

California Debt Limit Allocation Committee

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

December 11, 2019

Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call.

Jovan Agee for State Treasurer Fiona Ma chaired the meeting of the California Debt Limit Allocation Committee (CDLAC). Mr. Agee called the meeting to order at 11:15 a.m.

Members Present: Fiona Ma, CPA, State Treasurer; Gayle Miller for Governor Gavin Newsom and Anthony Sertich for State Controller Betty Yee

Advisory Members Present: California Housing Finance Agency (CalHFA) Executive Director Tia Boatman Patterson and Zachary Olmstead for California Department of Housing and Community Development (HCD) Acting Director Doug McCauley.

2. Approval of the Minutes of the October 16, 2019 meeting.

MOTION: Ms. Miller moved to approve the Meeting Minutes. Mr. Sertich seconded and the motion passed unanimously by a roll call vote.

3. Executive Director's Report.

Executive Director, Larry Flood thanked his staff for the amazing job they have done this year. He mentioned that the entire 2019 volume cap has been assigned to projects and that they will be starting the New Year with zero. He also acknowledge the Board for their efforts in furnished them with “volume caps” (a baseball cap with the word “Volume” on the front). He also thanked the stakeholder community for their input and noted there will be an overhaul of CDLAC’s regulations in 2020. Mr. Flood also called for an off-site meeting with the members of the Board in regards to CDLAC’s regulations in February 2020 to better align the State’s housing programs.

Mr. Flood stated CDLAC is in receipt of three letters from stakeholders in the housing community. All three letters are asking that CDLAC devote its entire allocation for 2020 to multi-family housing in order to take full advantage of the 4% state tax credits. He thanked the stakeholders for contributing to the process and noted that these concerns would be addressed.

Mr. Flood stated it would require \$3.6 billion in allocations to fund all of the HCD programs for 2020 and another 1.5 billion to fund the state tax credit program, in total, an excess of \$5 billion in allocation. He urged that the 2020 rounds have to be competitive.

Mr. Larry also mentioned an informational seminar regarding bond recycling. He invited the Board members and public to attend.

Mr. Agee and Ms. Boatman Patterson clarified that the \$5 billion in allocations are for new construction projects and not preservation. There will be about \$6.5-7 billion in allocation needs for 2020 due to the additional 1.9 billion preservation allocations.

Ms. Miller asked if Mr. Flood would consider an emergency regulation process for 2020.

Mr. Flood stated that he would consider an emergency regulation process for 2020 and that he would invite stakeholder input as well.

Ms. Miller requested clarification on the CDLAC and CTCAC scoring mechanisms because she found it confusing on how to interpret the scoring for the two agencies.

Mr. Flood clarified that bonds are needed to claim the state and 4% tax credits and explained when exactly the tiebreaker mechanism would kick in for the individual rounds of 2020. If the state tax credits are oversubscribed, both bonds and 4% credits are required so that there is no gap in funding. CDLAC is still in the process of scoring applications so they will report with their recommendation in January of 2020.

Ms. Miller asked for a continuous dashboard to better understand the competitive nature of both programs.

Mr. Flood stated staff would consider it and additional information would be provided for each subsequent round in 2020 to the applicants and public.

Mr. Agee stated in defense of CDLAC staff that the agency has done a phenomenal job in keeping pace with CTCAC and market demands. Although they have not seen a significant increase in staff size. Mr. Agee asked the Board to reference their transition binders and addressed the issue of perception vs reality with CDLAC's housing program.

Mr. Sertich asked how CDLAC will use their applicant lists to award projects for 2020 and which projects would take priority.

Mr. Flood stated the lists will be score-ranked top to bottom and that the projects would be awarded based on ranking.

Mr. Sertich stated that there needs to be greater clarity in regards to the scoring mechanism for CDLAC to determine how the two lists of applicants will be awarded.

Ms. Boatman-Patterson stated that the Board is trying to get information from CDLAC before that information is available and referenced “building the airplane while flying it” analogy she brought up at the CTCAC meeting. She added that staff needs to be working as if they are trying to score the highest possible points under each program and that the programs would be working together to do the analysis and thresholds to see which projects line up for an award. She simply stated that staff has never been in this situation before and that staff does not not have the answers the Board Members are seeking. Due to the speed at which the new state tax credit program was established and the bonds having gone competitive, the Board needs to give staff more time to work through the programs and continue to build them first before asking complex questions. She added that the CDLAC scoring mechanism was developed due to stakeholder input from the public.

Mr. Sertich stated that perhaps staff should have taken the time to fully develop the program prior to launching it because he is worried at this point that the process is not as fair and transparent as it should be and called for an immediate fix to the issue so that it does not occur in subsequent rounds.

Ms. Miller stated that CDLAC should come up with a reporting process that does not rely on developers at conferences because she does not attend them and there is no guarantee the information would reach the Board. She stated that DOF is more than willing to work with CDLAC to meet the financial needs of the program.

Mr. Olmstead requested that CDLAC staff clarify how the applicant lists will be utilized when scoring and awarding applications.

Ms. Miller stated that it is important that CDLAC set a meeting before the January 15, 2020 Committee Meeting to answer questions from the public in regards to allocations and give ample notice ahead of application deadlines since the discussion item was removed from the current meeting agenda.

Mr. Sertich echoed Ms. Miller’s comments and stated that the most important topic of 2020 is going to be how staff distributes funds between the various allocations and interested parties and pools that will need to be considered. The robust discussion needs to occur sooner rather than later.

Mr. Agee stated that he has not seen this level of concern from the developer community and stressed that if the Board does not make hard decisions on funding procedures the State is not going to move any closer to the housing goals that it has put forth.

Ms. Miller stated that allocations cannot occur until and unless the Board makes an affirmative decision.

Mr. Agee stated that the Board is over complicating the process and that the members of the Board should prioritize around its goal, which is to get the funding out the door as soon as possible in a reality where staff has finite resources.

Ms. Miller stated that the purpose of the meeting she called for ahead of the January 15, 2020 meeting is to clarify what exactly the allocation of \$4.5 billion from the federal government entails and that everyone is clear on it. She requested an affirmative response from the chair on her request for an additional January Meeting when possible.

Ms. Boatman-Patterson stated the issue she sees is that staff is trying to set its state ceiling pools prior to having the priority conversation. In addition, Ms. Miller is saying that prior to setting those pools, priorities need to be identified. The Board would like to have priority conversations prior to setting the state pools.

Mr. Sertich stated the idea of having a meeting earlier in January to discuss priorities gives staff the time they need to come back with final numbers for total allocations.

Mr. Olmstead supports the idea of an additional December Meeting.

Mr. Flood raised some concerns in regards to properly notifying the public of an additional December meeting since the agendas and meeting dates were already set.

General Counsel, Mark Paxson stated the first meeting would need to occur on January 2nd or 3rd to allow sufficient time for staff to properly prepare for the meeting.

Ms. Miller asked if would be possible for the agenda of the pre-January 15th meeting to be about the discussion of allocation and then the meeting for January 15th to be about final allocations.

Mr. Paxson stated that these dates would be feasible and that the agendas can include action items concerning allocations and discussion of policy priorities if the Board so chooses. The allocations are broken down into the pools for each of CDLAC's programs.

Ms. Miller clarified that she would like the meeting to encompass all of CDLAC's allocations, not only housing.

Ms. Boatman-Patterson stated that prior to staff setting allocation pools for 2020, a conversation would need to take place surrounding the prioritization of housing vs non-housing and then within housing, all of the different allocations for housing types (new construction, preservation etc.).

The Board spent some time discussing potential dates for their policy prioritization meeting for late December or early January. The Board decided on setting the meeting date for December 23.

6. Setting the Threshold for the Multifamily Scorecard

Mr. Flood stated that CDLAC was unable to obtain approval for the threshold at the October 2019 Committee Meeting so staff is asking that the Board ratify the threshold for non-mixed income projects at 80 points and mixed income projects at 55 points for the November 15, 2019 application deadline. Mr. Flood explained these are reasonable thresholds based on the average scores CDLAC sees and more points can be earned from 2 additional scorecard elements that come into play in competitive rounds. He asked if the Board had any questions. The theoretical explanation for the scoring is to approve the best projects that submit applications. This increased the existing threshold, which were set at 45 points for all project types.

MOTION: Mr. Sertich moved to approve the increase of the threshold for the Multifamily Scorecard. Ms. Miller seconded and the motion passed unanimously by a roll call vote.

7. Modification to the 2020 Meeting Schedule

Senior Program Manager, Evan Kass recommended some changes to the CDLAC meeting calendar. These recommendations requested the February application round to be made competitive and the July and December meetings to be removed from the calendar.

Mr. Sertich asked if they could add a December Meeting to the calendar on an as needed basis.

Mr. Kass stated the December meeting could be added to the calendar if there was remaining allocation and demand.

Ms. Miller raised her request that a dashboard be placed on the CDLAC website to serve as a ticker to help staff better manage the program round by round.

MOTION: Ms. Miller moved to approve the staff recommendation of the changes to CDLAC's meeting calendar. Mr. Sertich seconded and the motion passed unanimously by a roll call vote.

8. Appeal to the Forfeiture of Performance Deposit on an Exempt Facility Project

Mr. Kass stated the project North Folk Energy is an exempt facility and has already received several extensions. The project had several issues, which required an extension, first of which had to do with PG&E's bankruptcy. Their rationale for waiver of forfeiture

was related to investors backing out from the PG&E fallout. Staff believe this, while not under the Sponsor's control, could have been foreseen.

Mr. Flood stated this was the fourth extension for the project, the extension is being granted and the appeal is for the forfeiture, which is being denied by staff.

The appellant, Greg Stangel representing the North Folk community presented the appeal, giving a brief background of the project and the challenges facing the PG&E bankruptcy.

Mark Holmstead, the underwriter for the tax-exempt bonds portion of the project added a point of clarification to the Staff Report associated with financing issues due to the PG&E bankruptcy.

Patricia Crowsen with CPCFA stated that they approved the allocation for North Folk Energy and are in support of approving the appeal.

Ms. Miller clarified staff's recommendation and stated that DOF was in support of the project.

MOTION: Mr. Sertich moved to grant the waiver as long as the bonds are issued by December 31 of this year. Ms. Miller seconded and the motion passed unanimously by a roll call vote.

9. 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

Program Analyst, Sarah Lester presented the agenda item and recommended that the Board approve a reduced amount of \$178,778,980 for the Golden State Housing Finance Authority's Mortgage Credit Certificate (MCC) program. Their original request was \$2 million.

Mr. Sertich stated he was supportive of moving forward with the staff recommendation for bond allocation.

Ms. Boatman-Patterson stated that she is unsure the staff recommendation is an efficient use of bond volume cap and advised that the board set up some parameters around using the MCC program for better public policy purposes.

Ms. Miller gave reference to setting up certain parameters surrounding the MCC program.

MOTION: Mr. Sertich moved to approve the bond allocation. Ms. Miller seconded and the motion passed unanimously by a roll call vote.

10. 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

Program Manager, Muri Bartkovsky presented the agenda item and stated that 44 projects applied and all but eight were funded. The method for which projects are submitted for funding is done through an online date stamp mechanism.

MOTION: Mr. Sertich moved to approve item 10. Ms. Miller seconded and the motion passed unanimously by a roll call vote.

11. Consideration of Staff's Recommendation to Transfer and Award Unused 2019 Allocation to Issuers

Mr. Kass stated that based on the CDLAC demand survey, they found an issuer with shovel ready projects that can use the unused awards. The staff recommendation is to apply any unused bond allocation between now and December 31 to CMFA as a resolution.

Mr. Flood added that any carry forward used under this resolution be required to be used only for multi-family housing and that the applicant be required to submit an application for specific projects.

MOTION: Mr. Sertich moved to approve the transfer of unused 2019 allocation to CMFA with the condition that it be used for multi-family projects with the requirement for specific projects to be brought before the Board. Ms. Miller seconded and the motion passed unanimously by a roll call vote.

12. Public Comment.

There were no public comments.

13. Adjournment.

Mr. Agee adjourned the meeting at 12:45 p.m.