# California Health Facilities Financing Authority
# No Place Like Home Program
# Bond Financing Overview
# August 24, 2017

# Overview

- In 2016, California enacted legislation (AB 1618 and AB 1628) that created the No Place Like Home ("NPLH") Program to help accelerate the supply of permanent supportive housing and build on existing programs to combat homelessness
- The NPLH legislation authorizes the California Health Facilities Financing Authority ("CHFFA") to issue up to $2 billion of Revenue Bonds in one or more installments to fund loans to the State's Housing and Community Development Department ("HCD") to finance permanent supportive housing for mentally ill homeless persons and caps debt service on such bonds plus certain administrative expenses payable in connection with the NPLH Program at $140 million per year
  - HCD will loan bond proceeds to Counties (either solely or with a housing development sponsor) to fund construction of permanent supportive housing for the target population and to capitalize operating reserves
- The NPLH Bonds will be repaid from a portion of the State's "Millionaire's Tax"
  - Proposition 63 ("Prop 63") was passed in 2004 and levies a 1% tax on the portion of a taxpayer's personal income that exceeds $1 million to fund mental health services
- HCD's loan repayments, and thus payments of debt service on the NPLH Bonds, will be made from, and contingent upon receipt of, Service Contract payments by HCD from CHFFA in return for HCD's implementation of the NPLH Program
- The NPLH Program uses a Service Contract structure to fall within the "contingent obligation" exception to the California Constitutional debt limit, and will be subject to court validation prior to the initial issuance of bonds

# Roles and Responsibilities of State Entities

| | |
|---|---|
| **HCD** | • Develops, administers, and operates the NPLH Program<br>• Awards project funding to counties pursuant to the NPLH Program Guidelines<br>• Provides ongoing services for the NPLH Program pursuant to the Service Contract<br>• Certifies to CHFFA whether it has substantially performed its obligations under the Service Contract<br>• Borrows bond proceeds from CHFFA and repays loan from Service Contract payments |
| **CHFFA** | • Issues NPLH Bonds; loans proceeds to HCD; enters into Service Contract with HCD<br>• Authorizes each NPLH Program bond issuance<br>• Approves form of bond documents<br>• Authorizes monthly Service Contract payments to HCD for substantial performance of HCD's obligations under the Service Contract |
| **State Treasurer's Office ("STO")** | • Acts as agent for sale on bond issuances<br>• Appoints various financing team members<br>• Assists in developing optimal bond financing structure given legislative constraints and NPLH Program Guidelines<br>• Acts as bond trustee for NPLH Program<br>• Assists HCD and CHFFA in carrying out bond administration responsibilities |

# NPLH Funding and Eligible Use of Proceeds

- NPLH focuses on the acquisition, design, construction, rehabilitation, preservation and operation of permanent supportive housing for persons who are experiencing homelessness or chronic homelessness, or who are at risk of chronic homelessness, and who are in need of mental health services
- Counties, who are primary providers of mental health services funded under Prop 63, will be eligible applicants (either solely or with a housing development sponsor)
- Counties must commit to provide mental health services and help coordinate access to other community based support services for a minimum of 20 years

**Bond Funds Available**

- Over-the-Counter Program
  - Up to $200 million
- Competitive Program (includes Alternative Program)
  - Up to $1.8 billion

**Eligible Uses of Funds**

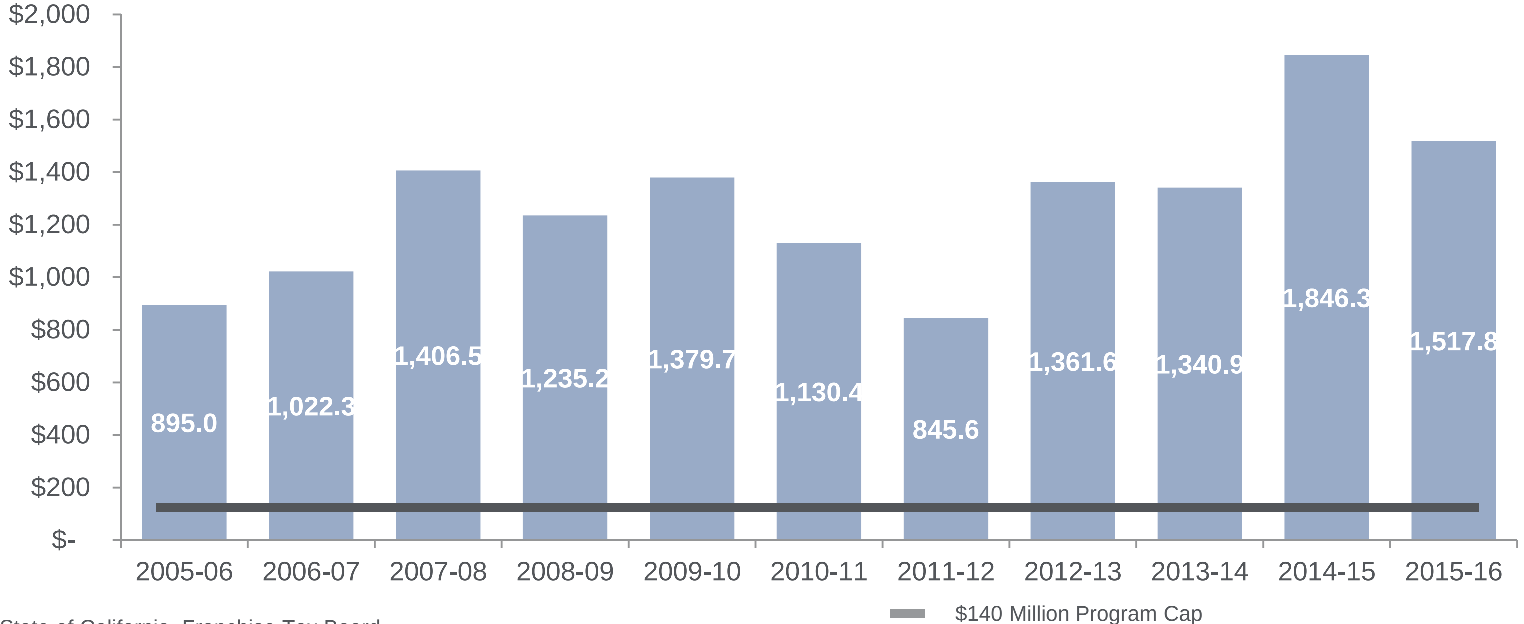
- Acquisition
- Design
- Construction
- Rehabilitation
- Preservation Costs
- Capitalized Operating Subsidy Reserves (“COSR”) – Up to 50% of loan amount per Program Guidelines, subject to individual project underwriting

# Proposition 63 – Payment Source for NPLH Bonds

- In November 2004, voters enacted Prop 63 which imposed a 1% tax on the portion of a taxpayer's taxable income that exceeds $1 million
  - – $1 million threshold is not inflation adjusted
- The NPLH Bonds will be repaid from a portion of the State's "Millionaire's Tax"
  - – Repayment of NPLH housing loans made by HCD will not be pledged to repayment of bonds
- Millionaire's Tax has averaged over $1.2 billion annually since inception

**Historical Fiscal Year Prop 63 Revenue (in $ Millions)**

Based on Monthly Cash Collections




Source: State of California, Franchise Tax Board.

# Bond Structure and Security

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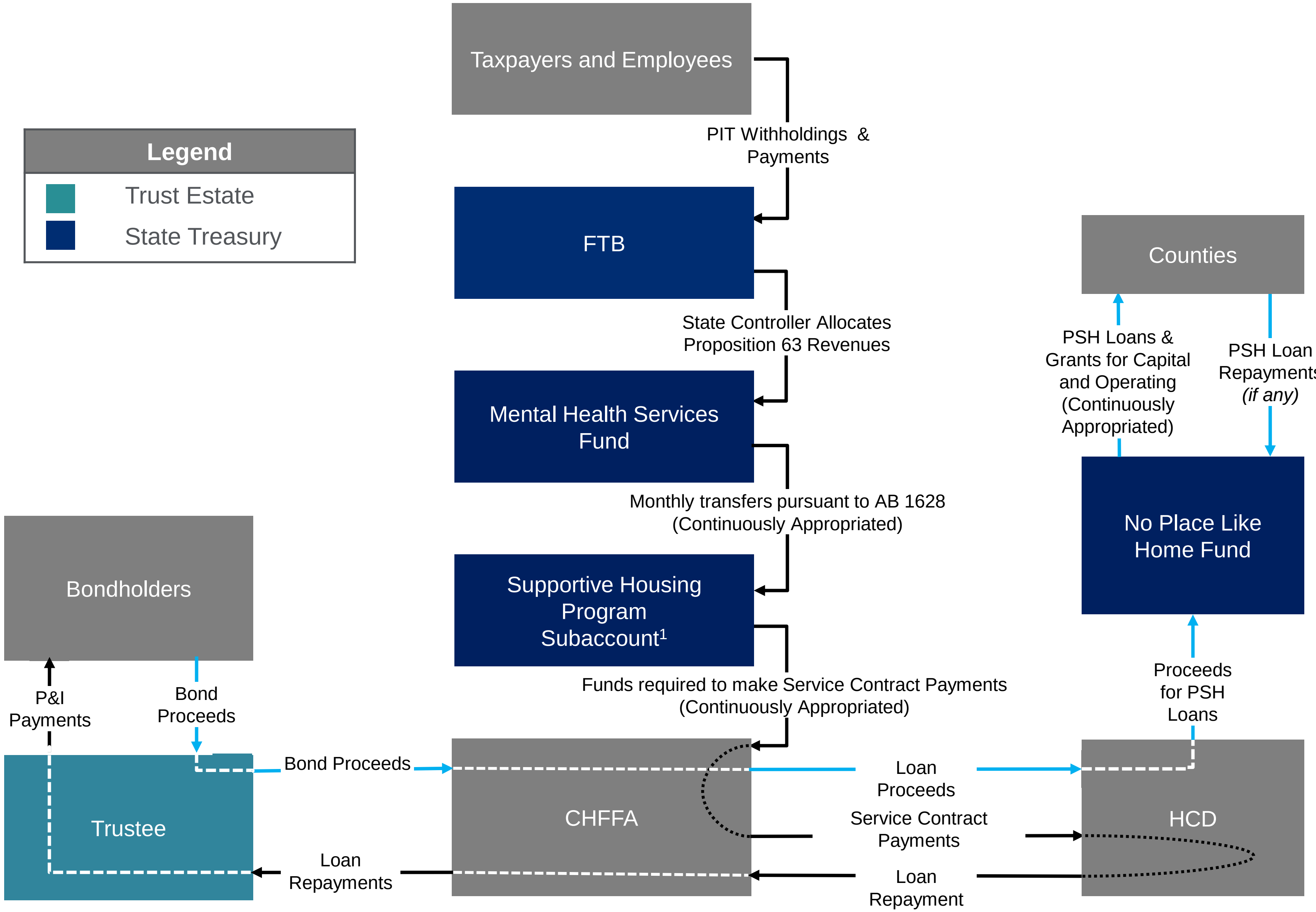
|---|---|
| **Service Contract** | • CHFFA agrees to pay HCD monthly Service Contract payments in an amount sufficient to make the required deposits to the Interest and Principal Accounts, plus estimated Administrative Expenses<br>• CHFFA's obligation to make the payments is contingent upon HCD's substantial performance in developing, administering and operating the NPLH Program |
| **Security** | • Revenues primarily consist of Loan Payments from HCD to CHFFA<br>• HCD will make its Loan Payments from Service Contract payments received from CHFFA as consideration for HCD's substantial performance of the services under the Service Contract<br>• Debt service will be pre-funded six months prior to payment dates |
| **Statutory Limits** | • Maximum Par Amount: $2 billion<br>• Maximum Annual Debt Service (including bond Administrative Expenses): $140 million |
| **Payment Dates** | • Interest: June 1 and December 1<br>• Principal: June 1 |
| **Capitalized Interest** | • Minimum of 6 months of interest will be pre-funded from proceeds of each series of Bonds |
| **Structure** | • All Bonds will be issued as fixed rate obligations |
| **Tax Status** | • Federally Taxable<br>• California Tax-Exempt |

# NPLH Flow of Funds




1. Funds in the SHPS cannot be loaned to the General Fund

# Capitalized Operating Subsidy Reserve (“COSR”)

- Since the NPLH Program target population cannot afford to pay market level rent to fully cover operating expenses, a project may require a COSR to make it viable
- HCD believes that COSRs promote the intent of the NPLH Program – to house people with the greatest vulnerabilities and allow projects to move forward when they otherwise could not
- COSR costs can include operating expenses such as utilities, unit maintenance, property management and service coordination staff, deferred developer fees and required replacement reserves
- NPLH Program Guidelines authorize up to 50% of each loan amount to provide COSR funding, subject to individual project underwriting
- In order to receive a COSR, an applicant must demonstrate they have attempted to secure other rental assistance or operating subsidies
- Some projects may not require a COSR, as they may receive rental assistance and other operating subsidies from other federal, state, and local sources
- COSR will be funded from bond proceeds and invested until disbursed in roughly equal amounts over 20 years
- The NPLH Legislation only authorizes the COSR to be funded from bond proceeds

# Financing Overview

- Under current structuring assumptions*, the estimated maximum par is $1.768 billion
- Actual issuance will be phased to meet programmatic needs
- Term: 20 years for each borrowing
- 6 months capitalized interest
- Funding Allocation: First $200 million to Non-Competitive Program; balance to Competitive Program
- HCD NPLH Admin Costs: 5% of each Program's Allocation
- COSR Funding: Upfront, up to 50% of each Program's total loan amount**
- HCD Default Reserve: 4% (of Competitive Program Allocation less Alternative Program Counties' Allocation)***
- The combined COSR, Admin Costs and Default Reserve may account for more than 50% of bond proceeds

**Summary of Estimated Proceeds Allocation**

| | Upfront |
|---|---|
| **Par Amount/Gross Bond Proceeds** | $ 1,768,230,000 |
| **Less Issuance Expenses** | (9,841,150) |
| **Less Capitalized Interest** | (39,680,740) |
| **Net Available Funds** | **$ 1,718,708,110** |
| | |
| **Non-Competitive Program ($200MM)** | |
| **HCD Admin Costs (5% of Program)** | $ 10,000,000 |
| **COSR (Assuming all Projects Receive 50%)**** | 95,000,000 |
| **Capital Allocation (Assuming all Projects Receive 50% COSR)** | 95,000,000 |
| **Total Non-Competitive Program** | **$ 200,000,000** |
| | |
| **Competitive Prog (Net Avail Funds less $200MM)** | |
| **HCD Admin Costs (5% of Program)** | $ 75,935,406 |
| **COSR (Assuming all Projects Receive 50%)**** | 708,401,398 |
| **Capital Allocation (Assuming all Projects Receive 50% COSR)** | 708,401,398 |
| **HCD Default Reserve (4%)***** | 25,969,909 |
| **Total Competitive Program** | **$ 1,518,708,110** |
| | |
| **Total COSR Funding (Assuming all Projects Receive 50%)** | **$ 803,401,398** |
| **Total Capital Costs Funding (Assuming all Projects receive 50% COSR)** | **$ 803,401,398** |

**Preliminary and subject to change. Assumes market rates as of June 9, 2017 +100 basis points, all-in cost 4.9%.*
***Subject to individual project underwriting. Some projects may not require a COSR.*
****4% (Competitive Program Allocation less Alternative Program Counties' Allocation); assumes 55% of Competitive Program is allocated to Alternative Program.*

# Indicative Ratings

| | | | | | |
|---|---|---|---|---|---|
| **Fitch** | A+ | **Moody's** | IND A1 | **Standard & Poor's** | AA- |

- Indicative ratings are private and provided at a point in time based on an analysis of the information provided to the rating agencies
- Indicative ratings assume a successful validation of the NPLH Program structure
- Public ratings will be requested at the time of actual issuance.  Public ratings could differ if any of the factors used to obtain the indicative ratings change in the future

**Indicative Rating Highlights**

- High coverage of anticipated debt service
- Growth prospects for revenue source, which is not adjusted for inflation
- Revenues continuously appropriated and strong non-impairment language
- Volatile revenue source
- Element of operating risk given the Service Contract payment structure

# Timeline

| Milestone | Date |
| --- | --- |
| CHFFA Board Meeting | August 24th |
| Begin Validation Action | End of August |
| Final Non-Appealable Court Decision | TBD |
| First NPLH Bond Issuance | TBD |