California Debt Limit Allocation Committee

Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
September 19, 2018
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

Vincent P. Brown, Chairperson, called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 1:30 p.m.

Members Present:	Vincent P. Brown for John Chiang, State Treasurer Jacqueline Wong-Hernandez for Edmund G. Brown, Jr., Governor Alan LoFaso for Betty T. Yee, State Controller
Advisory Members Present:	Tia Boatman Patterson for the California Housing Finance Agency (CalHFA) Lisa Bates for the Department of Housing and Community Development (HCD) joined the meeting at 1:37 p.m.

2. Approval of the Minutes of the March 21, April 18 and May 16, 2018 meetings (Action Item)

Jacqueline Wong-Hernandez moved approval of the minutes for the March 21, April 18 and May 16, 2018 meetings. Upon a second by Alan LoFaso, the minutes passed 3-0 with the following votes: Jacqueline Wong-Hernandez: Aye; Alan LoFaso Aye; Vincent P. Brown: Aye

3. Executive Director's Report (Informational Item)

Laura Whittall-Scherfee reported that CDLAC had two changes in personnel. A new Manager II, Evan Kass, started on August 23rd. Unfortunately, he is not here today; however, he will be attending the October meeting. Chee Thao Yang was our Office Technician (OT) and she was promoted to a Staff Services Analyst (SSA) on August 1st. She will now be working on bond allocation projects, so I want to congratulate Chee and we will welcome Evan at the next meeting. Chee graciously agreed to help us today with the Board meeting.

Ms. Whittall-Scherfee gave the Board an update as to where CDLAC was with its allocation through July 2018. CDLAC has approximately $2.8 billion, almost $2.9 billion remaining that was carried forward and 2018 State Ceiling. If staff subtracts what you will be reviewing and potentially approving today, and what staff has projected for October, that would leave CDLAC with about $1.8 billion in allocation for December. Staff will also be talking about how to allocate the statewide ceiling on a carry forward basis.

Right now, staff expected 31 of our multifamily deals to come in for October after issuing a demand survey for either an October or November meeting. CDLAC received 21 deals that may impact what staff sees come in for December. The respondents told staff they would have approximately 16 deals in November if a November meeting had been chosen. Staff is expecting potentially 20 to 25 deals in December for the core multifamily projects, but that remains to be seen. Our December deadline is October 12 for applications.

What that means is that it looks like staff will still have some carry forward into 2019. That will allow us to continue our outreach and have meetings with the incoming Treasurer to determine what we want to do and proposed for regulation changes in 2019. CDLAC does not face the likelihood of being competitive in 2019.

Staff will be going out with its demand survey in October asking all of our issuers what they anticipate in 2019. I am optimistic that this year we will have a better response than last year, because this year I hope we will not have anything like the Tax Reform Act interfering with our regular daily business.

Staff passed out the draft calendar for 2019. I just wanted to bring it to the Committee's attention now that we are proposing to make some changes. I am going to officially bring these proposed agenda changes to the October meeting, because per our regulations, if we are proposing to change a meeting, or add a meeting, or make significant changes to our schedule we are required to bring it to the Committee.

These potential changes stem from the fact that TCAC and CDLAC issued a joint application in March. As a result, our desire is to really make sure that bond allocation and 4% tax credits are awarded at the same time, the same meeting dates, so that staff can take advantage of the joint application and know that the information that issuers are including in that application is actually still correct.

What staff is proposing to do with the CDLAC meetings, and this will be agendized in October to give us a chance to discuss it much more fully, is to not only set the state ceiling in January but also potentially allocate to all projects in all pools in January. Staff would change our September meeting so that it would still remain an allocation meeting, but it would be for non-QRRP projects only.

TCAC has their meeting immediately following CDLAC. They also meet in September; however, they only hear 9% projects. To help with staff’s workload, we want to make sure that we are working with them, so we would not hear 4% deals at the September meeting. We would only hear the non-QRRP projects. Then we would make permanent the October meeting.

I understand that after years of asking people whether they need or want an October or a November meeting that the likely answer has generally been October. Staff decided that instead of making those an either/or potentially neither, that we would just add the October meeting, because the September meeting does not include 4% projects. Those are the changes that we are contemplating.

This conversation involved more than just TCAC. Staff also reached out to other state agencies and had a joint meeting with the idea that we wanted to make sure that our meeting schedule was coordinating and working well with their meeting schedule and with their meetings. This was a culmination of many agencies talking together. Once again, we will have the discussion and have this on the calendar for October.

The last item is that AB 1547 is currently, I believe, on the Governor's desk for signature. Once signed, California Industrial Development Financing Advisory Commission (CIDFAC) would not be a separate Commission any more. The functions that were previously performed by CIDFAC, including the review of the industrial development projects, will now become the responsibility of CDLAC. That does not mean a lot of extra work if trends continue. There were no industrial development bond projects in 2017 and there were two (2) in 2016, so staff does not expect a substantial change in our workload. Staff does have an industrial development project on the agenda for October, so CDLAC will have one (1) project this year that is an industrial development bond project.

Mr. Brown: Questions, Alan?

Mr. LoFaso: Thank you, Mr. Chairman. Going back to the question of the State Ceiling, aligning CDLAC and TCAC 4% would prove beneficial to them, not to mention the other agency alignment. The Controller is always happy with agency alignment. Just apropos to the timing on CDLAC bonds or 4% going competitive, are you still reaching out to stakeholders in their opinion on how we should do this?

Ms. Whittall-Scherfee: Yes. I am reaching out in September, October and November in particular. It is conference season. It is a very easy time to talk to people and get input.

Mr. LoFaso: I appreciate that. On the calendar this year we had a couple of meetings to accommodate the Pollution Authority. Does this calendar accommodate that or is this something to figure in 2019 and add to the calendar?

Ms. Whittall-Scherfee: They were part of staffs outreach. They were part of the reason we also wanted a January meeting, because that was very important to them.

Mr. LoFaso: Okay. Thank you.

4. **Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Exempt Facility Programs and Awards of Allocation** (Action Item)

   a. **Consideration of appeals***
   Richard Fischer stated that there were no appeals.

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

Richard Fischer reported that the Committee received two (2) applications for the Exempt Facility Program (EXF) from the California Pollution Control Financing Authority (CPCFA). The applications requested a total of $9,105,000. Staff recommended approval of $9,105,000 in bond allocation to CPCFA for the Viridis Fuels, LLC Project and the Atlas Disposal Industries, LLC Project. The allocations will be funded from the Exempt Facility Project Pool.

RECOMMENDATION:
Staff recommended approval of $9,105,000 in bond allocation to CPCFA for the Viridis Fuels, LLC Project and the Atlas Disposal Industries, LLC Project

Jacqueline Wong-Hernandez moved approval of staff's recommendation. Upon a second by Alan LoFaso, the motion passed 3-0- with the following votes: Jacqueline Wong-Hernandez: Aye; Alan LoFaso Aye; Vincent P. Brown: Aye.

18-018	RF	California Pollution Control Financing Authority	Viridis Fuels, LLC (Supplemental)	Oakland	Alameda	$4,000,000
18-019	RB	California Pollution Control Financing Authority	Atlas Disposal Industries, LLC	Sacramento	Sacramento	$5,105,000

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*

Sarah Lester reported that the Committee received one (1) application from the City of L.A. requesting its 2018 Fair Share of $25,507,424. Staff recommended that the Committee approve this request.

RECOMMENDATION:
Staff recommended approval of one (1) application from the City of L.A. requesting its 2018 Fair Share of $25,507,424.

Alan LoFaso moved approval of staff's recommendation. Upon a second by Jacqueline Wong-Hernandez, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Jacqueline Wong-Hernandez: Aye; Vincent P. Brown: Aye.

18-016	SL	City of Los Angeles Housing and Community Investment			Los Angeles	$25,507,424

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

a. Consideration of appeals*
Shirley Hom stated that there were no appeals.

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

Shirley Hom reported that staff is recommending approval of 22 general pool projects totaling $427,971,013. There were no rural pool or mixed-income pool projects.

Ms. Bates: There is one application that we are still analyzing to see if there is any impact on the scoring for HCD. We have not been able to complete that as of this meeting. I am not sure how you want to handle that, but there have been some changes to the project that was originally proposed to us for HCD financing. Normally, we go through and analyze that and we have not had time to complete this one to see if it is going to impact the award in any fashion.

Ms. Whittall-Scherfee: I believe it was Main Street Plaza Apartments?

Ms. Bates: Correct.

Ms. Whittall-Scherfee: That would be Application 18-399.

Ms. Bates: I had an opportunity to talk to the sponsor, which is why I was late, so I have a better picture. We cannot confirm what the score is as of right now, so we need a little bit more time to analyze the projects under the new proposals.

Mr. Brown: Yes, Alan?

Mr. LoFaso: Just one clarification, is the significance of the challenge that HCD has with the scoring a directly applicable component to our decision or is it more relating to aligning the different financing sources?

Ms. Bates: It is the funding source, and whether or not that amount is still accurate as requested in the application, based on if we have to adjust the score. These are competitive processes and if the scores change then they may not be eligible for the award. We have to look at whether or not the score has changed or do we need to resize our allowing amount or credit amount.

Mr. LoFaso: I am trying to ascertain if it has any bearing on our decision, because maybe it is more efficient if we act now.

Ms. Bates: Yes. It is up to you in terms of your funding commitment requirements.

Ms. Whittall-Scherfee: It does not change our point score structure significantly. They would still be eligible for a bond allocation.

Mr. Brown: I think we can just proceed with them and HCD will take care of business.

Ms. Bates: Okay.

Ms. Wong-Hernandez: I had a question on one of the projects, specifically, on the 700 Block of K projects. Just for part of my own understanding, I notice that the project was assessed negative points. Can you just tell me a little bit about that, sort of what is the process that we go through before assessment? That is a relatively new thing is my understanding.

Ms. Whittall-Scherfee: It is not relatively new. However, it does not happen a lot. It is not common. What happens is if you look at our evaluation criteria, the IRS has Notice 2011-63 which impacts drawdown bonds. The project elected to issue bonds and they were structured as drawdown bonds. That meant that they had to be fully expended no later than December 31, 2017 or at least enough of them had to be expended to meet the 50% Test. They expended approximately $14.4 or $14.5 million of the bonds, but that was not enough to meet the 50% Test. They did expend more bond funds in 2018, but that was after the December 31st deadline.

According to our regulations in Section 5230(o)(C), "Ten points will be deducted for each failure to spend the proceeds of bonds issued pursuant to an allocation in full, or in accordance with the terms and conditions of the Committee resolution, unless it can be demonstrated that the failure was unforeseen and entirely outside of the project sponsor’s control, the amount not spent is not material, or the deviation from the terms and conditions of the Committee resolution is not material. This deduction will be assessed against the Project Sponsor for a period of three calendar years, (ten) points each year, from the date of determination of failure to spend proceeds."

That is a provision in our evaluation criteria. It is not often used. It has been used, not this particular section, but the assessment of negative points. I have been here for a little over a year. This would be the second time I have assessed negative points and I know what is important is this gets shared with TCAC. When TCAC assesses negative points they tell us when it impacts a project sponsor and we share it with them, so that is kind of the foundation of it.

The determination that this was entirely within the projects sponsor's control is that it is their responsibility to make sure that bonds are drawn down timely. As a result of the problems they had doing that, and we understand there were a lot of delays, but that does not change the deadline. We now have to request a new allocation, because the old allocation is not eligible for the 50% Test.

Ms. Wong-Hernandez: Staff has reviewed and determined that this does not qualify as being outside of the project sponsor's control? That is sort of the difference where people do not meet the 50% Test. I am just trying to understand that.

Ms. Whittall-Scherfee: It is not just that they do not meet the 50% Test. It is when they failed to follow regulations that require that the bonds be drawn down within a specific period of time.

Ms. Wong-Hernandez: I see.

Ms. Whittall-Scherfee: That is within the responsibility of the project sponsor.

Ms. Wong-Hernandez: Okay.

Ms. Whittall-Scherfee: The material issue to me also comes into play, because the result was we are now issuing $30 million of new bond allocation that we are not going to be able to carry forward at the end of the year to another issuer.

Ms. Wong-Hernandez: I see. Because this is not something that I remember seeing before I want to understand this is what we do when people do not meet their drawdown.

Ms. Whittall-Scherfee: Yes. It is $22 million of allocation, not $30 million.

Mr. Brown: Do we have any updates on the project status going forward?

Ms. Whittall-Scherfee: Well, the project is complete. I see people in the room that can speak to this better than I, the affordable housing component was leased up. The market rate component was still in the process of being leased. Would anybody representing the borrower care to speak?

Mr. Brown: Pat Sabelhaus might.

Ms. Whittall-Scherfee: Yes.

Mr. Sabelhaus: Allow me, Mr. Chairman, if I may?

We appreciate the consideration given to the $22 million request today as Laura explained. The project was finished in May of this year, but due primarily to inclement weather over the first three years we were running about 12 months behind schedule. Much to my dismay the bank did not and the bond council did not realize that we had this December 31, 2017 deadline, which is three (3) years from the date that you get your allocation.

You have to draw down the bonds and we got delayed toward the last year of the project, again due to inclement weather. We only drew down $14 to $15 million out of the $22 million and that meant that we could not hit the 50% Test for retaining the 4% credits.

When they finished them and got the CO in May, the affordable units of 85 out of the 137 units, they rented up in 30 days. The units were all rented by June of this year and the market rate units were probably, as of today, I think there are 53 total market rate units. They have rented 35 or 36 of those to date, so they are slowly renting up.

The retail portion, which is cordoned off on this project, had historical buildings there that had to be retained. That was another problem when they did the demolition on part of the project. To build the affordable apartments it caused the walls to be unstable on K Street, so they had to stop construction completely until they could put steel beams up against the walls to keep them from collapsing.

They had numerous problems that caused all of this, but the project is completed. It is successful. It was very much needed to assist with all of the development around the King's Arena and this is the first of a couple of other developments now. 800 K Street is the next one that the city asked CFYD to undertake and that is on the calendar, also.

I am happy to answer further questions if you have any.

Mr. Brown: Questions, Alan?

Mr. LoFaso: Well, just quickly I screenshotted a tweet from one of the project managers who told me I had better snap up one on the market units fast as they are going like hotcakes there. I will say a relative of a member of our staff resides in one of affordable units which are also being snapped up. Just a quick question, you said something about talking back and forth to TCAC. I appreciate communication between two entities, but this action does not have any bearing on their scores at TCAC, just their scores at CDLAC, right?

Ms. Whittall-Scherfee: They do take it into account at TCAC. It does not affect any of the 9% deals that are ongoing.

Mr. LoFaso: Two sub-questions, what you describe in the staff report is something staff did by virtue of statute. We are not adopting this. This is an action

Secondly, we had some waivers come to us on other parts of the agenda where they had subscribed circumstances outside of the sponsors', applicants' and developers' control. Can you help me understand why this one is dissimilar to those?

Ms. Whittall-Scherfee: I think you are referring primarily to the waiver of the forfeiture of the performance deposit.

Mr. LoFaso: Yes.

Ms. Whittall-Scherfee: There is a provision within our regulations that says that the Committee must approve the waiver, otherwise it is automatic. When issuers ask us to waive the performance deposit forfeiture, if we agree with their assessment, we bring it to you and you approve the waiver.

There are times when we do not agree that it should be waived. You will not always see those unless the issuer chooses to ask that, despite what we may think, we bring it to you anyway. In which case I would probably bring it to you and say I am not recommending this for approval, but the issuer has requested it and the Committee would make a decision. Those provisions are not in this section.

Mr. LoFaso: I can see I am conflating the Performance Deposit Waiver with the negative points, but I guess I had thought I had seen the negative points. One of those I thought had a reference, maybe because it was negative points "and" okay?

Ms. Whittall-Scherfee: "And" the provision of the Performance Deposit Waiver includes Performance Deposit Waiver "and" negative points if applicable. It is put in there as part of the Performance Deposit Waiver but not with regard to this issue.

Mr. LoFaso: In those prior examples when it was a Waiver of the Forfeiture of the Performance Deposit and negative points, and negative points discussion and the write-up was informational. The decision for us was only on the Performance Deposit Forfeiture Waiver or if it will travel together then it becomes the discretion of the Committee?

Ms. Whittall-Scherfee: When the two travel together because of the Performance Deposit Waiver, it is only with regard to the Performance Deposit Waiver.

Mr. LoFaso: Thank you.

Chair Brown: Thank you. Any questions? I will entertain a motion.

RECOMMENDATION:
Staff recommended approval of the 22 projects totaling $427,971,013.

Alan LoFaso moved approval of staff's recommendation. Upon a second by Jacqueline Wong-Hernandez, the motion passed 3-0 with the following votes: Alan LoFaso: Aye; Jacqueline Wong-Hernandez: Aye; Vincent P. Brown: Aye.

18-014	SL	City of Los Angeles	RISE Apartments (Supplemental)	Los Angeles	Los Angeles	$3,236,070
18-015	SL	California Statewide Communities Development Authority	Las Cortes Apartments (Supplemental)	Oxnard	Ventura	$1,300,000
18-017	RF	Contra Costa County	Antioch Scattered Site Renovation Apartments (Supplemental)	Antioch	Contra Costa	$1,556,192
18-337	RB	California Statewide Communities Development Authority	Day Creek Villas Apartments	Rancho Cucamonga	San Bernardino	$9,240,000
18-372	RF	City of Los Angeles	McCadden Campus Senior Housing Apartments	Los Angeles	Los Angeles	$25,000,000
18-392	RB	California Municipal Finance Authority	Vista Las Flores Apartments	Carlsbad	San Diego	$3,690,016

18-394	FW	County of Alameda	Empyrean and Harrison Apartments (Scattered Site)	Oakland	Alameda	$44,420,000
18-398	SL	California Municipal Finance Authority	Warm Springs TOD Village #1 Apartments	Fremont	Alameda	$25,000,000
18-399	FW	California Public Finance Authority	Main Street Plaza Apartments	Roseville	Placer	$13,900,000
18-400	RF	City of Los Angeles	Residences on Main Apartments	Los Angeles	Los Angeles	$16,680,000
18-401	FW	California Municipal Finance Authority	Escondido Gardens Apartments	Escondido	San Diego	$13,000,000
18-402	RF	Housing Authority of the City of Sacramento	700 Block of K Apartments	Sacramento	Sacramento	$22,186,052
18-403	SL	City of Los Angeles	Missouri Place Apartments	Los Angeles	Los Angeles	$18,750,000
18-404	RF	County of Contra Costa	Bay Point Family Apartments	Bay Point	Contra Costa	$67,000,000
18-405	SL	California Housing Finance Agency	North San Pedro Apartments	San Jose	Santa Clara	$49,400,000
18-406	RB	Housing Authority of the County of Los Angeles	Willowbrook 2 Apartments	Unincorporated	Los Angeles	$27,829,048
18-407	RB	Housing Authority of the County of Los Angeles	Florence Apartments	Unincorporated	Los Angeles	$24,783,635
18-408	FW	California Municipal Finance Authority	Judson Terrace Homes Apartments	San Luis Obispo	San Luis Obispo	$20,000,000
18-410	RF	Housing Authority of the City of San Diego	Hillside Views Apartments	San Diego	San Diego	$41,000,000

7. **Public Comment**
There was no public comment

8. **Adjournment**
The Chairperson adjourned the meeting at 1:59 p.m.