

California Debt Limit Allocation Committee

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

May 20, 2020
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

State Treasurer Fiona Ma called the California Debt Limit Allocation Committee (CDLAC) meeting called to order at 11:18 am.

Members Present:

Fiona Ma, CPA, State Treasurer
Gayle Miller for Gavin Newsom, Governor
Anthony Sertich for Betty T. Yee, State Controller

Advisory Members Present:

Zachary Olmstead for Department of Housing and Community
Development Director Gustavo Velasquez
Tia Boatman-Patterson, California Housing Finance Agency

2. Approval of the Minutes of April 14, 2020 Meeting (Action Item)

Ms. Blackwell provided a summary of edits to the minutes to the Board.

MOTION: Ms. Miller moved to approve the minutes as edited for the April 14, 2020 meeting, Mr. Sertich seconded and the motion passed unanimously via a roll call vote.

3. Executive Director's Report (Informational Item)

Ms. Blackwell: Most of you sat through the TCAC meeting so you already heard my comments. I would like to add that with regard to CDLAC, I want to thank CDLAC staff for how hard they have been working and how they have really been creative in finding solutions on how to ramp up and deal with the onslaught of competitive applications that they are not used to working with. So, just to put some things into perspective, the CDLAC team ordinarily reviews approximately one hundred 4% applications per year, and this year, after AB101, they have had to review approximately 230 so far (we are counting the ones we are expecting to get because we can already look in the computer and see what you guys are working on). Thus CDLAC staff has experienced an approximately 130% increase in the work that they are doing on top of the fact that each competitive application takes about 40% longer to review than a non-competitive application. So, add another 40% times a 130% increase, and that's what these

guys have been doing with no increase to the number of staff. We are staffing up but we are not finished with that process and the individuals, once they get on board, will have to be trained.

So, with that said, let me point out that CDLAC staff also came up with a great, innovative solution to the challenge of being short staffed. The solution was to bring on 7 retired annuitants and to get 3 employees on loan from other State departments. Clearly, it would be impossible to train them on the entire application process in the time allotted, so we trained each retired annuitant on one section of the application so that they knew that one thing cold and we put an assembly line together. So we literally had to come up with a new process, train people, and get it done. We also had to develop a new process for reviewing in a collaborative manor and for having an entire group sit together and come to agreement on the final scoring decisions.

So I would like to thank our CDLAC staff for how hard they worked and how difficult this phase has been. I just wanted to put that in perspective because when I think that when you hear “Wow this is really hard. We’re not used to competitive”, you don’t really get it unless you hear the numbers. So it’s plus 130% times 40% more. All right. So that’s what we’ve been doing and the complaints have been minimal. I will not say no complaints but they’ve been really small for what we’ve asked staff to accomplish, and I appreciate that.

Beyond that, I would just like to say, that we definitely plan, this summer, to go through all of our CDLAC regulations and bring them into alignment with the housing goals and strategies of the Treasurer and the Governor and the Legislature. They have been very clear about what the goals are generally, but the current scoring system reflects goals from many years ago, and although the current scoring is not completely inconsistent with the current goals, we still need to change some of the emphasis. I just want to let you know that this is the plan for the summer and with that, I think we can proceed. That’s all I have to talk about today.

Treasurer Ma thanked the CDLAC staff for their hard work and innovation. She asked if there are any questions.

Mr. Sertich echoed Ms. Blackwell’s comments to CDLAC and also thanked TCAC staff for their hard work. He asked about the Governor’s budget with regard to the borrowed \$4 million dollars from the CDLAC fund and asked whether there were any negative implications on operational issues.

Ms. Blackwell stated that it would not create an operational problem, and thanked Mr. Sertich for checking.

Mr. Sertich requested an update on the strategic plan that was approved last year because he has not heard of any outcome. This issue may come up again if the regulations are not modified. He stated that he wants to make sure that everyone stays focused and that we establish a firm schedule for the regulation changes. He stated that he knows of stakeholders interested in providing input.

Treasurer Ma asked for a time line.

Ms. Blackwell stated that the intent is to start the moment the four-percent round ends.

Treasurer Ma requested the date of the next round.

Ms. Blackwell noted that the next round that includes State Tax Credits is November, assuming that there is resolution to the issue in Item 7.

Treasurer Ma suggested that the Committee work backward from the approximate end date to schedule meetings for regulation changes.

Ms. Blackwell suggested that a policy discussion be conducted at the next CDLAC Board meeting.

Mr. Sertich indicated that he would like to ensure that the process remains public and includes stakeholders.

Ms. Blackwell clarified that outside groups are utilized to advise staff but the final decisions are made at the government level. She emphasized that the advisory groups are just that, advisory. Ms. Blackwell recounted that there was confusion about this point from one of the TCAC working groups during a conversation about opportunity maps and that members of the public believed that the decisions were being made outside government, and that is never the case, the groups provide input or advise.

Treasurer Ma asked for the date of the next Board meeting.

Ms. Blackwell responded with the date, September 16, 2020.

Treasurer Ma asked if that date is too late to begin the regulation changes.

Ms. Blackwell stated that a specific meeting will be scheduled to discuss the subject prior to the next Board meeting.

Treasurer Ma emphasized the need for discussion and a separate time frame for the stakeholder groups to weigh in on the proposals.

Mr. Sertich recommended a June 17, 2020 meeting after the scheduled TCAC meeting.

Ms. Boatman-Patterson suggested the meeting be held after the Budget is passed to have set the State priorities. She indicated that she believes that unless the meeting is for policy only, the Budget should not remain pending.

Ms. Miller agreed that this meeting is very important. However, she believes the trailer bill will contain language with the expectation that regulations be completed before moving forward with additional funding. Therefore, having a conversation about priorities on June 17, 2020 and then a cadence of every other month thereafter toward completion of regulations is a better plan. She encouraged staff to work backward (in terms of timing) from the availability of funds in the new year to ensure regulations are in place.

Ms. Blackwell agreed with Ms. Miller's point and mentioned that the intent of this meeting on the 17th would be about policy, overall goals, and priorities set by the Committee and, with that approach, staff would begin the regulations process in June.

Treasurer Ma requested that a second meeting be scheduled after the, currently scheduled, TCAC meeting on June 17, 2020 and that it include audio-visual availability.

Ms. Blackwell emphasized that input and observations from the public are always welcome. She suggested that e-mails be sent to her and the General Counsel for their review.

Treasurer Ma stated that a second CDLAC Board meeting will be scheduled.

4. TEFRA Process and CDLAC's Requirements, Including Proposed Changes to Section 5033 (Minimum Application Requirements) Related to TEFRA Under the Emergency Rulemaking Process (Action Item)

Ms. Blackwell requested that a change be made to CDLAC regulations under the emergency rulemaking process (Tax Equity and Fiscal Responsibility Act of 1982). TEFRA is an IRS requirement that a hearing be held to give reasonable opportunity for interested parties to express their views prior to the issuance of bonds for a project. In the past, CDLAC has required that the TEFRA hearing be held before submission of an application. However, as a Federal rule, the TEFRA has to be in place for issuing bonds. Due to COVID-19 closures of local government offices, many developers are or were unable to have the TEFRA hearing prior to submission of their application to CDLAC even though the bonds would not be issued for months ahead. Staff is requesting that the TEFRA requirement be omitted from the process to accommodate developers and to keep the process moving forward. Mr. Spencer Walker, General Counsel, made changes in the regulations. There is one minor adjustment to the communication of the regulations made a few days ago.

For Item #5033, Section C-2 in the binders: two sentences were originally removed, but staff would like to add one of the sentences back to its original place within the regulation. The re-added sentence states: *If the applicant is a joint power authority (JPA), the jurisdiction issuing the TEFRA resolution must be a member of the applicant at the time of the resolution adoption, or must have approved becoming a member of the applicant at or prior to the time the resolution is adopted.* This sentence was in the regulations for historical reasons and had nothing to do with application completion, therefore, it is being written back into the regulations. She stated that the TEFRA hearing at the application level is redundant since a hearing has to be held for bond closing.

Treasurer Ma stated that this has become an issue because of the closures during the COVID-19 disruptions. Many TEFRA hearing documents have expired and in order to avoid this situation in the future, it is reasonable to hold the TEFRA hearing at the close of escrow. So, the special rule requiring that a TEFRA hearing be held 30 days prior to submission of an application to CDLAC has now become difficult as it is taking up to a year before the process is finalized.

Public Comment:

Ben Barker asked for clarification with regard to the re-instated sentence which he understood as follows: "a joint powers authority agreement must be signed before the CDLAC resolution is approved". He asked for verification.

Ms. Blackwell explained that the point of the sentence is that if the applicant is a JPA then the jurisdiction issuing the TEFRA must be a member of the JPA at the time the resolution is adopted. The sentence is in the regulations because, historically, there were some JPAs that were going throughout the State and acting as though they were a State authority and going to areas where that locality was not a member of the JPA. This sentence was written to prevent such actions. This sentence was inadvertently removed.

Ben Barker asked if the resolution mentioned in the sentence refers to a CDLAC resolution or a TEFRA resolution.

Ms. Blackwell re-read the sentence for clarification and explained that it refers to the TEFRA resolution.

Mr. Sertich mentioned that there may be instances of awarded projects running into issues with obtaining TEFRA for bond issuance and that staff just needs to be aware of possible delays or reversions this can cause.

MOTION: Mr. Sertich moved to approve the amendment to Section 5033 in CDLAC regulations, Ms. Miller seconded and the motion passed unanimously via a roll call vote.

5. Discuss the “Other Affordable Pool”; “Preservation Pool”; Definitions or Revisions Relating to TCAC Income Averaging; and Other Related Definitions (Action Item)

Ms. Blackwell stated that emergency regulations had been circulated for comments and most of the items are ready to go to the Office of Administrative Law (OAL). However, the definitions of “Other Affordable” and “Preservation” received many comments from the public and stakeholders. Therefore, this is being brought back for discussion and staff would like to get this approved before the next round is due. Staff also has a third definition for discussion which is a revised definition of a “Mixed Income Project”.

In the “Preservation Pool” section of the regulations there is a recommended addition which reads as follows: “Item (5) a project that meets all of the following: (a) the project (or projects, if more than one) is not currently encumbered with an existing CDLAC (via bond issuer), CTCAC, or other affordability regulatory agreement, with the exception of a regulatory agreement associated with a HUD Project-Based Section 8 or USDA Rental Assistance contract; and (b) the project (or projects, if more than one) is subject to an existing project-based contract under Section 8 of the United States Housing Act of 1937 or any comparable rental assistance program that provides rental assistance to at least 50% of the units; and (c) the project shall be required to complete rehabilitation work at a minimum of \$40,000 in hard construction costs per unit, as defined in TCAC Regulation Section 10302(u), subject to the provisions of IRC Section 42(e)(3)(A)(ii)(I)”. This section makes it impossible to get preservation allocation for cosmetic rehabilitations if we look upon cosmetic rehabilitations as being anything that costs less than \$40,000 in construction costs per unit.

This is something, on which the Committee had given us clear direction. The Committee has repeatedly indicated that, in a year where we have limited allocation compared to the demand, we do not want to spend it on projects with minor rehabilitations. This was designed to take such light rehabilitation projects out of the “Preservation Pool”. If we take them out of the “Preservation Pool”, then without making changes to the “Other Affordable Pool”, these minor rehabilitation projects would roll into the “Other Affordable Pool”. Both recommended definitions are designed to take these type of projects that do not fit into the “Preservation Pool” and also makes it impossible for them to fall into the “Other Affordable Pool”.

Ms. Boatman-Patterson mentioned that a project or projects that are subject to a project-based Section 8 or any other rental assistance program could meet zero rehabilitation and come in as a re-syndication. Because these projects have the most cash-flow, she is not sure why these projects would be included in “Preservation”. These type of projects often come in for a cosmetic re-syndication and are not at risk of loss of affordability. These are projects that cash-flow well and she is not sure as to why these would be included in the “Preservation” definition.

Ms. Miller re-iterated Ms. Boatman-Patterson’s question, and agreed with her on that point.

Ms. Boatman-Patterson stated that these projects do not have a regulatory agreement but they have a rental assistance contract. These projects are or could be market-rate projects that have a very rich rental subsidy that are coming in to get public subsidy and may not have any real rehabilitation needs. She mentioned that she is trying to understand why this is being included.

Ms. Blackwell asked for input from the groups that requested this change. She stated that she knows there was input from developer organizations, one of them being CHC.

Treasurer Ma mentioned that the regulation states these projects must meet “all” requirements in addition to the \$40,000 expenditure per unit.

Ms. Boatman-Patterson explained that these could be projects that do not have a regulatory agreement that could potentially be a market-rate project that is coming in and getting public subsidy. She asked if the intent is for the market-rate project that is getting a Section 8 contract have the option to get a public subsidy to re-finance the project.

Treasurer Ma asked if what we are trying to do is preserve some of these market-rate projects so we make sure they stay affordable.

Ms. Boatman-Patterson asked for clarification on Treasurer Ma’s use of “preserve” and asked if she meant taking a market rate project and converting it to affordable housing.

Ms. Blackwell indicated that if these projects receive these funds, the market rate units would then convert to affordable.

Treasurer Ma explained that we are encouraging them but the \$40,000 hard cost per unit minimum is what would prevent these cosmetic rehabilitations.

Mr. Sertich stated that he believes these are not really market rate projects if they have subsidy-based contracts on them and does not think this is where the line should be drawn. He then mentioned that we are taking projects with subsidy-based contracts of more than five years and preserving affordability on them by adding CDLAC or TCAC regulatory agreements. This may go a little bit outside of the initial goal of establishing the “Preservation Pool” which was to preserve projects that are within five years of losing their affordability or are otherwise struggling financially which he thinks Ms. Boatman-Patterson is getting at and he does have concerns about opening this up. This goes hand-in-hand (as Ms. Blackwell stated) with the “Other Affordable Pool” and the more broad we make the “Preservation Pool” the “Other Affordable Pool” becomes less and less necessary. If we leave the “Preservation Pool” more narrow, then we probably want to leave the “Other Affordable Pool” more broad. But this just underscores the point that in trying to use the pool definitions to determine what the best projects are is not the way to go. He does not want to go through this again and whatever is decided upon we are going to have to live with for the rest of the year because we really need to focus on getting a scoring system that puts the best projects in place as soon as possible, hopefully for the first round next year.

Ms. Boatman-Patterson recollected that the priorities from December were: new construction and preservation of projects at risk of losing affordability and then we focused on what other kinds of preservation and what other

affordable projects that we should include. The goal of the committee was to target and prioritize those resources. There may be projects that just do not get funded this year. Maybe they will get funded next year if they are a preservation project but do you want to use your precious resources on cosmetic rehabilitations and projects that are not at-risk of losing affordability because they have a long-term project-based rental assistance. This should not be our focus right now, because it is just as easy to say that we are not going to fund projects that come in that are re-syndications which are not falling down and do not have health & safety issues and are not at risk of loss. She asked “What is it in “Preservation” that you are trying to preserve this year?” She stated that she believes it should be very limited and all of these other discussions should be reserved for policy conversations and priority setting. She stated that she thinks people are looking at their portfolio and they are coming back and forth because they are thinking of projects three and four years out and they think that these pools are going to be the pools for the next three or four years and she does not think that is the case. She explained that by expanding “Preservation” and keeping “Other Affordable” you are risking money going to projects that you do not want to fund. She suggested that the Committee think about what type of preservations are important because they already know new construction is important.

Treasurer Ma agreed that since she has been chairing, that is exactly what we have attempted to do. We set-aside an amount for Preservation projects, however nothing qualified under that category because the definition was too narrow, so then we moved them into “Other affordable” and they were able to get funded there.

Ms. Boatman-Patterson asked for clarification as to whether Treasurer Ma meant “Other Affordable” or “New Construction”. She thought the funds were moved to the new construction sub-pool.

Treasurer Ma explained that we are trying to do exactly what was said and not fund re-syndications but fund those projects that are at-risk of being demolished or losing their affordability status. She posed the question: “What is it that we need to do to get there?”

Ms. Miller also acknowledged the incredible work and thanked Judith and staff for all the work that has been done. Regarding the dollar amount for construction costs per unit, she would suggest increasing that dollar amount. She would also like public feedback and for her colleagues from the Board to share their ideas. She suggested that we should increase the minimum of hard construction costs and noted that there was a working group that suggested \$65,000. She thinks it should be higher than \$40,000 but suggests something between \$40,000 and \$65,000. She also stated that it may make some sense, if the Board agrees with it, to include some percentage of the costs of the project be expended specifically for immediate health & safety improvements or seismic retrofitting. She suggested that it may be really helpful in terms of making sure where this money is going because we do not want this to go for re-financing or, as was said, to re-syndicate or to take equity out of the project at all. Regarding the “Other Affordable Pool”, she knows we are taking these one at a time, but she does think we should consider not using the “Other Affordable Pool” at all and, instead, allowing Ms. Blackwell the opportunity, as the administrator, to come forward and bring us what we have been calling “unicorn” projects. She said she is fine with more flexibility for the Executive Director to bring things to the Board. She was not sure if we are well served by the “Other Affordable Pool” and would like feedback on that.

Ms. Boatman-Patterson agreed with Ms. Miller. She thinks the construction cost minimum should be \$65,000 and she thinks “b” should be removed. Her suggestion was to also not fund the “Other Affordable Pool” and give the Executive Director the discretion to bring those types of unicorn projects to the board.

Treasurer Ma inquired about the addition of “costs have to be for health & safety improvements” and its specifications.

Ms. Boatman-Patterson indicated that she does not know how to do that at the moment, and she thinks when you do the physical needs assessment and they are telling you what the rehab needs are, the physical needs probably addresses health & safety.

Treasurer Ma asked to hear public comment before making a motion because we may need to modify the definition based on what we hear.

Mr. Olmstead agreed with many of the comments that the “Other affordable pool” is not working well. He asked how, mechanically, the Executive Director would assign a project to a pool. He stated that he would like to hear more about how that would work before we move forward.

Mr. Sertich stated he shares Mr. Olmstead’s concerns about allowing some special Executive Director-approved projects though and thinks if there are projects that do not meet these pools as we have them now, we will have bonds available in January with updated regulations to handle those projects.

Ms. Boatman-Patterson mentioned that if we limit unicorn projects to projects that meet State priorities and objectives and had some kind of State funding in it, that perhaps, that is a way in which you can draw parameters. Either it has some HCD funding in it or affordable housing and sustainable communities money in it (some State funding and it is meeting State objectives). To her, all of those should already be falling into New Construction or Preservation but that is a potential way in which unicorn projects could potentially come in and you know that it is meeting our priorities.

Mr. Olmstead stated that is why he asked the question, because if there is some advantage to not applying through where they should be applying, instead of going to the Executive Director, he worries that the Executive Director would be inundated with quite a few requests. Therefore, he thinks this would have to be made pretty rigid.

Ms. Blackwell explained that this is why it would have to be a project that does not meet the parameters for the existing pools.

Ms. Boatman-Patterson stated she would like to see, what she has coined from Sue Reynolds from San Diego, the “puppies”. These are the deeply targeted affordable projects that are so financially infeasible that they have negative equity. She mentioned that “Preservation” as you have defined it, may not necessarily be getting to these upside down projects and if we limited the unicorn projects to those projects that are really in need of substantial rehabilitation, they could receive the bonds paired with the existing tax credit program.. She indicated that if we could limit the unicorns to those, that would go a long way.

Mr. Olmstead inquired as to whether there are a lot of these projects.

Ms. Boatman-Patterson was not sure if there are a lot of these projects.

Treasurer Ma suggested that the discussion should be opened up for public comment.

Ms. Miller stated that she does not want to belabor this and that she just wants some specificity around some of her suggestions: in addition to removing (5)b and the Section 8 language, the project would complete at least \$65,000 in hard construction costs per unit, at least 60% be expended on immediate health & safety improvements, including seismic and replacement of major systems with remaining useful life of less than ten years so we are getting at the idea. She then asked for some opinions on that and on excluding partial or forward repayment of stock, re-financings, or on a cash-out developer fee greater than eighty percent of the TCAC cash-out developer fee limit so that we can make sure that people are not profiting from these precious bond dollars. Finally, in terms of the “Other Affordable Pool”, she assumed that, if we were to get rid of it, the applicants would understand that as long as they did not fit into any of the other pools, that no decision would be made unless and until the Executive Director brought the project to the Board. So, while she completely hears what Mr. Olmstead is saying in terms of a “runaway train”, she thinks it may make more sense for the Board to state the priority for funds going to new construction and not having the precious bond dollars necessarily going into the “Other Affordable Pool”. She acknowledged that this is not a motion yet.

Treasurer Ma invited Caleb Roope to speak.

Caleb Roope thanked Treasurer Ma and members of the Committee. He explained that he understands how these projects could be seen as “market rate projects” but, the reality of item (b) is a policy issue to determine whether you are going to try to do everything you can to preserve your existing rental assistance (which often is Federal in nature). He stated that the point of item (b) is to say that this is a resource that we are getting that basically serves extremely low-income people and asked if we want to make sure we preserve that. If there is a property that is falling into disrepair, or is it at risk of losing its contract? That is the point of item (b).

Ms. Boatman-Patterson asked whether this would include projects with a REACT score that was failing or close to failing.

Caleb Roope stated that it could potentially be that case or it could be forty to fifty years old and any number of things and mentioned that USDA properties were built many years ago and they are coming of age now. Item “b” is meant to save those projects that have project-based Section 8 and these comments that Ms. Miller was making are consistent with some of the things that have come from the working group to see the per-unit amount increase, for example, and maybe a hard cost minimum of \$50,000 to \$65,000, which is what we might have suggested. Also, there may be something critical going wrong with the asset such as a life safety issue, significant water intrusion causing mold, or other kinds of things that threaten the asset’s health that might result in a red tag or otherwise affect the occupancy of the asset. He concluded that those are actually really good suggestions. He then mentioned that Marina Wiant will comment on behalf of their working group today.

Ms. Boatman-Patterson inquired as to whether he was using “at-risk” for those projects that are truly at risk of losing affordability.

Caleb Roope affirmed and stated that it was discussed in detail. He did caution that as you consider this definition, you should think about the “Other Affordable Pool”, which is not funded very much in total. Much of the feedback you heard was from folks really not fitting in somewhere and some otherwise worthy projects having no path forward. They were not new construction and they were not preservation and there were a lot of good stories. I think you will hear more of them today from applicants that are going to be on the phone. From what he had heard, the Committee was pretty clear that they did not want to fund the cosmetic rehabilitations that have already had tax

credits less than twenty years ago or so. He stated that he believes that this is really the objective and thinks the “Other Affordable Pool” should limit out those projects for now in a competitive bond round, which is what this definition tries to do. From his perspective, he does not do many of these projects but he is very supportive of staff definitions as presented, and he thinks we have done a great job on it and thinks it is time to hear from others on the phone.

Ms. Boatman-Patterson stated that this information is very helpful.

Treasurer Ma asked to hear from Ben Barker from CMFA and then to take public comments from callers.

Mr. Barker suggested that increasing the amount for substantial rehabilitation needs to be considered and that a bare minimum of \$40,000 could be too low, and even \$65,000 may not be a substantial rehab. He stated has seen many applications that come through and believes it would not be too high. There has only been \$77,000,000 allocated for Preservation this year and that there is still a lot of money in the State budget for Preservation. He explained that we are actually under the budget by about \$97,000,000 and, going forward, there is still \$174,000,000 per round for the next two rounds for Preservation without any adjustments. About \$350,000,000 is left for Preservation projects this year if nothing is changed and it will not be used up if the definition does not change. He does not know if there are actually enough projects to use this up, so, then the Preservation money would need to be re-allocated to however the Board sees fit. Optically, opening it up a little bit is okay and we will stay within the State budget. With regard to the “Other Affordable Pool”, the State and the Board have routinely prioritized new construction, but it is important to look at net new units and to be able to say if you have a market-rate deal and converting them to “affordable housing” is cheaper and easier than creating a new construction project and it is adding, immediately, new units to the affordable housing mix. He does not know if this has been discussed much and he lamented that there is only \$79,000,000-ish available in the “Other Affordable Pool” for the next two rounds.

Jeff Jaeger thanked everyone for their hard work. He stated that when you speak about new construction and preservation as being priorities, you cannot have the conversation without speaking about Section 8. Resources being allocated to Section 8 are over and above the resources that the State is able to allocate right now. He thinks that what is really happening with the preservation of those Section 8 deals is that we are able to lower the amounts that will be required for new construction deals. Further, he went on to state that he believes that the definition as modified by the committee does preserve Section 8 deals, and the State would be looking at additional subsidies and resources if they are not protecting those deals. He thinks that if we look at the projects that have been awarded large amounts of volume cap that have been cosmetic rehabs, virtually none of those deals are Section 8 deals that have been, that have not been a part of, or that have not had a tax deal recently. Most of those deals have all used tax credits or received some sort of CDLAC or TCAC regulatory agreement previously in the past. He believes, for instance, every deal that was awarded in the “Other Affordable Pool” was a re-syndication of previously done tax credit deals or all Section 8 deals. If you just remove the proposed part of the definition which distinguishes projects by tax year, none of those deals would qualify for the preservation category itself and he thinks we would find that very few deals would qualify at all. Section 8 funding ended in 1980-81 and because of that, the deals that have not gone through the program are just not subject to the types of rehabs that we are talking about whether it is forty thousand units, fifty thousand units, the majority of those projects do not have physical needs that would fit. He thinks that adding on a lot of this language that we are trying to add on to narrow this window just reflects the data that is there for projects that have never been a part of this program before by definition. If we are trying to save more resources for new construction, we are not trying to make those deals a priority and get them into the

program so that they do eventually roll out and the sooner we can get those deals into the program, he thinks it is better from a State resource standpoint overall.

Marina Wiant stated that she believes Ms. Miller's suggestion would be adequate but has significant concerns about buy-out language and thinks the 60% specified usage of hard construction costs should satisfy this concern. If the committee were to expand "Preservation", she supports limiting the "Other Affordable" pool.

Doug Shoemaker thanked staff for their hard work. Mercy has projects that fit this definition and the current definition seems to fit the priorities. Projects with HCD money are continuing to be whittled away in the new construction pool while available allocation is shrinking.

Ms. Boatman-Patterson mentioned that having a New Construction sub-pool for State-funded priority projects has been suggested and asked if that would help.

Doug Shoemaker agreed with Ms. Boatman-Patterson's comment and indicated that he believes the sub-pool would help.

Parker Adams commented that she believes that there needs to be a path for resyndications in major need of rehabilitation.

Danielle Bennet agreed with all stated changes for Preservation and that it should include projects that are truly at-risk.

Paul Beesemeyer mentioned he supports the idea of a sub-pool for state funded prioritized projects. He also mentioned that he thinks projects with a regulatory agreement more recent than 1998 may not get funded.

Pedro Galvao suggested a "sub-pool" for at-risk projects that are converting to market-rate be added to the regulations. He also agreed with Ms. Miller to remove the Section 8 requirement. Lastly, he suggested that the hard construction cost minimum be \$50,000.

Katie Lamont echoed Mr. Beesemeyer's and Mr. Galvao's comments to preserve at-risk projects. She stated that she is also in support of the construction cost threshold and the focus on health and safety and that we should consider the age of the projects. Older project resyndications would require more substantial and necessary rehabilitation.

Joanna Radd echoed the comments of her colleagues and mentioned that they have several substantial acquisition/rehabilitations with regulatory agreements more recent than 1998.

Ms.Bo Han mentioned that she has a scattered site project with two buildings over 100 years old with not enough reserves for any major capital needs improvements, and that because it is combined with one Section 8 building, this project may not qualify for any of the proposed definitions.

Amy Chan echoed the comments on the sub-pool and asked for a discussion on multi-phased projects to be considered in the use of the New Construction definition. She also wanted to know how to address expiring 2019

DDA projects. San Francisco, as she explained, has 3 projects requiring up to \$22,000,000 that would need the basis boost. She suggested that a DDA sub-pool be established.

Rich Wallach asked to talk about projects that do not exactly fit into the named categories, named “unicorn” projects. He told the Committee that he has four scattered site projects in the North Bay, three of which need significant renovation. These were originally acquisition-rehabilitation properties that were brought to us by the local municipality, each of which require \$100,000 per unit of renovation cost but for the scattered site to make sense, they are including a project that would be a re-syndication project that misses the cut-off by one year. He thinks it was placed in service in the year 2000.

Paul Patierno stated that he supports opening up the Preservation/At-Risk pool and agreed that priority should be given to properties that are at risk of becoming conventional use. He indicated that he has several HUD projects that would fit this definition. He agreed with the Preservation definition but thinks the minimum hard construction cost should be \$50,000.

Jeff Jaeger mentioned, with regard to sub-pools, it is important to look at the dollar amounts that are in these categories and balance the available monies. He then stated that he does not believe there would be significant volume of projects qualifying for item (5) of the Preservation definition.

Ms. Boatman-Patterson made note of the need to prioritize those projects that will lose funding within the next five years and asked Mr. Sertich if they are included in the regulations.

Mr. Sertich replied stating that he does not believe it includes those projects.

Ms. Miller expressed that she would like to work on what we can do at this moment and mentioned that cash-out developer fees had some disagreement from the public. She explained that although she is ok with how the tax credits are done within our corporate tax system (which is incredibly complicated), she is interested in not using the cash-out credits. She stated that she heard that the developers are not interested in this and indicated that she is interested in hearing about this from public comments and from the Board.

Mr. Sertich stated that he believes we should not be providing new subsidies on projects that are taking out funds. He mentioned that this will take more time to get to but we can decide to not give them new credits if they are taking out cash so that the cash can be rolled into continued affordability as opposed to enriching the developers. He suggested that since these pools are temporary, there is a need to leave the regulations as narrow as possible.

Ms. Boatman-Patterson stressed her concern of possibly losing precious federal subsidy due to a failed REACT score and believed that there may be a case for (5)(b) in the Preservation definition.

Treasurer Ma requested that an agreement be made on the minimum amount of hard construction. She supports keeping (5)(a), (b) and (c) with increased amounts in the regulations. She agreed that there is a need to save projects that are in jeopardy of losing subsidies due to problematic REACT scores. She indicated that she is in favor of leaving the other pools more open for other projects that do not fit neatly and should go to the Executive Director for review. She also mentioned that these definitions would be in place to get us through the next 6 months.

Mr. Sertich stated that hard costs vary between regions and rural / non-rural areas so there is a range but he indicated that he is comfortable with \$60,000 to \$65,000 per unit for the rest of the year. He also expressed concern about the “Other Affordable” pool and suggested having hard cost minimums and health and safety in that definition as well. He expressed, alternatively that the Preservation pool could be adjusted and possibly eliminate the “Other Affordable” pool.

Ms. Miller made a motion to move to eliminate the “Other Affordable” pool and create a process whereby the Executive Director has the discretion to bring projects to the Board that do not meet the definition of the “Preservation” pool or the “New Construction” pool. She further moved to amend the staff recommendations to eliminate section (b) of the definition being discussed. She stated that we would increase the amount in subsection (c) from \$40,000 to \$60,000 dollars. Finally, she mentioned adding a provision to item (5) of the definition that requires that at least 60% of hard construction costs shall be expended on immediate health and safety improvements, seismic and accessibility improvements and/or replacement of major systems with a remaining useful life of less than ten years as evidenced by a capital needs assessment.

Treasurer Ma did not support this motion.

Mr. Sertich stated his concern about removal of the “Other Affordable” pool in this motion. He also mentioned that removing section (b) from item (5) of the “Preservation” definition is not where the board wants to go. He suggested taking each definition at a time.

MOTION: Mr. Sertich moved to approve the “Preservation” pool definition as recommended by staff but increase the minimum rehabilitation to \$60,000 in item (5)(c).

Treasurer Ma seconded Mr. Sertich’s motion and then asked for public comment.

Jeff Jaeger: requested clarification of the hard-costs monies and asked if it is an all-in hard cost calculation.

Mr. Sertich mentioned that it is classified in the TCAC regulations.

Ms. Blackwell read from the regulations as follows: the TCAC definition of “hard-cost” is “the amount of the construction contract, excluding contractor profit, general requirements and contractor overhead”; the CDLAC regulations defines hard-cost as “the cost of work specified in the construction contract including site work, excluding contractor profit, general requirements and contractor overhead.” She explained that this proposal uses TCAC regulations so it does not include “site work”.

Katie Lamont expressed the need for an “Other Affordable” pool.

The roll call vote for Mr. Sertich’s motion for the definition of the Preservation pool ended with: Gayle Miller: Nay, Anthony Sertich: Aye, Fiona Ma: Aye. The motion passed.

Ms. Blackwell presented two definitions or possibilities of the “Other Affordable” pool as: (1) edit by way of crossing out the words “or preservation projects” and inserting “and excludes projects that would otherwise be eligible for the preservation pool but for the fact that rehabilitation work to be completed the per unit cost falls

below the \$60,000 per unit minimum described in the preservation pool definition herein.”, or (2) QRRP projects applying for an allocation of tax-exempt private activity bonds from the general pool that are not eligible for treatments as new construction or preservation projects. She explained that this would include but not be limited to acquisition rehabilitation projects and projects that involve both acquisition/rehabilitation and new construction. She stated that in rounds in which CDLAC determines the allocation process to be competitive, projects with existing CDLAC regulatory agreements via the bond issuer or TCAC regulatory agreements that were recorded after 1998 shall not be eligible to compete in the “Other Affordable” pool.

Mr. Sertich motioned for staff’s suggestion but with the addition of the following criteria: “the completion of \$60,000 in hard construction costs per unit as defined by TCAC in the Preservation pool definition.” And that “at least 60% of the cost of the construction shall only be expended on any immediate health & safety improvements, seismic and accessibility improvements and/or replacement of major systems with a remaining useful life of less than ten years as evidenced by a capital needs assessment”.

Ms. Miller seconded this motion made by Mr. Sertich with the inclusion of the 1998 cutoff.

Treasurer Ma asked for public comment.

Paul Beesemyer agreed with the motion but re-iterated that making a cut-off date of 1998 prevents a pathway for buildings that are much older and in much need of repair to apply for funds for those upgrades. He advocated for the motion to be modified so that the eligibility criteria create an exception for buildings older than 1998 or however the government wants to word it.

Joanna Radd gave her support for creating a pathway for buildings older than 1998.

Katie Lamont also mentioned her support creating a pathway for older buildings.

Treasurer Ma expressed her interest in accommodating as many “ready to go” projects as possible and asked Mr. Sertich for a modification of his motion.

MOTION: Mr. Sertich moved to pass his last motion (adding the hard cost and health and safety language) with the removal of the year from the language suggested by Ms. Miller. Ms. Miller seconded and the motion for the definition of “Other Affordable” pool passed unanimously via a roll call vote.

Ms. Blackwell presented the last definition to be discussed which is for the “Mixed Income Project”. She stated that there has been some discussion on how to incorporate the average income test into CDLAC regulations. Further, she explained that we looked at several potential areas in the regulations to make that change and learned that the Federal regulation that provided income averaging for TCAC did not address the bond side. A loophole was created by this disconnect which allows projects utilizing the average income test but having 100% affordable units to qualify and compete in the Mixed Income pool. She advised the Committee that the recommended language is a precise change to close that loophole.

Ms. Boatman-Patterson mentioned that in April there was a discussion of re-wording restricted units (60% to 80%) to conform with Federal law. After some back and forth with the attorneys, CDLAC rules had not been updated to

take into account the Federal law that allows income averaging. She suggested that a policy discussion around incentivizing income averaging would be a worthwhile conversation when planning on a full regulation or scorecard update.

Mr. Sertich agreed that a change from 60 to 80 should be made as it does not not affect the other bond rules. In addition, the change would also fix the issues around the tie-breaker. He mentioned that he also does not want to dis-incentivize income averaging projects. He inquired as to why we would not change the definition of restricted units.

Ms. Blackwell mentioned that tax counsel advised against the 60 to 80 change. She explained that she wanted to discuss this with staff and did not want to move too quickly. This emergency modification to the regulations would become operative and close this loophole for the round of applications due on June 11, 2020.

MOTION: Ms. Miller moved to approve staff’s recommended definition of a “Mixed Income Project”, Mr. Sertich seconded and the motion passed unanimously via a roll call vote.

6. Discuss Executive Director Authority for Project Assignment, Timing, Deadlines and Any Other Necessary Delegations (Action Item)

Ms. Blackwell explained that decisions were made regarding delegation of authority in the previous meetings but was not voted upon and stated that the following gives authority to the Executive Director, Ms. Blackwell: (a) to assign a QRRP project to the “Other Affordable” pool in projects not clearly meeting the definition of QRRP sub-pools; (b) authority to adjust the application deadline and meeting dates; (c) authority to grant a waiver for a forfeiture of the performance deposit effective until the new regulations are in place.

MOTION: Mr. Sertich moved to approve this delegation of authority to the Executive Director, Ms. Miller seconded and the motion passed unanimously via a roll call vote.

7. Discussion of State Ceiling Apportionment (Action Item)

Ms. Blackwell explained that AB 101 gave us the State Tax Credits in two pieces: (1) Up to \$200 million dollars for the mixed income program, and (2) \$300 million unrestricted for affordable housing. She stated that there is still \$29.5 million in State Tax Credits but they cannot be used unless there is bond allocation to go with them. CalHFA has three projects that can use this. While there isn’t much left in the Mixed Income Pool allocation, there is a total unallocated balance of \$188,219,248 in the budget. She presented the staff recommendation to use \$159,320,421 from the \$188,219,248 and assign it to the “Mixed Income Program” projects that are ready to be funded now. She suggests this process as the best option.

Ms. Boatman-Patterson gave her support for this allocation. She mentioned that there are three shovel ready projects that can use this allocation (a Los Angeles project needs \$45,000,000, a San Diego project needs \$21,000,000 and a San Francisco project needs \$90,000,000).

Mr. Sertich indicated that he does not support this recommendation. He stated that, as per his earlier suggestion, CalHFA should compete on equal footing in mixed income and new construction pools. He expressed his belief that there are shovel ready low income affordable projects which could benefit from the limited allocation availability for the greater public good. He talked to one of the developers who believes they could compete in the New Construction pool.

Mr. Olmstead expressed his discomfort in selecting these projects for allocation before the competitive round and is concerned about the message we are sending and does not support allocating this money for one purpose.

Ms. Miller asked if there is another way of splitting the money between mixed income and other projects and requested the breakdown if we don't fund all of them.

Ms. Boatman-Patterson stated that to fund two of the projects (San Francisco and San Diego), they would need \$111 million in bond allocation

Ms. Miller pointed out that if we funded Los Angeles and San Diego it would be \$66 million in allocation and then we would leave San Francisco to compete in the general pool.

Darren Bobrowsky explained that he has the Los Angeles project. It is a 239 unit project in Los Angeles. The project scores maximum points on affordability and that they would be able to close financing and start construction this year. He did say that he expects that there will be some reversion of bonds that could free up volume cap later on.

Matt Callahan suggested monies should be used for Single Family in cities that are out of MCC allocation, namely in Los Angeles, San Diego and Sacramento.

Katie Lamont mentioned that she has the project in San Francisco and it has been delayed since the 2008 recession. The cost per unit is around \$750,000. The funding is guaranteed and the bonds are the only thing lacking. She said that the permits will be in place by the end of the year. She stated that she thinks they have the ability to compete in the New Construction pool and expects to score around 125 points but could possibly lose in the tie-breaker.

Colin Miller commented that the San Diego project would add 77 units to the area. The cost per unit is \$442,000. He said that permits are close to being ready.

Alice Talcott stressed that the Committee consider, carefully, where the allocation will go and to consider HCD funds when looking at these projects.

Cristina Martinez mentioned that the cost per unit for the San Diego project is \$442,000 as Colin Miller stated. The developer for Sutton Beach owns the site. She explained that it is in a desirable area of San Diego (Little Italy). It offers the opportunity for low-income tenants to live in a safe neighborhood. She did say that the project is just lacking in bonds and tax credits.

Amy Chan gave her support for the San Francisco project as it is "shovel-ready".

MOTION: Ms. Miller moved to approve an allocation reserve of \$67 million to the Mixed Income Program (MIP), \$92 million to the General New Construction pool, Treasurer Ma seconded and the motion passed with Gayle Miller: Aye, Anthony Sertich: Nay, Fiona Ma: Aye.

8. Meeting Schedule (Action Item)

Ms. Blackwell reminded the Committee that the due date for the next round of applications is June 11, 2020 with the allocation meeting set for September 16, 2020. The next following competitive round has an application deadline of September 24, 2020 for a December 9, 2020 allocation meeting. She then stated that an additional meeting to discuss policy parameters to guide the approach to re-writing the CDLAC regulations will be for June 17, 2020, after the TCAC meeting.

MOTION: Ms. Miller moved to approve this meeting schedule, Mr. Sertich seconded, and the motion passed unanimously via a roll call vote.

9. Consideration and Recommendations for Waivers of the Performance Deposit (Action Item)

Ms. Blackwell stated that since she now has discretion granted to her, by way of the approval for delegation to provide waivers, she informed the Board she has approximately thirty waiver requests related to the COVID-19 that await approval. Three are somewhat different than the rest. The first two: BFHP Hope Center (19-541) and Cinnamon Villas II (19-578) experienced significant delays because of the change in the HCD process which lengthened the review timeframe making them unable to make the bond issuance deadline date. Path Villas – Hollywood (19-501) was delayed due to NIMBY anti-development litigation. She recommended waivers for these three projects

MOTION: Mr. Sertich moved to approve these waivers of forfeiture of the performance deposit, Ms. Miller seconded and the motion passed unanimously via a roll call vote.

10. Consideration of CalVet’s Application for an Allocation of the State Ceiling on Qualified Private Activity Mortgage Revenue Bonds and Awards of Allocation (Action Item)

Ms. Blackwell reminded the Committee that \$100 million was put in place for Single Family Housing to accommodate CalVet’s request and submission of an application for bond allocation. After responding to the demand survey, they have submitted their formal application for bond allocation out of the State Ceiling. She stated that staff has recommended approval of an award of allocation of \$100 million to CalVet for their Mortgage Revenue Bond program.

MOTION: Ms. Miller moved to approve the award of allocation for the CalVet Mortgage Revenue Bond program, Mr. Sertich seconded and the motion passed unanimously via a roll call vote.

11. Public Comment

No public comments

12. Adjournment

Adjourned at 4:13 pm