

California Debt Limit Allocation Committee

Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
November 16, 2016
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Alan Gordon, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:38 am.

Members Present: Alan Gordon for John Chiang, State Treasurer
Jacqueline Wong-Hernandez for Edmund G. Brown, Jr., Governor
Alan LoFaso for Betty T. Yee, State Controller

Advisory Members Present: Anthony Sertich 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 October 19, 2016 Meeting (Action Item)

Jacqueline Wong-Hernandez moved approval of the minutes for the November 16, 2016 meeting. Upon a second by Alan LoFaso, the minutes passed 3-0 with the following votes: Jacqueline Wong-Hernandez: Aye; Alan LoFaso: Aye; Alan Gordon: Aye

3. Executive Director's Report (Informational Item)

Ms. Glasser-Hedrick reported that Misti Armstrong has been out on medical leave, that Brian Clark has rejoined the CDLAC team, that two new analysts have been hired, Felicity Wood and Ruben Barcelo and that CDLACs Student Assistant, Angela Khang, will be helping out while the Office Technician, Chee Thao Yang, is out on maternity leave.

Ms. Glasser-Hedrick stated that \$4 billion in resources have been allocated to date. It has been a very robust year for CDLAC given that it only received \$3.9 billion. The December allocation round has a pending request for \$2 billion of resources. There has been some discussion regarding Single Family applications as to whether or not their allocation requests will hold or be reduced. With that being said, CDLAC will end the year very strongly. Staff continues to dig in to the carryforward. To the extent that the \$2 billion pending request were approved, CDLAC would start the 2017 year with approximately \$.5 billion of carryforward with all of the 2013, 2014 and 2015 resources having been utilized. Only the 2016 carryforward would remain. If

there is another robust year like this year, there would not be enough resources to fund all of the projects.

Ms. Glasser-Hedrick reported that CDLAC sent a demand survey out to all Issuers and Developers which is due December 1, 2016. Staff is trying to gage the demand for next year. It is likely there will be a discussion at the December meeting regarding what the Committee's direction will be with respect to setting up pools for resources given that staff will have a clearer idea as to the demand for 2017.

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

Felicity Wood reported that CDLAC's proposed regulation changes had four areas of focus including: Issuer accountability, high cost projects, cash flow bond financing and U.S. Department of Housing and Urban Development (HUD) coordination. Through the proposed changes, CDLAC endeavors to provide clear guidance to ensure standardized post-issuance compliance monitoring standards, to establish a regulatory framework to address emerging trends and to facilitate better coordination among CDLAC's partners.

CDLAC changes include but are not limited to the following:

- Create per unit limits on CDLAC allocation based on bedroom size to create a ceiling for total per unit project costs. [Section 5233]
- Require all active Issuers to have issuance and compliance procedures in place by the latter of January of 2018 or in advance of their next issuance. [Section 5031]
- Specify a standard that project sponsors must use to verify income in QRRP projects. [Section 5144(b)]
- Require QRRP Issuers to audit 20% of tenant files associated with the Federally Bond restricted units every three years. [Section 5144(c)]
- Require Issuers of projects that receive no tax credit reservation to conduct on-site inspections and file audits if they can demonstrate capacity and, if not, contract with a third party compliance vendor approved by the Executive Director [Section 5144(d)]
- Clarify the expectations of information a sponsor is submitting to the Issuer on an ongoing basis by creating updated Certification of Compliance forms for all program pools. [Section 5145]
- Clarify the definitions of Standard Permanent Bonds (loan that meets CDLAC's debt service coverage ratio) and Cash Flow Permanent Bonds (repayment based on cash flow availability).[Section 5000]
- Require that Cash Flow Permanent Bonds have minimum denominations of \$100,000 or be represented with a traveling investment representation letter. [Section 5064(b)]
- Clarify for QRRP projects that a regulatory agreement and CDLAC Resolution affordability term shall terminate only in the event of foreclosure and redemption of Standard Permanent Bonds, deed in lieu of foreclosure, eminent domain, or action of a federal agency preventing enforcement. [Section 5220(a)]
- If the amount of Cash Flow Permanent Bonds bond debt exceeds 5% of the total project cost, all units identified in the CDLAC resolution including both the Federally Bond Restricted units and the Other Restricted units will be incorporated into the Bond Regulatory Agreement. Assumptions will include AMI as outlined in the CDLAC resolution, tenants paying no more than 30% of their income and assume 1.5 persons occupy each unit. [Section 55220(b)]

- Require that QRRP regulatory agreements be drafted in a manner consistent with the CDLAC resolution and that the CDLAC resolution be made an attachment to the bond regulatory agreement. [Section 5220(c)]
- Require projects that are requesting an assignment and assumption of an existing Housing Assistance Payment (HAP) contract from the Multifamily Department of the U.S. Department of Housing and Urban Development (HUD) to have submitted their application to HUD in advance or concurrent to the submission of their CDLAC application. [Section 5255(d)]
- Clarifying the process to preserve Difficult Development Area (DDA)/Qualified Census Tract (QCT) status. [Section 5258]

RECOMMENDATION:

Staff recommended approval of the regulations as presented.

Alan LoFaso stated that he believed last year the emergency regulations and subsequent adoption of the permanent regulations did not come back to the Committee for approval because it was open for public comment and there were no changes made. Mr. LoFaso asked Ms. Glasser-Hedrick if she would clarify.

Ms. Glasser-Hedrick replied that CDLAC will go through the public process review subsequent to the Office of Administrative Law (OAL) procedure after approval of the regulations today. To the extent that there are substantive comments, staff would then bring the regulations back before the Board in mid-December. Given that these regulations have already gone out to the public in conjunction with the CA Tax Credit Allocation Committee's (TCAC) regulation changes, Ms. Glasser-Hedrick stated that she believes the users of the program have already reviewed the changes and there will likely be no substantive responses associated with the OAL public review period. If there were any responses, staff would bring the comments back to the December meeting.

Mr. LoFaso thanked Ms. Glasser-Hedrick. He believed that was consistent with how it went last year.

Tony Sertich, as an Issuer, thanked Ms. Glasser-Hedrick for reaching out to CalHFA and working through some of these regulation changes. He believes the changes are headed in the right direction; however, he believed that some of the changes could be taken a little further. CalHFA would like to continue to work with CDLAC to help refine some of the changes in the upcoming year.

Ms. Glasser-Hedrick stated that this is just a starting point and she is happy to engage in conversations about further refinements and she feels that would be prudent to pursue.

Darren Bobrowsky, USA Properties Fund, wanted to commend Ms. Glasser-Hedrick on a wonderful job in making the program more user friendly and on stretching bond cap. He commented on section 5233 - create per unit limits on CDLAC allocation based on bedroom size to create a ceiling for total per unit project costs. Mr. Bobrowsky feels that there should be limits on bond cap per project due to the ever increasing project costs. He feels that having high cost projects is not sustainable and that it is not a good use of public funds. He would suggest a bond cap per loan back should be reduced by 25%. Since October 1st, the 10-year Treasury has increased by 60 basis points which is \$1.5 million in reduced sources for the project which then makes the project unfeasible. If the corporate tax is reduced from 35% to 25%, some scenarios have credit pricing reduced by 10 cents. Mr. Bobrowsky feels that 2017 will be a challenging

year and he hopes that the CDLAC and TCAC regulations will not make it more difficult to get projects done.

Adam Cray, Bond Program Manager for the San Francisco Mayor's Office of Housing and Community Development, stated that San Francisco is a high volume Issuer of tax-exempt securities for affordable housing. Over the past few years, this Committee has allocated billions of dollars to San Francisco to fund rehabilitation or construction of thousands of affordable housing units. San Francisco is also one of the most expensive places to build housing, affordable or otherwise. After careful evaluation, his staff is in support of the proposed changes to Section 5233 as they are workable as drafted. The Mayor's office does not support any reduction in limits.

Patrick Sabelhaus, on behalf of the CA Coalition for Affordable Housing (CCAH), wanted to mirror Mr. Bobrowsky's comments. CCAH is in support of the draft regulations going to the OAL. CCAH is particularly pleased with Ms. Glasser-Hedrick's and Mr. Stivers' efforts to include some form of cost containment in the program. This was necessary to avoid the risk of criticism from Washington, DC, particularly with the congressional makeup as the bond program and the tax credit program have always been subject to criticism. Cost containment is one of the areas where CA is subjected to greater criticism than the flyover states and even some of the Eastern shore board states. Mr. Sabelhaus thanked Ms. Glasser-Hedrick and Mr. Stivers for moving forward with the proposed regulations notwithstanding the shakiness in the interest rate market and the pricing on credits. He also thanked the Committee members and CDLAC staff.

Caleb Roope, President and Chief Executive Officer (CEO) of the Pacific Companies, joined the meeting by phone to express his support for the proposed CDLAC regulation changes specifically the cost containment caps and the allocation limits. Mr. Roope feels these proposed changes are very valuable and will make it easier for the Pacific Companies going forward. He expressed his gratitude for approximately \$340 million in allocation the Pacific Companies received in 2016 to help with its projects. Mr. Roope thanked the Committee members and the CDLAC staff for making it easier to build affordable housing in California.

Mr. LoFaso expressed his gratitude to Ms. Glasser-Hedrick and the CDLAC staff. He acknowledged the good parameters on the discussion regarding the cost caps and he appreciated the information on the basis points issue, tax credits and bond pricing.

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

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*

Louise Eller stated that there were no appeals.

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

Ms. Eller reported that the Committee received a total of three (3) applications for the General Pool requesting an aggregate amount of \$61,600,000.

RECOMMENDATION:

Staff recommended approval of \$61,600,000 to fund three (3) previously reviewed projects in the General Pool.

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

5.1	16-520	LE	California Municipal Finance Authority	Monterey Pines Apartments	Richmond	Contra Costa	\$34,500,000
5.2	16-534	SL	California Statewide Communities Development Authority	Casa Ramon Apartments	Orange	Orange	\$16,300,000
5.3	16-536	RF	California Statewide Communities Development Authority	The Promenade Apartments	West Covina	Los Angeles	\$10,800,000

6. CLOSED SESSION: Litigation (Government Code Section 11126(e)(2)(c)) - Discussion with Legal Counsel Regarding Pending Litigation

No action was taken by the Board.

7. Public Comment

There was no public comment.

8. Adjournment

The Chairperson adjourned the meeting at 12:25 p.m.