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Sean L. Spear
Executive Director

To: Interested Parties

From: Sean L. Spear, Executive Director

Date: January 26, 2011

Re: Summary of 2010 CDLAC Program Activity

Attached you will find the summary of the 2010 program activity of the California Debt Limit Allocation Committee (CDLAC). In it you will find a brief synopsis and volume figures for each of CDLAC's Program Pools, including the ARRA-authorized Recovery Zone and Qualified Energy Conservation Bond re-allocation programs.

Reflecting the continuing impact of the great recession and the financial market crisis, each of CDLAC's private activity bond programs continued to be undersubscribed. The near complete elimination of the bond insurance sector and the reduced appetite of the commercial banks for privately-placed bonds have together made the issuance of bonds a much more difficult proposition. More bond issuers were forced to bring their issuances to the public market with lower (or no) credit ratings; relying instead on aggressively marketing the individual bond issuances to potential investors. Lack of access to bond credit enhancement continued to be the biggest hurdle for projects in 2010.

The housing sector, traditionally CDLAC's largest source of volume demand, has been hit the hardest. In addition to the aforementioned market issues, the Department of Housing and Community Development (HCD) forced to condition their funding commitments under their Proposition 1C and Proposition 46 housing finance programs earlier in the year due to the PMIB [Pooled Money Investment Board] expenditure freeze. Later in the year, HCD, the Department of Finance and the State Treasurer's Office able to work together to address the commitments issue. Also, HCD was able to identify other sources of funds to make available through their Multifamily Housing (MHP) and Neighborhood Stabilization (NSP) Programs.

Despite these difficulties, housing-related applications volume was up significantly over 2009's figures, due in part to various federal-stimulus resources such as the New Issue Bond Program (NIBP), and improving investor interest by the commercial banks. It is hoped that this improvement trend will continue into 2011.

ARRA Programs
Although CDLAC continued to have significantly reduced volume across the board for all our traditional allocation pools, a bright spot had actually been the substantial amount of interest in the recovery zone and QECB allocation programs.

On January 27, 2010, the CDLAC approved revisions to the Recovery Zone and Qualified Energy Conservation Bond Reallocation procedures establishing both the Plan of Issuance reporting process for the localities, as well as, the reallocation application process for projects. The state was fortunate to have the collective cooperation of 141 cities and counties in insuring that these limited federal resources were made available for a variety of shovel-ready projects across California. Localities that could not deploy these bond allocations in their respective jurisdictions willingly made them available for other projects elsewhere in the state, with the goal of supporting the California economy as a whole.

Through the Plan of Issuance process, CDLAC received well over $1 billion in waived allocation for the two Recovery Zone programs and over $240 million for the Qualified Energy Conservation Bond program. By the end of the year, CDLAC was able to re-allocate 100% of the Recovery Zone Economic Development Bond Program amount, 96% of the Qualified Energy Conservation Bond Program, and 58% of the Recovery Zone Facility Bond Program amount.

Attached is a summary report of all CDLAC program activities for 2010, which also includes the estimated public benefits of each program. Also attached is a compilation of Recovery Zone and Qualified Energy Conservation Bond application highlights for the year.

CDLAC believes it is vital to have the State's allocation of Private Activity Bond authority go to projects and programs that both provide measurable public benefits to the people of California, as well as contribute to the improvement of the California economy. CDLAC will continue to work hard into 2011 to market and deploy the allocation for these purposes.

If you should have any questions, comments, or suggestions, please don't hesitate to contact CDLAC staff at (916) 653-3522 or CDLAC@TREASURER.CA.GOV.

Sincerely,

SEAN L. SPEAR
Executive Director

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
REVISED
Estimated Public Benefits
2010 Summary

Overview

State and local governmental agencies and joint powers authorities can issue tax-exempt private activity bonds for certain private projects or programs with a defined public benefit. These tax-exempt bonds can be used to assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units, to assist first-time homebuyers to purchase homes through mortgage revenue bonds (MRB) or mortgage credit certificates (MCC), to assist manufacturers in financing capital expenditures, or to finance solid waste disposal and waste recycling facilities, among other things.

The California Debt Limit Allocation Committee (CDLAC, the Committee) is responsible for administering California's annual tax-exempt private activity bond program, known as "the annual State ceiling". For calendar year 2010, California's State ceiling was $3.326 billion. Each year the Committee divides the annual State ceiling among several bond programs, known as "Program Pools". The 2010 program year active[1] Program Pools consisted of the Qualified Residential Rental Project Pool (Rental Project Pool), the Single Family Housing Program (SFH) Pool, the Industrial Development Bond Program (IDB) Pool and the Exempt Facility Program (EXF) Pool. For calendar year 2010, the Committee reserved approximately $1.12 billion or 33.7% of the State ceiling for the Rental Project Pool, $750 million or 22.5% for the SFH Pool, $90 million or 2.7% for the IDB Pool, $530 million or 15.9% for the Exempt Facility Pool and $836.5 million or 25.1% for an undesignated reserve.

On February 17, 2009, The American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. Recovery Zone Bonds (RZB) provided tax incentives and lowered borrowing costs for local governments and private entities to promote job creation and economic recovery in areas particularly affected by employment declines. The Recovery Zone Bonds were allocated by the Department of Treasury to certain localities through the states based on the proportion of each locality's 2008 employment decline in comparison to their 2007 figure. The Treasury also provided that if a locality could not make use of their allocation, then that allocation could be waived back to the State to be re-allocated to qualifying projects. Under AB 1009, CDLAC was charged with managing the reallocation of any waived or deemed waived authority for California.

There were two types of Recovery Zone Bonds: Recovery Zone Facility Bonds (RZFB) and Recovery Zone Economic Development Bonds (RZEDB). California's portion of the $15 billion authorized nationwide for RZFBs was $1,209,338,000; and $806,225,000 of the $10 billion authorized nationwide for RZEDBs. The sunset date for these two programs was December 31, 2010.

In addition, IRS Notice 2009-29 provided that the State of California would receive $381,329,000 in Qualified Energy Conservation Bond (QECB) allocation; also to be distributed by formula to certain localities and tribal entities. The Federal Government thereby intended to provide an affordable financing tool for private and public energy efficiency and green technology projects and programs. The QECB program has no sunset date. As with the Recovery Zone Bond programs, allocation not used by a locality could be waived back to the State (CDLAC) to be re-allocated to qualifying projects and programs.

[1] The Student Loan Program Pool and the Teacher ExtraCredit Program Pool are both considered inactive. No allocation reservations were made for them and CDLAC received no applications under them in 2010.

Private Activity Bond Volume Cap Programs

For program year 2010, the Committee awarded a total of $785 million (past year carryforward and current year cap) for rental projects, $431,509,405 for SFH programs, $45,045,000 under the IDB Program, $529,568,045 (past year carryforward) under the EXF Program, $239,380,726 under the QECB program, and $733,251,946 under the two RZB programs. After the December 15, 2010 allocations were made, there was a 2010 volume cap balance remaining of approximately $2,683,399,808. In order to ensure that no amount of 2010 allocation was lost, at the December 15, 2010 allocation meeting the Committee transferred $1.825 billion of this remaining balance on a carryforward basis to various multifamily housing project issuers; with all allocation remaining thereafter transferred to the California Pollution Control Financing Authority (CPCFA) for the Exempt Facility Program. $9,198,765 in QECB allocation also remained available at the end of 2010; to be allocated in early 2011.

The public benefits for these awarded allocations are as follows:

Qualified Residential Rental Projects
The allocations awarded for the rental project pool for program year 2010 will fund 67 multifamily rental housing projects; roughly 56% of that allocated in 2007, CDLAC's high-water mark. These 2010 allocations financed an estimated 6,399 total units, of which approximately 5,262 were Restricted Rental Units. Restricted Rental Units are units within a Project that are restricted to households earning 60% or less of the Applicable Median Family Income. Of the 5,262 Restricted Rental Units, 2,855 will be restricted to very low income households with income at or below 50% of the area median income and approximately 2,408 units will be restricted to low income households with incomes at or below 60% of the area median income.

Of the estimated 6,399 units financed with the allocation, approximately 4,412 will be new construction units, 1,631 will be senior citizen units, 1,062 will be large family (3-4 bedrooms) units and 77 will be special needs units. In addition, this allocation will preserve approximately 1,426 income and rent restricted units that were at-risk of losing their affordability restrictions.

Single Family Housing
The Committee awarded a total of $431,529,405 of the 2010 State Ceiling to the Single-Family Housing Program. Of this amount, $181,529,405 was allocated to Mortgage Credit Certificate Programs and $250,000,000 was allocated to Mortgage Revenue Bond Programs, which included $25,000,000 awarded to the California Department of Veteran Affairs. These allocations will assist approximately 2,392 first-time homebuyers, of which at least 956 will be low income households and approximately 599 will purchase newly-constructed homes.

Industrial Development Bond Program
Ten (10) IDB projects awarded allocation; anticipated to create a total of 435 new jobs in California. These consist of 25 management, 301 skilled and semi-skilled, and 109 unskilled permanent jobs. The new jobs will produce a weighted average hourly wage of $23.57.

Exempt Facility Program
There are four categories that the Committee uses to prioritize its allocation to exempt facility projects: 1) First Tier Business[2] under Regulatory Mandate[3], 2) First Tier Business not under Regulatory Mandate, 3)

[2] "First Tier Business" means (1) a business that (a) is primarily engaged in the collection, recycling, transportation, and/or disposal of solid waste, (b) is a privately-held or employee-owned entity whose ownership interests are not available to members of the public, and (c) has fewer than 3,000 employees (together with affiliates), based on the average employees per pay period during the most recent twelve (12) months before submittal of an Application; or (2) a business which is not primarily engaged in the collection, recycling, transportation, and/or disposal of solid waste that is classified as a small business under regulations of the California Pollution Control Financing Authority (CPCFA) (Title 4, California Code of Regulations, Sections 8001-8083).

Businesses, other than First Tier Businesses, Under Regulatory Mandate, and 4) All other Applications for Exempt Facilities.

Eleven (11) qualified exempt facility projects were awarded a total of $529,568,045 in allocation in 2010.

The Committee transferred a total of $1,094,117,360 of unused 2010 volume cap for exempt facility projects to the California Pollution Control Finance Authority. This represents 36.5% of the $2.87 billion in unused 2010 volume cap and 15.9% of the 2010 $3.326 billion State Ceiling.

ARRA Programs

Recovery Zone Bond Projects

RZFB: Recovery Zone Facility Bonds were tax-exempt private activity bonds used for any development or depreciable asset purchase (except housing) that contributed to the improvement of a locality-defined recovery zone. The Committee funded a total of $470,855,946 to 15 projects in 2010; representing 55% of the total allocation waived back to the State. These projects are anticipated to create 608 permanent jobs in California.

RZEDB: Recovery Zone Economic Development Bonds were taxable interest subsidy bonds used for governmental purposes in a locality-defined recovery zone; similar to Build America Bonds, but with a federal interest subsidy set at 45% of the taxable bond interest. The Committee funded a total of $262,396,000 to 10 projects throughout the State of California; representing 98% of the total allocation waived back to the State. These projects are anticipated to create 189 permanent jobs in California.

Qualified Energy Conservation Bond Projects

Qualified Energy Conservation Bonds are taxable tax credit or interest subsidy bonds used for either governmental purposes or private activity that facilitate energy efficiency or green technology projects or programs. The Committee awarded a total of $239,380,726 to ten (10) QECB projects; representing 96% of the total allocation waived back to the State. These projects are anticipated to produce approximately 113,689,983 to 146,689,983 kWh of energy per year. In addition, the City of Salinas energy Efficiency Project will reduce energy consumption in multiple publicly owned buildings and facilities by approximately 29%. Lastly, the awarded projects will create a total 890 new jobs in California: 760 of which will be temporary and 130 permanent.

[3] "Regulatory Mandate" means a local, state or federal government mandate such as the California Public Resources Code, Section 40000 et seq. ("AB 939"), a local public health department notice and order, a Regional Water Quality Control Board issued cease and desist order, or similar directive.