CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

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To: Interested Parties

From: Sean L. Spear, Executive Director

Date: January 31, 2013

Re: Summary of 2012 CDLAC Program Activity

Attached you will find the summary of the 2012 program activity of the California Debt Limit Allocation Committee (CDLAC). In it you will find a brief synopsis and volume figures for each of CDLAC's Program Pools, including the Qualified Energy Conservation Bond re-allocation program; as well as the estimated public benefits of each program.

Reflecting the historically low margins between taxable and tax-exempt rates and the continuing scarcity of credit enhancement for small to midsized businesses, most of CDLAC's private activity bond programs continue to be undersubscribed. The near complete elimination of the bond insurance sector and ongoing difficulty for many businesses to secure Letters of Credit together continue to suppress the usage of tax exempt bonds for Industrial Development and Exempt Facility transactions. That being said, a bright-spot has continued to be the robust demand for multifamily housing allocation under our QRRP Program Pool. Much of this is attributable to the strong appetite of the commercial banks for privately-placed bonds (particularly in Community Reinvestment Act eligible areas), CalHFA's usage of the U.S. Treasury's New Issue Bond Program, and renewed usage of Fannie Mae and Freddie Mac's Forward Commitment and Credit Enhancement programs. In many cases, pricing on the debt and tax credits for these transactions continues to be better than that secured during the height of the market a few years ago. It is hoped that this demand will continue into 2013; however, changes such as the elimination of the Redevelopment Agencies and reduced capital funding available from HCD and various federal programs will undoubtedly have an impact on the volume CDLAC will see.

Another bright spot continues to be the notable interest in the QECB allocation program. Nearly $14 million in reallocated authority was issued for two (2) projects in 2012.

CDLAC has a remaining balance of $8.6 million; which will be made available in an Allocation Round later this year.

Lastly, the Committee approved emergency regulations in December, creating a new Single Family Home Improvement and Rehabilitation Bond Program Pool (HIRB). Mortgage Revenue Bond allocation or Mortgage Credit Certificate authority will be awarded to Issuers supporting home improvement loans throughout the state; particularly energy efficiency improvements. It is hoped that this program will assist homeowners seeking financing for this work while also supporting construction activities that will improve the state's single family housing stock.

CDLAC believes it is vital to have the State's allocation of Private Activity Bond and QECB authority go to projects and programs that both provide measurable public benefits to the people of California, as well as contribute to the improvement of the California economy. To that end, CDLAC in 2013 will focus on both new and revamped existing programs designed to deploy the state's private activity bond cap for these purposes.

If you should have any questions, comments, or suggestions, please don't hesitate to contact CDLAC staff at (916) 653-3255 or CDLAC@TREASURER.CA.GOV.

Sincerely,

SEAN L. SPEAR
Executive Director

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
Estimated Public Benefits
2012 Summary

State and local governmental agencies and joint powers authorities can issue tax-exempt private activity bonds. These tax-exempt bonds are used to assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units, to assist first-time homebuyers purchase homes through mortgage revenue bonds (MRB) or mortgage credit certificates (MCC), to assist manufacturing facilities finance capital expenditures, and to finance primarily solid waste disposal and waste recycling facilities.

The California Debt Limit Allocation Committee is responsible for administering California's annual tax-exempt private activity bond program, known as "the annual State ceiling". For calendar year 2012, California's State ceiling was $3.580 billion. Each year the Committee divides the annual State ceiling among several bond programs, known as "Program Pools". The 2012 Program Pools consists of the Qualified Residential Rental Project Pool (Rental Project Pool), the Single Family Housing Program (SFH) Pool, the Industrial Development Bond Program (IDB) Pool and the Exempt Facility Program (EXF) Pool. For calendar year 2012, the Committee reserved approximately $1.25 billion or 34.9% of the State ceiling for the Rental Project Pool, $750 million or 20.9% for the SFH Pool, $50 million or 1.4% for the IDB Pool, $58.7 million or 1.6% for the EXF Pool, and $1.47 billion or 41.1% for an undesignated reserve.

In addition, the Committee continues to allocate Qualified Energy Conservation Bond (QECB) authority, as provided by the American Recovery and Reinvestment Act of 2009, and IRS Notice 2009-29. The Committee received over $240 million in direct and waived QECB authority to allocate throughout the state. The Federal Government intended to provide an affordable financing tool for private and public energy efficiency and green technology projects and programs.

Private Activity Bond Volume Cap Programs

For program year 2012, the Committee awarded a total of $1.57 billion (past year carryforward and current year cap) for rental projects, $153,584,060 for SFH programs, $12,836,632 under the IDB Program, and $840,124,000 under the EXF Program. After the December 12, 2012 allocations were made, there was a 2012 volume cap balance remaining of approximately $2,660,000,000. In order to ensure that no amount of 2012 allocation was lost, at the December 12, 2012 allocation meeting the Committee transferred $1.660 billion of this remaining balance to various multifamily housing project issuers; with all allocation remaining thereafter transferred to the California Pollution Control Financing Authority (CPCFA) for the Exempt Facility Program, all on a carryforward basis.

The public benefits for these awarded allocations are as follows:

Qualified Residential Rental Projects

The allocations awarded for the rental project pool for program year 2012 will fund 103 multifamily rental housing projects. These allocations financed an estimated 10,252 total units, of which approximately 9,299 were Restricted Rental Units. Restricted Rental Units are units within a Project that are restricted to households earning 60% or less of the Applicable Median Family Income. Of the 9,299 Restricted Rental Units, 4,055 will be restricted to very low income households with income at or below 50% of the area median income and approximately 5,244 units will be restricted to low income households with incomes at or below 60% of the area median income.

Of the estimated 10,252 units financed with the allocation, approximately 4,807 will be new construction units, 3,080 will be senior citizen units, 1,732 will be large family (3-4 bedrooms) units and 223 will be special needs units. In addition, this allocation will preserve approximately 1,247 income- and rent-restricted units that were at-risk of losing their existing affordability restrictions.

The Committee transferred a total of $1.660 billion of unused 2012 volume cap to five (5) issuers for the Qualified Residential Rental Project Program. This represents 62.41% of the $2.660 billion in unused 2012 volume cap and 46.36% of the overall 2012 $3.580 billion State Ceiling.

Single Family Housing
The Committee awarded a total of $153,584,060 of the 2012 State Ceiling under the Single-Family Housing Program for various city, county, and multi-jurisdictional Mortgage Credit Certificate programs. These allocations will assist approximately 960 first-time homebuyers; of whom at least 63 will be low income households, and approximately 39 will purchase newly constructed homes.

Industrial Development Bond Program
The two (2) IDB projects awarded allocation are anticipated to create a total of 18 new jobs in California, of which 1 is management, and 17 are skilled and semi-skilled jobs. The new jobs will produce a weighted average hourly wage of $20.53.

Exempt Facility Program
There are four categories that the Committee uses to prioritize its allocation to exempt facility projects: 1) First Tier Business[1] under Regulatory Mandate[2], 2) Non-first Tier Projects under Regulatory Mandate, 3) Businesses, other than First Tier Businesses, Under Regulatory Mandate, and 4) All other Applications for Exempt Facilities.

Ten (10) qualified exempt facility projects were awarded a total of $840,124,000 in allocation in 2012.

The Committee transferred a total of $1,068,801,826 of unused 2012 volume cap for exempt facility projects to the California Pollution Control Finance Authority. This represents 40.2% of the $2.660 billion in unused 2012 volume cap and 29.8% of the overall 2012 $3.580 billion State Ceiling.

Qualified Energy Conservation Bond Projects

Qualified Energy Conservation Bond Projects are taxable tax credit or interest subsidy bonds used for either governmental purposes or private activity that facilitate energy efficiency or green technology projects or programs. In 2012, a total of $13,700,000 was issued for two (2) QECB projects, representing 3.59 % of the total allocation waived back to the State. These two (2) of these projects are anticipated to produce approximately 5,611,575 kWh of energy per year. Lastly, these projects will create a total of 78 new jobs in California: 75 of which will be temporary and 3 permanent.

An additional $8.6 million in QECB authority remains available for qualifying projects and/or programs. This remaining QECB balance has no expiration date and will be made available in early 2013.

[1] "First Tier Business" means (1) a business that (a) is primarily engaged in the collection, recycling, transportation, and/or disposal of solid waste, (b) is a privately-held or employee-owned entity whose ownership interests are not available to members of the public, and (c) has fewer than 3,000 employees (together with affiliates), based on the average employees per pay period during the most recent twelve (12) months before submittal of an Application; or (2) a business which is not primarily engaged in the collection, recycling, transportation, and/or disposal of solid waste that is classified as a small business under regulations of the California Pollution Control Financing Authority (CPCFA) (Title 4, California Code of Regulations, Sections 8001-8083).

[2] "Regulatory Mandate" means a local, state or federal government mandate such as the California Public Resources Code, Section 40000 et seq. ("AB 939"), a local public health department notice and order, a Regional Water Quality Control Board issued cease and desist order, or similar directive.