California Debt Limit Allocation Committee

915 Capitol Mall, Conf Rm 587
Sacramento, CA 95814

January 18, 2023

CDLAC Committee Meeting Minutes

1. *Agenda Item:* **Call to Order and Roll Call**

The California Debt Limit Allocation Committee (CDLAC) meeting was called to order at 9:01 a.m. with the following Committee members present:

Voting Members: Fiona Ma, CPA, State Treasurer
California State Controller Malia M. Cohen
Deputy Controller Evan Johnson for State Controller Malia M. Cohen
Gayle Miller for Governor Gavin Newsom

Advisory Members: Anthony Sertich for Department of Housing and Community Development (HCD) Director Gustavo Velasquez
Tiena Johnson Hall, Executive Director for the California Housing Finance Agency (CalHFA)

2. *Agenda Item:* **Approval of the November 30, 2022 Minutes** – *(Action Item)*

MOTION: Ms. Miller motioned to approve the minutes of the November 30, 2022 meeting, and Ms. Cohen seconded the motion.

Chairperson Ma called for public comments:
None.

Motion passed unanimously via roll call vote.

3. *Agenda Item:* **Executive Director's Report**
Presented by: Nancee Robles

Ms. Robles discussed the following topics:

2022 Program Highlights: CDLAC had 8 Committee meetings last year, which was considerably less than the 14 meetings in 2021. In 2022, CDLAC was responsible for the allocation of over $4.3 billion for the State Volume Cap, with all but $600 million going to multi-family affordable housing projects. Of that amount, along with prior year carryforward, $3.2 billion was awarded to Qualified Residential Rental Projects, almost $90 million to CalVet, and a little over $415 million for exempt facilities, for a total of $3.7 billion. The approved projects helped developers create 15,065 units of affordable housing throughout California for families and individuals.

In 2022, Ms. Robles and CDLAC staff attended over 15 grand opening events, 9 groundbreakings, and almost 20 affordable housing conferences. While all the celebrations were important, the most notable were the grand opening of Veterans Village of Carson, the welcoming of Lavender Courtyard in Sacramento, and the Affordable Housing Tax Credit Coalition (AHTCC) Fall Meeting and Edson Awards where multiple CDLAC/CTCAC projects were honored.

One of CDLAC's important accomplishments in 2022 was the multi-year process of writing regulations to better align with CTCAC and the competitive process. Ms. Robles thanked the working group, CDLAC staff, and CDLAC Section Chief Emily Burgos for her dedication and leadership on this vital project.

Ms. Robles acknowledged the continuing success of the BIPOC Pool, which was a set aside created in 2021 for emerging BIPOC developers. In its second year, three projects were awarded to emerging BIPOC developers, totaling over $77 million, further benefiting California communities. Last week, the Treasurer attended the groundbreaking ceremony for one of those projects, Poppy Grove in Elk Grove.

Carryforward Update: All 2019, 2020, and 2021 carryforward allocation was expended in 2022. Remaining allocation for 2022 consisted of projects that returned allocation in the amount of $61,932,499 and an unallocated amount of $763,271,700. Although CDLAC was oversubscribed in 2022, the demand for state tax credits associated with the bond requests exceeded the tax credits available. A total of $825,204,199 of 2022 allocation remained at the end of the year.

Prior to December 31, 2022, Ms. Robles used her delegated authority to divide the remaining allocation amongst the top three issuers in prior years. California Housing Finance Agency (CalHFA) and California Municipal Finance Authority (CMFA) each received $275,086,040 and City of Los Angeles received $275,068,039. The 2022 carryforward will be applied to future projects in order of priority: Supplementals, Homeless/ELI/VLI, and MIP Qualified Residential Rental projects before any current year allocation is awarded to these issuers.

Supplemental Allocation Pool Update: Last year, CDLAC created a Supplemental Pool and allocated a little over $216 million to that pool. Additionally, almost $133 million in prior years' carryforward was applied to supplemental requests. From the date the pool was established in June 2022 until the end of the year, 89 supplemental applications were approved for over $251 million. At the end of 2022, the supplemental pool had $97,309,113 remaining. This remaining amount was part of the 2022 lump sum carryforward allocation to the top three issuers for QRRP Projects. Since the beginning of 2023, CDLAC has already received 11 supplemental applications seeking allocations for almost $31 million. If a 2023 Supplemental Pool is established, 9 of the 11 supplemental applications can be approved under the authority delegated to the Executive Director, and 2 will be presented to the Committee since they are over Ms. Robles' delegated authority.

Finally, Ms. Robles apologized to the Committee for the late arrival of this month's meeting materials. She understands the importance of providing the Committee members sufficient time to review the hundreds of pages of material to make informed decisions. A more stringent internal process will be implemented to reduce the possibility of this happening again.

Chairperson Ma called for public comments:

Veronica Pardo from Resource Recovery Coalition of California expressed gratitude for the $600 million allocation for the waste and recycling facilities operated by the members of her organization. Those facilities are in great need of financing as they attempt to achieve California's ambitious organic recovery and diversion goals under SB 1383.

Chairperson Ma said that item will be discussed later in the agenda, so the Committee will file Ms. Pardo's comment under that item.

Chairperson Ma closed public comments.

4. *Agenda Item:* **Resolution No. 23-001, 23-010, Request to Extend the Bond Allocation Issuance Deadline for Qualified Exempt Facility Project and Qualified Residential Rental Project (Cal. Code Regs., tit. 4, §§ 5100, 5133) –** *(Action Item)*
Presented by: D.C. Navarrette

Mr. Navarrette reported there are two projects requesting extensions. The first project, Claude "Bud" Lewis Carlsbad Desalination Plant (CA-22-104), was allocated $194 million on July 20, 2022. It received a 5-day extension, making the new bond issuance date January 23, 2023. It now requests a 90-day extension to April 17, 2023.

Ms. Cohen requested an explanation to justify the extension.

Jeremy Crutchfield, Water Resources Manager at the San Diego County Water Authority, spoke on behalf of the project. He explained that the facility is important to the San Diego region and the state since it provides a drought-resistant water supply. The allocation awarded to the project will be used to modify the facility's intake structures that bring water into the facility in compliance with California's Ocean Plan Amendment. The intake modifications project consists of 11 new screens which will be supported on a new bridge or deck. The allocation of State Volume Cap for the intake modifications is important to the facility's rate payers and saves the Water Authority over $800,000 annually for the first few years. The extension is being requested because the project has received additional financing through the EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program. That financing provides approximately $20 million of additional present value benefit to the Water Authority. Additional time is needed for that loan to close.

Ms. Cohen requested clarification that additional time is needed for the loan to close. Mr. Crutchfield confirmed that is correct.

Aaron Epstein from Abrdn Investments, the sponsor of the project, agreed with Mr. Crutchfield that an extension is needed.

MOTION: Ms. Miller motioned to adopt Resolution No. 23-001, and Ms. Cohen seconded the motion.

Chairperson Ma called for public comments:
None.

Mr. Navarrette introduced Vista Terrace (CA-22-711), the second project requesting an extension. The project received an original allocation of $36,472,386 on June 15, 2022. On December 20, 2022, the project received a supplemental allocation of $3,640,000. The issuer is requesting an extension of the issuance deadline from March 13, 2023 to May 12, 2023. The project will provide 101 large family units in Los Angeles.

Anthony Stubbs from California Municipal Finance Authority spoke on behalf of the project. He said the extension is needed due to the uncertainty of construction costs and interest rates.

Benton Heimsath spoke on behalf of the developer, Thomas Safran & Associates. He expressed gratitude for the supplemental allocation but said the 10 weeks between the award date and the March 13, 2023 issuance deadline is not enough time. Additionally, there was a recent mayoral and council turnover, so at the time the allocation was awarded, council members were being reassigned, and the City of Los Angeles Housing Department (LAHD) was unsure if the issuance deadline could be met. Since then, LAHD has been working hard and is optimistic about scheduling a hearing in February. However, as of right now, the timeline is tight, and there is no hearing date scheduled yet for the supplemental bonds.

Chairperson Ma called for public comments:
None.

MOTION: Ms. Miller motioned to adopt Resolution No. 23-010, and Ms. Cohen seconded the motion.

Motion passed unanimously via roll call vote.

5. *Agenda Item:* **Resolution No. 23-002, Request to Waive the Forfeiture of the Performance Deposit and Negative Points for the Return of Supplemental Allocation for a Qualified Residential Rental Project (Cal. Code Regs., tit. 4, §§ 5052, 5230)** – *(Action Item)*
   Presented by: D.C. Navarrette

Mr. Navarrette reported Juniper Valley Townhomes (CA-22-526) received an initial allocation of $14,956,026 on December 8, 2021 and a supplemental allocation of $1,250,000 was awarded on June 15, 2022. The supplemental allocation was awarded prior to the adoption of the Supplemental Pool, so the applicant participated in the competitive process for that allocation. The supplemental allocation was returned on December 8, 2022, prior to the original assigned supplemental bond issuance deadline of December 26, 2022. The issuer is requesting a waiver of forfeiture of the $6,250 performance deposit and the assessment of negative points.

Anthony Stubbs of the California Municipal Finance Authority spoke on behalf of the applicant. At the time the project applied for the supplemental allocation, there was a lot of flux in the market regarding rates and construction costs. Initially, the project requested the supplemental allocation to ensure they would meet the 50% test, but it eventually became apparent that the supplemental was not needed.

Ms. Miller asked for clarification that the project is only requesting a return of the performance deposit for the supplemental allocation. Mr. Stubbs responded affirmatively.

Chairperson Ma asked Mr. Navarrette to confirm the amount of the performance deposit. Mr. Navarrette said the deposit was $6,250, which is 0.5% of the supplemental allocation.

Ms. Miller said the Committee's standard practice is to waive assessment of negative points but not to waive forfeiture of the performance deposit. She asked Chairperson Ma for her opinion on waiving forfeiture of performance deposits on supplemental allocations since supplemental allocations were introduced to try to accommodate for increased construction costs.

Chairperson Ma asked Ms. Robles about other applicants returning supplemental allocations for this same situation. Ms. Robles said it is hard to predict, since this is the first project to return a supplemental allocation and request a return of the performance deposit.

Ms. Cohen asked if there is an established policy for this situation. Ms. Robles said the regulations state a performance deposit will be forfeited if an allocation is returned. Negative points are handled differently since the regulations state negative points *may* be assessed. In the past, negative points have been reserved for negligence, which does not appear to be applicable in this case.

Chairperson Ma said the Committee has been lenient about the assessment of negative points, but they have not approved the waiver of forfeiture of performance deposits. Since this is the first supplemental allocation returned, a precedent has not been set yet.

Emily Burgos, Section Chief for CDLAC, said the performance deposit is typically not returned when an allocation is returned. In the past, this has only applied to original bond allocations. Last year, the Committee denied every request to waive forfeiture of the performance deposit.

Ms. Cohen asked for an explanation of that decision.

Ms. Miller said the bond cap is extremely limited and does not meet the demand. When an allocation is awarded to a project, that means another project will not receive an allocation. Three tests are performed to ensure a project is truly shovel ready. First, the financing must be in order. Second, staff ranks the applications to ensure they are complete. Third, a non-refundable performance deposit is collected to ensure the project is built after the allocation is accepted. The Committee does not want to reward bad behavior by returning performance deposits. However, this is the first time this issue has come up regarding a supplemental allocation.

Ms. Burgos said CDLAC approved off-the-shelf supplemental applications in July 2022. None of those supplemental allocations have been returned because there has not been enough time yet. The project in discussion applied for a supplemental allocation before the off-the-shelf supplemental application process was established and it received one of the first supplemental allocations. The project requested a supplemental allocation in an uncertain environment and anticipated a supplemental allocation may be required, but they had no certainty that an off-the-shelf Supplemental Pool would be established. Regardless of which pool the supplemental allocation comes from, an awarded allocation still prevents another project from receiving an allocation. CDLAC strived to strike a balance last year between making the supplemental allocations easily accessible for projects in need, but not so easy to obtain that projects would depend on receiving a supplemental allocation.

Mr. Stubbs said the over-the-counter supplemental process resulted in a lot of carryforward, so it was not like a typical round with a certain amount of allocation available. This project did not take the place of another project.

William Leach from Kingdom Development said performance deposits are often forfeited if the applicant does not issue 80% or more of the bonds allocated to them. He suggested the Committee view supplemental allocations as a smaller component and consider whether the applicant issued at least 80% of all the bonds issued to them. The project did use the resources provided to them and the bonds were materially important. He is not sure if the regulations specify whether to consider this issue in the aggregate.

Ms. Miller expressed sympathy for increased construction costs, but she feels it is important for the Committee to remain consistent on this issue. Once an allocation is accepted, another project is prevented from receiving an allocation. Too many projects are waiting for allocations for the Committee to be inconsistent on this issue. She supports waiving negative points for this project but not returning the performance deposit.

Ms. Cohen asked what impact waiving negative points will have on the project.

Ms. Burgos said the Committee has the authority to assess negative points, which would negatively impact the developer's score on future applications. The environment is so competitive that one negative point will prevent them from being awarded any bonds. Negative points are not assessed automatically, but projects will often preemptively ask the Committee not to assess negative points. This project does not currently have negative points, but they are asking for negative points not to be assessed. Staff is not recommending assessment of negative points, and the Committee would have to vote to assess negative points. No action from the Committee would mean no negative points would be assessed. The project is also requesting waiver of the forfeiture of their performance deposit, which is a separate issue.

Jennifer Baldwin, Attorney for the State Treasurer's Office, clarified that two votes will be needed for this item. The first vote will be needed to amend Resolution No. 23-002 to remove the waiver of forfeiture of the performance deposit. A second vote will be needed to approve the amended resolution.

MOTION: Ms. Miller motioned to amend Resolution No. 23-002 to state: "SECTION 1. The waiver of a negative points assessment is approved for the California Municipal Finance Authority in relation to Juniper Valley Townhomes, application No. CA-22-526."

Ms. Cohen asked how this action will impact the project. Chairperson Ma said the performance deposit will not be returned.

Ms. Cohen seconded Ms. Miller's motion.

Chairperson Ma called for public comments:
None.

Motion passed unanimously via roll call vote.

MOTION: Ms. Miller motioned to adopt the amended Resolution No. 23-002, and Ms. Cohen seconded the motion.

Motion passed unanimously via roll call vote.

6. *Agenda Item:* **Resolution No. 23-003, Adoption of the 2023 State Ceiling on Qualified Tax-Exempt Private Activity Bonds (Gov. Code § 8869.84) –** *(Action Item)*
   Presented by: Ricki Hammett

Ms. Hammett reported Gov. Code § 8869.84 requires CDLAC to determine and announce the State Ceiling as soon as practical after the start of each calendar year. Section 146 of the Internal Revenue Code limits the amount of qualified tax-exempt private activity bond debt that may be issued in a state during a calendar year. Pursuant to Revenue Procedure 2022-38 published by the Internal Revenue Service, the volume limit on qualified tax-exempt private activity bonds adjusted for inflation for the calendar year 2023 is $120 multiplied by the state's population. This is a $10 decrease [stated incorrectly during the meeting; this is an increase] from the 2022 amount. On December 22, 2022, the U.S. Census Bureau issued Press Release #CB22-214, reporting California's estimated 2022 population as 39,029,342. The population decreased from 2021. The change in the IRS inflation adjustment and the Census Bureau population estimate results in a new 2023 bond volume cap of $4,683,521,040. In terms of dollars, this is a $367,359,080 increase from the 2022 State Ceiling. Staff recommends adopting Resolution No. 23-003, establishing the 2023 State Ceiling of $4,683,521,040 on qualified tax-exempt private activity bonds.

Chairperson Ma called for public comments:

Ben Barker from California Municipal Finance Authority thanked CDLAC for providing frequent reports which enabled them to file their tax forms prior to the end of the year.

Ms. Miller agreed that the dashboards provided by staff have been helpful.

Chairperson Ma closed public comments.

MOTION: Ms. Miller motioned to adopt Resolution No. 23-003, and Ms. Cohen seconded the motion.

Motion passed unanimously via roll call vote.

7. *Agenda Item:* **Resolution No. 23-004, Adoption of the Application Process and the State Ceiling Pools (Cal. Code Regs., tit. 4, §§ 5010(a) – (b), 5020)** – *(Action Item)*
   Presented by: Emily Burgos

Ms. Burgos said this item was listed as an action item on the agenda so the Committee may choose to vote on it, but the Committee may also opt to just have a discussion today. However, this item will need to be approved prior to February 7, 2023, which is the application date for the next round. Additionally, the approval of this item will impact whether staff will bring item 8 to the Committee today.

Staff recommends just over $4 billion in pools and set asides for QRRP projects and $630 million for non-QRRP projects ($30 million for industrial development bonds and $600 million for other exempt facilities). Staff has received 10 letters from various organizations representing solid waste management in support of the recommended allocation to other exempt facilities and industrial development bonds. Staff's recommendations mirror last year, with a couple of adjustments. Last year, 40% of the QRRP allocation went to geographic apportionments; staff's recommendation is the same this year. The actual geographic apportionments are in the regulations, so staff does not adjust those.

For the non-geographic pools, staff recommends that 3% be reserved in a Supplemental Pool in anticipation of the need for supplemental allocations; staff has already received 11 supplemental applications. The percentages recommended for the non-geographic pools are all the same as last year, except for the Preservation and Other Rehab pools; the Preservation pool has been reduced from 14% to 10% of the non-geographic pool, and Other Rehab has increased from 1% to 5%. These changes were made because Preservation was under-subscribed last year by approximately $121 million and Other Rehab was over-subscribed. Staff continually receives feedback from the public that additional allocation is needed for Other Rehab.

Last year, the Mixed-Income Program pool was forward-funded, but this year, staff recommends that all allocation be available during Round 2, based on discussions with CalHFA.

Ms. Miller expressed a desire to schedule an additional Committee meeting on February 1, 2023, to vote on this item to allow additional time to analyze the pools and related demand surveys. There was not enough time to analyze the information prior to this meeting. However, she understands the priorities regarding preservation and exempt facilities. It is important to use the allocation strategically to accomplish all the state's goals.

Chairperson Ma said the Committee will schedule another meeting to vote on this item on February 1, 2023. However, the Committee will take public comments today.

Chairperson Ma called for public comments:

William Leach from Kingdom Development said prior applications indicate an underrepresented Other Rehab pool. Many projects would have liked to apply for acquisition and rehabilitation credits to recapitalize properties and sustain them long term, but the minimal resources available in the Other Rehab pool were a deterrent to many applicants. By simply looking at last year's applications, the Committee will see an inaccurate picture of the amount of useability of tax-exempt bonds for recapitalizing affordable housing projects. Until applicants realize the Committee's priority may shift to a blend of rehabilitation and new construction projects, they may not answer the demand survey appropriately regarding the various projects in their portfolios that could use recapitalization and improvements. The data is probably not representative of the number of potential applicants who would utilize the tax-exempt bonds for rehabilitation.

Mr. Leach further explained that in 2022, there were not enough state tax credits to pair with the available tax-exempt bonds for all the new construction projects. The situation is likely to be similar in 2023, so there may be room to allocate more of the tax-exempt bonds to rehabilitation projects since those projects are not eligible for state tax credits.

Caleb Smith spoke on behalf of the City of Oakland Department of Housing and Community Development. He thanked the staff for proposing an increase to the Other Rehab Pool and concurred with Mr. Leach that the demand survey likely shows an understatement of demand for rehabilitation. He asked the Committee to consider reallocating the proposed allocation from the Exempt Facilities Pool to multifamily affordable housing. Tax-exempt bonds provide unique benefits in terms of accessing federal tax credits and advancing California's priorities on affordable housing. Reallocating bonds from exempt facilities to multifamily affordable housing would be a more efficient use of state resources. Additionally, there is a mismatch between the estimated demand for tax-exempt bonds in the QRRP Pool in the Bay Area region and the amount of bonds proposed to be allocated. Mr. Smith expressed hope that his organization will be able to work with CDLAC in the upcoming year on the allocation of bonds between pools. He believes there should be an ongoing conversation about how to balance bonds properly between the regional pools as well as the nuances of construction costs in different regions.

Anthony Yannatta from Thomas Safran & Associates expressed support for the additional resources proposed to be allocated to the Preservation Pool and Other Rehab Pool.

Darren Bobrowsky from USA Properties Fund said he expects the state tax credits to control how bonds are allocated in 2023, like the past several years. CDLAC is proposing to allocate 60% toward set asides and 40% toward geographic pools, but because of the way the bond cap and state tax credits are allocated to projects, the geographic regions have been well under their 40% funding target in the past several years. In Round 2 last year, only one project was funded from the geographic regions, which left $825 million in carryforward; that carryforward is not included in this recommended pool. Mr. Bobrowsky would like to work with CDLAC to determine how that carryforward can be used to help fund the geographic regions and ensure resources are spread throughout the state. Although everyone wishes there was more than $500 million in state tax credits, with the current interest rate environment and construction costs, the Committee should expect to have excess bond cap at the end of the year. State tax credits will dictate which projects are funded.

Ben Barker from California Municipal Finance Authority (CMFA) said there was roughly $800 million in carryforward last year. Last year, CMFA had roughly 80 applications in Round 1. This year, they expect to have approximately 40 applications in Round 1, which is a significant decline. Based on their current pipeline, they probably will not be competitive by the middle of the year. Rates continue to rise, and more projects will become infeasible. The spread between market rates and tax-exempt rates will drive a demand for more exempt facility projects because they would not be feasible in a market rate environment. He expects a higher demand for exempt facilities mid-year. The pools could be readjusted later this year if the carryforward is like last year. Over the past 12-year period, the spread between market rates tax-exempt rates has been compressed and manipulated by federal purchasing. Now that purchasing has slowed down and rates have risen, there has been a big decompression on rates. Now, exempt facilities and non-QRRP projects are feasible because the tax-exempt rates are much lower than market rates. There is a pent-up demand since exempt facilities have been limited in recent years. CMFA has not applied for the Exempt Facilities Pool to ensure there was enough for affordable housing, but they have the demand for millions of dollars of bond allocation. He hopes rates will decrease enough for affordable housing projects to be feasible, but he does not expect that to be the case.

At 9:56 a.m., public comments were paused, and Ms. Cohen excused herself from the meeting. Deputy Controller Evan Johnson joined the meeting on her behalf. Roll was called again to include Mr. Johnson.

Chairperson Ma said she has been a strong proponent of exempt facilities because housing cannot be built without also building other necessary components such as wastewater, garbage, and recycling. These facilities have been shortchanged in the past few years. Last year, Chairperson Ma relented and moved some of that money into housing to help many projects become feasible. Now there is $825 million in carryforward, which is not an efficient use of the state’s scarce resources. She expressed a desire to keep the $600 million in that pool because once it is moved to housing, it cannot be moved back to exempt facilities. However, if there are not enough projects coming in mid-year, the bonds can be reallocated to housing. She feels strongly about this. Additionally, the results of the demand survey reflect anticipated projects that are not shovel-ready, so the results may be skewed. As some of the public comments have suggested, there may not have been an expectation that bonds would be allocated to the Exempt Facilities Pool.

Ms. Miller asked if bonds can be reallocated to exempt facilities if affordable housing becomes uncompetitive in the middle of the year.

Ms. Burgos said the Committee can reassess the pools and vote on a reallocation at any time.

Chairperson Ma said that since so much money has been allocated to new construction, many projects in bigger cities, such as SROs, that have not received the attention they need, in terms of repairs and maintenance. That issue is impacting tenants in cities such as San Francisco. She anticipates the Federal Reserve will raise interest rates two more times this year, which will slow down many new construction projects.

Chairperson Ma resumed public comments:

William Wilcox, Bond Program Manager for the San Francisco Mayor’s Office of Housing and Community Development, agreed with Chairperson Ma’s sentiments regarding the need to rehabilitate San Francisco’s existing SRO portfolio. He also expressed appreciation for the proposed increase in the Other Rehab Pool and asked the Committee to consider reallocating more bonds to that pool during Round 2 if there is less competition for new construction. This will give their rehabilitation projects an opportunity to secure financing and apply during Round 3. Otherwise, these projects will have to be funded either by the city or 9% tax credit allocations, which will take away funds from new construction projects. He agreed with the previous speaker who advocated for prioritizing QRRP projects because they generate 20 times more public funds through 4% LIHTCs than the tax exemption on the interest rate alone.

Larry Vaupel, Economic Development Director for the City of Vista and Chair of the California Association for Local Economic Development (CALED), said CALED is the largest professional economic development organization in the state and one of the largest in the country, representing over 800 members. He urged the Committee to support staff's recommended allocation to industrial development bonds, not only because of the positive economic impacts of the manufacturing industry, but also because it is a path to the middle class for lower skilled workers looking to gain more expertise and gain competitive wages. A thriving economy that supports an improved quality of life for Californians requires a balance of new housing units and living wage jobs. Residents need good paying jobs to pay rent and eventually put themselves on a path to homeownership. With a potential recession looming, it is critical for a healthy economy to help businesses create opportunities. Industrial development bonds also align with Governor Newsom's priorities to attract computer chip manufacturers to California. Californians deserve the individual dignity of working and providing for their families; manufacturing jobs help make that a reality. As interest rates increase, tax-exempt bonds will become more attractive to manufacturers, and they can be the catalyst for projects that otherwise would not be possible.

Michelle Stevens from the California Enterprise Development Authority (CEDA) said her organization is a joint powers authority which issues industrial development bonds and non-profit tax-exempt bonds. She urged the Committee to allocate bonds for industrial development as recommended by staff. These bonds can help small manufacturers. For example, one application which has been submitted to staff is for a small manufacturer in rural Placer County. That company, which has 234 employees, is the largest employer in their town. As Mr. Vaupel stated previously, manufacturing jobs are key to a successful economy. Quality jobs that pay a living wage are important throughout California, but especially in rural areas.

Caleb Roope, CEO of The Pacific Companies, expressed appreciation for the Supplemental Allocation Pool. He recommended that requests above the Executive Director's authority be scored competitively because the current environment is competitive. Additionally, the Committee's actions regarding the $825 million in carryforward this year will have a drastic impact on projects. Most of the carryforward came from geographic regions, but the geographic regions are being shorted because state tax credits are first awarded to set asides and then to the other pools. If the Committee will not put those funds back into the geographic regions, they should at least evenly distribute those funds throughout the set asides and geographic regions. It would not be fair for the Committee to allocate all the carryforward to a specific type of project.

Chairperson Ma asked Mr. Roope is he is referring to the three issuers that received the carryforward.

Mr. Roope responded affirmatively; the state still has the authority to dictate how the carryforward is distributed. Those issuers will use their carryforward allocations first, but the Committee has authority regarding the actual dollar value of those allocations if the allocations stay with those three issuers. To be fair, the Committee should ensure those funds are distributed evenly or return them to the geographic regions. In the early rounds, projects in set asides are usually funded because they generally receive state tax credits. The geographic regions are the last priority for funding. Projects in the geographic regions often need state tax credits, whereas set aside projects are often funded by HCD, CalHFA, or other state funds. It is not a level playing field, and projects in geographic regions are at a disadvantage; this will happen again this year if the carryforward is not fairly distributed.

Chairperson Ma asked staff to clarify if most of the carryforward is from the geographic regions pool.

Ms. Burgos said that is generally true; last year, staff started awarding allocations at the top and worked their way down to the bottom. Somewhere in the middle, state tax credits were exhausted. Projects from the geographic regions were only awarded either because they requested a very small amount of state tax credits or because they had no state tax credits. A large amount of the unused credit originated from the geographic regions.

Chairperson Ma asked Ms. Burgos if the Committee will need to decide on this issue at the upcoming February 1, 2023 meeting.

Ms. Burgos answered affirmatively; it is not as simple as staff changing the pools and set asides chart to accommodate carryforward. Last year, the Committee set carryforward priorities which dictated how carryforward was applied first. To make a change, the Committee would need to reassess the carryforward priorities. Last year, the carryforward priorities were established at the same meeting during which the regulations were approved giving the Committee authority to set those priorities. Prior to that, carryforward was assigned to the top three issuers. With that method, staff observed that the net effect of the carryforward was inconsistent. For example, CMFA's highest scoring projects were most often in the Northern Region, so in one round, that region received an additional $200 million just by chance. The Committee wanted to be more intentional regarding the application of carryforward. Additionally, the Supplemental Pool was established at that meeting. Prior to that meeting, staff was not confident the Supplemental Pool would be funded. Carryforward will first be applied to supplemental applications, per the Committee's carryforward priorities, followed in order by Homeless, ELI/VLI, MIP, and geographic regions. Since CMFA has roughly $250 million carryforward, staff will first apply their carryforward allocation to supplemental applications, and then to other types of projects, in order of priority. Mr. Roope and Mr. Bobrowsky's statements regarding carryforward not trickling down to the geographic regions are most likely correct.

Chairperson Ma asked if the Committee could reassess the carryforward priorities. Ms. Burgos said yes, the Committee can reassess those priorities, but a separate action item will be required.

Chairperson Ma asked Mr. Barker how a Committee action changing the carryforward priorities to prioritize the geographic regions would impact CMFA's projects. Mr. Barker said it might be more complicated for the City of Los Angeles because they are limited by their region, but CMFA and CalHFA have enough projects throughout all the pools for CDLAC staff to evenly distribute carryforward throughout their projects.

Ms. Burgos said the City of Los Angeles had several successful applications for Homeless and ELI/VLI projects last year. However, there may be geographic regions where there are no applications from issuers with carryforward.

Mr. Barker said it would be a tough situation if, hypothetically, the City of Fresno applied but did not have any carryforward. CMFA has a broad enough range of projects to spread the carryforward throughout the state in all the pools.

Ms. Johnson Hall concurred with Mr. Barker; CalHFA also has enough projects to distribute carryforward as he described.

Ms. Burgos said it is not as straightforward as deciding to distribute the carryforward throughout the pools and set asides. The changes made last year were a step in the right direction, but it is not a perfect solution. Staff could potentially bring forward another recommendation to the Committee to continue to move in the right direction. She welcomed feedback and suggestions.

Mr. Sertich said the most important thing is to use all the carryforward and distribute it equitably. In the past, by prioritizing how carryforward was distributed, the Committee prioritized certain pools. That might be the goal of the Committee, but they should be more explicit in those recommendations. This can be accomplished without worrying about whether certain regions have enough issuers; the Committee can over-allocate new bonds to some of those regions and over-allocate some of the carryforward to regions that have more issuers. There are ways to create a balance without worrying about the specifics of where the carryforward is distributed.

Chairperson Ma said the Committee members must give staff direction by the next meeting on February 1, 2023. Mr. Sertich expressed his willingness to work with staff on this issue. Ms. Johnson Hall agreed and said she hopes developers will reach out and provide input because they have knowledge of the projects that can come to fruition as quickly as possible.

Chairperson Ma reminded the Committee members that they are not allowed to have private discussions with each other about this issue per the Brown Act, so they will need to submit individual proposals to staff.

Ms. Miller asked if the carryforward can be treated as part of the total allocation.

Ms. Burgos said it can be presented that way, but it will not be that straightforward for staff because carryforward can still only be applied to certain issuers. The Committee's goal can be for the carryforward to have the net effect of being represented in the pools and set asides, but it may be difficult for staff to execute. She will consider the implications for staff and report back to the Committee.

Chairperson Ma said the carryforward will need to be applied to CalHFA and CMFA applications. One of the suggestions was to reallocate the carryforward back to the geographic pools since most of the carryforward came from those pools. Another suggestion was to put the carryforward back into the entire pool and then decide how to allocate it. The current order of priority for carryforward allocations, which the Committee decided last year, is supplemental applications, Homeless, and then ELI/VLI.

Mr. Johnson asked if the carryforward would impact this year's State Ceiling. Ms. Burgos said it will have no impact because it is a bonus from last year. However, carryforward can only be used for three years, so it must always be used first. If there is any carryforward at the end of this year, it should only be 2023 allocation; 2022 carryforward should be exhausted by the end of this year per IRS rules. Sometimes this is difficult, depending on the issuers receiving carryforward.

Ms. Miller said due to market demands, CalHFA's Mixed-Income Program has a high demand. Ms. Burgos agreed; staff verified the demand before making their recommendation in Exhibit A.

Ms. Johnson Hall said she expects the Mixed-Income Program to be oversubscribed by a substantial margin, so they will be able to issue the carryforward.

Chairperson Ma closed public comments.

8. *Agenda Item:* **Resolution No. 23-005, 23-006, 23-007, Supplemental Bond Allocation Request Above the Executive Director's Authority (Cal. Code Regs., tit. 4, § 5240)** – *(Action Item)*

Since Item #7 had no action taken, no Supplemental Pool was established to allow action for agenda Item #8. As a result, Item #8 was skipped and will be included on the agenda for the upcoming meeting on February 1, 2023.

9. *Agenda Item:* **Resolution No. 23-008, Adoption of the Qualified Residential Rental Program Minimum Points Threshold for the 2023 Program Year (Cal. Code of Regs., tit. 4, §§ 5010, 5020) Schedule** – *(Action Item)*
   Presented by: Emily Burgos

Ms. Burgos said a minimum point threshold for QRRP projects is set at the beginning of each year. Staff recommends approval of a minimum point threshold of 105 points for the new construction, rural and BIPOC pools, 95 points for the preservation pool, and 89 points for the other rehabilitation pool for the 2023 program year. The purpose of the minimum point threshold is to ensure that even if there are not enough projects to award all the allocation in a particular pool or set aside, projects under a certain point threshold still will not be considered.

MOTION: Ms. Miller motioned to adopt Resolution No. 23-008, and Mr. Johnson seconded the motion.

Chairperson Ma called for public comments:
None

Motion passed unanimously via roll call vote.

10. *Agenda Item:* **Resolution No. 23-009, Adoption of the Updated 2023 CDLAC Meeting Calendar and Award Schedule (Cal. Code of Regs., tit. 4, §§ 5021, 5030)** – *(Action Item)*
    Presented by: Nancee Robles

Ms. Robles asked the Committee to consider amending Resolution No. 23-009 to add a meeting on February 1, 2023.

MOTION: Ms. Miller motioned to amend Resolution 23-009 to include the February 1, 2023 meeting date, and Mr. Johnson seconded the motion.

Ms. Miller asked Ms. Baldwin for clarification on why the Committee needs to vote to add a meeting date.

Ms. Baldwin clarified that since the Committee previously adopted a resolution setting the meeting schedule, a new resolution is required to supersede the prior resolution.

Ms. Miller asked if there is a way to give staff more flexibility in changing the schedule.

Chairperson Ma called for public comments:
None

Motion passed unanimously via roll call vote.

Ms. Miller said she will motion to adopt the resolution but wants to determine a solution to give staff the ability to change the schedule without a Committee vote.

Ms. Baldwin said the application deadlines, which must be adopted by the Committee via a resolution, are included on the meeting schedule. Staff would need to bifurcate the application deadlines from the meeting schedule.

Ms. Robles said the Committee previously delegated authority to her to make minor adjustments to the meeting schedule. The Committee can make a recommendation to give Ms. Robles authority to change meeting dates.

Chairperson Ma asked staff to add this item to the agenda for the next meeting on February 1, 2023.

MOTION: Ms. Miller motioned to adopt amended Resolution 23-009, and Mr. Johnson seconded the motion.

Chairperson Ma called for public comments:
None

Motion passed unanimously via roll call vote.

11. *Agenda Item:* **Public Comment**

Mark Castellucci, CEO of Hevea-Tec, said his company is a new, innovative manufacturing company focused on sustainability. There is a significant issue with discarded tires in California, and Hevea-Tec anticipates using over 900,000 discarded tires in their first year in production and utilizing over 15,000 pounds of crumb rubber, which will be manufactured by CRM Rubber Manufacturers in Stockton. Hevea-Tec plans to build a facility in Stockton close to the crumb rubber manufacturer. The company will hire 40-60 employees over the next year, and they aim for 60% of their staff to be veterans. The proprietary, patented products produced by Hevea-Tec include utility poles, railroad crossings, seawall extensions, and various concrete replacement products.

Mr. Castellucci expressed a desire to connect with developers to discuss partnership opportunities with his company because they can produce walkways, sidewalks, curbs, and gutters that reduce carbon emissions and add carbon credits. Their products may also potentially be Lead Certified because of the recycled materials used in the manufacturing process. Many of the company's products are geared toward municipalities, including utility poles, railroad crossings, and seawall extensions, but new concrete-replacement products are expected to be produced in the upcoming year. These products will allow for faster and less costly construction of residential and commercial projects. The sustainably manufactured products will benefit California's environment and provide a use for some of the 50 million passenger tires generated by the state each year. Mr. Castellucci expects his company's usage of discarded tires to increase each year. The company has been in discussions with several state agencies, including CalRecycle, and they are poised to take advantage of various incentives. Mr. Castellucci asked the Committee to consider awarding his company a $10 million bond to assist with the purchase of a property and equipment, the majority of which will be manufactured in California. The project will bring employment opportunities, tax revenue, and environmental benefits to the local community and all of California.

Alexis Laing from Laing Companies asked the Committee to give the Executive Director authority to provide additional time to submit performance deposits for applicants with hybrid or simultaneous credits at the next Committee meeting, and/or confirm developers will not receive negative points if they must return a CDLAC allocation because the paired hybrid or simultaneous project does not receive a 9% tax credit allocation. There are projects in developers' pipelines counting on hybrid or simultaneous credits, which is allowed by the CDLAC and CTCAC regulations. The proposed 2023 rounds and meeting dates for 4% and 9% awards do not allow developers to know if they will receive both 4% and 9% awards within the 20 calendar day window in which they must provide a performance deposit after a QRRP allocation per CDLAC regulations.

Scott Littlehale, Executive Research Analyst for the NorCal Carpenters Union, said his organization represents 37,000 carpenters, drywallers, pile drivers, and millwrights. Many of the industrial carpenters represented by the union participated in the construction projects funded by tax-exempt bonds and tax credits awarded by CDLAC and CTCAC. The NorCal Carpenters Union was an active and fierce co-sponsor of AB 2011, the Affordable Housing and High Road Jobs Act of 2022. When that law takes effect in July, it will dramatically increase the supply of land that can potentially be developed for deed-restricted affordable housing. Additionally, the law will provide prevailing wage incomes to construction workers and their families, increase construction trades apprenticeship opportunities, and ensure construction workers on covered projects have the security of health care coverage for their families.

Mr. Littlehale said his organization plans to provide written comments about CDLAC regulations, specifically regarding the tiebreaker formula. They believe the formula may be improved by considering the public benefits of high road construction craft training and jobs. They would like to initiate a conversation with staff and a working group of stakeholders that has emerged out of the California Housing Consortium about the data they believe can be quantified and incorporated into the tiebreaker formula. In summary, their recommendation will be to adjust the denominator in the tiebreaker formula by increasing the current 15% adjustment for the payment of prevailing wages to 20% for projects that are required to pay state-determined prevailing wages. This is the same percentage used in the CTCAC regulations for the project threshold basis limits for projects required to pay prevailing wages. Additionally, they recommend either keeping or lowering the current 15% adjustment for projects required to pay federal Davis-Bacon prevailing wages, which are substantially lower than California's prevailing wage rates.

These recommendations revolve around the three public benefits of projects funded under AB 2011. The first benefit is monetary contributions to apprenticeship training funds, which amounts to hundreds of thousands of dollars per project. The second benefit is apprenticeship training, which was found by a study commissioned by the California Workforce Development Board to increase the earnings of apprenticeship completers by $29,000 per year on average. This amount can make the difference between a family being self-sufficient and affording an unsubsidized home versus a family requiring social safety net assistance, including subsidized housing. The third benefit is healthcare; employer-paid healthcare addresses a critical problem because 50% of construction workers in California are either uninsured or dependent on Medi-Cal. The measurable benefit of employer paid healthcare is approximately $14,000 per worker per year. Mr. Littlehale thanked the Committee for supporting affordable housing projects that deliver real benefits to Californians and expressed a desire to engage in a dialogue with staff and the larger community of stakeholders.

Chairperson Ma asked Mr. Littlehale to explain which surplus land he referred to as being potentially developable due to the passage of AB 2011.

Mr. Littlehale said AB 2011 will allow the development of affordable housing on land zoned for commercial offices, retail, and parking. Housing developments must comply with labor standards and include either 15% affordable units at the low-income level or a total of 13% affordable units at ELI or VLI to qualify. This will allow for CEQA exemptions and by-right ministerial approval of the projects which will speed up development timelines, reduce costs, and make more projects feasible.

Chairperson Ma asked if this applies to all commercial properties.

Mr. Littlehale said affordable housing has fewer restrictions than mixed-income projects, which are required to be located on commercial corridors. This legislation will affect more than 100,000 acres of commercially zoned land in California and make construction of up to 1.6 million additional affordable housing units possible, not counting the 100% affordable projects measured by experts commissioned by Facebook to study the bill.

Chairperson Ma asked if local governments have the first right to develop this land.

Mr. Littlehale said it is not only surplus public land affected; privately owned commercially zoned land is also affected.

Chairperson Ma said there is a lot of confusion regarding AB 2011 and thanked Mr. Littlehale for the summary.

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

The meeting was adjourned at 10:41 a.m.