

California Debt Limit Allocation Committee

Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
December 14, 2016
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Alan Gordon, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 2:47 pm.

Members Present: Alan Gordon for John Chiang, State Treasurer
Eraina Ortega for Edmund G. Brown, Jr., Governor
Alan LoFaso for Betty T. Yee, State Controller

Advisory Members Present: Anthony Sertich for the California Housing Finance Agency (CalHFA)
Russ Schmunk for the Department of Housing and Community Development (HCD)

2. Approval of the Minutes of the November 16, 2016 Meeting (Action Item)

Alan LoFaso moved approval of the minutes for the November 16, 2016 meeting. Upon a second by Eraina Ortega, the minutes passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye

3. Executive Director's Report (Informational Item)

Ms. Glasser-Hedrick reported that there were a few revisions to the Agenda. Agenda Item 4, the orange copy, had some clarifications that were non-substantive. Exhibit A, the green sheet, reflected withdrawals that were received after the initial posting. The final revised posting sheets, the blue sheets, reflected the decrease to the Single Family Housing (SFH) Mortgage Credit Certificates (MCC) for CalHFA, and the Multifamily final recommendations reflected all of the projects that were pulled at the last minute. There were also a number of staff reports with changes: Item 6.2, 1601 Mariposa Apartments, had the incorrect Sponsor information in the application and was updated to reflect the corrected information. Item 6.12, Cobblestone Apartments, and Item 6.13, Sea Wind Apartments, had revisions to the Sources and Uses Section to properly articulate the contingency line items. Item 6.18, Oak Creek Apartments, was withdrawn at the last minute, so please disregard this information. Item 4 had two copies, a purple sheet and a yellow sheet. Please dispose of the purple copy as the yellow copy supersedes it. Please bear with us as there have been several withdrawals recently given the turmoil in the tax credit markets.

Ms. Glasser-Hedrick reported that the CDLAC regulation changes were released for the Office of Administrative Law's (OAL) public comment period and all is moving forward to have the regulations approved by November 18, 2016. Ms. Glasser-Hedrick wanted to point out that CDLAC is required to present its regulation changes to the OAL while TCAC is not required to go through this process. Thanks to both Misti and our new Analyst, Felicity Wood, for stewarding this very large package through the process and for the countless hours they spent at the OAL offices to make sure the regulation changes are in place for 2017.

Ms. Glasser-Hedrick stated that CDLAC began the 2016 year with \$3.9 Billion of new resources. In the multifamily arena, if all of today's projects are approved, CDLAC will have allocated approximately \$5.8 billion in resources of which \$4.8 billion is multifamily. CDLAC will begin 2017 with approximately \$1 billion of carryforward and approximately \$3.9 billion totaling \$4.9 billion. To the extent demand continues we will not have enough resources to fund all of the potential projects. CDLAC has conducted a demand survey and demand for allocation next year is projected to be strong. There is enough allocation to fund all projects that have surety of execution. To the extent demand exceeds the amount available, the program will become competitive. Staff is looking at ways of stretching our allocation with no impact to the development community by way of recycling or allocation that is paid down at construction conversion. Staff is beginning to dialog with the New York City HFA, a hand full of issuers and bond counsel regarding this possibility. More information will be forthcoming.

Ms. Glasser-Hedrick reported that the California Industrial Development Financing Advisory Commission (CIDFAC) board met yesterday to discuss the stakeholder outreach process forthcoming regarding the Treasurer's Industrial Development Program (IDB). Given that the evaluation and scoring criteria for this program originated from CDLAC's regulations, CDLAC will play an active role. It is also notable that although in the recent past CDLAC has sub allocated all of its resources to CIDFAC for the purpose of providing allocation to IDBs, CDLAC will be administering an IDB Pool this year specifically for the California Infrastructure and Economic Development Bank (I-Bank) as the Treasurer's legal counsel has opined that the I-Bank is not subject to the CIDFAC oversight. Staff looks forward to engaging in the stakeholder process and reengaging in reviewing IDBs.

Ms. Glasser-Hedrick apprised today's attendees that Item 9 on the agenda is a closed session item which should not alarm anyone. The room will be cleared of all public participants when the item number is called. The Committee will then allow the participants to rejoin the meeting for any public comments at the end of the closed discussion.

4. Consideration of the Adoption of a Resolution Delegating Authority to the Executive Director to Grant Waivers of Forfeiture of Performance Deposit on Behalf of the Committee (Action Item)

Ms. Glasser-Hedrick reported that The Committee is authorized by the CDLAC regulations to waive performance deposit forfeiture penalties under certain circumstances. This item requests authorization for the Executive Director to waive such penalties associated with an issuance extension request if the Project Sponsor demonstrates that the need for the extension was related to the disruptions that have occurred in the equity and debt markets associated with the potential of tax reform. This is consistent with the regulation changes and policy direction supported by Tax Credit Allocation Committee (TCAC) related to this matter.

Per the CDLAC regulations, approval of a carryforward extension requires forfeiture of a project's performance deposit. The Committee may grant a waiver upon satisfactory evidence

showing that: (1) the issue or event that prevented the issuance of the bonds was unforeseen; and (2) the issue or event was wholly outside the control of the Applicant and Project Sponsor. A waiver request must meet both parts of the test.

Ms. Glasser-Hedrick stated that it has recently come to staff's attention that the ushering in of the new President and the associated prospect of federal tax reform in 2017 is causing uncertainty and disruption in the Low Income Housing Tax Credit (LIHTC) market as well as the bond markets. The turmoil is due to the prospect of reduced marginal tax rates under the various tax reform proposals. To the extent marginal tax rates might decrease, companies have less need for tax credits or other tax-exempt investments such as tax exempt bonds and accordingly are willing to pay less than they would have if the outlook was more stable. While some investors are holding pricing and terms for projects that are closing this year, others are repricing with very steep pricing discounts. In other instances, investors are rescinding on their equity commitments and lenders are repricing debt if issuance deadlines are not met. To the extent projects have delayed closing timeframes, bond pricing that was fixed is being renegotiated to incorporate the new market conditions. In addition, projects that are not scheduled to close until after the New Year are facing significant uncertainty related to investor response.

While many Applicants and Project Sponsors are optimistic that the equity market will stabilize when tax rates and other provisions are clear (though likely with reduced pricing), it is difficult to predict what will happen to projects already in receipt of a CDLAC allocation. To both recognize this unforeseen market disruption affecting the equity and debt markets and outside the control of the Applicant and Project Sponsor, and further streamline the waiver approval process related to these particular projects, staff recommends authorization for the Executive Director to waive such penalties associated with an issuance extension request if the Applicant and Project Sponsor demonstrate that the need for the extension was based on the current turmoil in the market. CDLAC will reevaluate the situation during the March 2017 round and bring forth a March 2017 recommendation to the Committee for further prudent action, if necessary. The recommendation before you is consistent with the change TCAC is recommending in their current regulations.

RECOMMENDATION:

Staff recommended approval of the attached Resolution authorizing the CDLAC Executive Director to approve the waiver of certain forfeitures of performance deposit, on behalf of the Committee associated directly with the market disruptions that occurred in the tax credit and bond markets after the recent election. This Resolution will remain in effect until March 31, 2017.

Eraina Ortega moved approval of staff's recommendation. Upon a second by Alan LoFaso, the motion passed 3-0 with the following votes: Eraina Ortega: Aye; Alan LoFaso: Aye; Alan Gordon: Aye.

5. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation (Action Item)

a. Consideration of appeals*

Sarah Lester stated that there were no appeals.

b. Consideration of applications – See Exhibit A for a list of Applications**

Ms. Lester reported that the Single Family Housing Pool received a total of four (4) applications requesting an aggregate amount of \$1,046,616,462.

RECOMMENDATION:

Staff recommended approval of \$1,046,616,462 to fund four (4) previously reviewed projects in the Single Family Housing Pool.

Alan LoFaso moved approval of staff’s recommendation. Upon a second by Eraina Ortega xx, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

5.1	16-023	SL	California Housing Finance Agency	MCC Program	Statewide	Statewide	\$863,780,087
5.2	16-024	LE	Community Development Commission of the County of Los Angeles	MCC Program	Various	Los Angeles	\$40,000,000
5.3	16-025	SL	Golden State Finance Authority	MCC Program	Various	Various	\$140,157,551
5.4	16-026	LE	Housing Authority of the County of Marin	MCC Program	Various	Marin	\$2,678,824

6. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects and Awards of Allocation (Action Item)

a. Consideration of appeals*

Sarah Lester stated that there were no appeals.

b. Consideration of applications – See Exhibit A for a list of Applications**

Ms. Lester reported that the Committee received a total two (2) projects for the mixed income pool requesting an aggregate amount of \$283,724,973, one (1) project for the rural pool requesting an aggregate amount of \$25,000,000 and twenty-three (23) projects for the general pool requesting an aggregate amount of \$449,767,011.

RECOMMENDATION:

Staff recommended approval of \$758,491,984 to fund twenty-six (26) previously reviewed projects in the General Pool.

Alan LoFaso moved approval of staff’s recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

6.2	16-544	RF	City and County of San Francisco	1601 Mariposa Apartments	San Francisco	San Francisco	\$240,000,000
6.3	16-555	SL	California Municipal Finance Authority	South Fulton Village Apartments	Santa Fe Springs	Los Angeles	\$43,724,973

6.4	16-545	RF	Housing Authority of the County of Kern	Wasco Farmworker Housing Project Phase II Apartments	Wasco	Kern	\$25,000,000
6.5	16-027	LE	California Municipal Finance Authority	Barrett Plaza Apartments (Supplemental)	Richmond	Contra Costa	\$300,000
6.6	16-028	SL	City of Los Angeles	West A Homes Apartments (Supplemental)	Los Angeles	Los Angeles	\$750,000
6.7	16-428	RB	California Municipal Finance Authority	Valentine Court Apartments	Santa Maria	Santa Barbara	\$5,779,953
6.8	16-429	RF	California Statewide Communities Development Authority	La Puente Park Apartments	La Puente	Los Angeles	\$23,500,000
6.9	16-437	FW	California Statewide Communities Development Authority	Brunswick Street Apartments	Daly City	San Mateo	\$70,000,000
6.10	16-439	LE	California Statewide Communities Development Authority	Emerald Gardens Apartments	Buena Park	Orange	\$19,000,000
6.11	16-442	SL	California Statewide Communities Development Authority	Cypress Villa Apartments	La Habra	Orange	\$13,000,000
6.12	16-460	RF	Housing Authority of the City of Anaheim	Cobblestone Apartments	Anaheim	Orange	\$9,800,000
6.13	16-461	RF	Housing Authority of the City of Anaheim	Sea Wind Apartments	Anaheim	Orange	\$16,800,000
6.14	16-489	RB	California Statewide Communities Development Authority	Sierra Garden Apartments	South Lake Tahoe	El Dorado	\$7,560,952
6.15	16-546	RB	City of San Jose	Villa De Guadalupe Apartments	San Jose	Santa Clara	\$38,500,000
6.16	16-547	FW	California Municipal Finance Authority	Rotary Miller Avenue Senior Housing Apartments	South San Francisco	San Mateo	\$20,000,000
6.17	16-548	RB	California Municipal Finance Authority	Connell Apartments	Gilroy	Santa Clara	\$9,935,046
6.19	16-550	RF	California Municipal Finance Authority	Swansea Park Senior Apartments-Phase 2	Los Angeles	Los Angeles	\$20,200,000
6.20	16-551	LE	California Municipal Finance Authority	Deliverance Temple Apartments I & II (Scattered Site)	Richmond	Contra Costa	\$28,091,825
6.21	16-552	RB	California Statewide Communities Development Authority	Lincoln Senior Apartments	Lincoln	Placer	\$2,973,824

6.22	16-553	FW	Housing Authority of the City of San Buenaventura	Snapdragon Place II Apartments	Ventura	Ventura	\$9,900,000
6.23	16-554	LE	California Public Finance Authority	Sycamore Court Apartments	Garden Grove	Orange	\$14,910,000
6.25	16-557	RB	California Statewide Communities Development Authority	Heninger Village Apartments	Santa Ana	Orange	\$9,000,000
6.26	16-558	SL	California Statewide Communities Development Authority	Meadows Court / Holly Lane Apartments (Scattered Site)	Vacaville	Solano	\$12,670,451
6.28	16-560	FW	City and County of San Francisco	Eddy & Taylor Family Housing Apartments	San Francisco	San Francisco	\$47,423,000
6.29	16-562	RF	California Housing Finance Agency	Miracle Terrace Apartments	Anaheim	Orange	\$38,000,000
6.30	16-563	SL	California Statewide Communities Development Authority	Delta Pines Apartments	Antioch	Contra Costa	\$31,671,960

7. Consideration of Staff’s Recommendation to Approve a Change of Issuer for Miracle Terrace Apartments (16- 562)

Ms. Glasser-Hedrick reported that a Project Sponsor typically selects an Issuer in advance of a project’s submission to CDLAC. In the example of Miracle Terrace (16-562), the Project Sponsor selected CalHFA as their bond issuer. They progressed down that path and CalHFA both held the Inducement and was scheduled to hold the Tax Equity and Financial Responsibility Act (TEFRA) hearing associated with the project.

Immediately before the application deadline, CDLAC was informed that the Housing Authority of the City of Anaheim (HACA) wanted to assume CalHFA’s position as Issuer. HACA, not unlike other municipalities, has local policies that prohibit outside Issuers from issuing bonds when control of some portion of the funding sources that ensure the Project’s feasibility originate from the municipality. Municipalities typically implement this policy through local control of the TEFRA process. Given the HACA is currently the administrator of a Section 8 contract associated with the existing project, the HACA wanted to exercise their discretion to hold the TEFRA and issue the associated bonds. Unfortunately, this policy had not been communicated clearly in earlier discussions between HACA and the Project Sponsor so the Project Sponsor unknowingly selected CalHFA as the Issuer.

Ms. Glasser-Hedrick further reported that this issue came to CDLAC’s attention days prior to the October 14th application deadline. At the time, the Housing Authority of the City of Anaheim (HACA) did not have a completed Inducement (an application requirement) nor a TEFRA scheduled for the Project. Under normal circumstances, CDLAC would have requested the Application withdraw from this round of funding and re-apply, but the circumstances of this particular deal compelled CDLAC to attempt to keep the Project on the December 14th agenda. The Project currently is owned by a market rate developer who has threatened to terminate the Section 8 contract at its upcoming expiration. The Project is under contract with the current Project Sponsor until the early part of January 2017 and any renegotiation of the purchase and

sale agreement, if attainable, would likely come at a very significant increase in the purchase price. In order to preserve this very valuable existing affordable housing stock and to thwart future inflationary pressure consistent with Committee direction, upon advisement of legal counsel, CDLAC agreed to allow CalHFA's valid Inducement to qualify for the CDLAC's October 14th application deadline to allow the HACA time to complete the required Inducement and to hold the TEFRA. Although the HACA was able to complete the Inducement, unfortunately they were unable to complete the TEFRA hearing within CDLAC's required timeframe. The TEFRA was held November 22nd which is one (1) week after CDLAC's required deadline. After discussion with legal counsel about this circumstance, CDLAC had no other option than to recommend the Project with CalHFA as the proposed Issuer.

This solution challenges the HACA's bond issuance policies. Accordingly, in consideration of HACA concerns, Section 3 of the Committee resolution allows the Committee to consent to changes in the terms and conditions set forth in the resolution as changed circumstances may dictate. In order to facilitate this Project proceeding and being preserved at its current negotiated price, CDLAC recommends the Committee approve the HACA to be substituted as the Issuer of Miracle Terrace Apartments Project (16-562) as approved on Item 6.29 of this agenda.

RECOMMENDATION:

Staff recommended approval of the change in issuer for the Miracle Terrace Apartments (16-562) Project from CalHFA to the Housing Authority of the City of Anaheim.

Alan LoFaso moved approval of staff's recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

8. Consideration of Staff's Recommendation to Transfer and Award Unused 2016 Allocation to Various Issuers (Action Item)

Misti Armstrong reported that after the December 14, 2016 allocations have been made, there would be a 2016 volume cap balance of approximately \$806,219,913 remaining. This amount is likely to increase as Projects that have received bond authority may issue only a portion of their allocation or fail to issue bonds entirely.

In order to ensure that no amount of 2016 allocation is lost, staff is recommending that the remaining allocation as of December 14, 2016 be made available to the following QRRP and SFH issuers in the following amounts for immediate use:

Name of Issuer	recommended transfer amount
City and County of San Francisco (QRRP)	\$193,087,552*
California Housing Finance Agency (MCC)	Any remaining allocation
California Statewide Communities Development Authority (QRRP)	\$57,926,265*
California Municipal Finance Authority (QRRP)	\$376,358,752*
San Diego Housing Commission (QRRP)	\$102,819,121*
City of Los Angeles (QRRP)	\$ 76,028,223*
Total	\$806,219,913*

*This carryforward allocation will be applied to future individual QRRP requests for allocation

made by the issuer to the Committee until the amounts are exhausted.

Staff's proposal will ensure that no amount of the 2016 State Ceiling is unallocated.

RECOMMENDATION:

Staff recommended approval that the remaining \$806,219,913 in unused 2016 allocation be transferred to the five aforementioned QRRP issuers; and all allocation remaining thereafter be transferred to the CalHFA for the SFH Mortgage Credit Certificate Program; all on a carryforward basis.

Alan LoFaso moved approval of staff's recommendation. Upon a second by Eraina Ortega, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Eraina Ortega: Aye; Alan Gordon: Aye.

Mr. LoFaso asked how there was \$3.9 billion allocated, \$5.8 billion used and still have \$806,219,913 in allocation remaining. Is this the amount that the Board thought would be used when they were making the allocation decisions in January? Were there that many applicants that did not apply for bond authority?

Ms. Armstrong replied that CDLAC actually used more allocation.

Mr. LoFaso asked if CDLAC thought it would have more than \$806 million to start 2016.

Ms. Armstrong replied as a balance potentially, yes, utilizing both carryforward, past year carryforward allocation and this year's allocation, CDLAC thought this number would be much larger for 2016.

Ms. Glasser-Hedrick stated that CDLAC had \$2 billion of carryforward left last year. CDLAC continues to decrease the carryforward stockpile that CDLAC had. Since it is first in, first out, it results in current year cap having a remaining balance that is then carried forward.

Mr. LoFaso stated that it is that first in, first out tracking that is challenging.

Mr. Gordon stated that there was a very interesting economic presentation last week with the Council of Economic Advisors that is made up of sundry advisors. The one interesting presentation had to do with housing demand. The shift over the last two years has gone from single family housing to multi-family housing. It is likely that that shift will continue and there may not be enough allocation for next year. This program may get competitive for the first time in quite a long time.

Ms. Glasser-Hedrick stated that the program was competitive at one time but it had been quite some time since that had happened.

9. CLOSED SESSION: Litigation (Government Code Section 11126(e)(2)(c)) - Discussion with Legal Counsel Regarding Pending Litigation (San Regis, LLC v. City of Los Angeles, et al., Los Angeles County Superior Ct. Case No. BC637630)

No action was taken by the Board.

10. Public Comment

There was no public comment.

11. Adjournment

The Chairperson adjourned the meeting at 3:20 p.m.