



STATE OF CALIFORNIA

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

915 CAPITOL MALL, ROOM 303
SACRAMENTO, CA 95814
TELEPHONE: (916) 653-3255
FAX: (916) 653-6827

Laurie Weir
Executive Director

MEMBERS

Philip Angelides, Chairman
State Treasurer

Gray Davis
Governor

Steve Westly
State Controller

DATE: January 22, 2003

TO: Qualified Residential Rental Project Applicants

FROM: LAURIE WEIR, Executive Director

SUBJECT: Adopted Agenda Item I. on the January 15, 2003 Meeting - Adjustments to the 2003 Allocation Process for Qualified Residential Rental Projects

In an effort to assure that there is sufficient allocation to fund all viable General Pool projects in program year 2003, the Committee adopted Agenda Item I on January 15, 2003, which 1) states the Committee's intention in general not to transfer allocation out of the General Pool to fund Mixed Income projects; 2) sets the allocation amount for the General Pool in the third round higher than the first two rounds; and 3) implements a point threshold such that any allocation to a project scoring below 70 points will be held until after the third round. The Committee reserved its right to revise upward or downward the point threshold based on activity in the competitive rounds. Please see staff report, attached.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

January 15, 2003

REVIEW OF REQUEST TO MAKE ADJUSTMENTS TO THE ALLOCATION PROCESS FOR QUALIFIED RESIDENTIAL RENTAL PROJECTS (Agenda Item I.)

ACTION:

Approve the adjustments to the 2003 allocation process for qualified residential rental projects.

BACKGROUND:

There are a number of factors that point to the possibility that the third round in 2003 could be the largest round of the year. Those factors include:

1. Due to timing of the competitive rounds, the Department of Housing and Community Development's (HCD) Multi-Family Housing Program (MHP) and HOME funds program winners will compete in CDLAC's second and third rounds. Based on past performance, HCD is estimating 2003 MHP projects demand for CDLAC allocation at \$200 million and 2003 HOME funded projects demand at \$120 million.
2. Projects that are unsuccessful in the California Tax Credit Allocation Committee's (CTCAC) first 9% round that "morph" into bond projects will compete in CDLAC's third round. While establishing demand in this category is difficult, in the final round of 2002, 11 projects that failed at CTCAC converted to bond financing and requested approximately \$73 million in bond allocation.
3. CTCAC is considering revisions to their regulations to give incentives to projects that skip the 9% tax credit process and compete for bond allocation.
4. The third round is the last round before prevailing wage requirements start in January 2004. Several issuers and developers have indicated that they intend to submit as many applications as possible prior to January 2004. After that date, they intend to "wait and see" the impact of the prevailing wage requirement.
5. In 2002 (the only other year to have three allocation rounds for rental projects), CDLAC's third General Pool round had 48 applications totaling almost \$500 million in request. This was approximately two times the demand compared to the first or second rounds.

COMMENTS:

The General Pool will be \$988 million in 2003. Please see Comparison of 2002 Pool Reservations and Proposed 2003 Reservations, attached. Assuming a 30%/30%/40% split (as recommended below), the first two rounds would be approximately \$296.6 million each and the third round would total approximately \$395 million. It is likely that, similar to 2002, the demand in the first two rounds will be less than the available allocation. Any balances remaining from the first two rounds would increase the amount available in the third round.

In an effort to assure that there is sufficient allocation to fund all viable General Pool projects in program year 2003, staff recommends the implementation of a point threshold such that any allocation to a project scoring below 70 points will be held until after the third round and staff recommends the Committee set the allocation amount for the General Pool in the third round higher than the first two rounds. For instance, the first two rounds would have 30% each of the available allocation and third round would have 40% of the available allocation.

Staff also recommends that the Committee make their intent known regarding the past practice of transferring funds from the General Pool to the Mixed Income Pool prior to the award of allocation to all General Pool projects for the program year. Staff recommends that the Committee inform the public that its intent is, as much as possible, to retain funding for the General Pool projects in the third round by not transferring allocation out of the General Pool. Provided however that in the case of Mixed Income projects, if it deems appropriate, the Committee reserves the right to transfer allocation from other pools into the Mixed Income Pool.

RECOMMENDATION:

Staff recommends that the Committee approve adjustments to the 2003 allocation process for Qualified Residential Rental Projects.

Staff report prepared by Walter Akiyama.