



CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

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Sean L. Spear

To: All Interested Parties

From: Sean L. Spear, Executive Director 

Date: January 28, 2014

Re: Summary of 2013 CDLAC Program Activity

Attached you will find the summary of the 2013 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.

Full utilization of the Private Activity Bond Volume Cap continues to be hindered by a combination of market and governmental factors. 2013 saw a continuation of the historically low margins between taxable and tax-exempt rates, an ongoing scarcity of credit enhancement for small to midsized businesses, and a dwindling supply of public subsidies for the development of affordable housing.

The Federal Reserve's Quantitative Easing efforts have worked to keep bond interest rates artificially low. Further, even though there was substantial outflow of municipal bond investment in 2013, the simultaneous lack of new issuance supply acted as a counter-balance; keeping tax-exempt bond pricing at historic lows. While this low cost-of-capital condition was designed to stimulate economic investment, the only slight differential between tax-exempt and taxable rates lessened the value of pursuing Private Activity Bond Volume Cap through CDLAC's public review process. As a result, all of CDLAC's private activity bond programs continued to be undersubscribed.

In a more specific sense, 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. Only 3.5% of all municipal tax-exempt bond transactions carried bond insurance in 2013 (as opposed to 60% of such deals in 2007). Even though there are new

and returning private firms offering bond insurance, all so far are unwilling to offer that credit enhancement to private activity bond transactions.

Lastly, Federal and State subsidies for affordable housing development continued to recede in 2013. Federal Continuing Resolutions and the mandated Sequester produced substantial reductions to HUD's HOME and CDBG Programs. On the State level, the elimination of the redevelopment agencies' housing set-aside funding and the near-exhaustion of the Proposition 1C-funded Transit-Oriented Development and Infill Infrastructure Grant Programs further reduced the options for communities to help finance the development of affordable housing. Lack of available subsidy has directly prevented some housing projects from proceeding through the development process. That being said, demand for multifamily housing allocation under our QRRP Program Pool continues to be substantial. Much of this is attributable to the strong appetite of the commercial banks for privately-placed bonds (particularly in Community Reinvestment Act eligible areas), the continuing high value of the accompanying 4%-Level Housing Tax Credit, and the evolving 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 2014; possibly augmented by new State-level public subsidies and increased issuance activity by CalHFA.

Another bright spot in 2013 was the last award and essential completion of the Qualified Energy Conservation Bonds (QECCB) allocation program. More than \$8.6 million in reallocated authority was issued for one (1) final project; the Oakland LED Streetlight Replacement Project. CDLAC does not anticipate any further activity in this program on the State level. Between 2009 and 2013, CDLAC provided more than \$250 million in reallocated authority to a variety of energy conservation and improvement projects throughout California.

CDLAC believes it is vital to have the State's allocation of Private Activity Bond 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 2014 will focus on both new and updated 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.

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REVISED

Estimated Public Benefits

2013 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 in purchasing or rehabilitating 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 2013, California's State ceiling was \$3.613 billion. Each year the Committee divides the annual State ceiling among several bond programs, known as "Program Pools", including the Qualified Residential Rental Project Pool (Rental Project Pool). For calendar year 2013, the Committee reserved approximately \$1.25 billion or 34.6% of the State ceiling for the Rental Project Pool. The \$1.25 billion of bond authority was allocated throughout the calendar year under three sub-pools: General Pool (consists of projects having 50.1% or more of its total units designated as Restricted Rental Units); Mixed Income Pool (consists of projects having 50% or fewer of its total units designated as Restricted Rental Units); and the Rural Project Pool (consists of projects located in a rural area as defined by California Health and Safety Code Section 50199.21 and not including Mixed Income projects).

Private Activity Bond Volume Cap Programs

For program year 2013, the Committee awarded a total of \$1.17 billion (past year carryforward and current year cap) for rental projects, \$482,740,980 (past year carryforward and current year cap) for SFH programs, \$3,891,340 under the IDB Program, and \$273,000,000 under the EXF Program billion (past year carryforward and current year cap). After the December 11, 2013 allocations were made, there was a 2013 volume cap balance remaining of approximately \$2.789 billion. In order to ensure that no amount of 2013 allocation was lost, at the December 11, 2013 allocation meeting the Committee transferred \$1.65 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 2013 will fund 90 multifamily rental housing projects. These allocations financed an estimated 7,975 total units, of which approximately 7,690 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 7,690 Restricted Rental Units, 3,268 will be restricted to very low income households with income at or below 50% of the area median income and approximately 4,422 units will be restricted to low income households with incomes at or below 60% of the area median income.

Of the estimated 7,975 units financed with the allocation, approximately 2,075 will be new construction units, 1,976 will be senior citizen units, 1,716 will be large family (3-4 bedrooms) units and 4 will be special needs units. In addition, this allocation will preserve approximately 968 income- and rent-restricted units that were at-risk of losing their existing affordability restrictions.

The Committee transferred a total of \$1.65 billion of unused 2013 volume cap to four (4) issuers for the Qualified Residential Rental Project Program. This represents 59.15% of the \$2.789 billion in unused 2013 volume cap and 45.66% of the overall 2013 \$3.613 billion State Ceiling.

Single Family Housing

The Committee awarded a total of \$482,740,980 of the 2013 State Ceiling and past year carryforward allocation under the Single-Family Housing Program for various city, county, statewide and multi-jurisdictional Mortgage Credit Certificate programs and one statewide Mortgage Revenue Bond program. These allocations will assist approximately 2,371 first-time homebuyers; of whom at least 948 will be low income households, and approximately 424 will purchase newly constructed homes.

Industrial Development Bond Program

The single IDB project awarded allocation is anticipated to create a total of five (5) new jobs in California, of which all five (5) are skilled and semi-skilled jobs. The new jobs will produce a weighted average hourly wage of \$24.89.

Exempt Facility Program

There are four categories that the Committee uses to prioritize its allocation to exempt facility projects: 1) First Tier Business¹ under Regulatory Mandate², 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.

Two qualified exempt facility projects were awarded a total of \$273,000,000 in allocation in 2013.

The Committee transferred a little over \$1 billion of unused 2013 volume cap for exempt facility projects to the California Pollution Control Finance Authority. This represents 35.8% of the \$2.789 billion in unused 2013 volume cap and 27.6% of the overall 2013 \$3.613 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 2013, a total of \$8,605,765 was issued for one (1) QECB project, representing 100 % of the remaining allocation waived back to the State. This project is expected to reduce approximately 47.5% of street light energy used per year in the City of Oakland.

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.