

California Debt Limit Allocation Committee

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

July 20, 2016
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Tim Schaefer, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:05 am.

Members Present: Tim Schaefer for John Chiang, State Treasurer
Eraina Ortega for Edmund G. Brown, Jr., Governor
Alan LoFaso for Betty T. Yee, State Controller

Advisory Members Present: Don Cavier 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 18, 2016 Meeting (Action Item)

Eraina Ortega moved approval of the minutes for the May 18, 2016 meeting. Upon a second by Alan LoFaso, the minutes passed 2-1-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Tim Schaefer: Abstain.

3. Executive Director's Report (Informational Item)

Ms. Glasser-Hedrick provided the Committee with feedback on CDLAC's compliance responses for the 2015 reporting cycle. Typically, the deadline for reporting compliance is March 1 of each year; however, CDLAC experienced a few issues while transitioning to the online reporting system. The deadline for the Developer's and Issuers for this year's compliance reporting was extended to April 1.

Through CDLAC's history, 220 Issuers have utilized CDLAC's resources. Currently CDLAC has 33 active Issuers that have utilized its resources within the last three (3) years. Of the 220 Issuers, 70 Issuers were deficient this year in submitting their compliance materials to CDLAC.

Last year 623 of the 2,021 total projects in CDLAC's portfolio had compliance reporting deficiencies prior to a deficiency letter being sent out. That was approximately a 70% reporting compliance rate which fell short of staff's expectations.

Fast forward one (1) year and the total number of deficiencies have been reduced to approximately 225 of the 2,021 total projects in CDLAC's portfolio. That is now approximately

a 90% reporting compliance rate which is a significant difference from last year. That is progress on which Ms. Glasser-Hedrick is happy to report. Staff has not reached the level of compliance reporting that it had hoped to attain, but progress has been made.

The three (3) factors Ms. Glasser-Hedrick attributes to the increase in reporting levels are:

- (1) Since the implementation of Issuer Compliance reporting in 2012, there has been an improvement in reporting as Issuer's have become aware of this requirement.
- (2) The implementation of the online reporting system has streamlined the process and made reporting requirements more user friendly.
- (3) Ms. Glasser-Hedrick personally spent many hours calling every Issuer on the non-compliant list, as of last year, to convey the requirements necessary and to connect each one with appropriate CDLAC staff and the resources they needed to complete the online compliance form.

Ms. Glasser-Hedrick stated that of the 33 active Issuers, CDLAC has 12 that are in non-compliance with regard to reporting. In total, CDLAC has 70 non-compliant Issuers.

Additionally, staff received feedback that three (3) projects were actually not complying with the provisions of the CDLAC resolution and, as a result, will be assessed negative points. This is the first year since the Issuer compliance reporting requirements were required that true non-compliance has been identified.

In total, compliance reporting has improved tremendously, although we still have a tremendous amount of non-compliant Issuers, fifty-eight, who are no longer active; therefore, staff still has more work to do.

In the coming months, I will be proposing the following changes to the CDLAC regulations to try to address non-compliance:

A) Propose that in order to receive allocation from CDLAC Issuers must have both Issuance and Compliance procedures in place that have been approved by their governing board and that meet CDLAC requirements. Active Issuers will be given a year to comply, all non-active Issuers would need to have policies in place before they begin requesting allocation

B) CDLAC will clarify what compliance reporting can be handled by the Sponsor and what reporting is the responsibility of the Issuer

C) CDLAC will create base-line compliance standards for what is expected of the Issuer's in terms of collection of source documentation to demonstrate compliance

D) Clarifying the provisions of the CDLAC resolution that are required to be reflected in the Bond Regulatory Agreement – may I draw your attention to the fact that CDLAC is not a party to the bond regulatory agreement currently recorded against the title of the property - it is an agreement between the Sponsor and the Issuer unlike TCAC which is a signatory to the TCAC regulatory agreement. It has come to Ms. Glasser-Hedrick's attention that there are now inconsistencies between the CDLAC resolutions and the bond regulatory agreements which are threatening affordability. Going forward, Ms. Glasser-Hedrick would like to make sure that all the terms and conditions in the CDLAC resolutions, with regard to affordability, are reflected in the bond regulatory agreement

E) Program suspension will be recommended for Issuers that fail to report on time. The process requires the Issuers to go into the online system and reflect what they have been doing

regarding compliance for the last year. Suspension will be lifted as soon as reporting is received. Currently, CDLAC posts a non-compliance list to its website. Projects that do not have TCAC assistance have more exposure from a compliance perspective. TCAC goes onsite and checks source data for income and affordability. TCAC is also performing inspections on bond only projects which CDLAC has not seen for some time, but has existed historically

F) For Bond only deals, Sponsors will be required to enter into a contractual agreement to have CDLAC or CDLAC's designee, potentially CalHFA, monitor physical, income and affordability compliance over the lifetime of the regulatory agreement. To the extent that the Issuer has not demonstrated in its policies and procedures that it has the ability to perform CDLAC's onsite inspections and to go out to sites and check source data

Ms. Glasser-Hedrick would be happy to answer any questions the Committee may have about this framework. She wanted to note that the recommended provisions would help to ensure that active Issuers remain compliant but it will not address the reporting of non-compliance that currently exists with non-active Issuers. The only way to impact that situation is with one-on-one technical assistance. Ms. Glasser-Hedrick wanted to make it clear that CDLAC's priorities should be to ensure reporting compliance for active Issuers and, secondarily, to address the non-compliance issue among non-active Issuers. Ms. Glasser-Hedrick is seeking clarity from the Board

Mr. Schaefer reiterated that Ms. Glasser-Hedrick was requesting input from the Board, as no decision may be made, as well as its reaction on the basic ideas proposed for further direction.

Mr. Schaefer asked Mr. LoFaso if he had any comments.

Mr. LoFaso replied yes; however, he deferred to Ms. Ortega.

Ms. Ortega requested that Ms. Glasser-Hedrick put into context the need for compliance, the risk to the program without compliance and to address any concerns she may have regarding not pursuing compliance with the non-active Issuers. Ms. Ortega asked Ms. Glasser-Hedrick if she would also address any concerns she may have about the risk to the integrity of the program if only the active Issuers were to be in compliance.

Mr. Schaefer observed based on past history that Issuers, at the minimum, are going to have to have certain types of procedures in place to assure tax compliance. Is it possible to align procedures reducing programmatic risks, as identified by Ms. Ortega, or potential tax risks? Is it Ms. Glasser-Hedrick's expectation to enter in to an outreach or dialog with either the bond counsel community or the housing community to help orient these policies and component parts to articulate the CDLAC resolution to the bond documents?

Ms. Glasser-Hedrick replied that consistent with the TCAC program, CDLAC does not have a significant non-compliance problem. There are projects that do not comply with Federal and/or State law. This is the first year to Ms. Glasser-Hedrick's knowledge that CDLAC has officially received clarity that there are non-compliant projects and, as a result, those projects need to be assessed negative points. In other situations, properties are operating in a manner that is inconsistent with Federal tax codes with regard to affordability and income limit restrictions. The exposure is small, but it is there, to the extent that it is an important component of the program moving forward.

With regard to the policies and procedures being directed toward active Issuers only, Ms. Glasser-Hedrick thinks it creates clarity moving forward for those remaining in the program; however,

she feels that the non-compliance issues are with projects that have non-active Issuers. Potentially, that would be the group she would be most concerned about given CDLAC's staffing levels. The next step would be to collect documentation from Bond Counsel and to actively go visit a jurisdiction. That resource would be difficult given the staffing levels at this time. Ms. Glasser-Hedrick is committed to continuing to work on these circumstances. At this time, she is seeking direction from the Board regarding the most practical approach. She does plan to work with Bond Counsel to work through some of these nuances. Ms. Glasser-Hedrick has already met with CalHFA and its counsel to go over these ideas before conveying them to the Board. She received positive feedback. To the extent she is given direction from the Committee, she does plan to coordinate phone calls with Bond Counsel to go over some of the technical issues that were discussed today.

Mr. LoFaso stated that he senses a prioritization issue as to the guidance Ms. Glasser-Hedrick is seeking from the Board. Mr. LoFaso thanked staff for all of the deeply intensive work done in order to get to the root of the problem. Without restating it, go forth and do it while working through the issues at the local level. He plans to ask Mr. Stivers during the TCAC meeting about the TCAC side as he feels there is a synergy there.

Ms. Glasser-Hedrick stated that staff wants to leverage the work that TCAC is doing. Staff also wants to insure that the specific regulatory framework provided under Section 142 of the IRS code, specific to CDLAC, that all of the compliance reporting and mechanisms are in place to comply with the code. She feels that Issuers that receive both CDLAC and TCAC financing do not need to duplicate the work that TCAC is already doing as staff is out inspecting these projects.

Mr. LoFaso stated that CDLAC clearly understands how to deal with these issues, so go at it. The fundamental question is what about the hard to reach areas and where are the other sources of enforcement and the leveraging of other players and parties in the system?

Ms. Glasser-Hedrick stated yes.

Mr. LoFaso stated that if Ms. Glasser-Hedrick is able to do all of the policy, procedure and resolution revision paperwork while staying focused on what is perceived as the greater risk; again, then go do it. Mr. LoFaso stated that if Ms. Glasser-Hedrick has a prioritization workload question for which she is asking the Board to give guidance, he feels that the request needs to be presented more sharply.

Mr. Schaefer stated that presently SB 1029 requires local agencies that issue debt to file annual reports with the California Debt & Investment Advisory Commission (CDIAC). There has been vigorous commentary from some representatives of the local community regarding active issuers of debt which is understandable. Large agencies who are very active issuers of debt have very robust systems that do this already. Agencies that have highly organized audit processes also already have apparatus in place. It is the smaller and less frequent Issuers that are affected. Mr. Schaefer feels that that may start to overlap some of the CDLAC non-complaint folks. He shares some sense of urgency in trying to align not just CDLAC's federal tax requirements, but the federal tax requirements for any Issuer with the Securities and Exchange Commission 15(c)(2)(12) requirements that Issuers and/or Sponsors agree amongst themselves who is to make annual disclosures to bond holders and representations that the Issuers and Sponsors have made to the Bond Counsel in order to procure the tax opinion on the bonds. To the extent that CDLAC can be the catalyst to enable folks to start thinking about aligning these requirements so that three separate reports aren't being made but rather subsets of the same report. He feels that would go a

long way to take the steam out of the pipe of the smaller businesses that say they do not have the staff to do that. Mr. Schaefer feels that could make the process more efficient which would be a good thing.

Mr. Cavier stated that CalHFA is supportive of compliance enforcement. As active Issuers, CalHFA strives to stay in compliance. This is a good first step in the process.

Ms. Whittall-Scherfee concurs with what Mr. Cavier stated as well as what had been discussed earlier.

Mr. Schaefer asked Ms. Glasser-Hedrick if staff has adequate direction from the Committee.

Ms. Glasser-Hedrick replied yes.

Ms. Glasser-Hedrick reported that CDLAC began the 2016 year with \$3.9 billion of new resources

In the multifamily arena, staff dedicated approximately \$2.9 billion to be available to multifamily uses and CDLAC had \$3.5 billion of allocation. After today's meeting, if all the recommended projects are approved, the Committee will have allocated \$3 billion of resources. Thanks goes out to my staff for working so hard to ensure the volume of this amount has been allocated.

There were some concerns given the expiring Difficult Development Areas (DDA) applications that were submitted to CDLAC in June that CDLAC might not have enough allocation to fund all the requests. Ms. Glasser-Hedrick was happy to report that staff did receive 70 applications for \$2.6 billion of resources; however, these requests will be spread out over the next two years. Given that circumstance, Ms. Glasser-Hedrick is confident CDLAC, as good stewards of these resources in times of downturn, will have enough resources for 2016 but will begin 2017 with significantly less carryforward than in 2016.

Ms. Glasser-Hedrick stated that there were a few guests for the meeting. One is Beth Sothern, Executive Director of LifeSTEPS, an organization that provides resident services for many of CDLAC's project. Two tenant testimonials were provided.

Mr. Schaefer thanked the ladies for joining the meeting today.

Verna Raphael, a widow, is 88 years old. She has been a resident at Vintage Woods in Fair Oaks for six years. Ms. Raphael relies on her small fixed income from social security and help from her two children. Early in her residency at Vintage Woods both of her children lost their jobs and were unable to provide the help she needed. LifeSTEPS provided her with rental assistance which allowed her to remain in her home. Since then Verna has thrived, stating that her community "has given her a reason to live." Ms. Raphael is active in LifeSTEPS and other community events on-site, and she is considered a LifeSTEPS "super volunteer". The combination of the one-time financial assistance and ongoing support she received provided a good example of LifeSTEPS' age-in-place focus. She wished every senior could find a place like Vintage Woods and the help she has received from LifeSTEPS.

Sandra Guzman, with a desire for her children to be safe, escaped the social unrest and drug cartel violence of Colombia 15 years ago with her husband. They have lived at Copperstone Village in South Sacramento for five (5) years. Their son, Daniel, is a 3-time recipient of LifeSTEPS/USA Properties JB Brown academic scholarship, studying to be an electrical engineer; their daughters

Alejandra (13) and Michelle (10) each attend the LifeSTEPS after school program at Copperstone and have received sports scholarships, allowing them to play volleyball, tennis and soccer. Alejandra's dream is to attend Harvard and become a lawyer, while Michelle is the athlete of the family. This past November the family experienced a financial crisis when their only vehicle broke-down. LifeSTEPS provided emergency rental assistance so they could allocate the needed money to repair their car. She thanked LifeSTEPS for all they have done for her and her family. She also thanked staff and the Board for all of their services.

Ms. Glasser-Hedrick thanked them for sharing their stories.

Mr. Schaefer thanked Ms. Raphael and Ms. Guzman for their very powerful testimony. He also acknowledged all of the people in the room as well as in the building who work to make these outcomes happen. It is easy to lose sight of the work that is done in this building and seeing folks face-to-face that are affected by the outcome of this work is very powerful.

Ms. Raphael thanked the folks that help LifeSTEPS help them.

Mr. LoFaso thanked the ladies for their testimonials. Explaining their experiences has made a big difference in the work. He appreciated them taking the time to come and speak before the Board.

Mr. Schaefer thanked Ms. Glasser-Hedrick for inviting Ms. Raphael and Ms. Guzman to join the meeting today.

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

a. Consideration of appeals

Sarah Lester stated that there were no appeals.

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

Ms. Lester reported that the Committee received two (2) applications for single family awards. The first application was received from the Sacramento Housing and Redevelopment Agency (SHRA) on behalf of the County of Sacramento and requested \$15,247,070 of Single Family Housing allocation for the issuance of Mortgage Credit Certificates (MCC) under their single-family homeownership program. The second application was received from the California Department of Veterans Affairs and requested \$150,000,000 of Single Family Housing allocation for the issuance of Mortgage Revenue Bonds (MRB) under a statewide single family homeownership program for qualifying Veterans.

RECOMMENDATION:

Staff recommended approval of \$15,247,070 to provide funding for SHRA's Single Family Housing Mortgage Credit Certificate Program and \$150,000,000 to provide funding to the California Department of Veterans Affairs Statewide Mortgage Revenue Bond Program.

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; Tim Schaefer: Aye.

4.1	16-009	SL/BC	Sacramento Housing and Redevelopment Agency on Behalf of the County of Sacramento	MCC		Sacramento	\$15,247,070
4.2	16-008	SL	California Department of Veterans Affairs	MRB		Statewide	\$150,000,000

5. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects and Awards of Allocation (Action Item)

a. Consideration of appeals*

Misti Armstrong stated that there were no appeals.

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

Mixed Income Pool

The Mixed Income Pool reflected two (2) projects requesting a total allocation of \$169,500,000.

Rural Pool

The Rural Pool reflected one (1) project requesting a total allocation of \$8,000,000.

General Pool

The General Pool reflected thirty-three (33) projects requesting a total allocation of \$826,777,685.

RECOMMENDATION:

Staff recommended approval of \$169,500,000 to fund two (2) previously reviewed projects in the Mixed Income Pool, approval of \$8,000,000 to fund one (1) previously reviewed project in the Rural Pool and approval of \$826,777,685 to fund thirty-three (33) previously reviewed projects in the General Pool. The combined request for all pools is \$1,004,277,685.

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; Tim Schaefer: Aye.

5.1	16-410	DK	California Statewide Community Development Authority	Campus Oaks Phase I Apts.	Roseville	Placer	\$37,500,000
5.2	16-420	RF	City and County of San Francisco	500 Folsom Apartments (also known as Transbay 9)	San Francisco	San Francisco	\$132,000,000
5.3	16-406	LE	California Municipal Finance Authority	Esperanza Crossing Phase II Apartments	Esparto	Yolo	\$8,000,000
5.4	16-364	LE	California Public Finance Authority	Village East Apartments	Stockton	San Joaquin	\$15,200,000
5.5	16-386	DK/BC	City of Los Angeles	Viviendas del Valle Apartments (Scattered Site)	Los Angeles	Los Angeles	\$10,700,000

5.6	16-387	RF	City and County of San Francisco	1300 Fourth Street Apartments	San Francisco	San Francisco	\$52,500,000
5.7	16-388	SL	California Statewide Community Development Authority	El Cazador Apartments	Fresno	Fresno	\$12,000,000
5.8	16-389	DK	Golden State Finance Authority	San Vicente Townhomes Apartments	Soledad	Monterey	\$5,320,000
5.9	16-390	LE	Golden State Finance Authority	Village at Madera Apartments	Madera	Madera	\$4,804,000
5.10	16-391	DK/BC	Golden State Finance Authority	Harmony Court Apartments	Bakersfield	Kern	\$5,727,000
5.11	16-392	SL	Golden State Finance Authority	Las Palmas II Apartments	Coachella	Riverside	\$3,465,000
5.12	16-393	DK	Golden State Finance Authority	Summerhill Family Apartments	Bakersfield	Kern	\$9,795,000
5.13	16-394	SL	City of Los Angeles	Florence Morehouse Apartments (Scattered Site)	Los Angeles	Los Angeles	\$9,500,000
5.14	16-395	LE	Housing Authority of the County of Los Angeles	Sun Sage Homes Apartments (Scattered Site)	Lenox, Whittier	Los Angeles	\$9,450,000
5.15	16-396	RF	Housing Authority of the City of San Luis Obispo	Iron Works Apartments	San Luis Obispo	San Luis Obispo	\$10,000,000
5.16	16-397	LE	City of San Jose	Don de Dios Apartments	San Jose	Santa Clara	\$20,000,000
5.17	16-398	RF	County of Contra Costa	Twenty One and Twenty Three Nevin Apartments (Scattered Site)	Richmond	Contra Costa	\$74,000,000
5.18	16-399	SL/BC	County of Contra Costa	Hana Gardens Apartments	El Cerrito	Contra Costa	\$21,000,000
5.19	16-400	SL	California Municipal Finance Authority	Cedar-Nettleton Apartments	Vista	San Diego	\$8,200,000
5.20	16-401	DK	California Municipal Finance Authority	Park Place Apartments	Morgan Hill	Santa Clara	\$26,000,000
5.21	16-402	RF	California Municipal Finance Authority	Sea Breeze Apartments	Oxnard	Ventura	\$13,750,000
5.22	16-403	RF	California Housing Finance Agency	Stoneman Apartments	Pittsburg	Contra Costa	\$75,000,000
5.23	16-404	RF	California Housing Finance Agency	Gateway Station Apartments	Oxnard	Ventura	\$90,000,000
5.24	16-405	LE	California Municipal Finance Authority	Simone Apartments	Los Angeles	Los Angeles	\$14,500,000
5.25	16-407	RF	California Municipal Finance Authority	Liberty at Aliso Apartments	Aliso Viejo	Orange	\$41,000,000
5.26	16-408	SL	California Municipal Finance Authority	Antelope Valley Apartments	Lancaster	Los Angeles	\$14,000,000

5.27	16-409	SL	California Statewide Community Development Authority	Watts Arms I Apartments	Los Angeles	Los Angeles	\$23,000,000
5.28	16-411	LE	California Municipal Finance Authority	Newark Station Seniors Apartments	Newark	Alameda	\$14,750,000
5.29	16-412	DK	California Municipal Finance Authority	Village at Los Carneros Apartments	Goleta	Santa Barbara	\$12,331,338
5.30	16-414	RF/BC	California Municipal Finance Authority	Madera Vista Phase 3 Apartments	Temecula	Riverside	\$6,200,000
5.31	16-415	DK	California Public Finance Authority	Springville Senior Apartments	Camarillo	Ventura	\$18,000,000
5.32	16-416	LE	California Public Finance Authority	Mountain View Apartments	Cathedral City	Riverside	\$21,590,000
5.33	16-417	LE/BC	California Public Finance Authority	Guest House Apartments	Santa Ana	Orange	\$15,000,000
5.34	16-421	DK	Housing Authority of the City of San Buenaventura	Villages at Westview - Phase 1 Apartments	San Buenaventura	Ventura	\$42,000,000
5.35	16-422	LE	City of Los Angeles	Jordan Downs Phase 1a Apartments	Los Angeles	Los Angeles	\$28,000,000
5.36	16-423	LE/BC	Housing Authority of the City of San Diego	Vista Terrace Hills Apartments	San Diego	San Diego	\$99,995,347

6. Public Comment (Action Item)

There was no public comment.

7. Adjournment

The Chairperson adjourned the meeting at 11:47 a.m.