California Debt Limit Allocation Committee

915 Capital Mall, Conf Rm 587
Sacramento, CA 95814

October 13, 2021

Committee Meeting Minutes

1. *Agenda Item:* ***Call to Order and Roll Call***
The meeting was called to order at 9:04a, virtually, and in the Jesse Unruh Building in Sacramento, CA.

Voting Members:	Fiona Ma, CPA, State Treasurer Tony Sertich for Betty T. Yee, California State Controller Gayle Miller for Governor Gavin Newsom
Advisory Members:	Gustavo Velasquez for the Department of Housing and Community Development Tiena Johnson-Hall for the California Housing Finance Agency

2. *Agenda Item:* ***Approval of September 29, 2021 Minutes***

Committee Comments:
There were no committee comments.
Public Comments:
There were no public comments.

MOTION: Sertich motioned to approve the September 29, 2021 meeting minutes. Miller seconded the motion.
Motion passed unanimously via roll call vote.

3. *Agenda Item:* ***Executive Director's Report***
Presented by Nancee Robles
Since the last meeting, the Executive Director, along with Treasurer Ma, had the pleasure of representing the Treasurer's Office at a Grand Opening Ceremony in the Truckee-North Tahoe region for 5 properties, all assisted by CDLAC and/or CTCAC. The ceremony including the properties of Coldstream Commons, Frishman Hollow II, Truckee Artist Lofts, Meadow View Place, and Hopkins Village. The event was held in front of the Truckee Artist Lofts which was a beautiful building with a second story play and gathering common area in the center of the property. That property has retail space on the bottom waiting to be filled and the units are partially occupied already. The great part of these properties is they are designated affordable housing for Truckee's local workforce, meaning they will only be rented to those who can verify they work in the area and are not teleworkers from out of the area, making these properties an essential part of the community. Many of the affordable units are identical to million-dollar units on adjacent properties. Truckee also has mandates that workforce housing, whether it be for rent of purchase, can only be re-rented or sold to other local

workforce persons or families, therefore sustaining affordability for the community workers. There was a bus tour of the five properties which highlighted the beauty of the units, as well as the surroundings. All of these have incredible scenic nature views of meadows, the river front, or forests.

Mannco is returning $50,660,000 to the exempt facility pool, having originally received allocation on April 28, 2021. This means this amount is available allocation for exempt facility projects in 2021.

Committee Comments:

Sertich asked how the definitions are being handled for regulations, and how is that is going with the Office of Administrative Law (OAL). Burgos replied staff is working with OAL to make sure the regulations are what the committee was intending. OAL has been helping to make sure what is submitted is what the committee desires. Johnson-Hall acknowledged staff's hard work to verify the accuracy of what is being submitted.

Treasurer Ma verified the next committee meeting will be on November 17, 2021 since allocation is being returned during this meeting.

Public Comments:

Matt Callahan with Southern California Partners of Home Ownership is requesting the Mortgage Credit Certificate (MCC) program be reinstated to boost buying power for low-income housing. MCC leveraged millions to extend local reach. This is not an either or, stating the state can support homeownership and low-income housing at the same time. Callahan urged the committee to reinstate the program.

4. *Agenda Item:* ***Consideration of Request to Change Issuer for CA-21-639 Long Beach Senior***
Presented by Emily Burgos

CA-21-639 Long Beach Senior was awarded allocation at the August 11, 2021 Committee meeting. At the time of award, the bond issuer was listed as California Municipal Finance Agency (CMFA). On September 27, 2021 CMFA requested that the issuer be changed to Los Angeles Community Development Authority (LACDA). According to CMFA, it applied as the bond issuer for CA-21-639 Long Beach Senior "as a matter of expediency," however in order to contribute LACDA funds to the Project, LACDA will need to be the issuer of the bond. Other than the Issuer of the bonds, no other aspect of the Project or its financial structure shall change because of this request. Staff is recommending approval to change the issuer of the bond for CA-21-639 from CMFA to LACDA.

Committee Comments:

There were no committee comments.

Public Comments:

There were no public comments.

MOTION: Sertich motioned to change the issuer from CMFA to LACDA. Miller seconded the motion. Motion passed unanimously via roll call vote.

5. *Agenda Item:* ***Consideration of Requests to Waive Forfeiture of Performance Deposit***
Presented by Nancee Robles

CA-21-005 Mannco Project, an exempt facility, is returning allocation to the committee and requesting to waive forfeiture of the performance deposit.
CA-21-510 Vermont Manchester Senior is requesting to waive forfeiture of performance deposit. They returned allocation and are now requesting the return of the performance deposit.
This agenda item addresses each request separately.

Committee Comments:
Sertich was sympathetic to the requests, but wants clear guidelines at the committee level regarding performance deposits to make sure issuers are diligent in performing
Miller stated there should be a price for not completing a project and believes this should be it.
Johnson-Hall agreed with Miller, stating returning performance deposits may be a path the committee doesn't want to go down, since that makes it easier to not move forward.
The committee asked if staff have a recommendation, and Robles replied they do not since this is a committee decision. However, she stated in 2020, many of the forfeiture of deposits were waived and it had a huge impact on the money coming in for CDLAC, as that is part of the revenue used to pay bills. Regulations allow for a certain time to request to return the allocation to reuse the funds and avoid it being carryforward.
The Treasurer stated there should be an incentive to move forward on the bond as there may be other projects that are shovel ready. She believes it should be considered to have a shorter time to issue the bonds. Robles specified performance deposits are verification the projects are shovel ready so as to not have shovel ready project bumped by projects that are not.
Public Comments:
Alejandro Martinez with the Coalition for Responsible Community Development encouraged the committee to consider reallocating the money when there are circumstances outside the control of the developers, since those funds can go to other projects. Some projects are more complex with public partnerships, and other variables. If developers can specify what is out of their control when making the request, it may assist, knowing there is a time limit.
Alexis Lane of Bridge Housing is speaking on behalf of Vermont Manchester Senior. She stated waiver requests should be considered if there are extenuating circumstances around the project. Manchester Senior is part of dual project so the two need to close together. They are requesting to get the performance deposit returned, and not have negative points, specifying they have reapplied for Round 3. She further indicated they had submitted the deposit before the awards were announced, since the deadline for the second round was delayed.
Ben Barker with CMFA is the issuer on both projects. They had requested developers to return funds as soon as possible to enable possible reallocations and the performance deposits are typically returned. He agreed with Sertich, that if developers know the projects are not going to move forward to return the money as soon as possible instead of waiting until the last moment to return the funds.

Committee Comments:
Sertich pointed out there are two penalties: negative points and performance deposit. He agreed with Miller that this is one way to incentivize the projects to move forward and wants this to be

clearer in the regulations. Over the last year the committee had given back the performance deposits due to COVID but need to make sure the incentives are aligned.

The Treasurer stated she may be open to returning the performance deposit, then make the rules more clear for 2022. Sertich agreed, saying the meeting can serve as warning the regulations may change. Miller did not agree since the committee regulations were clear. She did not want there to be confusion on performance deposits. Though there had been extenuating circumstances, there is a need to be clear these funds are valuable, especially with the end of the year approaching. The concern was having requests like this become a vote of precedence, since it should be clear if developers don't perform, they lose their deposit.

Sertich asked how quickly the bonds were returned after the extension request was denied for Vermont Manchester Senior. It was noted when the request came for the extension, the performance deposit was waived at that time.

Ben Barker with CMFA stated when the extension request was denied, CMFA asked Vermont Manchester Senior to return the allocation, and this is the first meeting this request could come to.

The Treasurer asked if negative points discussed can be discussed in addition to the performance deposit. Robles confirmed they can go together but can also be separate.

Burgos clarified exempt facilities do not have negative points.

Sertich does not believe negative points should be assessed.

Mannco had to find a different purchaser and has since reapplied, with the intent to close a couple weeks after that. Additional time was needed to put a public offering statement in place and have additional contracts in place before moving forward. They were awarded this allocation in April and had everything ready to go at that time. Since there was that switch in the purchaser of the product, the public offering had to be sent out again.

The Treasurer clarified if the deposit was not waived, they would need to submit another deposit.

Sertich agreed the reason for having to reapply was not predictable.

Public Comment:

There were no additional public comments.

MOTION: Miller motioned to not assess negative points for CA-21-510 Vermont Manchester Senior, but not waive forfeiture of performance deposit for CA-21-510 Vermont Manchester Senior. Sertich seconded the motion.

Motion passed unanimously via roll call vote.

6. *Agenda Item:* ***Consideration of Extension Request for Qualified Residential Rental Project Allocated in 2021***

Presented by Nancee Robles

Ted Handel, the CEO of Decro Corporation, is the sponsor of CA-21-530 The Brine. The Brine is in Lincoln Heights community in LA, which was once the location of the A-1 Eastern Home Made Pickle Company. This will be 90 units of supportive and low-income housing, to include a food hall and childcare, as well as other amenities to serve the Lincoln Heights community. The project received bonds and tax credits earlier this year. The city was going to subdivide the parcel map in order to offer the variety of service. The local bank backed out after receiving the allocation, saying they were not interested in providing funding for the construction but did not say why. The developer believed they wanted a security interest in the parcels, and since that would not be available, they backed out. The developers went to another bank right away and now need another 30 days to complete the process. They are not asking for no negative points or to waive the deposit. Handel indicated in 30 years doing this job, this was the first time a lender had backed out toward the end, so did not have any history of how to move forward. The land was purchased in 2019 and the City of LA treated it as a united development so did not differentiate the intended uses, which changed how the city processed it.

Committee Comments:
Sertich identified there needs to be a balance of being prepared.
Miller specified the project would have gone through if it was two parts. Ted reiterated the project is ready to close, but needs the 30-day extension, which would help them avoid adding unnecessary costs and time to the project, pushing the deadline farther out. Miller repeated the board using these funds as a valuable resource. She further stated it seems they are requesting CDLAC absorb the cost of a local vender.
Handel clarified they have a well-known tax credit investor, and have a syndicator looking for investment opportunities, who accepted the local bank. But the local bank pulled out. They are requesting 30 days to finish the parcel map in order to move forward and provide affordable housing. Miller asked if the project would be able to close if the extension was not requested, and Handel replied it would but not without incurring additional expenses.
Johnson-Hall sympathized since it is rare for banks to back out, and the time between cannot be replaced.
The Treasurer pointed out the board has not been sympathetic to extension requests, specifying there should be additional consequences to make sure those requests do not become common practice. Handel agreed there should be consequences such as negative points and forfeiture of deposit if they are not able to close within the requested 30 days.
Miller sought clarity if there was the option to move forward with one part but wait on the other without the extension. Handel stated that would incur additional fees, including legal fees, and documents would need to be mended from the bank, among other costs. The land use expeditor believes the map could be finalized just after Thanksgiving. Not getting the extension would make the process much more difficult. Johnson-Hall added there are often additional costs associated with a new lender, such as construction oversight, fees, etc. She agreed this would be a huge impact on the project.
Miller stated she appreciated how uncommon the scenario was but believed it could be a two part deal so did not believe the extension should be approved. The party at fault is the bank that pulled out and not the state of California.
Public Comments:
Alejandro Martinez with the Coalition for Responsible Community Development supports The Brine and understands how complicated some of the projects are. He outlined this as an example of what is outside the control of the developer. One project he has asked for an extension. He urged the committee to grant the Executive Director authority to approve 30-day extension requests for unforeseeable circumstances.

Andre Perry, the manager of taxes and bonds for Prop HHH for the City of Los Angeles, expressed concern the committee believes extension requests are due only to developers, but should take capital investors, bond lenders, and issuers into consideration. He urged that the developers were clear the situation was not under their control and immediately took action by finding a replacement lender and is on scheduled to close in the projected extension request time. Perry specified there are only 3 rounds for allocation, so when things outside of the developers' control are not granted, there should be a hard look at whether allocation is returned, causing them to need to reapply, pushing out deadlines, incurring more burden on the CDLAC staff to review the applications. Having to reapplying does not increase how many units are produced, and recommended the committee consider increasing the number of allocation rounds so those projects who need additional time can come to the board to get the allocation. Perry pointed out the City of LA is one of the largest municipal issuers in the state, proving how productive they are in getting and closing bonds. The reason for the high success rate is doing their own underwriting and investments as well as their own background stuff before it gets to CDLAC. The Brine went through that process, so is confident it can close in the 30-day extension. As such, Perry urged the committee to make a case-by-Case decision. Perry stated he is asking the committee, on behalf of the City of LA, to grant the extension since all of the local agencies are working with short staff due to COVID still.

Sertich clarified understanding the permitting process is often slow, so being firm on the extension request was not directed at developers and appreciated the comments on the timing, pointing out how there was originally 90 days to issue the bond but it has been extended to 180 days, and how it would be quicker to grant the extension than if the bond was reallocated to another project. The desire is to make sure entities are held accountable for moving forward on projects and set that precedence.

[undescernable name] Projects are increasingly complex these days. A few years ago, when the federal laws changed, many were having trouble, so it was common to extend the time. This is at no fault of the developer, and the 30 days is not a large ask and wants to add support.

Ted Handel specified, regarding Sertich's comment on precedence, the way the request was framed, the specific criteria necessitating the request was unforeseen and beyond the developer's control. Handel requested the committee to not look at the request as a blanket request and approach it on a case-by-case basis. He further urged the committee to establish the need to verify the request was due to something not in their control.

Sertich stated there was an extension granted due to change in law at the last committee meeting.

Committee Comments:

Sertich stipulated there are layers of penalties in place that can be enforced if extensions are granted to hold developers accountable.

The Treasurer requested to hear from some developers in the room if the scenario presented was foreseeable. Miller reiterated the request was about saving money and not whether the project would close since it was still possible and believes the lender who backed out should be held accountable.

Caleb Roope, CEO of Pacific Companies, stated it is reasonable to expect to get to the point where the Executive Director can grant extensions in extenuating circumstances such as this. He also believes there should not need to be extension requestions since developers know there is a hard deadline on when to close. Roope prefers the deadline to motivate people to perform. However, he

agreed with Martinez that if situations like this happen, it would be convenient to give the Executive Director delegated authority to grant it. Roope does not believe his company should be the standard for still being able to close if something like this happened.
Doug Shoemaker of Mercy Housing stated it is important to understand the scale of the financial impact. A $100,000 risk is different than a $1 million risk.
Miller echoed Roope, stating the project will close, and further echoed Shoemaker, saying the forfeiture is the cost of risk. She clarified this was the least expensive way for the developers to move forward on the project.

7. *Agenda Item:* ***Purchase of Vertosoft ESPER Contract Through Advanced Technical Solutions for $309,637***
Presented by Nancee Robles
CDLAC and CTCAC intend to utilize the services of Esper Regulatory Technologies, Inc., as the pilot tester for the eventual use for all STO Boards, Commissions and Authorities. The proposed contract is for Esper to provide a Policy Performance System to streamline the internal regulatory review process, leverage data analytics, AI and NLP-driven data analytics, and to support data-driven rulemaking. This will allow CDLAC and CTCAC to collate regulatory data into a centralized database system and provide a set of workflow capabilities to internal users. These capabilities include data analysis, rule drafting and collaboration, as well as tracking and reporting tools for internal users, detailed in Exhibit A. The costs include a one year software license for the two agencies, professional services and training.
This process will provide operational visibility at all stages of the rulemaking process to allow rule writers, drafters, and executives alike to track progress on administrative rulemaking across regulatory bodies, from initial filing to final rulemaking.
With the support of CDLAC and CTCAC's executive office, the team was asked to pilot this program with the confidence it will be a useful tool for STO. CDLAC has demonstrated challenges with its administrative piece of rulemaking. The services this contract provides will assist in a smoother more organized process making the rulemaking process more efficient, effective, and cut out high amounts of staff time and labor.
Staff recommends approval to enter into a one-year contract with Esper Regulatory Technologies, Inc., for an amount no greater than $309,637. $50,000 is for the installation and training of staff.

Committee Comments:
The Treasurer requested clarity that the contract is for one year. Robles confirmed the contract is for one year, and the price will not go up over the next 3 years should the contract be renewed. CDLAC would be the first California state agency they have worked with, though have worked with other state entities, there have been numerous demonstrations, has been vetted through the executive office, and renewing the contract would not need to come to the board for approval should staff want to extend.
Sertich asked if the software would interface with the Office of Administrative Law, and Robles explained it does. The contract is large, and Sertich believes it would be less costly to hire a staff member to handle regulations, though acknowledges some technology assistance would be beneficial. Robles stated the contract would speed up the process, and there are not enough staff members to cover this large task of regulations. Additionally, the classes through OAL is a 40 hour course with a waitlist 1.5 years long. As such, the software would save a lot of staff time and effort in handling regulations.

Miller motioned to approve the contract.

Public Comments:

There were no public comments.

MOTION: Miller motioned to approve the Vertosoft Esper contract through Advanced Technical Solutions. Treasurer Ma seconded the motion.

Motion passed with a 2/3 majority via roll call vote, with Sertich voting against it.

8. *Agenda Item:* ***Discussion of Direction for Working Group in Regulation Development***

Presented by Nancee Robles

There is a working group to assist with regulation process. At the last committee meeting, it was requested to have an agenda topic specifically to discuss the direction of the working group. They have been meeting with regularity and it became clear that without additional direction, the group cannot address the remaining issues. They understand there are many moving parts and will take this back to the working group today.

Caleb Roope, CEO of Pacific Corporation, is spearheading the working group. He stated if fair market rents (FMR) are used to calculate rent savings when looking at regions, there are much more affordable areas within those regions. This seems to provide an unfair advantage, focusing on those less expensive areas instead of evenly distributing resources through the region.

Sertich requested more information regarding rent savings based on fair market rent (FMR) as opposed to how much a project was going to be charging. He believes ultimately the tiebreaker is what evened it out, since the cost of construction was also higher. Roope indicated it is still an unequal process, where the costs are similar but the fair market rents are vastly different.

Shoemaker believes the tradeoff should be where the demand is higher to determine where it should go.

Sertich agrees there are places around the state where more housing is needed, and FMR may not be a good indicator, specifying some areas should get more/less and change each year since part of the original proposal was more on the benefit to make sure those units get filled. The Treasurer pointed out the state auditor wanted to know specifically how funds were distributed across the state.

Miller stated she wants to invite Secretary Castro-Ramirez to come back to the committee to talk about deep affordability and how to move forward with the AMR since this is by far the most challenging issue. She wanted to use the committee meeting to talk about what they agree on.

Doug Shoemaker wanted to discuss AFFH and how it is implemented. One concern is how the current system only accounts for certain types of products. He recommended eliminating 1 point in the scoring system for reducing the possibility of AFFH winning most of the projects. If the committee wants to continue with the AFFH, the working group needs to know so they can work on how to move forward making it a more fair functioning system.

Ann Silverberg expressed appreciation at being included in the working group. She requested the committee's preference on cost benefits since it makes a difference in tie breakers and the methodology behind it. The options the working group explored were: just bonds, bonds plus state tax credits, bonds plus state tax credit plus other state agencies buy in, or bonds plus state tax credits plus other state agencies plus other local bonds. There was a lot of discussion on this in the working group, and a poll taken within the working group. 2/3 wanted bonds only, 1/3 wanted all of them. Many of those polled had mixed feelings on taking other things into consideration outside of bonds and were concerned with including state level resources in the bonds since there are a lot of competitions for those other state agency funds. Leveraging the resources of other state agencies tends to give projects an advantage, which may exacerbate the backlog issue. Miller expressed this was something she wanted to focus on.

Velasquez expressed thanks to the working group, specifying he and Johnson-Hall are non-voting members and are there to provide insight and data on agenda items. According to the public HCD website, there is a gap in what the State of California is producing in the way of affordable housing and shows what the state should be producing. There is a steadily rising gap in what is needed and what is provided. 70% of renters are paying 60% of their income on rent. This is why the tiebreaker needs to continue to provide housing to those. There has been a historic imbalance of where production happens, creating a geography of opportunity, showing a drastic imbalance of high and low opportunity areas. He pointed out children who grow up in high-resource areas tend to earn up to 40% more than those growing up in low-resource areas. With data supporting some of the answers the committee is seeking, there is a need to alter the regulations. This also necessitates a need for a balanced tiebreaker to help effect true reform. The tiebreaker should be based upon the data.

Miller stated she wants to use tax exempt bonds as the denominator for the tiebreakers and supports a soft cap of 49%, and AMR, while looking forward to seeing more about battling climate change. The Treasurer asked for more information on the climate goals. Miller specified there are ways when building to work with alternative building methods and want to make sure housing incentives are aligned with those goals. Velasquez requested information on how to incorporate brownfields into this to make it equitable across the populations in the state.

Johnson-Hall pointed out CDLAC has been competitive for only a year and pointed out there may only be needing some minor adjustments and not a regulation overhaul. CDLAC wanted to incentivize income among other things, and this should not be lost in the data. She stated there is a huge struggle of choosing between paying rent and paying childcare for many. The data Is compelling that ELI, VLI and homelessness are very real things that should be made a priority but does not want it to be at the cost of those who are in the 50% range. She further stated while she values the mission of battling climate change, it would be beneficial to revisit the data presented.

Sertich expressed appreciation for the administrations work, and also does not want to lose site of the 50% areas. However, stated there needs to be a look at average median income (AMI) and rent savings to balance it out, incentivizing low-income families as well as transients, and climate change goals. He stressed the need to maximize points in regard to close proximity to effective transportation, and maximize the use of state funds, saying there should be a limit on state funding for each project as well as funds provided by taxpayers in the way of local funds. Ideally, there would be a one-stop-shop for all of these to take it into account to move forward to allocate. Regarding the AFFH, he called for a better scoring system to provide an equal change at funding, with an extra point, providing a cap to prevent unequal distribution, balancing out the opportunities. This could include an incentive to cater to the high opportunity areas.

The Treasurer specified no one knows if the bond cap will increase next year, or if it will go down or state the same, and has proposals with the federal government to change it from the 50% test to be a 25% test. Additionally, the program could still be oversubscribed. Furthermore, rehabilitation and preservation projects are at risk for going to fair market value the more it is pushed out, which makes it a reality that they will go to fair market value. Tax exempt projects for next year are uncertain. The Treasurer is requesting a demand survey for exempt facilities. She expressed thanks to the governor for allocating $1.75 billion for HCD and $500M in state tax credits, and will we be asking the governor to do that again next year since it has been incredibly beneficial, especially if there is another round of disaster credits. If all those things come to fruition, more projects can be made possible.

Roope shared they are always a little worried if the $500M tax credits would be clear and be purchased, and they did come through.

Shoemaker pointed out the committee has been consistent on goals and other than methodology. There remains the question of what should be included in the denominator, though acknowledged the administration was clear about high opportunity areas.

Since the questions from the working group were not presented prior to the meeting, more information will be needed for discussion.

Miller appreciated the feedback and collaboration, agreeing all of the things stated should be taken into consideration. She asked to focus on how to simplify public benefit and recognized this may be a future conversation. However, if there were some idea of a soft cap on AFFH and the numerator, it may be easier to move forward on these other questions.

Velasquez agreed the committee is not there yet but is confident it is moving in the right direction so can recalibrate. The data is meant to illustrate the striking differences in affordability.

Sertich, asked for more information on the soft cap. Roope clarified there is a distinction once 49% is hit, the 1 point toggle goes away, so those are all considered 119 projects and can still win with other benefits provided. He identified there are 4 layers of the denominator. At a committee level, they are allocating the bonds and state credits so want those to be taken into consideration. When it comes to other state funding sources, those are taking other state resources, which should be reflected in there. Initial proposal did not take that into account. There needs to be a new balance and have it be balanced together. There are about 2 months to get this moved forward and approved. Sertich stated he is worried there is nothing out there publicly regarding the next year. However, he identified this can be larger discussions with the other state agencies.

Miller stated the denominator should be relevant to this committee. Though data is about what has been measured, it is not always possible to make those measurements. She went on to state she is open to the idea of tax credits and bonds being taken into consideration with a preference for bonds since the greatest need is for bonds. When taking additional state programs into consideration, there are lot of resources available, which can make the process difficult, diluting the measure of relativity.

Shoemaker asked how counting the AFFH point change things.

Mark Stivers stated he had looked at allocations issued and 40% went to opportune areas. The one-point is so determinative, those projects prevailed. Six different scenarios were evaluated and how rent savings is measured using the 2022 FMR to measure rent savings. They are in favor of the soft cap. Using just bonds in the denominator and using other state resources, such as HCD, in the denominator, which may help move HCD projects along.

Miller asked what happens when just looking at tax credits and bonds. Stivers responded this was

not evaluated independently.
Sertich stated looking at all bonds, credits, and state agencies is a good idea.
Public Comments:
Darren Brobrowski of USA properties is part of the working group. He stated it is clear there's not enough state resources, so stressed the need to incentivize efficient housing and measuring public benefit over public resources. Another solution he identified was to measure both public benefit and public resources then adjust scoring system to discount HCD money or deeper affordability, then adjust the metrics to tweak it over time.
Pat Sabelhaus, the executive director of affordable housing echoed USA properties. The system in place has been the most productive and efficient system in many years due to providing incentives for most cost efficiency. All of it worked to increase production and will continue to do so. He further agreed with some of the comments that it may become too complicated. He further agreed with some committee members that if becomes too complex, there may be adverse side effects.
Shannon Dodge with BART has an overall goal of building affordable housing on BART land. She had sent a letter earlier with Valley transit and has over 460 acres of land that can be used to develop affordable housing on. She expressed concerned the current scoring system does not provide adequate TOD and there is no scoring advantage for projects near "high quality" transit. The only way to score maximum points is to be in high opportunity areas. She implored the committee to provide a scoring advantage for projects who've already been awarded state credits. The current transit only takes into consideration miles to job, and not time to jobs. Wants it to better reflect the opportunity to get to economic and education, and support building on public land. She stated she would like to see a multiplier added for projects being built on public land to promote racial equality similar to the multiplier offered to projects aimed toward homelessness.
William Leach with Kingdom Development has been involved with 20-30 applications in the last year. He said by adding state credits to the denominator, applicants try to limit those resources due to the scoring system and has been privy to many conversations discussing the minimal use of those resources.
Reese Jarrett with E Smith & Company in San Diego wants to encourage moving affordable housing in to high resource areas, to include healthy food, good schools, etc. He believes it is premature to make adjustments in the scoring system. He implored the committee to allow developers the opportunity to move in to those areas for the purpose of developing affordable housing. There were 17 developments awarded in high resources areas (36% total), and 53% of total allocation. 21 awarded due to high resource allocation in the 2nd round. It is early and haven't completed one development based on this allocation. Should give this the opportunity to let it play out in the marketplace. Ultimately some adjustment such as a cap might be imposed.
The Treasurer stated this will be revisited when the Secretary can join the meeting, so requested another committee meeting be schedule to gain clarity on the subject.

9. *Agenda Item:* ***Discussion of How to Use and Apply Carryforward in 2022***
Presented by Nancee Robles
In April 2021 the Committee voted to adopt regulation Section 5133 to address how carryforward be used. In this adoption it was agreed that during competitive rounds, prior year carryforward would be "subscribed to the projects in rank order which are scheduled to be awarded an allocation

in the current round, starting with the highest ranking project[…]until exhausted". This was done to be sure carryforward was utilized "first in first out" before current year allocation which is consistent with the IRS rules for carryforward. CDLAC tracks issuer carryforward at the staff level and also requests periodic updates from issuers, yet there is no mandate for issuers to provide this documentation other than annually on February 1st. At the last committee meeting of the year, any unused Volume Cap or reverted allocation must be assigned to an issuer who will then carry the allocation forward into the next year. The Committee requested a discussion to see if CDLAC could improve on the process even more. One issue is that three year old carryforward may be assigned to a project that is not scheduled to close its bond transaction before that portion of allocation expires. Another issue is that an issuer with carryforward may not be competitive in the round therefore not having the ability to use the carryforward. Another part of the discussion is how the Committee will disburse any remaining allocation or reverted allocation before the end of the calendar year. Since the Committee cannot carry allocation forward to the next year, it must be assigned to an issuer in order to be utilized as next year carryforward. There are two sections to this. The committee asked for a discussion on how to improve the carryforward process. When changes were originally made earlier in the year, this was not taken into account. Staff want to make sure carryforward is being used as efficiently as possible and has dwindled it down to about $47 million. Staff need recommendations on how to improve on the process, and how money can be reallocated to issuers so they can carry it forward to the next year.

Committee Comments:

The Treasurer stated they had previously done a demand survey then allocated it equally to the top 3 issuers. She stated she prefers to use the same method on a yearly basis so there is no question on how it will be disbursed.

Sertich expressed favor of the current method of carryforward and sees there's not a lot of remaining. No matter where the money is disbursed, projects would still need to go through the committee to be approved. A demand survey isn't necessarily real numbers, but how it's used is the real question.

Miller expressed the importance of ensuring the committee's priorities are the state's priorities.

Johnson-Hall reiterated it is important to prioritize the state's priorities, and the Treasurer echoed that.

Robles clarified carryforward is allocated to an issuer, but not a project. Sertich reiterated this, stating issuers aren't determining projects, as the committee is the one who determines those. Getting back to how the allocation is used in the next year, if it's carryforward, it is with a specific issuer, but if it is returned allocations, it can be used by any issuer. As carryforward is used, it has been going to specific pools and increasing how much can be allocated to those pools. He requested to have carryforward reported and spread over all the pools during each round.

Johnson-Hall asked if the field can be narrowed down a bit more to maybe 2 or 3 issuers, while Sertich requested to know how many issuers there are, though understands the committee can't assume issuers are going to be able to issue every year, though recognized some of the bigger ones do issue every round. Robles offered to put together a list of top issuers as historically those remain about the same. She reiterated at a previous meeting, carryforward was swapped out with another project in order to not lose allocation.

Sertich wanted to make sure the committee was being mindful and using it the best as possible and ensure the committee is the one making the decisions of projects, and that carryforward is used first when issuers have a bond request.

Robles stated staff is tracking carryforward carefully. The treasurer called for a solid methodology so staff can assign carryforward and let the committee know.

Sertich, believes this will be less and less of an issue with carryforward moving forward.

Public Comments:

Ben Barker with CMFA stated they need to work together as issuers on the last bit that trickles in. Per federal tax code, issuers can't close until they've filed their tax forms for carryforward which sometimes does not happen until February 15th. If a project needed to close before then, there is often difficulty trying to navigate so those funds are not lost.

William Leach from Kingdom Development pointed out there is a predictability benefit to Sertich's proposal to use carryforward in each round distributed evenly to all pools and set asides. When it is determined in the middle of the round what will be carryforward, it starts a domino effect which can complicate the recommendations. But if it is known at the beginning of the round what the carryforward is then distributed evenly, then all would know what to expect.

10. *Agenda Item:* ***Discussion of Bond Allocation for Projects Requesting Limited State Tax Credits***
Presented by Nancee Robles

The California Debt Limit Allocation Committee Tax Exempt Bond Allocation for Affordable Housing in the competitive rounds are usually tied to a joint application with the California Tax Credit Allocation Committee (CTCAC) for state tax credits. Both resources are competitive and scarce. There has been concern as to the disposition of Round 3 bond allocation should the tax credits run out. There will be a discussion at the CTCAC meeting on October 20, 2021 for the tax credit conversation. In the meantime, CDLAC proposes to allocate to those projects that qualify for the remaining 2021 Volume Cap and any carryforward available. CDLAC regulations determine the ranking of awards based on points and tiebreaker. If the allocation is made and there are no state tax credits available, CDLAC regulations allow 90 days for the project to fill the financing gap without risking performance deposit forfeiture or negative points.

Committee Comments:

Sertich urged developers who receive bonds but not credits to give money back as soon as possible if the gap left by not receiving tax credits cannot be filled and urged for clarity on how to handle bonds issued without tax credits moving forward.

Public Comments:

Darren Brobrowski with USA Properties stated the goal is to avoid the disconnect in awarding to projects that are not feasible without state credits so has worked with Roope to come up with a procedure to avoid awarding bonds when credits are not available. Regulations provide that all the regions are scored together, then award the highest until it's full. This would align state credits with bond caps and avoid the return of monies.

Mark Stivers asked if projects should get bonds if there are no credits available. Going into next year, it would be beneficial to see if there are credits available, and not award if there are none available. He recommended doing what CTCAC does for the 9% tax credits: take top scoring projects from the totality, award from smallest to largest region, and flip awarding from largest to smallest region, etc, to make it more equitable.

William Leach supports Brobrowski's proposal to avoid giving allocations to projects that are not feasible.

Though the Treasurer doesn't like the 90 day carryforward, Sertich specified it is in the regulation. It cannot be ignored for this round but supported changing it for next year. Johnson-Hall agree with Sertich, that changing things mid-year is not the best solution.

11. Agenda Item: **Public Comment**

Alejandro Martinez with the Coalition for Responsible Community Development is with CA-21-497 803 E 5th St. He thanked Robles for considering 5-day extension and wanted to discuss why the extension was needed. He is asking to grant the project a 30-day extension. The project has been in the pipeline since last year. This is an adaptive reuse project of 3 buildings in skid row in LA. The project was scheduled to get permits last week but was informed that was not going to happen. There are certain things developers have control over, but when there are issues they don't have control of, the developers are forced to come to the committee to ask for help. The city is overwhelmed, and it is having a negative impact on projects moving forward. The city would lose 95 units, lose about $1 million in carrying cost and $1.5 million in tax credit equity in an opportunity zone, and the project would be delayed therefore losing the ability to house those people. He further stated there are 30-40 people sleeping in tents outside the building who were not there 2 years ago when the property was purchase. He asked if an emergency vote could be taken regarding his earlier request to grant the executive director authority to grant such requests and stated he can send the request in formally as well.

The Treasurer acknowledged this is the 6th project to have this problem in Los Angeles. She further acknowledged the Treasurer's Office has been working at the state level to stay current and meet deadlines so finds it alarming to hear of this at a more local level. Sertich specified the developers and the tenants are caught in the middle, and it is now the point where it is time to start holding people accountable. The Treasurer stated she will call the mayor to inquire, in an effort to not penalize the people, especially when so much funding has been poured into LA City and LA County. Sertich expressed concern about whether there is enough staff in order to get these things done.

Jessica Hitchcock is a project manager at Valley Transportation Authority and wanted to speak on the earlier agenda item of scoring adjustments. She thanked the committee for the thoughtful deliberation. They want to encourage higher density housing, such as 75 units per acre, especially on public property. She outlined that it is difficult for higher density projects which are costly to compete with the smaller projects that are less costly to build. She stated she looks forward to more discussion about how to advance the governor's goals of fighting climate change and affordable housing.

Andre Perry, the manager of taxes and bonds for Prop HHH for the City of Los Angeles echoed support for Martinez. Asks committee with how to proceed with what's happening in the market, and include issuers in offline conversations in what they're seeing on the ground. The City of LA does have a large volume of deals they've submitted to CDLAC and have received a lot of awards. He expressed the importance of using metrics to govern policy instead of assumptions on what may be happening on the ground. The Treasurer asked after the delays at the local level for getting permits issued. He stated there are a lot of deals they are working on. Except for CalHFA, they were the largest issuer last year, so lack of staff is not the problem. They are the issuer agency so do not have oversight on some of these delays. Since projects are in the city's jurisdiction, they need to work within their jurisdiction. They're still dealing with the economic impacts of COVID. He expressed understanding there are scenarios outside of what the developer can control. One of those would be when there was a tax code change to the applicable percentage. He recommended doing a survey to issuers of what challenges they face, which may be beneficial in the marketplace. Some of the problem is the reality there are unique circumstances that are project based. He shared he has concerns that should not be aired in a public forum. He did, however, specify one concern is of the 55% cap on bond allocation, which was previously 60%, causing the need to apply for a bond gap. This made it difficult for developers to proceed. Some are willing to close on the original allocation, with the hope a 3% supplemental will trickle to that allocation.

12. *Agenda Item:* ***Adjournment***