

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 14, 2016

Consideration of Staff's Recommendation to Approve a Change of Issuer for Miracle Terrace Apartments (16-562)

(Agenda Item No. 7)

ACTION:

Consider the approval of a change of Issuer for Miracle Terrace Apartments (16-562) ("the Project") from the California Housing Finance Agency ("CalHFA") to the Housing Authority of the City of Anaheim ("HACA").

BACKGROUND:

A Project Sponsor typically selects an Issuer in advance of a project's submission to CDLAC. In the example of Miracle Terrace (16-562), the Project Sponsor selected CalHFA as their bond issuer. They progressed down that path and CalHFA both held the Inducement and was scheduled to hold the Tax Equity and Financial Responsibility Act ("TEFRA") hearing associated with the project.

Immediately before the application deadline, CDLAC was informed that the HACA wanted to assume CalHFA's position as Issuer. HACA, not unlike other municipalities, has local policies that prohibit outside Issuers from issuing bonds when control of some portion of the funding sources that ensure the Project's feasibility originate from the municipality. Municipalities typically implement this policy through local control of the TEFRA process. Given the HACA is currently the administrator of a Section 8 contract associated with the existing project, the HACA wanted to exercise their discretion to hold the TEFRA and issue the associated bonds. Unfortunately, this policy had not been communicated clearly in earlier discussions between HACA and the Project Sponsor so the Project Sponsor unknowingly selected CalHFA as the Issuer.

This issue came to CDLAC's attention days prior to the October 14th application deadline. At the time, the HACA did not have a completed Inducement (an application requirement) nor a TEFRA scheduled for the Project. Under normal circumstances, CDLAC would have requested the Application withdraw from this round of funding and re-apply, but the circumstances of this particular deal compelled CDLAC to attempt to keep the Project on the December 14th agenda. The Project currently is owned by a market rate developer who has threatened to terminate the Section 8 contract at its upcoming expiration. The Project is under contract with the current Project Sponsor until the early part of January 2017 and any renegotiation of the purchase and sale agreement, if attainable, would likely come at a very significant increase in the purchase price. In order to preserve this very valuable existing affordable housing stock and to thwart future inflationary pressure consistent with Committee direction, upon advisement of legal counsel, CDLAC agreed to allow CalHFA's valid Inducement to qualify for the CDLAC's October 14th application deadline to allow the HACA time to complete the required Inducement and to hold the TEFRA. Although the HACA was able to complete the Inducement, unfortunately they were unable to complete the TEFRA hearing within CDLAC's required timeframe. The TEFRA was held November 22nd which is one (1) week after CDLAC's required deadline. After discussion with legal counsel about this circumstance, CDLAC had no other option than to recommend the Project with CalHFA as the proposed Issuer.

This solution challenges the HACA's bond issuance policies. Accordingly, in consideration of HACA concerns, Section 3 of the Committee resolution allows the Committee to consent to changes in the terms

and conditions set forth in the resolution as changed circumstances may dictate. In order to facilitate this Project proceeding and being preserved at its current negotiated price, CDLAC recommends the Committee approve the HACA to be substituted as the Issuer of Miracle Terrace Apartments Project (16-562) as approved on Item 6.29 of this agenda.

RECOMMENDATION:

In light of the circumstances described above, staff recommends the approval of the change in issuer for the Miracle Terrace Apartments (16-562) Project from CalHFA to the Housing Authority of the City of Anaheim.

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