

California Debt Limit Allocation Committee (CDLAC)

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

July 28, 2010 Meeting Minutes

1. Call to Order and Roll Call

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee meeting to order at 1:36 p.m.

Members present were Cynthia Bryant for Governor Arnold Schwarzenegger, Cindy Aronberg for State Controller John Chiang, and Bettina Redway for State Treasurer Bill Lockyer.

Advisory Members present were Lynn Jacobs of the Department of Housing and Community Development and Bob Deaner for Cal-HFA.

The chairperson declared a quorum.

2. Approval of the Minutes of the May 26, 2010, Meeting (Action Item)

Cynthia Bryant made a motion to approve the minutes of the May 26, 2010, meeting. Cindy Aronberg seconded. There were no objections and the May 26, 2010, minutes were approved by unanimous vote.

3. Executive Director's Report

- Sean Spear advised on the Status of Allocations in which there will be a significant amount of allocation remaining at the end of the year. Mr. Spear advised that the Staff will discuss the process of what options to implement to utilize the remaining allocation. This will be presented to the Board at the December meeting.
- Mr. Spear provided an update on pending Federal Legislation:
 - Mr. Spear advised that the Recovery Zone Extension (HR 4213) legislation did not proceed as proposed. A limited version, which only extended unemployment benefits, was approved and signed by the President. Representative Sander Levin indicated he would introduce the measures and extensions from the original bill possibly in the beginning of August. As approval and implementation may not come until the end of the year, the final plans of issuance for the current program due August 15, 2010, will continue without any changes and should be submitted accordingly.
 - In addition, Private Activity CREBs [Clean and Renewable Energy Bonds] introduced by Senator Feinstein has yet to move forward in the Senate, however, Rep. Levin introduced a House version of the bill. While Rep. Levin's draft is somewhat different than Sen. Feinstein's, there is hope that when passed and reconciled, the bill will reflect more of Sen. Feinstein's original version. CDLAC will continue to monitor for potential impacts to our programs.
 - Also, extension of the 4% Tax Credit Exchange bill by Senator Cantwell has not moved forward and CDLAC will continue to monitor its progress.

- Lastly, Mr. Spear reported on the possible extension of the New Issue Bond Program. It would allow Cal-HFA and similar entities to move forward in selling their bonds. It would be a key tool to assist with the SFH [Single Family Housing] programs and individual multi-family projects. CDLAC will continue to monitor the progress and advise the Committee accordingly if changes need to be made to our existing programs to accommodate closing dates.
- Mr. Spear concluded his report by advising that CDLAC will post to the website a summary report of the Recovery Zone Bond Program and Energy Conservation Bond Program projects that have been approved to date.

4. Presentation of market and policy analysis findings for non-credit enhanced public sales of private activity bonds.

Sean Spear advised that from the beginning of the year, CDLAC staff has been approached by project sponsors and issuers asking for clarification on CDLAC's current policy regarding the consideration of applications calling for the public sale of non-credit enhanced bonds; especially in light of the current bond market environment. Whereas such issuance plans have been rare in the past, the current inability for many sponsors to secure credit enhancement has made them consider going to market as a stand-alone rated or unrated transaction. CDLAC staff believed it was appropriate to examine the current market situation and the CDLAC policy on such transactions as defined in the CDLAC Regulations.

CDLAC's current Regulations reflect an assumption that most transactions will be either a credit enhanced public sale (usually with a resultant AAA credit rating), or a private placement to an institutional buyer (no credit enhancement and no credit rating required). The nearly complete elimination of the bond insurance sector, and the severely reduced appetite of the commercial banks for privately-placed bonds, has together made the issuance of bonds a much more difficult proposition. More bond issuers are forced to bring their issuances to the public market with lower (or no) credit ratings; relying instead on aggressively marketing individual bond issuances to potential investors.

Mr. Spear continued that the Staff analysis (which included a survey of investment bankers and bond financial advisors, as well as a survey of some other state bond allocating agencies nationwide) reached the following conclusions:

- Bond investors are performing much more detailed underwriting of individual bond transactions; with far less reliance on the transactions' credit enhancement (if any) and individual credit rating;
- The volume of non-enhanced issuances (as a percentage of the overall number of public bond sales) has increased substantially; though the transactions often involve the same bond issuers that have historically and consistently accessed the markets (and for California private activity bonds, who have traditionally applied to CDLAC); and
- The majority of state private activity bond allocating agencies have set additional approval conditions for transactions rated BBB and lower; whereas CDLAC's current regulations do not have specific supplemental information requirements and merely suggest a menu of potential approval conditions.

In conclusion, Mr. Spear stated that CDLAC staff believes it would be prudent to revise the CDLAC Regulations to more clearly identify a set of specific additional items needed for staff to thoroughly analyze and underwrite non-credit enhanced public sale applications, as well as confirm a set of minimum approval conditions for all such transactions. With Committee consent, CDLAC staff would like to prepare suggested amendments to the CDLAC Regulations reflecting these recommendations. Following a public comment period, CDLAC staff believes they can

have the draft revisions prepared for Committee consideration by the end of the year; to then be included in CDLAC's final Permanent Regulations.

- [I believe there were a few general statements from Cindy and others that should be mentioned here.]
- The Committee expressed general support for staff to proceed with formulating draft changes to the CDLAC Regulations; to be presented to the Committee at the next Committee meeting. This item was informational, and the Committee did not take a formal action.

5. Consideration and Approval of an Issuance Date Extension for Various Qualified Residential Rental Projects.

Misti Armstrong reported that the recently approved CDLAC Regulations state that if an Allocation was awarded during an Open Allocation Round, the Committee may extend the Project's expiration date up to the next regularly scheduled meeting at which time the Committee may elect to grant an additional extension up to ninety (90) days. Under this provision, the following projects are requesting an approval to extend their Bond Issuance Deadlines:

New Hope Home Apartments Project (initial and supplemental awards) and Palmdale Transit Apartments Project (collectively "The Projects")

Currently, the bond issuance deadline for both the New Hope Home Apartments Project (initial award) and the Palmdale Transit Apartments Project is August 24, 2010. The issuance deadline for the New Hope Home Apartments Project (supplemental award) is currently July 30, 2010.

The Projects have received allocation through the California Statewide Communities Development Authority ("CSCDA") under the New Issue Bond Program ("NIBP") being offered by the U.S. Treasury to stimulate the production of affordable housing throughout the country. The NIBP Program, through CSCDA, has established three dates in which bonds can be issued; which are June 24, 2010, September 29, 2010 and December 15, 2010 pursuant to the U.S. Treasury guidelines.

Initially, the Palmdale Transit Apartments Project anticipated issuing its bonds on the June 24, 2010 date. However, due to unforeseen construction lender delays the project had to reschedule the NIBP issuance to the September 29, 2010 date.

In addition, the New Hope Home Apartments Project anticipated issuing its bonds on the June 24, 2010 date as well. However, increased Project costs required that the Applicant apply for a supplemental CDLAC allocation in March 2010. A supplemental allocation was awarded at the May 26, 2010 Committee meeting. However, there was insufficient time to add this project to the June 24, 2010 NIBP issuance.

The Projects are currently scheduled for CSCDA's NIBP issuance on September 29, 2010. Allowing an extension of the issuance deadline to October 15, 2010 will ensure the completion of the NIBP draw and bond issuance for the Projects. If the bond issuance dates are not extended, the Projects will lose their allocation and the cities of Palmdale and Long Beach will lose the opportunity to add 154 and 139 units of affordable housing to their communities, respectively.

Crescent Manor Apartments Project

The Crescent Manor Project (Project) received a carryforward allocation award on March 24, 2010 for \$9,680,000. The bond issuance deadline is currently July 30, 2010. Crescent Manor has received a financial commitment from the U.S. Department of Housing and Urban Development (HUD). The HUD Program commitment for the Project has experienced delays in processing that were not within the control of Crescent Manor's Project Sponsor.

Allowing an extension to the issuance date to October 26, 2010 will ensure the completion of the HUD loan processing and the issuance of the bonds for the Project. If the issuance date is not extended, the Project will lose its allocation and the city of San Francisco will lose 93 units of existing at-risk affordable housing.

The Landings II Apartments Project

The Landings II Apartments Project (Landings) received an allocation award on March 24, 2010. The initial bond issuance deadline was July 19, 2010. Consistent with the recently approved CDLAC Regulations, staff granted the Landings an issuance extension to the July 28, 2010 Committee meeting with the intent of recommending an additional issuance extension to October 26, 2010.

The Sponsor has indicated that its construction lender, U.S. Bank National Association, was unable to obtain its internal approval to allow the transaction to meet the bond issuance deadline due to issues relating to the credit rating of the Landings' independent third party contractor. In order to allow the transaction to move forward, the Sponsor has proposed an intermediary contractor which will meet U.S. Bank's credit rating approval requirements. However, U.S. Bank now requires additional time to process the credit approval of the proposed intermediary contractor.

The unsatisfactory credit rating relating to the third party contractor was unanticipated and beyond the control of the Sponsor. Allowing an extension to the issuance date to July 29, 2010 will ensure the completion of the U.S. Bank credit rating approval and the issuance of the bonds for the Landings. If the issuance date is not extended, the Landings will lose its allocation and the city of Chula Vista will lose the opportunity to add 141 units of large family (3+ bedrooms) affordable housing to its community.

All of the Projects noted above are otherwise in full compliance and eligible for an extension under the CDLAC Regulations.

Ms. Armstrong advised that the Staff recommends the approval of the following issuance date extensions:

09-142	Palmdale Transit Apartments Project	October 15, 2010
09-144	New Hope Home Apartments Project	October 15, 2010
10-029	New Hope Home Apartments Project – Supplemental	October 15, 2010
10-024	Crescent Manor Apartments Project	October 26, 2010
10-008	The Landings II Apartments Project	October 26, 2010

- There were no other comments or questions.
- Cindy Aronberg made a motion for approval.
- Cynthia Bryant seconded the motion for approval.
- The motion was unanimously approved to extend the issuance dates as noted above.

6. Consideration and Approval of a Revision to CDLAC Resolution ARRA-17 for the Oxnard Union High School District Project.

Brady Hill reported that on May 26th, 2010, the Committee awarded the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) \$5,975,242 in Qualified Energy Conservation Bond (QECCB) Allocation to issue bonds for the Oxnard Union High School District Solar Installation Project ("The Project"). At that time, CAEATFA was identified as both the Applicant and Issuer for the Project. However, subsequent to this award, the District decided that the simplest form of QECCB financing would be a lease financing structure and for this structure, it would be ideal for the District to be the Issuer. As a result, CAEATFA agreed to relinquish their role as Issuer and as such, fully supports CDLAC's revision to CDLAC Resolution ARRA-17, which will designate the District as the Issuer for the Project.

Mr. Hill advised that the Staff recommends a revision to CDLAC Resolution ARRA-17 for the purpose of designating Oxnard Union High School District as the Issuer of the bonds for the Oxnard Union High School District Solar Installation Project (ARRA-041).

- There were no comments or questions.
- Cynthia Bryant made a motion for approval.
- Cindy Aronberg seconded motion for approval.
- The motion was unanimously approved to revise CDLAC Resolution ARRA-17 to designate Oxnard Union High School District as the Issuer of the bonds for the Oxnard Union High School District Solar Installation Project ARRA-041.

7. Consideration of an Award of Allocation for the California Industrial Development Financing Advisory Commission for the Small-Issue Industrial Development Bond Program

Richard Fischer reported that there were no appeals.

Mr. Fischer continued that the Small-Issue Industrial Development Bond Program received one (1) complete application for allocation authority for a total of \$40,000,000.

On January 29, 2010, the Committee approved a similar transfer of \$50 million to CIDFAC for this calendar year. CIDFAC has since awarded \$15.1 million of that allocation to four (4) applications, with more in the pipeline. For the remainder of 2010, CIDFAC anticipates a higher volume of projects, which should make full usage of both the existing balance and proposed additional \$40 million allocation.

Mr. Fischer advised that the Staff recommends the Committee award the California Industrial Development Financing Advisory Commission (CIDFAC) \$40,000,000 in Industrial Development Bond Allocation for the purpose of allocating portions of the award to Project Sponsors for the purpose of issuing bonds for IDB [Industrial Development Bond] projects.

- There were no comments or questions.
- Cindy Aronberg made a motion for approval.
- Cynthia Bryant seconded motion for approval.
- The motion was unanimously approved to award CIDFAC \$40,000,000 in IDB's.

8. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation.

Sarah Lester reported that there were no appeals.

Ms. Lester continued that the distribution criteria for the Single Family Housing (SFH) Program Pool is on a fairshare basis; that is, each county receives a proportionate share of the amount reserved for Local Issuers based on that County's population relative to the State's population. If a County has exhausted their previously-awarded fairshare allocation, then they may apply for additional allocation under the Single Family Housing Bonus Pool Program.

The Committee received six (6) applications requesting their 2010 Fair Share Single Family Housing allocations for a total of \$33,517,262 for the issuance of Mortgage Credit Certificates under their respective Mortgage Credit Certificate Programs; and one (1) application requesting \$12,127,779 in Single Family Housing Bonus allocation for the issuance of Mortgage Credit Certificates under their Mortgage Credit Certificate Program.

Ms. Lester advised that the Staff recommends approval of \$33,517,262 to fund all six (6) programs in the Single Family Housing Program and approval of \$12,127,779 in 2010 Bonus Pool tax exempt bond allocation to fund one (1) SFH Program Applicant.

- Lynn Jacobs asked about the discrepancy in the amounts listed in the reports.

- Misti Armstrong explained that all the approvals are tied to a fair share and often the applicants will apply for a higher amount, but CDLAC can only award up to the applicant's fair share amount.
- There were no other comments or questions.
- Cindy Aronberg made a motion for approval.
- Cynthia Bryant seconded the motion for approval.
- The motion was unanimously approved to award \$33,517,262 to fund all six (6) programs in the Single Family Housing Program and approval of \$12,127,779 in 2010 Bonus Pool tax exempt bond allocation to fund one (1) SFH Program Applicant.

County of Santa Clara	MCC	\$12,127,779
San Diego Housing Commission	MCC	\$8,839,762
Sacramento Housing and Redevelopment Agency	MCC	\$9,356,793
City and County of San Francisco	MCC	\$5,520,369
Housing Authority of the County of Santa Cruz	MCC	\$1,753,840
County of San Mateo	MCC	\$4,869,455
Sonoma County Community Development Commission	MCC	\$3,177,043

9. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects and Awards of Allocation

Crystal Alvarez reported that there were no appeals.

Ms. Alvarez continued that the Mixed Income Pool received one (1) application for projects requesting a total allocation of \$21,100,000 and the General Pool received ten (10) complete applications requesting a total allocation of \$152,767,000.

Ms. Alvarez advised that the Staff recommends the approval of \$21,100,000 to fund one project in the Mixed Income Pool and approval of \$152,767,000 to fund all ten projects in the General Pool.

- There were no comments or questions.
- Cindy Aronberg made a motion for approval.
- Cynthia Bryant seconded the motion for approval.
- The motion was unanimously approved to award \$21,100,000 to fund one project in the Mixed Income Pool and approval of \$152,767,000 to fund all ten projects in the General Pool.

California Statewide Communities Development Authority	Lincoln Walk Apartments	\$21,100,000
Housing Authority of the City of Oakland	Lion Creek Crossings, Phase IV	\$21,000,000
Housing Authority of the City of Oakland	Harrison Street Senior Housing Apartments	\$11,800,000
California Statewide Communities Development Authority	Vintage at Snowberry (NBIP)	\$18,500,000
California Statewide Communities Development Authority	Tule Vista Apartments	\$9,000,000
San Diego Housing Authority	Georgia Street Apartments	\$5,400,000
California Municipal Finance Authority	MovieTown Project	\$65,682,000

Housing Authority of the County of Los Angeles	Normandie Senior Housing Apartments	\$8,000,000
California Statewide Communities Development Authority	Oakwood Apartments (Supplemental)	\$2,000,000
California Housing Finance Agency	Meadowview I Apartments (supplemental NBIP)	\$385,000
California Housing Finance Agency	Oak Valley Apartments (NBIP)	\$11,000,000

10. Consideration of Appeals and Applications for a Re-Allocation of American Recovery and Reinvestment Act - Recovery Zone Facility Bonds and Awards of Allocation.

Crystal Alvarez reported that there were no appeals.

Ms. Alvarez continued that the Recovery Zone Facility Bond Program received three (3) complete applications for projects requesting a total allocation of \$33,133,770.

Ms. Alvarez advised that the Staff recommends the approval of \$33,133,770 in reallocated American Recovery and Reinvestment Act - Recovery Zone Facility Bond authority to fund the three (3) projects.

- Mr. Joe Hall, representing Santa Cruz County, requested to speak before the Board. He wished to thank the Staff and Committee for their assistance and consideration of Santa Cruz's allocation request.
- There were no other comments or questions.
- Cynthia Bryant made a motion for approval.
- Cindy Aronberg seconded the motion for approval.
- The motion was unanimously approved to award \$33,133,770 in reallocated American Recovery and Reinvestment Act - Recovery Zone Facility Bond authority to fund the three (3) projects.

California Enterprise Development Authority	Redondo Beach Hotel Development Project	\$25,175,000
California Municipal Finance Authority	Foster Dairy Farms Project (Solar Panels)	\$5,200,000
California Statewide Communities Development Authority	Cruzio Renovation and Data Center Project	\$2,758,770

11. Public Comment (Action Item)

There were no other comments or questions.

12. Adjournment

The Chairperson adjourned the meeting at 2:09 p.m.