California Debt Limit Allocation Committee

Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
March 15, 2017
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Timothy Schaefer, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 11:50 am.

Members Present:	Timothy 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:	Tia Boatman-Patterson for the California Housing Finance Agency (CalHFA) John Hiber for the Department of Housing and Community Development (HCD)

2. Approval of the Minutes of the January 18, 2017 Meeting (Action Item)

Alan LoFaso moved approval of the minutes for the January 18, 2017 meeting. Upon a second by Eraina Ortega, the minutes passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Timothy Schaefer: Aye

3. Executive Director's Report (Informational Item)

Ms. Glasser-Hedrick reported that there were some changes to the Agenda. Exhibit A has been revised to reflect projects that were withdrawn, etc. The final posting sheet was revised as well to reflect the changes to Exhibit A. Item 17-309, Renascent Place Apartments, had changes to its sources and uses. Item 17-314, Crossroads Garden Apartments, had changes to its service amenities points as the points should not have been given to the project. Item 17-318, 3706 San Pablo Apartments, had an issue with its bond request pushing up against CDLACs allocation limits. The staff reports reflect these changes.

Ms. Glasser-Hedrick reported that there was a correction to the amount she cited last meeting regarding the total private activity bond allocations made in 2016. The $6.1 billion figure was the total amount that the Committee allocated; however, the California Pollution Control Financing Authority (CPCFA) was awarded an additional $500 million in carryforward for exempt facility projects with private activity allocation it had received from CDLAC as a sub grantee. Accordingly, CDLAC allocated $6.6 billion last year.

This was CDLAC's second calendar year utilizing its newly developed compliance reporting system. As you may recall in 2016, staff worked through a number of issues with the initial rollout in 2015 of the data which took significant effort on their part. To refresh everyone's memory, CDLAC houses information about each project that is subject to compliance reporting in its main database. This information is released through data portals that only Issuers can access. Issuers are able to see a record for each project that is subject to compliance reporting including the CDLAC number, name and resolution of each of their projects. Issuers are then able to click on each record which prompts them to answer a number of questions associated with the project that is subject to compliance reporting. They are asked questions regarding whether they are operating a particular project in a manner consistent with the provisions of the CDLAC resolution and the Bond Regulatory Agreement in the instance of multifamily projects.

This year CDLAC once again experienced challenges with the roll out of the 2016 data. Unfortunately, staff did not have time to fix all of the issues that were discovered prior to the March 1st deadline and, accordingly, the deadline was extended until April 1, 2017. In the process of diagnosing the problems associated with the feedback that CDLAC received from its Issuer community, it was discovered that beyond the individual complaints we received from engaged Issuers, there were other data quality issues that needed to be addressed at a global level. CDLAC is continuing to diagnose the issues and staff will be back before the Committee at the May Allocation Meeting with descriptions of the problems and a recovery plan.

Given that the May round of applications are due this Friday, March 17th, and the Compliance deadline has been extended until April 1st, consistent with past CDLAC practices, all projects before the Committee in May will be held harmless for any non-compliance related matters.

Ms. Glasser-Hedrick wanted to personally thank CalHFA, the Sacramento Housing and Redevelopment Agency (SHRA), the California Municipal Finance Agency (CMFA), the California Statewide Communities Development Authority (CSCDA) and their consultants, Urban Futures. Each of these entities took the time to send CDLAC comments about records that were missing or duplicated in their portals. Without this feedback, staffs effort to diagnosis the problems would have taken much longer. Ms. Glasser-Hedrick greatly appreciates the partnership CDLAC enjoys with the Issuer Community and it is her commitment to fix the problems for future reporting cycles.

Ms. Boatman-Patterson commented that, as an advisory Committee member who has pressed the issue of compliance and monitoring to make sure of the appropriate data, she appreciates Ms. Glasser-Hedrick and the CDLAC staff and their continued work with the Issuer community. In order for the decision makers to make good decisions, having the appropriate information helps establish good data to understand the "what" and the "how."

4. **Consideration of the Adoption of an Expanded Resolution Delegating Authority to the Executive Director to Grant Waivers of Forfeiture of Performance Deposit and the Assessment of Negative Points on Behalf of the Committee** (Action Item)

Pursuant to the conversations that were had at the Tax Credit Allocation Committee Meeting (TCAC), the 4% bond projects have also been significantly impacted by the turmoil created by the threat of tax reform.

At the December 2016 allocation meeting, the Committee delegated authority to the Executive Director to waive the performance deposit forfeiture associated with an extension request until March 31, 2017. As discussed in December, the initially requested delegated authority resulted from the ushering in of the new President and the associated prospect of federal tax reform in 2017 which has caused uncertainty and disruption in the Low Income Housing Tax Credit (LIHTC) market as well as the bond markets. The disruptions have been prompted by the prospect of reduced marginal tax rates under the various tax reform proposals. To the extent marginal tax rates might decrease, companies have less need for tax credits or other tax-exempt investments such as tax-exempt bonds and, accordingly, are willing to pay less than they would have if the outlook was more stable. While some investors are holding pricing and terms for projects that are closing this year, others are repricing with very steep pricing discounts. In other instances, investors are rescinding on their equity commitments and lenders are repricing debt if issuance deadlines are not met. To the extent projects have delayed closing timeframes, bond pricing that was fixed is being renegotiated to incorporate the new market conditions.

While many Applicants and Project Sponsors believe the corrections in the equity markets have already occurred and that pricing will not drop further, projects receiving an allocation in 2016 now face a very different economic reality then when they submitted their application given the drop in the value of a tax credit. Most projects in this situation lost their initial tax credit investor and are working to secure another equity investor. This process takes time as the due diligence process has to be repeated. To both recognize this unforeseen market disruption affecting the equity and debt markets which is outside the control of the Applicant and Project Sponsor, and to further streamline the waiver approval process related to these particular projects, staff recommends extending the authorization for the Executive Director to waive such penalties associated with an issuance extension request if the Applicant and Project Sponsor demonstrate that the need for the extension is based on the current turmoil in the market until August 15, 2017. In exercising this authority, the Executive Director would only provide issuance extensions through August 15, 2017 without penalty. Any Applicant seeking an extension of the issuance timeframe beyond August 15, 2017 would be required to forfeit the project's performance deposit and seek a waiver of the performance deposit penalty directly from the Committee as is the general requirement.

Additionally, currently there are projects that can no longer mover forward as 4% transactions. Some are no longer feasible and others are going to restructure and resubmit as 9% projects. Staff recommends that projects in this situation be granted relief. More specifically, staff requests the Executive Director be granted delegated authority to waive the performance deposit forfeiture and the negative points associated with the reversion of a bond allocation until early July 2017 to the extent that it can be demonstrated that the reversion was based on the current turmoil in the market. The recommendation before you is generally consistent with the changes that the TCAC Committee approved for TCAC. This deadline will ensure the greatest potential for fully utilizing the reverted allocation.

Mr. LoFaso complimented staff on its judiciousness with which they have timed their authority and with only asking for what is needed as it is needed.

Mr. LoFaso asked if the delegated authority was for the waivers, etc. for any unforeseen circumstances or just the unforeseen circumstances that staff deemed attached to the volatility in the market.

Ms. Glasser-Hedrick replied correct, the latter.

Mr. LoFaso asked if the issues in the tax free bond market or the 4% tax credit side of the deals are what is driving the problem.

Ms. Glasser-Hedrick replied both; however, it is mostly driven by the precipitous drop in the value of tax credits. There have been challenges on the bond side as well. The ideology is the same to the extent that there is a threat that tax reform will take hold, that there will be less demand for tax-exempt instruments because people feel as if their tax liability is going to decrease.

Mr. LoFaso stated that he appreciated Ms. Glasser-Hedrick's response.

RECOMMENDATION:
Staff recommended approval of the attached Resolution authorizing the CDLAC Executive Director, on behalf of the Committee, to:

1) Approve the waiver of certain forfeitures of performance deposit associated directly with the market disruptions that occurred in the tax credit and bond markets after the recent election. This provision will remain in effect until August 15, 2017.
2) Approve the waiver of certain forfeitures of performance deposit and assessment of negative points associated with the reversion of bonds associated directly with the market disruptions that occurred in the tax credit and bond markets after the recent election. This provision will remain in effect until July 1, 2017.

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

5. **Consideration of a Waiver of the Forfeiture of the Performance Deposit for CalAg Project 16-029 Exempt Facility** (Action Item)

Richard Fischer reported that the CalAg Project received $225 million in tax-exempt bonds on December 6, 2016 with an Issuance deadline of March 6, 2017. The closing was anticipated to be December 22, 2016. The ushering in of the new President and the associated prospect of federal tax reform in 2017 has caused instability in the tax exempt marketplace. This instability has been evident through the outflows of resources from tax-exempt bond mutual funds. This combined with the overall increase in interest rates and the widening spread between high yield rates and the benchmark U.S. Treasury has created a confluence of negative market factors.

RECOMMENDATION:
Staff recommended that the Committee waive the Forfeiture of the Performance Deposit given that the circumstances leading to the reversion were unforeseen and outside of the control of the current Project Sponsor and development team members.

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; Timothy Schaefer: Aye.

6. **Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation** (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 a total of two (2) project applications for single family awards. The applications received from the City of Oceanside and the County of Alameda requested a total of $11,487,520 of Single Family Housing allocation for the issuance of Mortgage Credit Certificates under their single-family homeownership programs.

RECOMMENDATION:
Staff recommended approval of $11,487,520 to fund two (2) previously reviewed projects in the Single Family Housing 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; Timothy Schaefer: Aye.

6.1	17-002	SL	City of Oceanside	MCC Program	Oceanside	San Diego	$1,120,520
6.2	17-003	LE	County of Alameda	MCC Program	Various	Alameda	$10,367,000

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

a. Consideration of appeals*

Ruben Barcelo stated that there were no appeals.

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

Ruben Barcelo reported that there were two (2) projects for the Mixed Income pool requesting an allocation of $266,380,585 and fourteen (14) projects for the General Pool requesting an allocation of $281,859,991. The total allocation request is for $548,240,576 to fund a total of sixteen (16) projects in both the Mixed Income Pool and General Pool.

RECOMMENDATION:
Staff recommended approval of $266,380,585 to fund two (2) previously reviewed projects in the Mixed Income Pool and approval of $281,859,991 to fund fourteen (14) previously reviewed projects in the General Pool for an aggregate amount of $548,240,576.

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; Timothy Schaefer: Aye.

7.1	17-317	FW	Housing Authority of the City of San Diego	Park & Market Apartments	San Diego	San Diego	$216,500,000
7.2	17-323	LE	California Public Finance Authority	Ageno Apartments, aka Brisa Apartments	Livermore	Alameda	$49,880,585
7.3	17-305	RB	California Statewide Communities Development Authority	Summer Field Apartments (scattered site)	Indio	Riverside	$42,000,000
7.4	17-306	RF	California Housing Finance Agency	Oak Creek Family Apartments	Oakley	Contra Costa	$17,885,000
7.5	17-307	SL	California Affordable Housing Agency	King's View Estates Apartments	Fresno	Fresno	$9,250,000
7.7	17-309	RB	California Municipal Finance Authority	Renascent Place Apartments	San Jose	Santa Clara	$38,215,127
7.8	17-310	RF	California Municipal Finance Authority	EE Cleveland Manor Apartments	Oakland	Alameda	$11,200,000
7.9	17-311	SL	Housing Authority of the City of San Diego	New Palace Hotel Apartments	San Diego	San Diego	$12,000,000
7.10	17-312	RB	California Statewide Communities Development Authority	Camellia Place II (scattered site)	Bakersfield	Kern	$4,700,000
7.11	17-313	FW	California Housing Finance Agency	Woodstone Apartments	Lompoc	Santa Barbara	$30,000,000
7.12	17-314	RB	Housing Authority of the County of Sacramento	Crossroad Gardens Apartments	Sacramento	Sacramento	$10,543,000
7.13	17-315	RF	Housing Authority of the City of Sacramento	Bel-Vue Apartments	Sacramento	Sacramento	$3,817,364
7.14	17-316	RB	California Municipal Finance Authority	Posada de Colores Apartments	Oakland	Alameda	$25,000,000
7.15	17-318	FW	California Municipal Finance Authority	3706 San Pablo Apartments	Emeryville	Alameda	$39,559,500
7.16	17-319	RF	California Housing Finance Agency	Courson Arts Colony West Apartments	Palmdale	Los Angeles	$30,000,000
7.17	17-322	RF	City of Los Angeles	Rampart Mint Apartments	Los Angeles	Los Angeles	$7,690,000

Ms. Boatman-Patterson wished to bring Item 7.11, Woodstone Apartments, to the attention of the Committee. She stated that the City of Lompoc, in which the project is located, strongly opposed the issuance of the bonds. Teresa Gallavan, on behalf of the City of Lompoc (the City), was present for discussion.

Ms. Gallavan stated that when the project was first submitted to TCAC for consideration, the TEFRA hearing for the project had not been held. The City believed it was inappropriate to have comments on the TCAC materials since the public hearing had not been held with the City Council; hence, the lack of comments in the TCAC staff reports. However; on November 2nd, a letter was sent to TCAC indicating the City's concerns for the project and its proposals. On November 15th, the TEFRA public hearing meeting was held and, again, Council did not vote to support the issuance of the bond allocation for the project and conversion of the project from market rate units to affordable units.

Moreover, at a subsequent Council meeting, the developer attended and spoke during the public comment. The developer offered the City and the school district an incentive of $1 million dollars if the Council would reconsider its vote. Yet again, Council rejected the proposal due to the heavy saturation of affordable housing. Ms. Gallavan reported that 25% of the multi-family housing units in Lompoc are designated as affordable rent income restricted units. The City of Lompoc has 5 times more affordable housing compared to the 5%-6% in neighboring jurisdictions in the county of Santa Barbara. Lompoc has sufficient affordable rental housing and is concerned that given the low vacancy rate in the community, which is approximately 3.6%, market rate renters would be unable to find rental housing. If converted, the project will ultimately displace forty (40) households that would no longer qualify to live in the units, possibly resulting in them leaving the community in order to find housing.

In addition, conversion of the project will provide property tax exemptions and that will impact the city and other tax entity revenues. Lompoc has one of the lowest general fund revenue streams on a per capita basis in the county of Santa Barbara and the city is challenged to provide the same essential services of the neighboring communities. Converting the market rate units to affordable units further saturates the market thereby reducing the City's revenues for essential services and displaces households that support the business communities and the economic vitality of the City of Lompoc. Therefore, the City of Lompoc has requested that the committee not award the bond allocation for the project.

Mr. Schaefer asked for clarification as to whether there were any changes in zoning or planning commission actions discussed during the TEFRA public hearing relating to the disapproval by Council.

Ms. Gallavan replied that there was not. The discussion related to the bond allocation support.

Mr. LoFaso asked Ms. Gallavan that since it was a conversion, the building would not be altered physically.

Ms. Gallavan replied that it depended on the change, such as reducing parking or access changes, the planning commission would have to review the project.

Mr. LoFaso stated that Ms. Gallavan gave an over concentration argument. He asked Ms. Gallavan if the City was meeting its low-income housing obligations under its housing element Regional Housing Needs Allocation (RHNA).

Ms. Gallavan replied that the City works with the 10% inclusionary housing, the 15% inclusionary housing, the RDA areas and other tax credit projects working with the Housing Authority. There is way to distribute the affordable housing throughout the region that is sustainable and creates healthy communities.

Ms. Gallavan stated that the City of Lompoc has five (5) times more than other communities in the county.

Mr. LoFaso stated that this conversion would not push the city over its allotment of affordable units.

Ms. Gallavan stated that what exists in Lompoc is higher than in other communities.

Mr. LoFaso stated that Ms. Gallavan's concern seemed to be too many rather than too few low-income housing units and asked whether this conversion would cause the city of Lompoc to exceed that number of low-income housing units in its housing element requirements.

Ms. Gallavan stated that the City was meeting its number.

Mr. Schaefer asked if this action would take the City above the number that is in the housing element general plan.

Ms. Gallavan did not have that information at this time.

Ms. Gallavan apologized for not having that information readily available.

Tia Boatman-Patterson went on the record to say that the City of Lompoc is what would be considered a good actor. The City has certified housing elements and it is in compliance. The City also submitted the report regarding the production numbers.

As the State Issuer, CalHFA had to examine the statewide policy and the market study which showed the need for affordable housing in the area. CalHFA also looked at the capital needs assessment which showed that the project was in significant need of rehabilitation. Moreover, CalHFA looked at the statewide housing element, the statewide housing assessment and the City's annual report which showed the need for more low income housing of 210 units. The project under discussion has 204 units.

Mr. Schaefer asked if the market study would cross city boundaries.

Ms. Gallavan confirmed that the market study goes beyond city limits and may cross a few supervisorial jurisdictions.

Mr. Schaefer asked if there were any history of code enforcements or violations with this project.

Ms. Gallavan replied that she was not aware of any issues with Woodstone Apartments.

Mr. LoFaso asked Ms. Boatman-Patterson if her analysis discussed anything relating to the displacement of the market rate tenants.

Ms. Boatman-Patterson advised that CalHFA is not providing financing in the sense of first lien loans but as the conduit issuer of the bond. Therefore, the developer can give the specifics on the financing and plans regarding relocation.

Steve Strain, with the law offices of Patrick Sabelhaus, represented the project sponsor and the developer on this project. He wished to address a few of the specific points raised. In regards to the issue of displacement, Mr. Strain confirmed that there are 30-40 tenants who will not income qualify under the new restrictions; however, it is a 204 unit project which will allow 160-170 families that will income qualify. This will allow on average a rent reduction of close to $300 if not more. In turn, this will benefit the families and create income which can be spent in the community. In order to comply with the Uniform Relocation act as well as ensure all requirements are addressed, Mr. Strain stated that they have retained a relocation consultant and budgeted a significant amount of funds and made conservative estimates of additional funds for relocation.

Mr. Strain clarified that after the initial meeting with the City, one of the issue raised was the loss of revenue from the property tax exemption. The offering of $1 million dollars to the City was in lieu of fees to the police departments, fire departments, the city general fund and the school district to offset the lost revenue from the welfare exemption.

Furthermore, Mr. Strain reports that the project was built in the 80's and has not been rehabilitated since; therefore, there is a significant amount of rehab in need of assessment and some are immediate within the next 2-4 years. The balance of the rehab will have to be addressed in the following 10 years, which includes safety items to the decking, the roofing and staircases. The modernization will make the project more energy efficient as well as provide modern amenities to the tenants and improve their living conditions.

Ms. Ortega stated that the issue of investment in a property that is older and would, presumably, continue to deteriorate without an investment is a pretty compelling issue as compared to saying lets retain market rate units. She wonders what the City's view is.

Ms. Gallavan stated the City of Lompoc is looking forward to investing in the community as well as improving the quality of life and economic vitality in the community. Ms. Gallavan acknowledged that Woodstone Apartments Project is one of the nicer apartment complexes in the community, but may need modernizing. However, with past experiences, some projects do not continue maintaining the buildings until it receives the next tax credit allocation which could be 7-8 years later. The community is experiencing that those properties continue to have code enforcement issues and public safety issues.

Ms. Ortega asked what the AMI in the area is and if it is in the staff report.

Ms. Glasser-Hedrick replied that the AMI in the area is not in the staff report.

Mr. Schaefer asked if there are any disadvantaged classes in the building such as seniors or families.

Mr. Strain has no knowledge of any disadvantage classes. However, he noted that the developer, Vintage Housing, has a long history of developing affordable housing in California and Washington State with a great track record and is also providing a significant amount of their own funds to acquire and rehabilitate the project.

Mr. Schaefer asked Ms. Boatman-Patterson, as the conduit issuer for this borrower, if she invoked her statewide TEFRA authority.

Ms. Boatman-Patterson confirmed yes.

Mr. Schaefer asked if that was noticed in town.

Ms. Boatman-Patterson replied, yes, in the local newspaper.

Mr. Schaefer asked if Ms. Boatman-Patterson received any comments at the TEFRA hearing.

Ms. Boatman-Patterson replied that there were no comments at the TEFRA hearing but they did receive notice. Pursuant to the conduit issuance program, CalHFA reached out to local governments to ask via the application and review, which they are paid to review, whether they support, oppose or are strongly opposed. They did strongly oppose.

Mr. Schaefer asked if it was the City or the citizens of the city who opposed.

Ms. Boatman-Patterson confirmed that it was the City. However, there were citizens that showed up at the City Council meeting in support of the project.

Mr. Schaefer asked Ms. Gallavan for confirmation.

Ms. Gallavan confirmed that the developer did introduce citizens who attended in support of the project.

Mr. Schaefer asked if this was a naturally occurring affordable housing (NOAH) as coached by Ms. Boatman-Patterson for a couple of years.

Ms. Boatman-Patterson stated that that is how she would consider this project. That would then be converted to affordable housing using bonds and 4% tax credits. In that vein, it would be serving a significant number of the population. The developer has indicated reducing its rents so tenants would no longer be rent burdened. Also, putting a significant amount of resources aside for this project.

Mr. LoFaso suggested the City has a couple of over concentration and under concentration concerns which the Board does not have the capacity to evaluate. Mr. LoFaso asked Ms. Gallavan and Ms. Boatman-Patterson what the status was on the community development issue.

Ms. Boatman-Patterson stated that the policy issue is neither black nor white. Local governments sometimes do not want affordable housing, for example, due to the loss of property tax exemptions. Ms. Boatman-Patterson could speak to the community development issue.

Mr. Schaefer asked Mr. Strain if the general partner was going to put in $4.5 million of equity investment towards the project.

Mr. Strain replied yes.

Mr. Schaefer asked Ms. Gallavan what was the population of the City of Lompoc.

Ms. Gallavan stated that the population of Lompoc is 43,000 at twelve square miles.

8. CLOSED SESSION: Litigation (Government Code Section 11126(e)(2)(c)) - Discussion with Legal Counsel Regarding Pending Litigation (San Regis, LLC v. City of Los Angeles, et al., Los Angeles County Superior Ct. Case No. BC637630)

No action was taken by the Board.

9. Public Comment

There was no public comment.

10. Adjournment

The Chairperson adjourned the meeting at 1:08 p.m.