expected to be non-competitive for the 2016 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.

Ms. Glasser-Hedrick stated that throughout CDLAC's history of administering the State Ceiling for qualified private activity bonds, the program has enjoyed robust utilization. This trend dramatically changed in the late 2000's in conjunction with the downturn and has continued despite the economic recovery. As a result of factors including but not limited to the dissolution of redevelopment, the exhaustion of State Bond funds specifically dedicated to affordable housing preservation and production, and the historically low spreads between tax-exempt and taxable financing the State Ceiling has been underutilized since 2008. To preserve this underutilized resource, CDLAC has been making lump sum awards which are carried forward and preserved. There are federal limitations to preserving the bond authority and in 2014 CDLAC was required to abandon nearly $1.429 billion. Additionally, in 2014 CDLAC carried forward $7.884 billion of unused resources into 2015.

Reducing the CDLAC threshold was raised as a mechanism to increase utilization of CDLAC's resources and accordingly to increase production of affordable housing during the TCAC/CDLAC Listening Tour and in written comments during the public comment period associated with the regulation change package. Due to the fact that the threshold score remains outside the current regulatory framework, it was not included in the regulation change package currently before you.

Ms. Glasser-Hedrick further reported that in addition to feedback received from the Development Community, CDLAC staff initiated an outreach effort to discuss the impacts of a threshold reduction with the Issuer Community throughout the state. Most Issuers are either supportive or impartial to the proposed reduction. When discussing the magnitude of the reduction, all supportive Issuers indicated a forty-five (45) point threshold for the Rural and General Pools would be helpful to assist projects currently economically constrained, while still encouraging public benefits in excess of the federal requirements. For the Mixed Income Pool, CDLAC is proposing a reduction to a twenty (20) point threshold. This is a more significant reduction than the proposal for the General and Rural Pools based on the lack of current interest in the Mixed Income Pool. In 2014 and to date in 2015, CDLAC had not received any Mixed Income Pool applications. The twenty (20) point threshold reflects CDLAC's belief that there are inherent benefits to Mixed Income housing and the desire to encourage Mixed Income transactions by reducing costs. All supportive Issuers were also supportive of this reduction.

Opposition to the threshold reduction is limited, but CDLAC is sensitive to opponents' argument regarding the potential reduction in public benefits associated with the threshold change for certain projects and geographies. In response to these concerns, the purposed reduction will be in place only for the 2016 calendar year and will be reevaluated again at the end of 2016.

Ms. Glasser-Hedrick stated that as a result of these unprecedented circumstances affecting State Ceiling utilization combined with our dire need to increase the supply of affordable units in California; CDLAC supports a reduction in the threshold criteria this year. CDLAC proposes minimum point thresholds for the General and Rural Pools of 45 points and 20 points for the Mixed Income Pool. CDLAC is hopeful that this reduction, combined with the effects of the proposed CDLAC and TCAC regulation changes, will push more projects into the realm of economic viability and accordingly increase production and preservation of affordable housing throughout the state.

RECOMMENDATION:
Staff recommended the approval of minimum point thresholds for the General and Rural Pools of 45 points and 20 points for the Mixed Income Pool as noted and an open application process for the Qualified Residential Rental Program for 2016.

Alan LoFaso, focusing on the general and rural pool projects, asked if staff would articulate the difference between the 45 point and 55 point threshold, and what public benefit difference it would make if projects could not meet the 55 point threshold but were able to meet the 45 point threshold.

Ms. Glasser-Hedrick stated that the CDLAC scoring criteria is diverse. Decreased affordability is something that is likely seen in order to achieve points currently targeting units at 50% AMI as having more value than targeting units at 60% AMI. It is likely that staff will see a smaller percentage of units restricted at less 50% targeted levels. Some projects may forego sustainability options or locate sites in geographies that do not have the array of site amenities required when the thresholds score was 55. A service program that may have been previously required may no longer be necessary to meet the threshold criteria. Those are the potential major items that may be lost.

Alan LoFaso thanked Ms. Glasser-Hedrick.

Alan LoFaso moved approval of staff's recommendations. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

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

Ms. Glasser-Hedrick gave a heartfelt thanks to Lyudmila Farbitnikova for her hard work and dedication during her tenure at CDLAC. Lyudmila has accepted a promotional position with the California Pollution Control Financing Authority (CPCFA). On behalf of CDLAC staff, Jeree stated that Lyudmila will be missed.

Mr. Gordon stated that he is also the Chair for CPCFA so Lyudmila will not be getting away from him!

10. **Adjournment**

The Chairperson adjourned the meeting at 11:41 a.m.