California Debt Limit Allocation Committee
Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
June 17, 2020
Meeting Minutes

OPEN SESSION

1. Call to Order and Roll Call

State Treasurer Fiona Ma called the California Debt Limit Allocation Committee (CDLAC) meeting to order at 3:44 pm.

Members Present:	Fiona Ma, CPA, State Treasurer Gayle Miller for Gavin Newsom, Governor Anthony Sertich for Betty T. Yee, State Controller
Advisory Members Present:	Gustavo Velasquez, Department of Housing and Community Development Tia Boatman-Patterson, California Housing Finance Agency

2. Approval of the Minutes of the May 15, 2020 and May 20, 2020 Meetings (Action Item)

Executive Director Judith Blackwell stated there were two tiny technical changes which were reflected in the golden rod they were just basically adding "d" to a word that should have been in past tense and a "but".

MOTION: Ms. Miller moved to approve the minutes as edited for the May 15, 2020 and May 20, 2020 meetings, Mr. Sertich seconded, and the motion passed unanimously via a roll call vote.

3. Policy Discussion for Updating CDLAC Regulations (Action Item)

Ms. Blackwell stated the action item label was added just in case this committee wanted to take some type of action so the Committee would not be stuck; it was just an information item at this time.

Caleb Roope with the Pacific Companies stated he was here today to, as a co-chair of the Task Force to discuss Task Force policy recommendations. The recommendations specified guiding principles and foundational elements, mainly focused on implementing the policy direction that have been provided by the legislature and Treasurer's Office, and other recommendations to help make the program more efficient, more effective, reward the public benefit being delivered, and work to align the programs so that the 9% and 4% programs work together well. For example, a site amenity in a grocery store in one program should be the same as the other program. He stated they were actively and aggressively working on a scoring system for the Committee's consideration in the very near future and a lot of that is going to be paying attention to cost containment, and production efficiency.

Doug Shoemaker with Mercy Housing, as the other Task Force co-chair, expressed appreciation for Ms. Blackwell's availability. The working group was initially pulled together on the issue of cost. The key components are not a mystery - land value and construction costs. The Turner Center in Berkeley, he said, has done a great study. He cited the following quote from the study: "Land value has gone up between 76% and 100% in this State in the last 2 decades."

He stated that construction costs have seen a double-digit inflation in the last several years, which does not have anything to do with the tax-exempt bond program or TCAC. Local fees range from $11,000 per unit for multifamily to $60,000 even $70,000 a unit in Irvine and Fremont. The problems go beyond anything that the Committee could control directly but they may have influence over the regulatory requirements. The Turner Center had a few more findings: (1) it costs more to build in high density projects (2) Prevailing wages are generally associated with the higher construction costs. (3) And that affordable housing projects cost more on average than market rate and mixed affordable projects; but this difference loses significance after controlling for project size. He added there is a false narrative out there that somehow affordable housing is unusually expensive by folks who are not actually familiar with the fact that almost all the housing produced in California is expensive.

He then went on to state that within the overall framework the legislature has set on SB375, they want to provide more flexibility. He wanted to reinforce the emphasis on smart growth that the legislature has set and thinks there's some flexibility to recommend lower land costs. He agreed with Mr. Roope on the extent that TCAC and CDLAC regulations and scoring impose additional regulatory requirements on construction. Their general recommendation is to go back to the basics of the state building code and not add bells and whistles. He believes the Committee should explicitly direct CDLAC and TCAC staff to move towards aligning with public funders like HCD and CalHFA to create the effect of a one-stop shop for funding.

Mr. Roope referenced aligning as many requirements and scoring criteria as appropriate across the public funding agencies and programs. Also, projects that meet state priorities should not be delayed in accessing bonds. They are still discussing other strategies like discouraging state and local fees. He mentioned there were some ways to use ceilings to find an effective measure of cost efficiency across project type and geography. This has always been the most difficult issue for the program because of the difficulty assessing or creating a standardized cost across the different project types and geographies. Lastly, he mentioned the lack of local rent subsidies in the form of Section 8 or other local operating support, which causes projects to have to capitalize very large reserves.

Ms. Miller stated the discussion was helpful but given the budget deficit the state has, the highest priority is making sure the state maximizes the use of public dollars. She wanted to hear from Mr. Velasquez to see how to better coordinate with HCD and to make sure CDLAC is way ahead of the 2021 demand survey.

The biggest priority is making sure cost efficiency is welcome but not necessarily at the expense of good public policies

Ms. Miller hopped off the call and stated she would be back at 5:10 p.m.

Mr. Roope stated he was going to deliver a lot of policy recommendations from a very diverse group (non-profits, for profits, small, large, rural, suburban, urban) of developers with broad consensus. He added they were looking for common ground on issues and are nearing delivery of the final recommendations.

He added the group was also going to come forward with recommendations on the scoring system. CDLAC can lean on TCAC in some way, he said, now that they are both in a competitive scoring environment. The completely systematic view will also focus on what thrash really does and what unintended consequences and disruptions look like.

Mr. Shoemaker asked the Committee to define thrash in its regulations, otherwise, they are going to see more of it.

Mr. Sertich asked if Mr. Roope was suggesting that the Committee have these types of discussions once every two or three years.

Mr. Roope stated he was suggesting that the Committee grind it out this year, come up with good policy recommendations as well as do the regulatory work, because it is going to be hard to draft and construct everything. He intends to try and deliver language to the General Counsel to work on and draft with staff. He stated it was not easy to overhaul a system when it has not been touched in many years.

Ms. Boatman-Patterson agreed with Mr. Shoemaker and Mr. Roope about cost efficiency and cost containment and extra costs. She then made the following statement:

"As board members prepare for a full regulation revision package to align CDLAC scoring and the state's affordable housing goals, I want to emphasize that the foundation of our affordable housing finance system (Private Activity Bonds and both the 9% and the 4% LIHTC programs) should at its core promote production and housing choice through a lens of equity, affordability and inclusion. And the housing finance system's foundation should be flexible enough to finance the continuum of housing needs from homelessness to homeownership.

The idea or belief, that our affordable housing finance system must choose between serving our homeless and most vulnerable renter populations or focus on increasing the production of affordable housing is a false narrative. We can and must do both. The foundation of our affordable housing finance system can finance housing for a broad range of incomes that range from multifamily housing for those that are homeless or severely rent burdened to Homeownership program's for Veterans.

For a housing delivery system to serve a broad range of incomes it must increase housing production and preserve existing affordable housing stock. However, the state cannot improve its overall housing delivery system without ensuring that the foundation of the state's affordable housing finance system maximizes the efficient use of the public subsidy and benefit created through the private activity bond and low-income housing tax credit programs" [language from actual LIHTC Trailer Bill].

Mr. Sertich stated he didn't want to get into too many details right now since Ms. Miller was not present for. He agreed with everything that Ms. Boatman Patterson said and appreciated everyone's work. He also appreciated the hard work that the California Housing Consortium was putting in and wanted to ensure that they make this process as public as possible. He also mentioned that developers are not the only stakeholders in this process and that the Committee needs to think about tenants and others, even though developers are definitely the most vocal.

Mr. Roope stated the victories of coordination between CalHFA and TCAC and CDLAC this year should be noted, and should try to be replicated. He emphasized that success this year is going to be measured by how much HCD and CDLAC and TCAC can work together.

Treasurer Ma stated that Ms. Miller is available on Friday at 9 a.m. and recessed the Committee until Friday, June 19, 2020 at 9 a.m.

Friday, June 19, 2020

Treasurer Ma stated they were reconvening the CDLAC meeting that was started on June 17 and that the date is June 19, 2020 and the time is 9:00 a.m.

CDLAC Director's Report

Ms. Blackwell said we are focusing on policy questions to give direction to myself and CDLAC staff as we begin reworking our regulations and try to bring them into alignment with TCAC regulations and also to respond to the Governor, Treasurer, and the Legislature's goal of increasing production because we have so many Californians experiencing housing insecurity.

She said she wanted to focus the discussion on production and costs. She read an excerpt from a joint letter she signed in December 2019 with the Housing Authority of Oregon, the Housing Authority of Washington State, and Tia Boatman-Patterson.

"Oregon Housing and Community Service, the Washington State Finance Commission, and the California Housing Finance Agency, in partnership with CTCAC are housing agencies whose financing tools for affordable housing in their respective states include the federal low-income housing tax credit. The housing credit, which harnesses the power of private investment is the nation's most effective tool for building and preserving affordable apartments (more than 3.2 million nationwide since it was created in 1986 through a bi-partisan act of congress). For the past few years, within our industry, the rising costs of housing construction has led to intensified discussions centering on cost controls and comparisons. Housing finance agencies and our partners are often asking, why does it cost more to build affordable housing than it does to build market rate? The underlying premise of this question is inaccurate. As numerous studies have shown it does not cost more than market rate to construct housing. It is noted that all types of multi-family housing are expensive and construction costs continue to rise.

All construction is getting more expensive. HFA's internal data along with industry-wide construction data have shown significant increases each year in construction costs all along the West Coast. These increased costs impact both market rate and affordable housing cost construction. Studies show the construction costs are equal. Multiple studies on both a national and statewide level have shown that construction costs associated with affordable housing are similar to those costs associated with market rate."

After that, she said, the report goes on to list a number of studies. They list the low-income housing tax credit improved data oversight, which would strengthen the cost assessment and fraud risk. We have always wanted that, she said. It goes on to conclude that based on the evidence of multiple studies, the affordable housing development community is providing for the construction of affordable housing as efficiently and cost effectively to the public as the market allows. With this consensus in studies across studies, geographies and context, it should now be clear that when the same housing is built in the same place, for the same purpose, the cost for the site location is the same regardless of the builder. She said she will probably post the letter on our website.

Ms. Blackwell said she wanted to bring that to this Committees' attention so that we do not go "down the rabbit hole" or "red herring" of attempting to figure out how to cut the cost of housing construction or build housing more cheaply. I want you guys to think about what factors you should use to distinguish projects that get funded versus projects that do not get funded with all other factors being equal. Some factors you may want to think about - CTAC base limits, number of units produced; efficient use of state and or local resources on a per-unit basis; amount and type of funding present; transportation-oriented development or jobs-centered projects; locations in high resources areas; and creating new pools that specifically support homeless and extremely low or very low income targeted projects.

Ms. Blackwell indicated that we must decide whether CDLAC should align its' definitions in scoring with TCAC's programs and regulations or whether CDLAC should seek to maintain meaningful differences; and we might also consider whether a geographic system should be utilized to ensure a meaningful portion of CDLAC resources are distributed throughout the State.

Ms. Blackwell then proceeded to discuss incentivizing the building of projects of 100 or more units for example: in urban centers or near transportation-oriented developments. Ms. Blackwell also noted that we should consider whether CDLAC equally weigh and incentivize the value of private and philanthropic capital, such as big Tech companies and large employers in the same manner that it currently does with public funding. Most of us have read in the papers that a lot of large companies are willing to invest in housing but we do not have a mechanism right now for taking advantage of that or incentivizing it.

We should consider incentivizing high-density housing, such as units of 50 or more per acre to align with local government movements in this direction. Transit-oriented development should be further incentivized. Ms. Blackwell also indicated that in her current observation, the current tie-breaker used by CDLAC is a relatively blunt instrument that does not account for unit type variances for example: a one-bedroom unit and a four-bedroom unit are granted the same weight; nor does it consider regional cost differences for instance the cost of building in San Francisco versus Fresno.

Ms. Blackwell explained that the current tiebreaker favors projects that have smaller unit types and areas of the state where building and land costs are lower.

Other questions Ms. Blackwell raised included whether CDLAC should incentivize projects with limited funding sources, for example; projects with less than three gap financing loans and grants; and whether CDLAC should give score incentives for projects that otherwise meet most of CDLAC's public policy objectives but for some reason have not been successful in prior rounds. Ms. Blackwell reminded the Board of past attempts and whether to do so with our Other Affordable category

Mr. Sertich stated that he does not believe there is any reason the Committee should be comparing the cost of building affordable housing to the cost of building market-rate housing. He mentioned that he believes the resources of the State should stretch as far as possible. He also believes in the need to build a more balanced system that accurately measures public benefit and compares it to the investment that was made so that the state can maximize its limited resources. He believes it is important to build this measure into the CDLAC scoring system.

He added that the Committee must value how it uses the state's limited resources. For example, on the CDLAC side, if there are certain projects that are going to be able to leverage more subsidy out of bonds than others, projects that are in difficult-to-develop areas, that should not be held against them using the bonds for such projects. The Committee should incentivize projects in order to help them get more credits. On the CTCAC side 9% credits are the limited resource so the Committee should look at the cost that the state is putting into the projects. He stated that public benefit is a lot more complicated. The Committee needs to look at affordability, location, and other ancillary benefits that come along with that whether it is a workforce development-related project or whether it is environmental benefits the state is getting.

Mr. Sertich also wanted to see CTCAC's and CDLAC's scoring system better aligned. He also wanted to see HCD align with CTCAC's and CDLAC's scoring systems. It will enable them to align their state subsidy funding priorities, which will lead to a more efficient state housing funding system. He encouraged the agencies to work together to achieve long-term goals in creating a joint award system. In the short term, the Committee should align its scoring systems, simplify regulations and provide incentives through the scoring system to get the greatest public good.

He then stated he had done a lot research, modeling of different types of systems, wants to be engaged, and wants to make sure this process for changing the scoring system and regulations is as much a public process as possible. Mr. Sertich stated CDLAC should begin conducting public workshops beginning no later than August 2020 to talk through these decisions in order to get a final proposal out in September 2020 so that it would be ready to go early next year for both CDLAC and CTCAC. Developers have a huge stake in the process and need to be heard from. All stakeholders need to be taken into account, whether they are California taxpayers, tenants, or service organizations.

Ms. Miller mentioned that the business alliances she has been working with have put together a statement to better align programs. She was willing to make a commitment to align all programs in order to increase certainty, decrease cost, and provide public subsidy in an equitable fashion to promote housing development across the full spectrum of affordable housing needs. She also expressed the need to be cognizant of their budget crisis and the on-going challenges facing the state. She believes the Committee should increase production in a manner that helps Californians who are economically vulnerable or experiencing homelessness and in a way that advances equitable access for racial and ethnic minorities. The Committee should actively seek ways to more efficiently use resources, including reducing time and cost and ensuring certainty for developer partners. To reiterate, Ms. Miller stated that the three main goals should be to establish process certainty, reduce cost, and to provide public subsidy in an equitable fashion to promote housing development across the full spectrum of affordable housing needs. She also expressed the need to commit to working together to evaluate the state's housing data and find new ways to implement unmet needs. Affordable housing should have a stimulus effect and be part of the anticipated recovery effort. Economic mobility for those served is also factored into the Committee's decisions by making intentional and deliberate equity decisions within the state's programs. From the Governor's perspective, these were the guiding principles because nothing in the housing world is on a continuum and nothing is mutually exclusive. This is the frame that the Committee should work on from the Governor's Office and all of their partners.

Mr. Olmstead agreed whole-heartedly with Ms. Miller. He stated HCD recently had a new Director join just over a month ago and a lot of their time already has been talking about the question of alignment. HCD has many programs that have been implemented legislatively and via passage of propositions by the voters, so there are many conflicts as things evolve and change over time. While alignment will have its challenges, he thinks that if the Committee can get there it will be very, very helpful.

Ms. Boatman-Patterson stated that QCT's and DDA's bring in more credits but wanted the Committee to be aware that these are also areas of concentrated poverty. She distinguished between cost of construction and public benefit since sometimes the Committee gets those two confused. There is a cost to the public benefit and it is a good measure to use. She stated that the Committee needs to understand and be transparent about the cost to that public benefit. The Committee needs to recognize that every time they add design, add additional local taxes, and add additional amenities fees, those are costs too. The Committee needs to be aware of those costs and while they may be good costs, they need to be balanced with public resources and public investments.

She also added that CTCAC and CDLAC scoring should be aligned. Part of the problem is that over the last 25 years state housing programs have not aligned themselves to CTCAC and CDLAC. Due to the fact that the foundation of the scoring systems are the tax credits and bonds, when the mixed income programs were designed, instead of having CDLAC and CTCAC align with CalHFA, the Committee went in the opposite direction and aligned CTCAC and CDLAC, which proved to be the most successful model. It was a process issue. It is not just about aligning scoring because sometimes aligning scoring can be a "Red Herring" because the various programs may have different policies, goals, and objective. The system needs to accommodate the continuum of housing needs and the various housing programs need to align their processes to work with that foundation.

Treasurer Ma stated she didn't see much input from the financing communities at housing outreach meetings when she got elected last year. She believes it will be critical to listen to financial intuitions as well for feedback for the next year or so since the Committee will be looking to finance larger projects. She also stated one size does not fit all and different parts of the state have different needs. Sometimes it is more affordable to build outside of bigger cities so the Committee needs to consider that. She mentioned that the California Pollution Financing Control Authority (CPCFA) managed a $60 million infill remediation fund, which goes to fund many affordable housing projects that are sometimes difficult to build. Yet, that fund has been depleted.

She asked to hear more about infill sites from possible developers she had also been working to try to establish an infrastructure revolving loan fund. She went on to say that she understands that there are many projects that have been permitted and local governments used to provide the infrastructure needs, whether it is sewer hookup, roads or others. And now, due to local government constraints and the pandemic, they are no longer able to do this.

She agreed with the point of aligning with TCAC and CDLAC, but commented that CDLAC has a slower process going through the Office of Administrative Law (OAL). By contrast, TCAC was able to accommodate tax credit programs as well as the disaster credit program very, very quickly, to create the regulations, have the emergency regulation hearings, and finalize the regulations. She stated that her team has been trying to figure out how to make the CDLAC process quicker or at least aligned with TCAC. She said that she is looking for a system that could shorten the CDLAC process.

Mr. Sertich stated that in a lot of ways, we are all aligned on some of the changes. He expressed his concern about getting the details right and wanted to make sure we are improving things and not making things worse with unintended consequences. He mentioned that we may not want to measure cost when calculating public benefit. He also stated that projects should be awarded based on state priorities. He agreed that QCT's are not always the highest resources areas but the DDAs do not really align with the low resource areas. We need to use our resource funding as efficiently as possible and take into account the rules we cannot change which are the federal rules when thinking about those as we discuss changing our regulations and providing incentives. He advocated for a more flexible scoring system which could reduce the need for incentivizing certain desired project developments and said some of the extra requirements that local governments are requiring of project developers should be financed by local government.

Ms. Boatman-Patterson agreed with Mr. Sertich. It is not the cost of projects but the value of projects and the value of the projects that need to measured, using an incentive-based system to incentivize those public benefits that we as a state value; but understanding that the public benefit may come at fewer units, or the public benefit may come at higher cost.

Treasurer Ma mentioned that over the years a lot of bells and whistles have been added, and like the Christmas tree, at some point there are too many ornaments. You can't put them all on the tree if you have a smaller tree. Some things are just not going to get out of the box in certain years. She asked to hear about community concerns.

Mr. Sertich mentioned that there are a lot of minimum requirements whether that is with our 4% or 9% tax credits programs and having a more flexible scoring system allows for developers to earn their public benefit points.

Ms. Boatman-Patterson reiterated her point of letting tax credits and bonds be the backbone and then letting other programs and the developers creatively come in and help to get the efficiency.

Mr. Sertich suggested that if there are specific bells and whistles or needs that local governments have above and beyond what is valued at the state level, they should come in with the resources to pay for them.

Treasurer Ma mentioned funding from the private sector and suggested putting their money into a fund versus requiring them to pick communities and decide which community is better and what each community needs. Given the scarce public resources, private/public partnerships are going to be an important way to raise additional money. Companies, such as Amazon, need to understand that if they build huge job centers such as the Amazon Distribution Center, they need to work on employee housing.

Mr. Olmstead mentioned that, as a community we often fail to explain to the public that we are serving many households over time and we don't often put the "human face" of that on it. We are buying 55 years of affordability and that we are failing to articulate the benefit over time. He also mentioned the only people who will be potentially be paying attention will be judging us about how we are responding in this unprecedented time. We want to be thinking about what is on the minds of most people currently and that (COVID) is probably going to be at the forefront of most people's minds as they look at the policies that are going to come out of the system that we devise.

Treasurer Ma opened the meeting for public comment.

4. Public Comment

William Leach suggested that energy efficiency is a place that we as an industry should pull back. He would let California's Title 24 lead the way. He agreed with Treasurer Ma that funds from technology firms and other philanthropic organizations should go into a fund. Smaller non-profits and smaller developers could use parts of this fund. He mentioned his belief that the right incentivizing does work for developers to produce the desired results for prospective projects.

He stated that he thinks there is huge value as a state to increase the efficiency of the financing process with alignment. He then added that the aligning agencies should look at the scoring. If TCAC and

CDLAC take a little bit of extra time and listen to HCD nuances, so that the state's system incorporates the value of HCD goals, alignment is much easier for them. He explained that he is a huge advocate of creating a single underwriting tool, not a single application, a single underwriting tool that talks about rent and costs and expenses, very measurable stuff that he thinks every housing agency cares about.

The last thing he noted was that when you go to a production-oriented system you have to make sure that you are very comfortable with your minimum requirements. If you incentivize developers to get creative, we are going to get creative in wholesome ways, and we are going to get creative in some unwholesome ways. One unwholesome way might be to try to reduce the cost of something simply by reducing the quality. So you want to make sure your minimum standards are standards you believe in. One of your major minimum requirements is square footage. He warned the Committee that if we have a production-oriented scoring system we are going to start producing smaller units. Some might say smaller units is a good public idea. It would use less construction material, and use less labor and is a tool for density for getting more housing in California. He also stated that he not an advocate of tiebreakers.

Mr. Sertich reminded the Committee that if we are incentivizing things, we may need to add different restrictions or different minimums. The goal should be to get as much housing built with the resources we have. By example, he mentioned that just because you get an award from HCD or Cal HFA, does not mean you should be guaranteed a bond or a credit award. You should still go through a scoring process.

Mr. Leach said the AHSC program is intended to build housing, but also to reduce greenhouse gas emissions by increasing ridership with public transit. So some of the funding that AHSC is putting into the project is given to the project to reduce greenhouse gas admissions, which is not a direct housing goal.

Ms. Boatman-Patterson expressed concern about competition. She said that HCD and the affordable housing communities program go through significant competition and expressed her concern about having them go through additional competition at CDLAC and TCAC. She asked for a discussion on processes in competitive versus non-competitive rounds, meeting minimum requirements, and what are actually the more efficient processes to provide developer certainty.

Mr. Sertich mentioned that he thinks that the competitive process is important when we have limited resources. He thought if we have public benefits that we want to incentivize, we should ensure that we are getting the most out of those projects.

Ms. Boatman-Patterson stated that the Board really needs to have a robust discussion about what are the minimum requirements and that HCD and CalHFA need to think about their processes to fit the foundations of the bonds and tax credit.

Ms. Miller said we are all aligned in terms of HCD and all the various programs working together and went on further that maybe the priority should now be the alignment between CDLAC and TCAC.

Mr. Olmstead mentioned that some of the changes needed on the CDLAC side may require legislation.

Ms. Boatman-Patterson reminded the Committee that a lot of this could be done administratively as the first job in managing the pipeline, i.e., how many awards are out, and what's the bond need. She added that it is administrative if you can answer the demand survey on the front end by understanding how much bond, how many awards you have, and what is the bond need for the awards you have outstanding.

Mr. Olmstead said he had heard people saying interchangeably the terms "state resources" and "public resources" and those are not necessarily the same thing.

Mr. Sertich explained that he was thinking of state resources and reminded the Committee that there are some quasi-state programs to discuss like "No Place Like Home." It is administered by the state but certain counties have their own allocations

Ms. Boatman Patterson agreed with Mr. Sertich that the focus should be on state-controlled resources.

Mr. Leach recommended programs like MHP, AHSC. If you want to set aside resources for them, you don't just have bonds. You could also set aside 9% credits.

Mr. Roope mentioned that the comments made, so far, by the Committee are in line with the working groups thoughts. He also commented that when we talk in terms of efficiency and production and of public benefit, it comes down to specificity. What is public benefit? Is public benefit de-targeting of rents? Is public benefit serving the homeless? Is public benefit more units?

Mr. Shoemaker started by addressing one of Treasurer Ma's concerns. In his experience at Mercy, there were no problems getting banks to invest in projects. He stated that he does not think the goal of the Committee should be to try and make them (banks) comfortable. It should be to get them to invest in the things that we need to get them to invest in.

One of the reasons why the working group is going to recommend greater specificity in the pools system, he said, is because the current CDLAC scoring system is nowhere near as detailed as the HCD system. He explained that the MHP process is significantly more sophisticated today than the CDLAC process. He stated that they will be proposing the factor of high density that he believes meets state priorities.

Mr. Olmstead asked the Committee to consider how the CDLAC and TCAC systems set policy to the extent HCD can manage that policy so that it works in their system while dealing with federal requirements from time to time. He suggested creating a pool of resources to avoid having HCD projects have to re-compete for the money they have already got from HCD.

Mr. Sertich suggested that we need to have regional pool set asides with minimums. He explained the necessity to create a system that has some ability to compare across different project types in different locations. We need to determine the public benefit, value affordability, value location, and to figure out where we want to build, and how we want to build.

Treasurer Ma explained that we set aside money for acquisition and rehabilitation, money for new development, and yet no project qualified for acquisition and rehabilitation. She asked the Committee: why bother creating a pool if we are not even going to try to have some flexibility to allow acquisition and rehabilitation projects to qualify? She suggested that if we are going to set pools we should stick to the pools and allow flexibility so the folks who apply do not necessarily have to be apples to apples. She suggested sticking with specific pools and not moving monies between pools from round to round.

Mr. Shoemaker stated that the challenge for the communities that he represents is that the pools are too blunt and that the actual priorities of the State are not acquisition and rehabilitation. The priorities of the State are to end homelessness, address the giant senior tsunami that we have coming our way, and address the climate change issue.

Ms. Miller mentioned that we need to do a demand survey sooner and in a more intentional way. She believes that we did not have enough information to set the pools properly originally. She suggested that when we set the pools we should be making sure that the resources are spread in a way where no one gets 100% of what their need was. She stated this needs to be done in short order for January 2021.

Mr. Sertich stated that if we have not set priorities and if we have not set how we want these projects to be funded, it is hard for the community to provide a clear demand survey. He went on to say that as a Committee we need to set what our priorities are and how we will allocate that to best meet our goals. He also agreed with Mr. Shoemaker, that having an acquisition rehabilitation pool should not be the goal. It should be a population served and it should be regional, ensuring that we are serving different populations across the state and not necessarily the types of projects.

Mr. Shoemaker indicated that preservation was a priority for the working group. The reason why the pools need to speak to housing type is because they are so very different from each other. When you compare within a housing type you actually are able to measure incremental or marginal differences between them.

Mr. Sertich suggested having a large set-aside for a statewide competition in addition to smaller apportioned pools.

Mr. Shoemaker explained that when you set a pool you are setting policy and the working group will recommend about a half dozen pools. He warned that developers may be optimistic showing more projects in the demand survey and suggested that we may be better off getting the information from public partners like HCD and the issuers.

He then discussed the topic of geography and mentioned that the working group is coalescing around the idea of super-regions. He added that we should think of regions that are similar in cost and maybe rental rates and in location, and geography. He suggested that after going through the pools there might be a general competition for the super-regions.

Treasurer Ma suggested that this may be where private companies and the high-tech companies can assist. She provided the example of Amazon which is building six mega distribution centers in the state. She stated that the housing is not going to be where they are building these centers. They bought the land where it was inexpensive and they are hoping someday housing will come, but believes the companies will help finance housing.

Ms. Boatman-Patterson mentioned that if you are incentivizing a job-housing balance, then you will be incentivizing those developments closer to jobs and that plays into the location factor.

Mr. Sertich agreed and added transit-oriented jobs criteria and high resource areas as places in which to incentivize.

Mr. Shoemaker mentioned that Mercy is working with a couple of technology companies and one is putting a direct subsidy into the building. It is a grant that is never coming back to them. He then commented on Treasurer Ma's example of the Amazon Distribution Centers. He stated that many communities will charge the Amazon Super Centers a fee because they are not convinced that Amazon or anyone else, on a voluntary basis, is just going to charitably make the world a better place for affordable housing. He further explained that, by and large, most employers are not providing money on a voluntary basis other than revolving debt and very few of them are actually making meaningful contributions that are comparable to any HCD loan or a tax write off.

Ms. Boatman-Patterson asked if we want to incentivize other capital, we want to make sure that the State resources are used most efficiently, but we want other capital to be brought in, should we be treating public capital any differently?

Mr. Roope expressed his thought that the 9% program, after many years, has been through a pretty exhaustive definition of what public funding is and they have a unique definition that incorporates a lot of different ideas including land donations, public rental subsidies, and other items.

Mr. Sertich stated that we consider how much local or philanthropic money is going to a project. The more local and philanthropic money that goes into a project should reduce the state investment.

Mr. Roope explained that the working group has good definition for private philanthropic resources. He added that he is in favor of defining a measure for public resources.

Mr. Sertich clarified his point as the focus should be more "no matter where the money is coming from." This is not necessarily refuting Mr. Roope's comment. He mentioned, by example, that we shouldn't focus on whether it is a first loan, that comes from Citibank that is fully amortizing and reducing the state cost because they are giving the state a lower rate or something, or if it is a donation from Google of $100 million dollars. He added that neither of those are reducing the state investment and that is we should be measuring because that is all we can really control.

Ms. Boatman-Patterson stated that we try to measure other public resources and other money and give points or credits for that, when what we really should be focusing on is the state-controlled resources and incentivizing that. She pointed out that this is part of the problems with the tiebreaker now. She agreed with Tony on focusing on the State controlled resources.

Mr. Shoemaker mentioned that the Committee should consider whether the CDLAC scoring system is going to provide additional points for affordability or you meet some measure of income and it is the HCD loan amount that brings the project into alignment.

Mr. Sertich added his view that the number one benefit that TCAC with the tax credits provide (4%, 9%) is housing affordability and that ultimately should be the driving force.

Mr. Shoemaker agreed and added the idea of controlling for geography and population. If you don't do those two things you just never wind up doing a comparison. .

Ms. Blackwell agreed with Mr. Shoemaker, saying proper incentives are important for different areas: would you even want to encourage something that only goes eight stories near the Trans-Bay terminal in Oakland? She warned that we don't want to have a system that is going to make people build teeny-weeny little wooden projects somewhere where we really need a skyscraper.

Ms. Boatman-Patterson requested further discussion on the "color of money." She asked if the local government is bringing in funds versus HCD bringing in funds would it be different or the same? Are we measuring HCD's funding coming in as a state resource along with the bonds and tax credits? And are local government funds different than HCD funds?

Mr. Sertich mentioned that each of these is a state-controlled resource. He did not count the CDBG and hold money that they allocate because they get only a very small portion from the state, but said in the short term all the programs are not aligned. He stated that federal money coming in, whether it is project-based Section 8 contract, whether it is HOME or CDBG money, or USDA subsidies (as a State entity), HCD, CTAC, CDLAC, CalHFA do not control how these funds are allocated. If the federal government decides to put new money into those places it is a benefit for us to incentivize that. Whether it is local bond money coming, or federal money, he stressed that we should incentivize those investments in California housing.

Ms. Boatman-Patterson provided an example for her point. Mr. Shoemaker said two projects are proposed within the limits of the City of Los Angeles; one of those has HCD funds and one of them has just local funds. She asked, all things being equal, are you going to prioritize one project over the other?

Mr. Sertich said he would prioritize the one that has the local money in it for two reasons: 1) Part of the reason we have the 9% tiebreaker now is it does give the locals some control over these decisions and he wants to continue allowing that; and 2) If HCD money is in there we could roll that money into another project somewhere in the state that is determined to be as valuable as that project that the City of Los Angeles, or the County of Los Angeles has determined is valuable.

Ms. Boatman-Patterson stated that some of that is what is happening now. Some HCD projects did not get funded because there were other projects that came in that scored better than they did.

Mr. Shoemaker mentioned that what we heard from the working group is that for folks wanting to go through the HCD door and agree to provide much deeper public benefit and live with all the complications of being an HCD funded project, it is complicated. The CDLAC system is sort of taking both of those projects and has to decide whether or not they want to take them in an equal way and give that HCD loan an opportunity to bring in all that public benefit.

Ms. Miller stated that we cannot change any HCD programs in this discussion or actually at this board. One of the common messages she heard was that there should not be any really broad instruments and mentioned that we need to be very clear about what we can and cannot do. She reminded the Committee that they can't tell other folks what to do through this process. She also stated that there is a lot that we can do better and focus on the priorities in trying to help CDLAC staff sort through the discussion. She then asked Ms. Blackwell for further comment.

Ms. Blackwell stated that she heard a consensus that we need to incorporate regional distinctions and that we have consensus that we need to have distinctions with regard to project types. She further stated that she heard, very clearly, that we need to look at the entire spectrum of housing need from our tenants so that we need to do a very thorough demand survey and then perhaps, develop pools that include a pool to get at deeply affordable because we know that there is a homeless need and an extremely affordable need. She said that we also need to have regular affordability and we need to have mixed income. Maybe our pools need to be divided in that way and within those to have regional distinctions and other types of geographical distinctions such as urban versus rural. That is what she heard, similar to TCAC but I didn't think you want to be overly granular.

She stated that she also understood that we wanted to think long and hard about putting together a mechanism that anticipates private philanthropic investment as well. We haven't thought that through but that right now it's just kind of an extra add on and she has seen it in certain projects. For example, we have a very successful project in San Jose that is a homeless project. There was a desire for a philanthropical donation. The donation bought the housewares for the homeless community that was brought indoors. But they had to come up with that idea. Maybe there was a way to make the financing run a little better or some other kind of way to just incorporate it a little more efficiently. Not that this wasn't a wonderful help but maybe we can think about that in advance rather than have the philanthropical organization just try and guess what we might need.

Ms. Boatman-Patterson stated that she would like to make sure we are incentivizing income averaging on the CDLAC side and reminded the Committee that it was discussed in April and we did not have a good policy discussion around that. She asked if there are any concerns about making that change? She mentioned that because it is allowed by federal law that we should not be disadvantaging those developments that want to use income averaging. She then requested for a conversation about using the federal law that allows us to use income averaging to the extent that we can.

Ms. Blackwell agreed with Ms. Boatman-Patterson and stated she needed some time to think it through. She further added that she just did not want to make a change in a two-week time frame, so this is the perfect time to focus on that.

Ms. Miller requested clarification and asked if income averaging would be across the board or in certain project types.

Ms. Boatman-Patterson explained that this is why we need to have a policy conversation. Right now, the mixed income program has used income averaging and now we closed up the loophole to where CalHFA is the only program that can come in and use income averaging. She then added that if someone wanted to come in and do income averaging in the new construction general pool, their affordable units from 60% AMI to 80% AMI, which would be regulated under tax credit rules, are not necessarily counted under the CDLAC rules as a qualified restricted rental unit. So they don't get scored as well and so she asked the board for a policy conversation as to should that ability to do income averaging be across the board or should it be limited to CalHFA's mixed income program?

Mr Sertich mentioned that he thinks it is allowed right now. The tie-breaker on the CDLAC side doesn't take it into account income averaging and agreed that it should be included as a restricted rental unit. He also stated that (a) things are going to change for next year anyway so said he is not terribly concerned about it but (b) there is a discussion to be had about whether there should be some other incentivizing factors that we want to include for mixed income type projects. He added that , in areas of high resource, we are getting a lot of the good benefits from mixed income projects by being located in those neighborhoods. In other areas, if we incentivize mixed income, it is harder to build those in some cases. He said that he is open to discussion and ultimately, our number one incentive, as he has said before, should be the affordability of the projects.

Ms. Boatman-Patterson asked to take a deeper diver in Tony's use of "affordability". She stated that she knows that we want to talk about our most vulnerable populations and ensuring that we are using our resources to help those that are the most rent burdened. By example, she stated that creating developments that are averaging 40% AMI and need an enormous amount of public subsidy plus rental subsidies may work in some jurisdictions but do we want the flexibility to have varying income levels?

Mr. Sertich suggested that if we're putting in subsidies for these projects, more subsidies are needed for a 30% AMI unit than for a 60% or 80% AMI unit and that should be valued appropriately. In reference to HCD's study from a couple of years ago about the housing needs in California, almost all of the low-income housing needs were for low and extremely low incomes in California. That has a knock-on effect in terms of effecting the very low-income renters because there's just not enough very low income, altogether. But most of that falls at the low and extremely low-income levels. There's a much greater benefit to the state to have extremely low permanent supportive units to get as many homeless housed as possible. It's not as often that you'll fall directly into homelessness from 80% AMI as much as 40% or 50% AMI. He then said, from a policy standpoint, we should incentivize building those lower income units. However, because it is generally cheaper, it requires less subsidy to build the higher income units, he mentioned a balanced scoring system, that weights those incentives properly, should get a range of units built. He then suggested that we should be able to get 30% up to 80% AMI units built.

Ms. Boatman-Patterson asked for clarification as to whether there is a distinction between an ELI unit that is not permanent supportive housing? She stated that not all ELI families need supportive housing. She expressed that permanent supportive housing should be reserved for our most vulnerable populations that need wrap-around services and having a system that makes sure that we are using a coordinated entry that these folks that are the most vulnerable are going into those units. But there are just ELI units that don't need permanent supportive housing. She asked when you talk about affordability, are you talking about affordability for a ELI unit or are you talking about affordability for permanent supportive housing? Because those are two different housing types. She added that you can serve an ELI with a more efficient use of rental subsidy. And so, you could be building developments that average 60% and 50% AMI and then putting in rental subsidies so that a 30% AMI person can live in a development that has a 50% AMI restricted unit since she did not believe we are effectively using our rental subsidies as part of this. She went on to add that what happens is, folks come in on the overhang of rental subsidies, you'll underwrite a development at 30% AMI and so it should be able to rent at 30% AMI and then you're putting your rental subsidy on top of that which means all of the extra rental subsidy is going to the development as opposed to the affordability because you had already underwritten it at that affordability.

Mr. Sertich explained that if we had a bunch more rental subsidy, he would be all for making that happen. He mentioned that there are two separate measures we are looking at here and stated that he may have been confusing them. One is about affordability. So yes, we should incentivize those that are making 30% AMI and there should be additional incentives for permanent supportive housing that are serving homelessness and formerly homeless individuals that are providing the services necessary to support those individuals. He stated that affordability, in and about itself, even away from the supportive housing, should be incentivized as well.

Treasurer Ma stated that we've all put a lot of information on the table and we know, pretty much, where most of us stand on this. There could be different pools to accommodate. She reminded the public that we also need a demand survey because even though we want to accommodate a certain group or region or type of project, we need to know what the projects are that you guys have. So everything has to fit inside this puzzle. She then opened it up for further public comment.

Joanna Ladd emphasized the importance of continuing to have a pathway for rehabilitations of existing affordable housing projects. She recollected a prior meeting mentioning that rehabilitations of existing affordable housing will be maintained for projects that really need it through demonstrated capital needs. She stated that they have very old properties that have been counting on having the pathway to access State resources for major capital improvements. She then expressed her opposition to an earlier comment about lowering the cost of construction by lowering green building standards. She stated that incentivizing green building standards not only promotes the State's goals with regards to climate change but it also helps these properties perform well in the long term by ensuring that they are not essentially wasting money on utilities.

Treasurer Ma thanked the speaker and provided a reminder that when the demand surveys go out, they should present their project's short term and mid-term.

Paul Beesemyer thanked the Treasurer, Committee, and Staff for the discussion. He then stated that, wherever this Committee ends up with new CDLAC regulations, it's important that we understand there will be some emphasis on cost. And if there is an emphasis on cost, there needs to be a like emphasis on public benefit so that an extremely cheap project will not necessarily beat out project that is delivering a lot of public benefit and vice versa. One of the ways to do that, beyond the scoring system, is to have some sort of geographic allocation system. He advocated for affordability to be a primary focus.

He went on to say that the current points system is anachronistic in that it gives a strong advantage to large family housing. State priorities have moved on so significantly that he thinks the program should be agnostic as to the project type because in so many cases the project type has long been set to HCD programs.

He stressed a word of caution regarding regionality. If the Committee and staff want to veer toward using regions for bond competition and bond allocation they should be careful about creating regions that are so small as to being ineffective. So one way to handle that would be to take however much you have as the governing body to put toward affordable housing in the next program year, take say, half of that and put it into the regions and leave the rest open to a general competition. And that would allow you to ensure some level of regional equity, but guard against unintended consequences of locking everything up.

Pedro Galvao expressed the concern of their members that critical rehab projects in acquisition of currently unregulated housing units have a path forward. He then added that if we go to a regional allocation system, we have to allocate funds to each geographic area based on enough resources to meet the critical need which means applying some kind of cost-adjuster and you need that data when setting the regions. Some regions such as the Bay area will inherently still be more expensive to build than other parts of the State. He also mentioned that projects such as treating homelessness may cost more but need to be prioritized.

Ms. Miller expressed her interest to include income averaging in the policy conversation and that we should work within the Federal allowance to maximize our opportunity for all of the public funds in general. She stated that we should not oversimplify the process when hearing about new construction or ELI or more senior supportive. Many things need to into this. She suggested that we need to work on the issues of economic equity and mobility and all of the other issues that were spoken about and it shouldn't be quite as binary. She also expressed her interest in fully vetting the topic of income averaging.

Treasurer Ma thanked everyone for the robust discussion and stated that ss a former elected official on the San Francisco Board of Supervisors, she always found its better to have more public hearings to provide more opportunities for people to give their input. In the end, not everybody is going to be happy but at least people have weighed in and we have listened to everyone. She added that continues to be her mantra for the Treasurer's Office. She then opened it up for final remarks.

Mr. Sertich thanked Treasurer Ma for holding this meeting and Staff for the hard work. He requested a schedule/timeline for this including the public hearings so that not just we as the Board know what to expect but also stakeholders know when they should be providing information and when things will be available for their review and again. He stressed that we need to give time for everyone to review all this but we need to get going as soon as possible. He then offered the Controller's assistance in pushing this through.

Ms. Blackwell thanked the Committee and public.

Treasure Ma mentioned that Ms. Blackwell will get back to the Committee on timelines and the working group will continue to provide input. Their points are for the next meeting. She thanked everyone and stressed the importance of this discussion.

5. Adjournment

The meeting was adjourned at 11:17am