CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

915 Capitol Mall, Room 311
Sacramento, CA 95814
p (916) 653-3255
f (916) 653-6827
cdlac@treasurer.ca.gov
www.treasurer.ca.gov/cdlac

AGENDA

Friday, August 21, 2020

TIME:
11:00AM

Jesse Unruh Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

***Via Phone*:**	**(888) 557-8511**	**Participant Code: 5651115**
***Via Zoom*:**	**Meeting ID:** 882 8840 9199	**Passcode:** 779974

OPEN SESSION

1. Call to Order and Roll Call
2. Approval of the Minutes of the August 7, 2020 Meeting (Action Item)
3. Discuss and Choose Between Various Regulation Structures and Strategies (Action Item)
4. Public Comment
5. Adjournment

FOR ADDITIONAL INFORMATION:
Judith Blackwell, Executive Director
California Debt Limit Allocation Committee
915 Capitol Mall, Room 311
Sacramento, CA 95814
(916) 653-3255

The Agenda is also available on our website: http://www.treasurer.ca.gov/cdlac

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California Debt Limit Allocation Committee
Jesse Unruh Building
Room 587
915 Capitol Mall
Sacramento, CA 95814
August 7, 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 9:02 am.

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

2. Approval of the Minutes of June 17, 2020 and July 15, 2020 Meetings (Action Item)

Ms. Blackwell provided a summary of edits to the minutes to the Board.

Treasurer Ma stated this was an action item.

MOTION: Ms. Miller moved to approve the minutes as edited for the June 17, 2020 and July 15, 2020 meetings, Mr. Sertich seconded and the motion passed unanimously via a roll call vote.

3. Discussing and Choose Between Various Regulation Structures and Strategies. (Action Item)

Ms. Blackwell stated that she sent information to every board member and thanked them for being supportive to staff during this time when the new 4% program was implemented based on AB101 and the $500 million dollars the Governor and the Legislature graciously provided. Ms. Blackwell mentioned that the February round was a difficult round and staff was able to put the program together in two to three months. She stated that this effort has already paid off. Ms. Blackwell stated that the numbers that have come in thus far indicate that we have exceeded unit production for low-income housing by 63.05% and the year is not over. She indicated that there is still another round of 4% applications to be discussed in September. Ms. Blackwell stated that the total number of low-income units has increased by 68%, an increase in extremely low-income units by 42.74% and an increase in very low-income units by 66.82%.

Ms. Blackwell thanked everyone and asked to continue on with the meeting's discussion and said there would be a robust discussion regarding Mr. Sertich's proposal and CHC's proposal. Ms. Blackwell stated that there was no discussion about the technical changes that staff has been looking at. She stated that the primary point of these changes is to make sure that CDLAC and TCAC are aligned. Senior management from both departments would present the proposed changes.

Ms. Blackwell thanked everyone and asked to move on to item #3.

Treasurer Ma asked for Mr. Sertich's input.

Mr. Sertich stated that he had a question on the numbers that Ms. Blackwell presented. He mentioned that it is great to have full-time staff working hard and said that the annual report states that there were only 17,000 units created last year.

Ms. Blackwell stated that Mr. Sertich was correct. She then mentioned that the annual report discussed 9% and 4% combined and that the numbers she presented were only for the 4% numbers. She stated that if the report said there were 17,000 units in the 4% program, that figure was too high. She would have to go back and check.

Treasurer Ma asked for Ms. Boatman-Patterson's input.

Ms. Boatman-Patterson stated that the 2019 numbers compare new construction to new construction year-over-year and that the numbers do not include any preservation.

Mr. Zeto stated that the first six tables consist of many of the items that they are proposing changes to. The first few items have to do with experience and are proposing changes to the threshold on the CDLAC side. Mr. Zeto mentioned that on the 4% CDLAC side, if one does not meet the minimum score in each of those categories, the general partners can attend a CTCAC training prior to the project being serviced. This is extended to general partners under a clause that the department has.

Mr. Kass stated that this is also a requirement of CDLAC. Though it is not a scoring point category, CDLAC does look at the general partner's information during the first review. Mr. Kass states that this is one area where CTCAC and CDLAC are similar as it is part of the threshold used during CDLAC's initial review.

Mr. Zeto stated that housing needs were the next item on the chart. Housing needs are a threshold requirement for TCAC on the 9% side. Mr. Zeto mentioned that CDLAC has a point category for large family units. Furthermore, Mr. Zeto mentioned that large family projects receive points, so, adding points to senior projects or projects that have 50% of the units that are homeless is a proposed change. With this, Mr. Zeto stated that these points would put other projects "on par as far as competitive, as they could score the same as a single project with this option."

Ms. Boatman-Patterson asked if that is what was provided for in the 9% program?

Mr. Zeto stated that the housing needs category in the 9% program does provide for this. Mr. Zeto mentioned that the focus of the housing needs category is that they have alternative ways to score the points, thus wanting to make that available to CDLAC's scoring system.

Ms. Boatman-Patterson stated that there are additional housing types that points are available for. Ms. Boatman-Patterson mentioned that part of the problem with CDLAC's scoring is pretty much incentivized large families and preservation. Furthermore, she mentioned that there are other types of housing needs apart from large families, so just prioritizing giving points to senior and homeless housing makes her question why other types of housing needs are missing.

Ms. Blackwell agreed with Ms. Boatman-Patterson's statement. She mentioned that they were not sure exactly how far the Board wanted to go, but these two housing types are a great priority. Ms. Blackwell stated that these are changes used as a "stopgap measure while we are waiting for the Board to give us direction on our comprehensive changes."

Ms. Boatman-Patterson agreed with Ms. Blackwell's statement. She stated that she believes that 50% is too high and that the use of the 9% program that "we have worked hard with to be deeply affordable, so that the senior and homeless housing types are the types of projects that you want to reserve a portion for".

Ms. Blackwell stated that this was a point well taken and thanked Ms. Boatman-Patterson for the input.

Treasurer Ma asked if they were any other questions or if the meeting could go to the next item.

Mr. Zeto continued to discuss site amenities. He proposed aligning the two BCA requirements and to incorporate them into the CDLAC requirement to increase the point options. He recommended using TCAC's whole number of points, as the numbers are close to being aligned. He mentioned that, with regards to service amenities, TCAC has an option for case managers and would like to add on to CDLAC to align the two categories. Furthermore, Mr. Zeto stated that the sustainable building methods are aligned with TCAC, but the building code references are outdated on the CDLAC side so an update would be required.

Ms. Blackwell stated that she believes this was similar to something done last year.

Mr. Zeto stated that there were no recommendations for low-income and mentioned that "staff is working on aligning the wording of the definitions in this area".

Mr. Sertich stated that he appreciates the attempt to align CDLAC and TCAC. He mentioned that there is a state statute ability for CDLAC to allow TCAC to manage the QRRP program as TCAC regulations would guide the process through Government Code 8869.84(f). Furthermore, he mentioned that this may be easier rather than aligning both departments and making sure that the regulations align constantly.

Ms. Blackwell thanked Mr. Sertich and said that his suggestion would work well as use of both sets of staff would make everything run more efficient.

Mr. Sertich stated that the goal is to align everything with CDLAC and TCAC as much as possible rather than having two mirror sets of regulations.

Treasurer Ma asked what would be done with the CDLAC regulations? Align everything?

Mr. Kass stated that there are some subtle differences.

Mr. Sertich stated that this could possibly be done for some of the other programs too.

Ms. Miller mentioned that she is unsure about having a single set of regulations.

Ms. Blackwell mentioned that she wants to put Ms. Miller at ease and reminded her that a list of what is to be aligned was presented in the last meeting, but not discussed.

Ms. Miller stated that she understands Ms. Blackwell's statement but that she cannot indicate any consensus as the board has not had time to analyze the proposed changes.

Treasurer Ma stated that there was a recommendation for the housing parts that would allow TCAC to be referenced in case there is misalignment and TCAC would supersede.

Ms. Miller responded to Treasurer Ma that she is unsure if she agrees with their proposed changes but that she understands them.

Treasurer Ma stated that staff would go back and think about all the proposed changes and that today is an informational item, not a vote action item. Furthermore, she stated that it is productive to hear from the board members and their suggestions, so, when the board moves forward, there will be no surprises towards the final regulation changes.

Mr. Zeto stated that readiness to proceed is a point category in the 9% program that staff is proposing to change so that the language currently in the 4% program mirror the requirement for the bonds to be issued within 180 days. Furthermore, Mr. Zeto mentioned two other categories in the 9% program, community revitalization and smoke free residence, that are proposed to be aligned so that the language is the same.

Mr. Velasquez mentioned that he is concerned about the community revitalization category. Mr. Velasquez mentioned that in his own experience, community revitalization "has been a way to continue building in high poverty areas and the definition has always been weak about what that means…"

Ms. Blackwell thanked Mr. Velasquez and mentioned that community revitalization is also a personal interest of hers, and therefore, she would like the chance to further talk to him about the issue.

Mr. Zeto mentioned that for TCAC and CDLAC, negative points are aligned, and a master list is kept. Furthermore, Mr. Zeto stated that staff recommends that preservation points only be available in the preservation pool for at-risk projects.

Ms. Boatman-Patterson stated that Mr. Zeto's statement deals with the issue of the imbalance about the scoring system favoring preservation and large families. She asked if the proposed alignment will get to that issue?

Mr. Zeto stated that the preservation projects are put in their own pool and the points are only going to be available to projects at-risk. Furthermore, he added that preservation projects are eligible for the pool, but only at-risk projects are eligible for those points.

Ms. Boatman-Patterson thanked Mr. Zeto.

Mr. Zeto asked Mr. Kass to talk about the Gross Rents category.

Mr. Kass mentioned that Gross Rents has been talked about internally in CDLAC for a while and it looks at the utility allowance, the California Utility Allowance Calculator (CUAC) and the list of rents. Mr. Kass mentioned that all of CDLAC's applications coming in with the CUAC are garnering the five points, so it is consistent across. He mentioned that it is being recommended to be removed because it is "non-material" as it is something supplied with all of the CDLAC applications. Mr. Kass declared that in the exceeding minimum rent restrictions category, CDLAC is looking at the lowest income and coordinating the low-income category, and by looking at the rent comparables and developers providing all sorts of information, he believed it is a risk. He suggested that CDLAC coordinate with the way TCAC is doing this by picking the lowest income, as it would be fair across for all developers. Mr. Kass mentioned in the exceeding minimum terms restrictions category, that applications are coming in with the 55 or over 50 year term and all developers are garnering the ten points. He stated that the standard terms used to be 15 or 30 years, but now the bond regulatory agreements are 50 years plus and with everybody receiving points, Mr. Kass believes that this category is not necessary in the CDLAC score card and does not reflect the current environment. Mr. Kass mentioned in the large family units category, both CDLAC and TCAC have their own definition for large family units, so, he states it is important to get these two aligned. CDLAC requires 25% at three or more bedrooms and TCAC requires the two or more bedrooms as a requirement. Mr. Kass mentioned in the leveraging category that he recommends aligning TCAC and CDLAC under this category.

CDLAC allows a taxable tail in their leveraging, which he states is useful in the bond recycling area. Furthermore, he stated that the examination of leveraging could be expanded for both departments, but TCAC has a firmer definition on soft resources. He mentioned that the leveraging category could be expanded to include private philanthropic funding.

Mr. Zeto stated that the leveraging is similar to the current existing TCAC 9% tie-breaker in allocating these, so there is room for larger projects so they can allocate more points. Mr. Zeto stated that this consisted of 60 or more units for rural projects and 100 or more units in other projects.

Treasurer Ma asked how Mr. Zeto got those numbers.

Mr. Zeto stated that they do not expect large projects in rural areas due to the demand in the area, therefore, non-rural projects with 100 or more units receive benefits.

Treasurer Ma asked if Ms. Boatman-Patterson had any questions.

Ms. Boatman-Patterson stated that she wanted to talk about taxable tail and including recyclable bonds as these bonds are a way to bring down the cost of the financing by replacing the taxable tail.

Ms. Blackwell thanked Ms. Boatman-Patterson and mentioned that the board will take a close look at recyclable bonds.

Mr. Kass mentioned that the next item is the Foregone Developer Fee. He stated that this category only comes into play in competitive rounds and the issue is that points are given for every percentage of foregone developer fee. Mr. Kass further stated that this is different than what TCAC is doing in terms of how they are set up and that the developers are trying to use the forgone developer fee in their sources and uses. Mr. Kass suggested to either amend the category to control for that or remove the category entirely. He wants this category to be consistent with TCAC's practices.

Ms. Boatman-Patterson stated that an issue with the bonds and the 4% tax credits is different than the 9% because of the eligible basis. Furthermore, she mentioned that developers are claiming this so they can defer fees.

Mr. Zeto asked if Ms. Boatman-Patterson is talking about the developer fee limits and then the use of the developer fee.

Ms. Boatman-Patterson mentioned that on the bond side, there is no developer fee limit, but there is on the tax credit side. She mentioned that a reason that there are no limits is because they use the developer fee as part of their financing so that they can get to claim it. Furthermore, she stated that developers have more access to the credits because they have more debt. She asked Mr. Kass how this might work on developer fee fit?

Mr. Kass mentioned that this is a case where the eligible basis for the 4% is different than the 9%, therefore the developers could try to take advantage of this when they put their basis together.

Ms. Boatman-Patterson suggested that CDLAC needs to "star" the forgone developer fee so that it is understood how it all fits together. Furthermore, she suggested that aligning the eligible basis just for the sake of aligning it without fully understanding how it fits into the financing needs to be understood before a decision is made.

Ms. Miller agrees with Ms. Boatman-Patterson's statement about aligning just to align CDLAC and TCAC across the board without understanding the specific implications.

Treasurer Ma stated that they were going to open for public comment and would appreciate the developer's suggestions with what had been discussed during the board meeting.

Mr. Kass mentioned that the qualified project period is based on the old bond regulatory agreements that had shorter terms. He stated that this correlates with what was previously said "where now everybody comes in at the 55 year mark." Furthermore, Mr. Kass states that the qualified project period is a category where all developers are receiving points, therefore he recommends removing this.

Mr. Zeto mentioned that the last category is the tie-breaker and that the 4% and 9% have different tie breakers. Furthermore, Mr. Zeto suggested wanting to have both CDLAC and TCAC utilize the same tie-breaker to have the same results.

Ms. Blackwell mentioned that the TCAC 9% tie-breaker is much more complex than CDLAC's. She suggests that the new tie-breaker meet somewhere in the middle.

Ms. Boatman-Patterson stated that she wanted to remind the Board that on the bond side, there were some unsharpened efficiency measures which she believed contributed to the increased production and developers began "sharpening their pencils," which in turn allowed the board to get "more bigger bang for our investment." Furthermore, Ms. Boatman-Patterson stated that the bonds have a measurement in the scoring that allowed to measure the amount of bonds per unit. Lastly, she mentioned that this is new for developers and it had been difficult for some to grasp, and stated "but in this era of increased need and fewer and fewer resources, we all have to come together and figure out how to be more efficient."

Mr. Zeto clarified with Ms. Boatman-Patterson that her statement is exactly what the board is proposing in using efficiency measures along with CDLAC's.

Ms. Blackwell asked Mr. Zeto if he could talk about the equation he had been working on.

Mr. Zeto stated that his equation was unpolished but that it was "basically a combination of the units on the numerator, and then the denominator was some combination to the federal credits and state credits, and then that whole ratio will be adding to the CDLAC tie-breaker that exists."

Ms. Blackwell asked Mr. Kass if he could restate the CDLAC tie-breaker?

Mr. Kass stated that it "is bond allocation over total restricted units."

Ms. Blackwell stated that after doing those two ratios, there is another factor that they were dividing it by, so that a project with state tax credits would not be disadvantaged over a project without state tax credits.

Mr. Zeto stated that the federal credits is an annual figure and the full figure needs to be taken into account because the state credit applications could be put at a disadvantage against federal. Furthermore, he stated that since state credit applications are competing with the same projects that are federal only, there might be a "dampening effect."

Ms. Boatman-Patterson stated that on existing state tax credit programs, "you have to fully utilize all of your federal credits before you can draw down on any of the state credits," so, she asked how to ensure that developers draw down on their federal state credits to ensure that state resources are used efficiently.

Mr. Zeto stated that on the 9% side under certain cases, there is a requirement where basis are maximized to access the federal credit, with exceptions.

Ms. Boatman-Patterson stated that she is bringing this up for staff to review and analyze with their review of the deferred and forgone developer fee.

Ms. Miller mentioned that she does not think that holding the tie-breaker as the most important factor is the reason for increased production and stated that there were $500 million dollars in state tax credits. She stated that in terms of the bond efficiency measure, she does not want to advantage one type of HCD-funded program over another, because in that sense "winners and losers" are chosen. Therefore, she states that more work needs to be considered when coming up with these regulation changes.

Ms. Blackwell thanked Ms. Miller for her clarification and wanted to remind the board of the importance of the $500 million dollars in state tax credit and the significance it had towards the increase of production. Ms. Blackwell stated that the $500 million dollars in state tax credit caused a provision of increasing production of units to be put in place as a response to the requirements in AB101.

Mr. Sertich thanked Ms. Boatman-Patterson, Ms. Miller, and Ms. Blackwell on their points. Mr. Sertich asked how long these changes are going to work with other changes proposed in regards to the scoring system?

Ms. Blackwell responded that they are looking at these changes anywhere from six to eight months from now, but that changes are not ready to be made because people still need more data. Ms. Blackwell suggested that TCAC and CDLAC work with the same score sheet when looking at these applications, to come up with the same result. She further stated that "we are just trying to blend the two equations rather than run one equation in one department and then run another equation in another department…We are not really trying to come up with something new. We are just trying to come up with something that from the implementation perspective does not create chaos."

Mr. Velasquez wanted to thank Ms. Miller for her earlier statements on "winners and losers."

Ms. Boatman-Patterson stated that the bonds and tax credits should continue to be neutral, not picking "winners and losers." The priorities of the state are the funding that the state is bringing in or the local government is bringing in during the allocation, and the scoring system should remain neutral. Furthermore, she states that the statute says that "we want to have cost efficiency and the efficiency of public resources."

Treasurer Ma mentioned that there may be a few more comments from the board then, it would be time for public comment discussion.

Mr. Zeto mentioned that the next category is with the 70% or 80% AMI units because many units are greater than 60% AMI. Furthermore, he recommended allowing these units that have used the income averaging in TCAC to be aligned with CDLAC to amend the regulations and cover the 70 and 80% units.

Mr. Kass mentioned that this would be used for all the point categories. The TCAC definition of restrictive units would be used.

Ms. Boatman-Patterson mentioned that this is a conversation that the board has been having since April and this regulation change deals with allowing the federal rule that allows for income averaging to not be disadvantaging income averaged units.

Mr. Zeto mentioned that density was a subject that came up as the 9% transit has a density point option and the board is suggesting to add a new site amenity category for building the maximum density of the site.

Ms. Blackwell thanked Ms. Boatman-Patterson and Mr. Zeto for their comments and stated that this is symbolic to a lot of work done by the staff.

Treasurer Ma stated that it is helpful to have these meetings as it is important to have direction from the Board so that the staff, in between meetings, are talking about the regulations, definitions, and looking for feedback. Treasurer Ma opened up the meeting for public comment and asked the participants to email the questions with their organization information.

Public Comment:

Caleb Roope thanked the Treasurer and the committee members. Mr. Roope was speaking on behalf of his working group and discussed what the staff was proposing. He stated that there were some issues in the current scoring system that needed to be addressed, such as a heavy bias for qualified census tracts, community revitalization areas, and large family projects as more developers achieve full points and head to a tie-breaker. He stated that projects in the Bay Area are going to have more of a disadvantage under the current CDLAC proposal as these projects compete with others as "they tend to be denser, they tend to be more expensive, and the costs are just higher in general".

Furthermore, he recommended that a tie-breaker approach with efficiency would be important to be efficient with resources and it would be important to look at set-asides and regional allocation. He stated that as a working group, he felt that the alignment of CDLAC and TCAC is important as HCD is to the funding they have provided and the state tax credits. As a result, he stated that he believed there should be a set-aside for homeless projects because "homeless projects are not going to compete well in any kind of efficiency-based system". Mr. Roope indicated that if the board moves to this efficiency based tie-breaker, then geographic allocations and regions would need to be put in so that projects similar in nature are competing with each other. He stated that "you don't have San Francisco projects competing with Fresno projects on an efficiency based tie-breaker at the end of the day."

Treasurer Ma thanked Mr. Roope. Treasurer Ma stated that there was a plan to have another meeting on August 21st.

Ms. Blackwell mentioned that the next meeting is on August 21st at 11:00 a.m.

Treasurer Ma mentioned that the following meeting should be more of a policy meeting discussion as some members were not ready to discuss policy during this meeting. Mr. Zeto and Mr. Kass presented their preliminary discussions about the policies to be discussed at the next set of regulation changes.

Mr. Sertich thanked Mr. Roope and the working group for the work they have been doing and the discussions had at the Controller's Office. Mr. Sertich wanted to make the changes necessary to drive the state's public policy and housing policy forward, referring back to Ms. Miller's previous comments. He stated that it was important to make sure that the programs are working better, but also to make sure the outcomes are enhanced. Though there are $500 million dollars "on the line," Mr. Sertich would rather not rush the process and would prefer taking the necessary steps to make it right.

Treasurer Ma stated that this is all an "evolving process." Furthermore, she said that "what we decide this year may be different next year and the year after depending on market conditions."

Ms. Boatman-Patterson mentioned that she is "struggling with the bias that we give for qualified census tracks (QCT), because when I start looking at the data, on the 9% side we actually do incentivize higher opportunity areas but we don't necessarily do that on the bonds and tax credits side." Ms. Boatman-Patterson wanted to hear Mr. Roope's thoughts on how to deal with that bias and incentivizing segregated concentrated areas of poverty.

Caleb Roope stated that there is a federally related requirement on the tax credit side that states projects in qualified census tracts do need to be encouraged. Furthermore, Mr. Roope explained: "I think anything you can do to neutralize it or to make it something you can achieve points for but then you can also achieve these other points would be the answer." He stated that when you give points to a project in a tie-breaking system, the projects that are in QCTs are always going to be funded if other projects score all other points. Additionally, he stated that to be funded in the existing system, the project had to be large family, in a QCT, or a preservation project, therefore stating that changes are necessary.

Ms. Blackwell thanked Mr. Roope for his suggestions, as the board has been struggling with this issue in regards to opportunity maps.

Ms. Miller thanked Mr. Roope for presenting and mentioned that during TCAC meetings, she learns more about whether or not those would work together or need to be treated separately. Ms. Miller agrees with Mr. Roope on needing an original approach if keeping some type of efficiency tie-breaker and she also agrees with Ms. Boatman-Patterson on her census tract statements. Ms. Miller states that changes need to be finished first to see the whole picture.

Ms. Boatman-Patterson mentioned a big tidal wave that is getting ready to appear. Furthermore, she mentions that while the focus is on the tidal wave, what is the board doing to "shore up the walls to ensure those tenants are protected?"

Treasurer Ma asked Ms. Boatman-Patterson to repeat her statement.

Ms. Boatman-Patterson stated that many units are getting ready to lose their affordability covenants, so it is important to talk about tenant protection, anti-displacement and affordability preservation strategies. She stated that this is not really thought about with the bond and tax credit deals, but large evictions are soon to displace many due to the COVID crisis and people losing their incomes. Furthermore, Ms. Boatman-Patterson added "what are we doing on our affordable housing portfolio to ensure that we are doing everything we can?"

Ms. Blackwell thanked Ms. Boatman-Patterson for her statements. Ms. Blackwell mentioned that this is going to be a huge policy issue and we made some regulation changes this year with regard to relocation at the staff level. Furthermore, she stated that the at-risk piece that was added was in regard to preservation projects and is designed to take projects like this and move them to the front of the preservation pool.

Mr. Roope mentioned that his working group is focused on the issue of the loss of affordability and they have developed a ranking of the priorities and will be ready to share with the board soon. Mr. Roope stated Robin Hughes, co-chair in Doug Shoemaker's absence, may be available for comments.

Treasurer Ma asked Ms. Hughes to type in her public comments as they would be read off.

Robin Hughes thanked the committee for trying to align the CDLAC program with other state policies. She mentioned that the group will be completely prepared to have an update at the next CDLAC meeting.

Treasurer Ma stated that she wanted to make an amendment to the public comment. She stated that if a participant is on a Zoom call, that the committee would be able to hear the participant. She asked participants to please raise their hands and they would be let in. Participants would be called up when it is their turn and their speaker would be un-muted. She thanked the previous participant and asked for Mr. William Leach to speak.

Mr. Leach stated that changes to the system will take time, but that it is a great plan. He stated that simple changes in the scoring system, such as making the housing types available to multiple types rather than just large family projects would remove a bias in the system. Mr. Leach is supportive of Mr. Roope's response of dealing with the QCT issue of "remove it, strike it" and Mr. Sertich's response of a robust system leading to efficient projects. Mr. Leach was also supportive of Mr. Sertich's idea of TCAC managing the QRRPs program as in the CDLAC points categories. It states that points given are from the TCAC regulations and restated to refer back to TCAC. Mr. Leach emphasized that incentivizing housing in higher opportunity areas and QCTs feels like a question for an HCD or CalHFA program, but does agree that CDLAC is a "backbone." Furthermore, Mr. Leach stated that the foregone developer fee should be stricken because "I don't think it fits with what we are asking developers to do, to be more cost efficient; to use lower bond requests." He stated that with COVID and construction costs soaring, developers are "worried about meeting the 50% test."

Treasurer Ma thanked Mr. Leach.

Ms. Blackwell thanked Mr. Leach for his input in regard to what happens in discussions about the tie-breaker.

Ben Barker, CMFA thanked the CDLAC and TCAC Board, the Chair, and all staff for the direction that this board has been going in. Mr. Barker mentioned that when the applications go non-competitive, it is important to think about the scoring as to not place burdens or obstacles on projects to have certain amount of points. He states that if developers "can have lower points but be more efficient and add more units in a non-competitive round, I think that this is something to think about too as we move forward on how we come up with a scoring system and tie-breakers."

Ann Wilson wanted to thank the committee for their work of these discussions. She introduced herself as the Director of Development and Strategic Initiatives and Policy at Chelsea Investment Corporation, where in the last thirty years, Chelsea has produced over ten-thousand apartment units, largely with tax credits and bonds. Ms. Wilson stated that Chelsea owns and operates hundreds of properties throughout California, including affordable units for people who are homeless. She stated that as the company looked at these proposed changes to the regulation, they thought about the impact of their projects in the pipeline that are diverse. She mentioned that it is important to look at programs that would address all of California in their pipeline. She stated that Chelsea strongly recommends providing at least 12 months lead time before any major changes take effect to "allow developers to adapt their projects and pipelines to the policy changes that the changes are trying to represent and also to protect millions currently invested." She stated that small changes can have large consequences and though she does agree with aligning the programs, she believes to give scoring of calculation different weights to address different priorities. In talking about the developer fees, she stated that developer fees are crucial as a contingency in case something unexpected happens. As a closing remark, Ms. Wilson encouraged the committee to consider her changes to allow developers more lead time to adapt their development pipelines to the proposed regulation changes.

Treasurer Ma thanked Ms. Wilson.

Tom Anders introduced himself as the President of the National Housing and Rehabilitation Association, a national trade group of affordable housing developers, with many active in developing in California. He wanted to commend the committee for their openness in this process. He stated that other state agencies do not give this level of attention to the development community practitioners before implementing changes. Mr. Anders stated that "the developer fee does a lot of different things for the affordable housing operator" as he mentions that one needs "to have fair compensation to take into account all the risks that are taken in these complicated, highly elaborate bond transactions." Mr. Anders stated that the developer fee is what has paid for residence services at properties and for the increased expenses related to COVID-19, therefore mentioning that "this cushion is really essential, particularly in more challenging times." Mr. Anders thanked the committee.

Treasurer Ma thanked Mr. Anders.

Pedro Galvao introduced himself as a Policy Director at the Non-Profit Housing Association of Northern California. He wanted to echo one comment made on the existing experience points category and its structure and stated that smaller community banks serving organizations have a hard time entering the field due to this category. Mr. Galvao stated that the Non-Profit Housing Association suggested to the Treasurer and Ms. Miller to address these concerns and would appreciate having more time to vet through the proposed changes to present before committee meetings. He thanked the committee for their time.

Treasurer Ma thanked Mr. Galvao and stated that today's meeting was only informational and no items were to be voted on. The next meeting on August 21st is an opportunity to weigh-in on and send in concerns heard at this meeting.

Ms. Blackwell wanted to reiterate that the program's proposed changes are subject to public hearing and most of the times the public hears some of these proposed regulations with details at these hearings. There are also public comment periods, which have not happened yet.

Pedro Galvao thanked Ms. Blackwell for her clarification and stated that he misinterpreted when it said it was an action item.

Ms. Blackwell stated that "our hands are tied once we send out the agenda, 10 days in advance." Furthermore, Ms. Blackwell stated that if the board wanted to move towards adoption of one of the staff options, the action item would have to be put in the agenda.

Mr. Galvao thanked Ms. Blackwell.

Paul Beesmyer thanked Treasurer Ma. Mr. Beesmyer introduced himself as working with the California Housing Partnership and mentioned that he supports the idea of aligning TCAC and CDLAC scoring systems and believes that it is impractical to put larger system changes in place for the upcoming program year. He believes that whether the CDLAC system is left intact and continues with some type of efficiency based tie-breaker for the new program year, whether or not aligned with TCAC still makes sense to "sub-set regional bond pools similar to what the California Construction and Housing working group is proposing, to ensure the higher density, higher cost regions are not disadvantaged." Mr. Beesmyer stated that system changes, even if small, should work toward emphasizing soft funding commitments made by the state and by localities. Mr. Beesmyer stated that the California Housing Partnership supports the use of CDLAC's leveraging definition to align with TCAC's. Furthermore, Mr. Beesmyer supports the undertaking of bond recycling, however the California Housing Partnership does not support the idea including recycled or taxable tail bonds in the calculation of leveraging bonds as the taxable tail provisions do not correlate with the way that 100% affordable projects are structured, so he recommends getting rid of this. Furthermore, Mr. Beesmyer added that the notion of a developer fee was added in the CDLAC system before TCAC uncapped the developers fee for 4% projects, allowing it to go to 15% of basis. He states this was done as a way to allow developer fees to increase to be included in the eligible basis and allow for the 4% credit.

Treasurer Ma thanked Mr. Beesmyer and asked for Mr. Sertich's input.

Mr. Sertich stated that he appreciates all the work that CHPC has been doing and that he resonates with Mr. Beesmyer's statements about the recycling bond program and the need to encourage it, but also being careful as to how far it is encouraged. He mentioned that CHPC did a study that demonstrated that "if all of the state resources and local resources were leveraged, we would still be 50 % to 100% over-subscribed for CDLAC," therefore Mr. Sertich stated that policy decisions in the regulations as to which projects are to be prioritized would need to be made. Furthermore, Mr. Sertich wanted to make sure that the committee is funding the best projects.

Ms. Boatman-Patterson mentioned that she does not agree with Mr. Beesmyer on the recycled bonds as these bonds are a new resource, therefore more discussion needs to happen. Ms. Boatman-Patterson disagrees because CDLAC is in a competitive bond era and she is not in agreement with using "less of your initial bonds when you can come in and use the recycled bonds. We want to incentivize this as much as we can." Furthermore, she states that it is important to look at the system in its entirety. When a decent scoring system is put in place, some of the best projects will come out of that.

Mr. Beesmyer responded to Ms. Boatman-Patterson's comment on his response and agreed that it is important to further look into bond recycling, especially if there are changes at the federal level. Furthermore, he states that there may be different places to incentivize the use of recycled bonds.

Ms. Boatman-Patterson stated that she would like to have conversations about their definition of leveraging "because layering is not leverage." She further stated that "so when you put state money on top of state money, on top of state money, that should not be counted as leverage. This is layering. Now when you are bringing in federal dollars, local dollars and then state dollars, then I might say that this is leveraging because you are leveraging a resource outside of the State of California."

Treasurer Ma asked, before going to general public comment, if anyone on the zoom call line wanted to make a public comment.

4. Public Comment:

No public comments.

Treasurer Ma adjourned the meeting until August 21st at 11:00 a.m.

CDLAC Allocation System for 2021 — Rev. 8/18/20

			Notes
Est. QRRP PAB Volume Cap		3,500,000,000	"Yellow Highlight" indicates consensus has not been reached and items are under further discussion by Working Group.
Pools			Projects funded in pools don't count toward geographic regions; projects in pools do not spill to set-asides or geographic regions
Rural	5.0%	175,000,000	Rural new construction projects compete in this pool. Rural A/R projects compete in the Preservation / Other Affordable Pools.
Preservation	5.0%	175,000,000	
Other Affordable	5.0%	175,000,000	Projects not meeting New Construction or Preservation definitions compete in this pool.
New Construction Set-Asides			All set-asides spill to geographic regions; new construction includes adaptive re-use
Homeless	10.0%	350,000,000	Homeless projects with HCD / Local only funding spill down to Extremely Low/Very Low Set-Aside if not funded in Homeless Set-Aside
Extremely-Low / Very-Low	15.0%	525,000,000	Projects must have HCD or local funding of 15% or more of total dev. costs; HCD projects include MHP, AHSC, TOD, Joe Serna, NPLH, VHHP
Mixed-Income	10.0%	350,000,000	Projects may only use new bonds relative to their bond/tax credit affordable % if bond/tax credit units are less than 80% of total units
Total Pools and Set-Asides		1,750,000,000	
New Construction Remainder		1,750,000,000	

Geographic Regions (New Construction Only)			
Location	% (TBD)	Amount (TBD)	1) No carryforward from year to year of deficits / surpluses like 9%; 2) A waiting list structure would be used for the last round of the year to use regional leftovers; 3) Projects funded in pools and set-asides do not count toward regional goals; 4) %'s below are from the 9% geographic system with no adjustments
Coastal Region	19% to 21%	$332M to $369M	Central Coast (5.2%), Orange (7.3%), San Diego (8.6%)
City of Los Angeles	18% to 21%	$308M to $367M	City of Los Angeles (17.6%)
Balance of LA County	16% to 17%	$280M to $301M	Balance of Los Angeles County (17.2%)
Bay Area Region	17% to 24%	$299M to $420M	San Francisco (3.7%), South and West Bay (6.0%), East Bay (7.4%)
Inland Region	12% to 17%	$210M to $296M	Central Valley (8.6%), Inland Empire (8.3%)
Northern Region	8% to 10%	$140M to $177M	Capital (5.7%), Northern (4.4%)
	100.0%	1,750,000,000	WG currently unable to reach consensus on adjustments that should be used to shift allocation to higher cost markets. Range under consideration is 0% to 7%.

Scoring (120 Points)			Pts.	
1A	Preservation Priorities (Acq. & Rehab.)	20	20	See attached worksheet tab "Acq Rehab 8-18-20"
1B	Density & Local Incentives (New Cons.)	20		Project includes any one of the following: 1) Local jurisdiction has approved the project at a density greater than that allowed by the general plan through the use of state/local density bonus law, SB 35, concession and/or waivers; 2) Project is located in a Highest or High Resource Area as specified on TCAC/HCD Opportunity Area Maps; 3) Project is being developed at a per net acre density as follows: A) 100 bedrooms in Urban areas; B) 60 bedrooms in Suburban areas; C) 40 bedrooms in Rural areas. Net acre defined as parcel boundaries after dedication of any public right-of-way, the presence of restrictive easements, and non-buildable areas. Possible grandfather clause: Projects with land-use approvals obtained prior to January 1, 2022 shall earn full points in this category.
2	Exceeding Minimum Income Restrictions (TBD)		20	2 points for each 1% the average affordability is below 60% AMI (average affordability of 50% AMI = 20 points <u>OR</u> full points earned with an average affordability of 60% AMI or less with a minimum of 10% at 30% AMI and 10% at 50% AMI - only bond/tax credit units measured in both scenarios
3	Exceeding Minimum Rent Restrictions (% below Market)		10	1 point for each 1% the average affordability is greater than 10% below market (measure bond/tax credit units only)
~~4~~	~~Gross Rents (5 points)~~			Eliminate from scoring and make a threshold requirement
4	General Partner & Management Co. Experience		10	Use TCAC 9% criteria (keep same for both programs) but change points from 9 to 10
5	Housing Types (replaces Large-Family points)		10	Use TCAC 9% criteria for Large Family, Senior, Special Needs, SRO (must be Special Needs or 100% at 40% AMI or below) and At-Risk, but add a High Density housing type that meets conditions in 1B; waiver of criteria available for New Construction projects with land-use approvals obtained prior to January 1, 2022
~~6~~	~~New Cons. / Adaptive Re-Use / Subs. Renovation (10 pts.)~~			Eliminate since it is no longer necessary to award points for this with creation of pools, set-asides and geographic regions
6	Cost Containment (TBD)		10	1 point for every 1% below TCAC basis limits, with permitted adjustments - See attached "Cost Containment" worksheet
7	Leveraged Soft Resources		10	1 point for every 1% of Residential TDC; Use TCAC 9% definition, but expand to include private non-related party soft money and eliminate taxable tail provisions
~~8~~	~~Community Revitalization Areas (5 pts.)~~			Eliminate to avoid determining factor that drives production into existing low-income areas
8	Readiness to Proceed		10	Use TCAC 9% criteria (keep same for both programs)
9	Site Amenities		10	Use TCAC 9% criteria (keep same for both programs) but add amenity points if site is inside of or within 1 mile of a job center census tract
10	Service Amenities		10	Use TCAC 9% criteria (keep same for both programs) - TCAC staff requests recommendations for simplifying this category, especially for PSH projects
~~11~~	~~Sustainable Methods (10 pts.)~~			Eliminate to reduce costs and recognize California's already highly efficient building code
~~12~~	~~Forgone Developer Fee (10 pts.)~~			Eliminate to align programs and recognize proposed reduction in developer fee limits (reommendations forthcoming)
~~13~~	~~Exceeding Minimum Term of Restriction (10 pts.)~~			Eliminate from scoring and make 55-year regulatory period a threshold requirement
	Total Scoring Potential		**120**	
TB	Adjusted Bonds per Adjusted Units - 2021 (TBD)			Adjusted tax-exempt bonds (numerator) divided by bedroom-adjusted units (denominator) - See attached "Tie Breaker" worksheet (Note: WG has not discussed)
11	State Benefit and Efficiency Measure (SCO Proposal) - 2022 (TBD)			Uncapped scoring category measuring value of public benefit relative to adjusted state resources used

Preservation properties shall be required to complete rehabilitation work at a minimum of $50,000 in hard construction costs per unit, as defined in TCAC Regulation Section 10302(u), subject to the provisions of IRC Section 42(e)(3)(A)(ii)(I).

Preservation Points

20	Federally-Assisted At-Risk or any other project in which at least 50 percent of the units receive governmental assistance and the rent and income restrictions will terminate or be eligible for termination within five years of application, with no other restrictions remaining
15	A property that meets at least one of the following: (i) any replacement or rehabilitation project approved by HUD pursuant to a Section 18 or 22 Demolition/Disposition authorization; (ii) any project being rehabilitated under the HUD Rental Assistance Demonstration (RAD) Program; or (iii) a property with a pre-2000 HCD loan that is being restructured pursuant to Section 50560 of the Health and Safety Code (AB 1699)
5	A property that receives governmental assistance on at least 50 percent of the units pursuant to either (i) Project-Based Section 8 or Rent Supplement, (ii) USDA Rent Supplement, (iii) Section 236 Financing, (iv) Section 221(d)(3) Financing, (v) USDA 514 or 515 Financing, or (vi) Department of Housing and Community Development Financing (other than AB 1699 projects), that has not previously received an allocation of Low-Income Housing Tax Credits.

Cost Containment

Sacramento County	4% TCAC Basis Limits	Units	Base Limit	Notes
1-Bedroom	301,093	30	9,032,790	
2-Bedroom	363,200	40	14,528,000	
3-Bedroom	464,896	30	13,946,880	
Total Base Limit			37,507,670	
+ Various Basis Boosts (Per TCAC Allowances)		35%	13,127,685	See below for current basis boosts plus proposed changes.
+ Impact Fees			2,000,000	
Depreciable Basis Cost Limit (A)			52,635,355	
Project's Budgeted Depreciable Basis (B)			40,000,000	
% Below (Above) Basis Limit (A - B / A)			24.01%	
Points (1 pt. for every 1%, round down)			10	Maximum of 10 points

		Notes
Current TCAC Basis Boosts - Section 10327(c)(5)(A)		These basis limits all need to be adjusted - some too high, some too low
Prevailing Wages	20.0%	
Project Labor Agreement	5.0%	
Structured Parking	10.0%	Recommended for increase from 7% to 10%
Day Care	2.0%	
100% Special Needs	2.0%	
Elevator Serviced Building	10.0%	May now be duplicative boost when adding Type I and Type III
Current TCAC Basis Boosts - Section 10327(c)(5)(B) through (F)		
~~Energy/Green Features~~	~~10.0%~~	Energy/Green Feature boost recommended for elimination
Deeper Income Targeting	80.0%	Capped at 80%
Seismic Upgrade/Toxic Mitigation	15.0%	
Local Development Impact Fees	Varies	
High Resource Area	10.0%	
Proposed New Basis Boosts		
Type III Building	10.0%	Recommended for addition
Type I Building	15.0%	Recommended for addition

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Tie Breaker - Cost Adjusted Bond Request / Bedroom Adjusted Units

Working Group has not discussed this specific proposal as of date above.

					Notes
STEP 1: Calculate Cost-Adjusted Bond Request					
Bond Request	25,000,000	(A)			
Statewide Basis Delta	10%	(B)			This is the difference between the project's county threshold basis limit and the average county basis limit in the state and will tend to only apply to high-cost markets.
Cost-Adjusted Bond Request	22,500,000	(A - (A x B))			
STEP 2: Calculate Bedroom Adjusted Units					
Unit Type	Proposed Units		Adj. Factor	Adjusted Units	
Studio	20		0.75	15.00	
1-Bedroom	20		1.00	20.00	
2-Bedroom	20		2.00	40.00	2-bed and larger treated as 1-bed for PSH unless targeted for PSH families
3-Bedroom	30		3.00	90.00	Up to 30% of total units counted, then counted as a two-bedroom
4-Bedroom or larger	10		4.00	40.00	Up to 10% of total units counted, then counted as a two-bedroom
	100			205.00	
STEP 3: Calculate Tie Breaker					
Cost-Adjusted Bond Request	22,500,000				
Divided by					
Bedroom-Adjusted Units	205.00				
Equals					
Tie Breaker	109,756				Lower is better

CDLAC Allocation System Restructure

Proposed Super Region Map

AB 83 Compliance – Working Group DRAFT 8-18-20
TCAC/CDLAC Allocation System Proposal

AB 83 Key Excerpts: "*Align the programs of both committees with the objective of increasing production and containing costs*" as follows:

- "*maximize*" a) "*the efficient use of public subsidy*", and b) "*benefit*" using at least the following *"factors"*:
  - *"The number and size of units developed, including local incentives provided to increase density"*
  - *"The proximity to amenities, jobs and public transportation"*
  - *"The location of the development"*
  - *"The delivery of housing affordable to very low and extremely low income households by the development"*
  - *"The total state subsidy provided"*
  - *"Prioritize"* a) *"cost containment"*, and b) "*increased unit production*"

"Align the Programs of both Committees"

- Use general partner experience from 9% program (New - CDLAC)
- Use management company experience from 9% program (New - CDLAC)
- Use readiness to proceed criteria from 9% program (New - CDLAC)
- Use housing types from 9% program and amend large-family to better reflect local market conditions (New - TCAC/CDLAC)
- Align service amenities with 9% program (New - CDLAC)
- Amend and align site amenities (New - TCAC/CDLAC)
- Align numerous definitions, technical details and regulatory requirements (New - TCAC/CDLAC)

"Increasing Production"

- Emphasize new construction through set-asides and geographic regions (New - CDLAC)
- Cap bond allocation to no more than 60% of bond basis (New in 2020 - CDLAC)
- Amend current CDLAC tie-breaker to account for cost differences and larger unit types for 2021 and replace with SCO scoring category in 2022 that provides incentives for increased production (New - CDLAC)
- Remove $50 million bond limit to encourage projects of scale (New - CDLAC)

"Containing Costs"

- New cost containment scoring category (New - CDLAC)
- Eliminate excessive energy efficiency measures to reflect evolution of California's advanced and highly-efficient energy code (New - TCAC)

- Revise site amenity points and add job center criteria to open up more possible sites to help reduce land costs (New - TCAC/CDLAC)
- Amend current CDLAC tie-breaker to account for cost differences and unit types for 2021

"Maximize Efficient Use of Public Subsidy and Benefit"

- Mandate minimum affordability period of 55 years as a threshold requirement (New - CDLAC)
- Implement tiered scoring system for Preservation/Other Affordable projects that prioritize units "at-risk"
- Amend current CDLAC tie-breaker to account for cost differences and larger unit types for 2021 and replace with SCO scoring category in 2022 that measures all state resources relative to public benefit produced (New - CDLAC)

"Number and Size of Units Developed / Local Density Incentives"

- Add scoring category that rewards projects developed to minimum densities (New - CDLAC)
- Add "High-Density Housing" to list of housing types (New – CDLAC)
- Implement SCO scoring category in 2022 that emphasizes unit production and measures additional public benefit from larger unit types (New - CDLAC)

"Proximity to Amenities, Jobs and Public Transportation"

- Amenities and public transportation heavily recognized in current system
- Added job center criteria and points (New - CDLAC)

"Location of the Development"

- Geographic regional distribution system (similar to TCAC 9%) will assure resources are spread throughout the state (New - CDLAC)

"Delivery of Very-Low and Extremely-Low Income Housing"

- Points for units targeted at 30% AMI (Existing - TCAC)
- Points for units targeted at 50% AMI (Existing - TCAC/CDLAC)
- Average affordability of 50% AMI and below or requirement to deliver at least 10% of the units each at 30% AMI and 50% AMI (New - CDLAC)

"Total State Subsidy Provided"

- SCO scoring category in 2022 that measures all state resources relative to public benefit produced (New - CDLAC)