California Debt Limit Allocation Committee

915 Capitol Mall, Conf Rm 587
Sacramento, CA 95814

November 10, 2021

Committee Meeting Minutes

1. *Agenda Item:* ***Call to Order and Roll Call at 12:05a***

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 October 13, 2021 Minutes***

Committee Comments:
These were not able to be reviewed by committee members, so will be reviewed at the December 8, 2021 Committee Meeting, as the November 17, 2021 Committee Meeting agenda has already been posted.
***Public Comments*:**
There were no public comments.

3. *Agenda Item:* ***Executive Director's Report*** *– Presented by Nancee Robles*
Since the last committee meeting, staff attended several groundbreaking ceremonies for affordable housing projects that CDLAC and CTCAC provided allocation to.
On Oct 28, the Treasurer attended a groundbreaking for The Monarch, which is a new construction, large family, extremely low/very low-income project that will produce 60 new units in Palm Springs.
Yesterday, Robles attended a groundbreaking for Balboa Park Upper Yard in San Francisco. This is a new construction, multi-family, low-income housing project that will produce 130 units. This event was also attended by Mayor London Breed, Senator Scott Weiner, and Supervisor Ahsha Safai, and included wonderful cultural performances by both Filipino and Azteca community member groups.
Fall Conferences are in full swing. Since the last meeting the Treasurer, staff and the Executive Director have been on the speaking circuit giving updates on CDLAC and CTCAC. Some of those conferences include the San Diego Housing Federation, the SCANPH Conference: Public Funders Forum, Cal-ALHFA Virtual Conference, CDFA Virtual National Summit, and State Housing Directors' panel for the Rural Housing Summit.
In legislative news, after a rollercoaster ride of events, LIHTC provisions, including 5 years of a 25% test (reduced from 50%) and a significant increase in 9% tax credits are back in the Build Back Better Act. This will be extremely beneficial to the program, enabling more projects to receive tax exempt allocation for affordable housing. We will know more once the bill is finalized. Moving forward, staff

will prepare for those changes to the program.
At the last meeting, the committee requested an update on the largest issuers of QRRP Bonds and the number of issuers. This is in relation to how the committee will decide to distribute any reverted or remaining debt limit allocation at the end of the calendar year. There was also discussion of delegating that distribution task to the Executive Director.
In 2020 there were 20 issuers, 8 of which only issued one bond. In 2021 there were 19 issuers and again 8 of those only issued one bond. There were 11 issuers who issued in both years. There are three issuers that are at the top of the list for dollar amount and number of bonds issued for both years. They are in no particular order, CMFA, CalHFA, and the City of Los Angeles. The fourth issuer on the list for both years issued less than half the amount than the third place issuer from this list.
Regulation updates:
At the September 29 meeting, the committee approved a package of emergency regulations to reinstate earlier regulations that had since reverted. The committee shared concerns that staff needed to ensure it was not altering guidance that was altered by subsequent emergency packages. After the package was submitted to the Office of Administrative Law, dialogue was opened up with OAL to ensure the committee's concerns were addressed. OAL recommended staff to withdraw the package and resubmit the changes combined with the re-adoptions of two other outstanding packages. This would allow the clarity necessary to address the committees concerns and ensure intent with these changes were clear. Following OALs recommendation, staff have withdrawn the 9/29 package and will be bringing the recommended package to next week's 11/17 committee meeting.
The preliminary list of Qualified Residential Rental Projects has been posted on the website. Out of 103 applications received, there are 60 potential projects that staff anticipates recommending. There could be more if there are withdrawals before the final list, and when prior year carryforward is applied to the final recommendations on December 8, 2021.
CalPlant returned allocation in the amount of $18 Million and will seek a waiver for the forfeiture of performance deposit at the December meeting. This reversion of allocation and the reversion discussed at the last meeting brings the Exempt Facility pool back up to $68,660,000. There are three applicants with projects totaling $535,855,000 to be heard at next week's committee meeting on Nov 17.

Committee Comments:
The Treasurer thanked Secretary Castro-Ramirez for her support stating there were many letters sent to the President supporting the 25% test instead of the 50% test to help with housing. She urged everyone to keep the pressure on to keep the momentum of support going since it is back on the table.
Mr. Sertich had a question on regulations. At the previous meetings, there was concern if the regulations were not approved, there would be issues with the program. Ms. Robles reassured it would not have an affect so long as the package got to OAL before then, and the package would be heard at the next committee meeting.
Public Comments:
There were no public comments.

4. *Agenda Item:* ***Presentation by Secretary of California Business, Consumer Services, and Housing Agency on Affordable Housing*** *– Presented by Secretary Lourdes Castro-Ramirez*

Secretary Castro-Ramirez pointed out it is the partnerships across the state, including other states, advocating for the provisions in the Build Back Better plan that have made it successful. The total housing investments stand at $150 billion, which includes rental assistance, public housing, strategies, etc. Administration offers support and recommendations as CDLAC is reviewing the 2022 regulations. Administration thanks CDLAC for the incredible leadership, as well as the Treasurer, and State Controller Yee. Access to affordable housing is the key to advancing the goal to meet the challenge. $22 billion was given toward housing production and reduction in homelessness, $1.75 billion for the housing accelerator, $250M for critical infrastructure, and $500M toward tax credits. The state cannot move forward without a coordinated effort, such as the working group, federal partners, and the other agencies who participate. The Secretary's office will release a technical memorandum later in the week to go over additional details on how to continue the conversation. Before then, the secretary's office offered a power point presentation. This is available as "Attachment 1 – BCSH Presentation".

Committee Comments:

The Treasurer pointed out there are not many changes from last year's priorities.

Mr. Sertich agreed with the Secretary, stating though the different agencies may have different approaches, they have the same thing in mind. The struggle is in getting the details ironed out.

Public Comments:

Caleb Roope, CEO of Pacific Companies, thanked the Secretary on behalf of the working group for providing additional direction on the state's priorities. He stated the data provided will be beneficial in giving direction to the working group.

The Treasurer identified there are a lot of disabled veterans and veterans' programs being queued up. This includes one in Los Angeles which will provide approximately 5500 on a campus near medical services as well as other amenities. There is a federal program for similar projects being worked on.

Jeremy Smith on behalf of the State Building and Construction Trades Council regarding the Secretary's presentation. They stand with the committee to face the housing crisis which affects everyone. They want to remind the committee the way the housing is built is important to take into consideration as well as other things such as funding, location, etc. Smith wanted to remind the committee to encourage locally based trades people which provides job opportunities and be mindful of how those people are paid and treated. Many developers have found profit can be saved by making compromises. This includes bringing in out of state workers who are willing to work for less than minimum wage, who are not skilled to build those houses. It is important to have construction locally based, paying a decent wage to provide for families in those communities.

Adhi Nagraj with McCormack Baron Salazar thanked the Secretary for the piece on climate change and resiliency in her presentation. He acknowledged it is important to look at costs, but also imperative to be building for resilience and the climate. With the state incentivizing homeless housing, climate change crisis, and inclusion, this often means building with higher costs. This is an ongoing balance, how we build, looking at 100% electric and solar. He specified this may be a future conversation.

The Treasurer noted electric vehicle stations to recharge should be part of the climate solution to further the Governor's goal of zero emission vehicles by 2035.

Committee Comments:

Mr. Velasquez shared there was an announcement of $125 million for statewide housing organizations to support building housing for veterans and their families. The amount was increased in order to fund additional projects, which is a step in the right direction for providing veterans these opportunities. HCD is part of the California Building Standards Commission and recently increased funding for charging stations so more can be built. Green Co is working on making more stations for new and family construction.

Ms. Johnson Hall thanked the Secretary for the presentation. With homelessness, climate changes, veterans, and inclusiveness, the policy framework addressed these things, and encouraged balance between the agencies. HFA stands with the Administration and is eager to move forward with those goals.

5. *Agenda Item:* ***Continuation of Discussion of Regulations from October 13, 2021 Committee Meeting*** *– Presented by Nancee Robles*

At the October 13, 2021 meeting the committee discussed regulations to determine what changes were needed and requested this meeting to continue the conversation.

Mr. Sertich offered a power point presentation on behalf of the State Controller's Office. This can be viewed in "Attachment 2 – SCO Presentation"

Committee Comments:

Ms. Miller specified she wanted to discuss specifically the tiebreaker, AFFH, how it's calculated and the different weights each would have. She asked if it would be better to wait until the demand survey was finished before evaluating the pools to ensure equity. She also wanted to clearly define the tests in order to provide some direction.

The Treasurer stated the Governor provided funding to each member of legislation to move difficult projects forward. She suggested a proposal to think about, to allocate a specific amount to 6 big cities with populations over 500,000, namely San Francisco, Los Angeles, San Diego, San Jose, Sacramento and Fresno, and wanted the committee to consider allocating a specific amount, like $500 million, to big City Mayors to let them decide where they want to fund for difficult projects.

Public Comments:

Caleb Roope spoke on behalf of the working group, saying they wanted to share the progress and specific ideas they had come up with thus far. The working group outlined they prefer a tiebreaker system that rewards high resource/highest resource areas without the determinative point yet are committed to supporting AFFH and will continue to work with the committee on that. They value the administrations idea of a 50% soft cap when the point vacates. They suggest looking toward a potential rent savings category and determining fair market rent (FMR) minus project rents. They are also considering, yet do not have consensus on some geographic realignment where counties in the North like Napa and Sonoma might join the Coastal and Santa Cruz and Marin would join the Bay Area Region. They are also considering an adjustment in the Inland region. With realignment would come a slight shift in the resource allocation which would account for the shift in population for the

region, mainly the Bay Area Region. Not all the members of the working group are on board with this recommendation. They do, however want to make sure to address fair market rent differences, and cost differences in those areas. The working group did agree that as we deal with the disparity in the rent savings category, perhaps we should make a shift in resources, from the pools and set-asides to more in the geographic regions. Currently there is 40% of the allocations going to geographic regions and 60% to pools currently, and they agreed it should be the other way around as a way to help with the interregional disparity that exists.
Doug Shoemaker discussed public benefits and rent savings. The working group agreed to measure rent savings against FMR but struggled with how much weight it would receive and the length of time for the rent differential. There was discussion in the working group on addressing the rent differential on a project level while achieving sustainability for low and extremely low housing and changing how each project is scored. The proposal is: while measuring rent differential, measure it against an affordability average, yet the average affordability cannot receive a benefit below 40% AMI. The exception to that would be the provision of rental vouchers from the local level should be treated differently. Even though each program is important and valuable, homeless projects should be prioritized.
Ann Silverberg wanted to discuss the tiebreaker aspects of the numerator and denominator. For the numerator, locational benefits such as high and highest opportunity, further the fair housing goals. One aspect of that is proximity to transit which is evaluated in the 9% tax credit scoring, and proximity to high quality transit, which does help them achieve some of the goals for the public and the environment. The working group also discussed about areas that have been traditionally underfunded that are lacking in resources. Community revitalization was one way identified to help alleviate that, using the definitions previously used, but removing federal opportunity zone from the definition.
Regarding the denominator, some projects even with an adjustment for costs, are still disadvantaged in the competition due to certain factors such as – in a high cost area there may be a different construction type so you may increase the number of units on a smaller parcel of land you may go from a type 5 building to a type 1 podium with housing above would get a little concession to account for the cost. There was also a discussion and consensus of a reduction in the denominator for prevailing wage projects. It is a delicate balance. They have not discussed the weighting of these categories. They also talked about increasing the cap with basis modification from 30%-45%, which can be tied in with the rents.
Mr. Sertich thanked the working group for their hard work. He agreed if you change one thing, it can cause a cascade or domino effect. He reiterated he wanted to focus on rent savings, and the numerator/denominator as well as the scoring system.
The Treasurer asked if we go to a priority like homelessness, how does it affect your pipeline? Shoemaker responded the working group's idea was to flatten the measure to give extra points for the homeless population benefit in the tiebreaker.
Mr. Sertich wants to focus on what would be a driving force for developers, that the calibration can shift a lot. Shoemaker pointed out that homelessness increases the costs of a project and adjustments in the formulas should help address that.
Ms. Miller thanked the working group and would like to start discussing AFFH. She suggested

keeping the AFFH points yet having a 50% cap, understanding we ,ust understand the points before moving to the tiebreaker.
Mr. Sertich does not think that is an ideal solution yet is in favor of removing the point and be sure to calibrate the public benefit for the high opportunity areas appropriately.
Mr. Roope agreed with Sertich valuing public benefit that way. The one point almost guarantees the AFFH project. There is currently the risk of not getting the project based upon the consequences of changes in the new system.
Ms. Miller stated the data does not show that the point would cannibalize everything and was clear she does not want to make policy based upon information that is not yet available and wanted to define having a soft cap versus a hard cap. She believed this is what was seen at the end of 2020, where a soft cap was beneficial.
Mr. Sertich wants to make sure projects are being built in high resource areas since the goal is to get units built. There is a need to balance the priorities to make sure the projects continue to move forward.
Ms. Miller agrees and believes there is more talk needed regarding the tie breaker, specifically.
William Leach with Kingdom Development suggested that instead of having a bonus point you could have the tiebreaker affect the AFFH with a monstrous percentage which will get away from the bonus point and signal to the community that they should not solely be looking for properties in a specific geography If there's a point, it's black and white, but if you can adjust the percentages, it can be more flexible.
Mr. Velasquez stated with the 50% cap, the data presented is leaning toward a more balanced approach. He stated without that, there is a risk of regressing to the point where it will need to be addressed again in order to achieve the desired balance, then reevaluate next year if it is working and move forward from there.
Mr. Shoemaker stated the working group had wanted to eliminate the extra point, but appreciates there are other types of projects that can win. The challenge they face is finding where the calibration is, so they recommend removing the extra point and allowing it in the tiebreaker. If you land on some of the key pieces and make them the foundation, the rest of the system accordingly. If the high and highest is the 1 point with the 50% cap, it's easier to comprehend how the rest of the tiebreaker would work.
The Treasurer thanked the working group for providing input.
Ms. Miller stated the committee seems to be leaning toward AFFH and the cap. She reminded the committee the secretary suggested 4 categories in the numerator and 2 in the denominator.
Mr. Sertich stated he does not believe a soft cap would not have a bad outcome and agreed it is the foundational piece before addressing the tiebreaker. He believes it makes more sense not to have the extra point.
The Treasurer confirmed the consensus is to have a soft cap and keep the point.
Mr. Roope clarified that the Working Group voted to have a soft cap and keep the point.
Ms. Miller requested to talk about the denominator. She reiterated the Secretary suggested tax credits and bonds while Sertich recommended tax credits, bonds, and all the state programs. She thought there may be a consensus around tax credits and bonds in the denominator but wanted to ask the committee members for clarity.
Mr. Sertich agrees they talked about it and is okay using bonds and state credits as the denominator.

He noted his presentation is a stretch goal and not necessary to implement this year, yet revisit in the future to be sure it is working.

Ms. Miller agreed the need for an annual review.

The Treasurer agreed on tax credits and bonds as denominator.

Ms. Miller identified the next issue is the numerator. She reminded us the Secretary noted four pieces, without specifying weight; production, location, population and rent savings.

Mr. Sertich stated he agrees with those four items and there are more such as environmental issues. The working group mentioned prevailing wage in the denominator, yet Mr. Sertich atate the Controllers Office sees that as a public benefit and should be in the numerator. Also services and homelessness are important which already have a point category. He stated we need to come up with relative measurements of the different pieces to be sure they balance out..

Ms. Miller wants working group to expand on rent savings so AMI is not going below average and where the backstop would be. Mr. Velasquez asked after this as well.

Mr. Roope stated the working group agreed to go back to look specifically at this. He stated it has been helpful that the administration specified a priority to ELI and VLI units. The working group hasn't produced anything with rent savings, and rent assistance at this time, but some things have been clarified, so will look at deeper affordability and cost efficiency. The difficulty is measuring those together.

Ms. Miller specified she wants them to explore a backstop of AMI for rent savings, as well as rent savings and location equity, since those can be in conflict. Location equity is a goal that needs to remain.

Mr. Leach expressed support of the backstop of lowest affordability , specifying the tiebreaker currently has a backstop on how many bedrooms are provided, for example.

Public comment:

Andre Perry with City of Los Angeles expressed thanks for the discussion and ability to speak on the items. He wanted to highlight regulation section 5233(b) regarding allocation limits. There was a 60% cap in 2020. Specifically in the City of Los Angeles, where costs are higher than other markets, the cap has a negative impact. He requested if the Build Back Better Plan does not pass, to increase the cap to 60%. If it does pass, and a [25%] cap is implemented, to not go lower than 30% of the aggregate basis.

Jessica Hitchcock with Santa Clara Valley Transportation Authority appreciates the committee incorporating climate change into the tie breaker and specified taking transit into consideration is beneficial to that goal. She encouraged having that in the tiebreaker, or other transit related ties. Hitchcock also encouraged taking building types into consideration in the tiebreaker and how that affects cost efficiency. She also encouraged them to calibrate the denominator to support higher cost construction types.

Jonah Lee from the San Francisco Mayor's Office for Housing and Community Development expressed concern in how San Francisco has been adversely impacted since the private activity bonds went competitive. He wants to explore the Treasurer's suggest for having a big city pool that would guarantee cities such as theirs the ability to secure volume cap. He encouraged CDLAC to adopt the scoring system as outlined by the State Controller's Office because the approach creates a sound policy framework for evaluating projects. He expressed thanks to the working group for leveling the playing field for high cost areas but is fearful this will fall short of what San Francisco needs. The most impactful way for high cost projects is to increase the statewide basis delta to more than 30%, up to 60% to reflect the true cost differential between San Francisco and other areas of the state. There needs to be an emphasis of rent savings measured against fair market rents, with this being the highest weight, for the longest period possible, up to 50 years. Lee also stressed the need to close proximity to high quality transit and the inclusion of revitalization benefits, especially those located withing city designated areas.

Marina Wiant with the California Housing Consortium appreciated the discussion around rent savings. She asked if a project has 40% average AMI, but no other benefits and is being weighed against a 50% average AMI with other benefits, is there a way to level the playing field for the 50% project. Absent of direction from the committee, there is no way to know how to weigh the other values.

Ms. Miller clarified there seems to be agreement around rent savings and a need for a backstop. She asked Mr. Velasquez' opinion who deferred to Mr. Sertich.

Mr. Sertich pointed out the Controller's Office looked at several of the different pieces. There are a lot of good studies on being raised in a high opportunity area and the benefits that can be had for children. When looking at environmental benefits such as high-quality transit, they looked at data on vehicle miles traveled, which has a direct impact on climate change, at a market-based rate. There are quantitative ways to get at these to tie them in to the state priorities, and the measurements reflect the desired outcomes.

Mr. Leach mentioned looking at tradeoff values. If all things were equal, would they pick a 50% project close to transit over a 49% farther from transit. Then the same scenario but with a 48% project. If that question is continually asked, they can discover where the scale tips. Mr. Leach stated he is willing to work with the working group on this type of survey to see the weights of these things at the committee level.

Mr. Velasquez said he appreciates the method, but for example, AMI can be looked at throughout the entire state. However, when looking at factors such as transit, many areas in the state are excluded.

Mr. Shoemaker agrees transit cannot be one of the absolute factors since it is region specific. Ideally, the working group is there to help the committee make choices in the face of the scarcity of resources. He believes the committee can create policy to further the administrative direction. He states if the Committee values climate change, we need to include benefits for that. Though it is difficult to come to a consensus with such a diverse group, there is a benefit to evaluate all the measures. ,0

Mr. Sertich pointed out when resources are scarce, decisions need to be made on how to use those resources by establishing methodologies. He went on to say there are many objective measures that came from the federal government and it may be beneficial to pull from the different programs to get to the general measures the committee is looking at, but not in an overly complicated way while including environmental experts.

The Treasurer pointed out jobs play a critical role. If people cannot afford to live in those locations, businesses cannot find workers. Therefore, there needs to be an evaluation of places who need workers.

Mr. Shoemaker indicated that is why the working group suggested flipping the funding to giving more allocation to geographic areas instead of to the pools and set asides, since there is such a high need. Their suggestion covers most the areas the committee wanted to focus on. Though the system is imperfect and cannot please all people, they wanted to encourage the most positive outcomes and meet the most needs.

Ms. Miller stated it is important to take one thing at a time, saying it is better to understand what is included in the four items of the numerator. She said it would be beneficial to spend more time looking at those 4 items, then use the pool lever to address the tie breaker. The second question is related to location, and how to weight these things so a conclusion can be reached. After these 4 things are considered, then the committee can look at the regions to see what would be most beneficial to the regions. She asked the Treasurer what to use in the numerator for location, who deferred to Sertich's presentation. The third factor is resources such as jobs. Beyond these things, the weighting of these things is the next thing the working group needed to evaluate.

Population is the fourth thing. The committee discussed the need to determine how to weight senior housing or even remove it from the population benefit though there is a need to focus more on homelessness since it is the biggest issue being faced. The Treasurer did not agree with taking Senior Housing out of the mix. Mr. Sertich reiterated it wouldn't be removed, just weighted differently.

The Treasurer mentioned evaluating the difficulty of frequently changing the criteria, and how this affects staff.

Ms. Miller recapped the conversation regarding the four items agreed to; fair market rent versus AMI with a backstop yet did not agree on a percentage but suggested 40%, rent savings and rental assistant and whether we need a backstop there. Location we agreed on high resource areas, transit oriented developments, and job opportunities yet didn't determine how to measure jobs. Population; agreed that there is a huge need for homeless housing and will defer to the Treasurer on Senior Housing. In terms of production, we haven't spoken of that yet, just being sure we are keeping the numbers are up, being as simple as how many units or bedrooms are built, while continuing to emphasize cost efficiency.

Mr. Sertich agreed that units is a good production measure. He identified there is a big disparity in fair market rents in who can afford the housing. Some areas have higher rent savings, but also have a higher building cost. There is a big incentive to build in those areas.

The Treasurer stated flipping the majority of the allocation from pools to regions may solve some of the problems of projects being built where there are more jobs, and will wait for the population census data to see where the shift in population is. The Treasurer asked the working group what they need to move forward.

Ms. Miller clarified the discussion of allocating more to geographic regions and less to set aside pools does not mean that other pools are being eliminated.

Ms. Johnson-Hall excused herself from the meeting.

Ann Silverberg stated the working group had discussed community revitalization areas for consideration.

Ms. Wiant added they need more specific direction on what "near jobs" means and how to show that exists.

Mr. Velasquez responded that the job index is hard to measure and proximity as well. The TCAC Opportunity Maps include a job index.

The Treasurer pointed out the job market is changing due to COVID, opening many opportunities to telework.

Mr. Sertich said there have been some studies done on this, but it is not ready to go live yet, so he believes this should wait until 2023.

Mr. Shoemaker, thanked the committee for their beneficial feedback, with the tentative conclusions offered.

Ms. Miller reiterated there is a technical memorandum coming out this week from the Administration which encompasses all of these things and is meant as a point of discussion.

Mr. Sertich agreed the memorandum will be helpful.

6. *Agenda Item:* ***Public Comment***

There were no public comments.

7. *Agenda Item:* ***Adjournment***