California Debt Limit Allocation Committee (CDLAC)

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

December 12, 2012 – Meeting Minutes

1. Call to Order and Roll Call

Bettina Redway, Chairperson, called the California Debt Limit Allocation Committee meeting to order at 1:05 p.m.

Members present were Alan Gordon for State Controller John Chiang, Pedro Reyes for Governor Edmund G. Brown, Jr., and Bettina Redway for State Treasurer Bill Lockyer.

Advisory Members present were Linn Warren for HCD and Claudia Cappio for CALHFA.

2. Approval of the Minutes of the September 26, 2012 Meeting

There were no comments or questions. Pedro Reyes made a motion to approve the minutes of the November 14, 2012 meeting. Alan Gordon seconded the motion. The November 14, 2012 meeting minutes passed unanimously.

3. Executive Director's Report

Sean Spear began his report bringing attention to the revised Exhibit A's identifying updates to the latest projects recommended for approval.

Mr. Spear continued to explain that Item 8 on the agenda deals with the remaining 2012 allocation and proposals for distributing it on a carryforward basis. CDLAC carried out a similar process over the last couple of years in terms of polling the highest volume multifamily issuers under the QRRP program, and asking for their consideration in taking the carryforward allocation.

CDLAC has been doing this since 2009 when there was a large amount of allocation left over at the end of that year. Staff has been able to do an effective job in the disbursement of that allocation over time. In 2009, the remaining allocation was $1.634 billion out of the overall $3.4 billion that was available at that time. The issuers who took carry forward allocation were quite effective in utilizing allocation for projects in the succeeding years up until now, and there remains only approximately 309 million in allocation from 2009.

The carry forward allocations have a three-year time frame in which it is to be used, and so the remaining 2009 allocation of $309 million will expire at the end of this year. Portions of this balance were made up of allocation that was provided to redevelopment agencies that are no longer in existence and issuers who had projects who had been provided allocation but did not close. As such, those Issuers were not able to reuse that allocation for other projects before it was set to expire at the end of this year.

Going forward CDLAC is expecting to continue to have projects to draw down on the available carryforward allocation for 2010, as well as 2011, and now potentially for 2012. CDLAC is expecting to continue to see a steadily increase in the amount of application volume in comparison to when the financial crisis started. Most of the allocation to be awarded is going to be applied against carryforward balances that may be still outstanding first before utilizing the current year volume cap that we would have available going into 2013.

Next, Mr. Spear reported a number of regulations that are in process. There are three sets of existing emergency regulations that the Committee has approved over the last several months and in those cases, those regulations are moving forward now to OAL to eventually be approved for permanent regulation status.

The first relates to the sustainable building methods and should have approval from OAL by January 4th. The second is the performance deposit fee revisions, which the Committee approved earlier in the year. Staff is expecting approval from OAL for that by January 28th. The third set is the scatter site provisions, which the Committee approved back in September and should have approval from OAL by March 1st. There is one new set of emergency regulations that is up for consideration today and staff will present that more fully as part of that item. If approved by the Committee today, staff would be looking to submit that to OAL later this week and hope for their approval of it as an emergency regulation by December 23rd; followed by processing it for permanent regulation approval by March 8th.

Mr. Spear went on to summarize his trip to Washington D.C. He travelled as part of a delegation of the California Housing Consortium, which is an organization supporting affordable housing development throughout the state. The delegation met with staff for both the individual congress people in key positions on the House and Senate Financial Services, Appropriations, and Ways & Means Committees. They also met with key members of the California delegation as well.

Most of the emphasis was on providing information on the importance of the low-income housing tax credit to California while also focusing on the various HUD programs, such as HOME and CDBG, that also support affordable housing development. Mr. Spear used this opportunity to meet with some key staff from the Joint Committee on Taxation and their analysts around the municipal bond tax exemption issue; which as some are aware, has come up as an item that may be under consideration for change or possible elimination under Tax Reform.

Various congressional staff members essentially said that they may be looking at a two-step process: Getting through the fiscal cliff right now with at least establishing some framework for the various committees to consider some potential spending changes; and then pursuing Tax Reform going into next year.

Mr. Spear believes the value they tried to convey to the congressional members was mostly focused on how these resources, whether it's municipal bond tax exemption or the housing tax credit and other housing programs, and their potential elimination would have a ripple effect on California's economy. He also made sure to convey to the staff members that our office, together with the State Treasurer's Office, would be available to provide resources and information to them as part of their consideration going forward. Next year, staff will do a bit more of intensive outreach with them; particularly as they start to take up these issues as part of an overall tax reform discussion. Mr. Spear will continue to provide updates to the Committee and the public in general as those discussions go forward.

Mr. Spear’s last remarks were that a member of the CDLAC staff, Pierre Washington, had accepted a position with the Department of Corrections as a Personnel Specialist. Mr. Washington had been with CDLAC since April of 2009 and had been an invaluable part of the team. CDLAC wishes him the best of luck going forward.

There were no questions or comments.

Pedro Reyes expressed his appreciation for all the extra work by the Executive Officers and staff over the last year.

4. Consideration and Approval of Proposed Emergency/Permanent CDLAC Regulations for Submittal to the Office of Administrative Law

Narisha Bonakdar began her report explaining that the Internal Revenue Code allows local governmental entities to issue mortgage revenue bonds (MRBs) to provide low-cost mortgages to interested first-time homebuyer’s, as well as qualified home improvement and qualified rehabilitation loans to low and moderate income households. In lieu of issuing bonds, a governmental entity may convert allocation into authority to issue mortgage credit certificates (MCCs) for low to moderate-income households on qualified loans. These MCCs offset a portion of the interest paid on the qualified loans on a dollar-for-dollar basis through a tax rebate taken on the household’s federal tax return each year.

Currently, CDLAC administers a first time homebuyer MRP and MCC allocation program. The proposed emergency regulations call for the creation of a single family housing home improvement and rehabilitation program; allowing Issuers to issue MRBs and MCCs for home improvement and/or qualified rehabilitation loans. Assuming approval, the first application deadline would be January 11, 2013, with consideration of awards of allocation at the March 13, 2013 allocation meeting. Staff recommends approval of the regulations for submittal to the Office of Administrative Law for emergency and regular regulation rulemaking.

- Pedro Reyes asked have the housing advocates and interested parties been involved in the drafting of the emergency regulations.

- Ms. Bonakdar responded yes, there has been an extensive stakeholder process. There have been two public stakeholder meetings and several one-on-one conversations with stakeholders throughout the energy efficiency and housing fields.

Pedro Reyes moved for approval.

- Alan Gordon asked for an explanation of how the program works.

- Ms. Bonakdar replied that the mortgage revenue bond program essentially supports the ability of the Issuer to make a low-interest rate loan. Alternatively, the mortgage credit certificate program is effectively an interest rate buy down program. The borrower will receive a certificate to redeem at the end of the year when they file their federal taxes, and it's equal to a percentage of the loan interest.

- Alan Gordon asked how the certificate is issued.

- Ms. Bonakdar replied that CDLAC provides the authority to issue the credit and then the issuer essentially provides it to the household via the lender.

- Bettina Redway asked whether the bank offers the MCC, or just suggests to the borrower that they may qualify for this tax credit program. In other words, how do the Issuers find out if they would be interested.

- Ms. Bonakdar responded that the program aligns with a variety of different approaches and loan types. There are three categories. There's the local government lender; who may provide direct lending that is very deeply income-targeted and have very low interest rates. You have the kind of more innovative program with energy power savers or pilot programs, which may pursue individual households through active or passive marketing across a wide region. Lastly there are the market rate lenders, whose loans our target population probably wouldn't easily qualify for because of the interest rates and underwriting requirements.

- Alan Gordon asked where did the allocation for the MCCs come from.

- Sean Spear replied it is a conversion of bond allocation awarded by the Committee. This allocation has a dollar value that is then converted to an effective interest credit value for the tax credit.

Bettina Redway asked if there are any comments from the public. There were none.

Pedro Reyes reiterated his motion to approve the Proposed Emergency/Permanent CDLAC Regulation for Submittal to the Office of Administrative Law. Alan Gordon seconded the motion. The motion passed unanimously.

Sean Spear went on to comment about how much work Narisha Bonakdar and Sarah Lester put into creating this program. It is a new frontier for CDLAC that staff believes will help many families needing their homes to be improved; which may in-turn improve their quality of life.

Mr. Spear continued to say there has been a lot of interaction between the housing and the energy efficiency communities to create this program. CDLAC hopes that this effort would lead towards further policy discussions by these two groups around other mutually beneficial programs such as this.

5. Consideration and Approval of a Waiver of Negative Pointes and Forfeiture of Performance Deposit for 3rd Street Residential Development Apartments (11-124) – Qualified Residential Rental Program

There were no questions or comments.

Pedro Reyes moved to approve the Waiver of Negative Points and Forfeiture of Performance Deposit for the 3rd Street Residential Development Apartments project (11-124). Alan Gordon seconded the motion. The motion passed unanimously.

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

Sarah Lester reported the Committee received six applications requesting allocation for a set of mortgage certificate programs; four of which are requesting their 2012 fair share allocation and an aggregate amount of $35,962,360, and two that are requesting authorization to replace an aggregate amount of $363,773,330 dollars of their remaining 2009 multi-revenue bond allocation with allocation for their MCC programs. Staff recommended approval of first, the requested 2012 fair share allocation; and second, the authorization to the two single family housing applicants requesting to replace their remaining 2009 MRB allocations with allocation for their MCC programs.

- Pedro Reyes asked what was the total amount requested.

- Ms. Lester responded that it is $399,735,690 million.

Pedro Reyes moved to approve the Applications for an Allocation of the Sate Ceiling on Qualified Private Activity Bonds for Single Family Housing Programs and Awards of Allocation. Alan Gordon seconded the motion. The motion passed unanimously.

There were no questions or comments.

12-138	City & County of San Francisco	$5,415,899
12-147	County of Orange	$20,250,639
12-151	County of Contra Costa	$7,059,414
12-156	CalHFA	$213,765,000
12-158	County of Sonoma	$3,236,408
12-159	CRHMFA Homebuyers Fund	$150,008,330

7. Consideration of Appeals and Applications for an Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects, $30 million Maximum Allocation Limit Waivers, and Awards of Allocation

Richard Fischer reported CDLAC has received a total of 16 applications in the general pool, which was narrowed down to 12. They consist of: A total of 10 from the general pool which requested $136,827,934; the rural pool received one complete application for $7,833,475; and the one mixed income pool project for $30 million dollars. Staff recommends approval of all twelve projects in the three QRRP program sub-pools.

- Pedro Reyes stated that the Hamlin Estates Apartments (12-146) of the City of L.A. has an issue that will come up before the Tax Credit Allocation Committee in their meeting immediately following this meeting. Specifically, there is a loan of $842,000 that they're trying to refinance; and it is not quite clear yet whether or not that is something that the State Department of Finance will agree to. Therefore, Mr. Reyes needed to abstain.

There were no further questions or comments.

Mr. Reyes moved to approve the Allocation of the State Ceiling on Qualified Private Activity Bonds for Qualified Residential Rental Projects, $30 Million Maximum Allocation Limit Waivers, and Awards of Allocation, with the exception of Hamlin Estates Apartments #12-146. Alan Gordon seconded the motion. The motion passed unanimously.

Alan Gordon moved to approve Hamlin Estates Apartments (12-146). Bettina Redway seconded the motion. Mr. Gordon and Ms. Redway voted aye. Mr. Reyes abstained. The motion passed 2-0-1.

12-083	Kings Valley Apartments	$7,833,475
12-155	2175 Market Street Apartments	$30,000,000
12-139	MacArthur Apartments	$10,276,152
12-141	Gilroy Park Apartments	$10,200,000
12-142	Park Village Apartments	$24,250,000
12-145	Eagle Vista Apartments	$10,000,000
12-146	Hamlin Estates Apartments	$4,000,000
12-150	Moonlight Villas Apartments	$7,000,000
12-152	Paseo Village Housing Apartments	$20,501,782
12-157	New Seasons Apartments	$8,600,000
12-160	Bethlehem Tower Apartments	$15,000,000
12-115	The Tower on Nineteenth Apartments	$27,000,000

8. Consideration of Staff's Recommendation to Transfer and Award Unused 2012 Allocation to Various Issuers

Sarah Lester reported that staff surveyed nine highly active issuers asking if they were interested in receiving carryforward allocations for the remaining 2012 allocation, and we received six letters of interest. At the end of the year, staff anticipates that there will be a 2012 volume cap balance of approximately $2.66 billion remaining. This amount is likely to increase as projects that have received 2012 allocation authority may issue only a portion of their allocation or fail to issue bonds entirely.

In order to ensure that no amount of the 2012 allocation is lost, staff is recommending that the remaining allocation, as of December 12, 2012, be made available to the following issuers in the following amounts. City of Los Angeles, $250 million; California State Communities Development Authority, $700 million; the Housing Authority of the City of San Diego, $60 million; California Municipal Finance Authority, $500 million; and the City of San Jose, $150 million. All remaining allocation thereafter is recommended to be transferred to the California Pollution Control Financing Authority (CPCFA) for the Exempt Facility Program; all on a carryforward basis.

Staff recommends that, of the remaining $2.66 billion in 2012 allocation, $1.66 billion of which be transferred to the five aforementioned issuers of multifamily housing projects; with all of the allocation remaining thereafter be transferred to CPCFA.

Bettina Redway asked if there were any questions or comments.

Pedro Reyes moved to approve the staff recommendation to Transfer and Award Unused 2012 Allocation to Various Issuers. Alan Gordon seconded the motion. The motion passed unanimously.

9. Public Comment

No public comment

10. Adjournment

The Chairperson adjourned the meeting at 1:31pm