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MEMORANDUM

To: Board of Directors

Date: March 25, 1999



Kenneth R. Carlson, Director of Financing

From: CALIFORNIAHOUSING FINANCE AGENCY :

Subject: REPORT OF SINGLE FAMILY BOND SALE

On March 24 the State Treasurer and the Agency priced \$125 million of our Home Mortgage Revenue Bonds in three series as shown in the table below. Lendable proceeds of approximately \$121 million will be used to fund some 1,100 home loans with interest rates ranging from 5.75% to 7.0%. A fourth series will be priced on April 6, and the entire \$158.86 million transaction is scheduled to close on April 14.

This issue is structured very differently from the past several single family issues. What is different here is that the tax-exempt bonds are primarily being structured as capital appreciation bonds ("CAB's") also known as "zero-coupon" bonds. CAB's work like U.S. Savings Bonds in that investors receive no interest payments. Instead, the interest component is added semiannually to the principal amount, which is said to "accrete" in value. CAB's are sold at their discounted amounts; hence the "odd change" in the principal amounts of Series A and B bonds. Each individual CAB accretes to \$5,000 at maturity.

Since mortgage interest payments will not be needed to pay interest on the Series A and B CAB's, a substantial portion of the total mortgage interest receipts can instead be used to help retire the Series C taxable bonds. As a consequence, the Series C taxables, comprising half of the \$125 million, can be retired more quickly, resulting in a lower overall cost of funds for the composite transaction.

Series D is a \$33,860,000 one-year tax-exempt note that will be refunded into a future bond issue. In the meantime, the positive difference between the investment earnings on the note proceeds and the interest payments on the note provides a useful economic benefit.

Series A, B, and C will be insured by a bond insurance company and thus rated Aaa/AAA by Moody's and Standard & Poor's. Series D will not be insured; it will carry the Aa2/AA- credit ratings of the Home Mortgage Revenue Bond indenture.

1003

Series	Amounts	Interest Rates	Maturities	Tax Status
1999 Series A	\$ 13,738,054.80	5.23%	2/1/16	Non-AMT
1999 Series B	48,761,927.88	3.10-5.48%	8/1/00-2/1/30	AMT
1999 Series C	62,500,000.00	6.25%	2/1/13 ⁽¹⁾	Taxable
1999 Series D	33,860,000.00	to be determined ⁽²⁾	4/30/00	AMT
Total	\$158,859,982.68			

⁽¹⁾ 5.99 years average life.

⁽²⁾ Pricing will be April 6.

MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: 18 March 1999

From: Di Richardson, Director of State Legislation
CALIFORNIA HOUSING FINANCE AGENCY

Subject: STATE LEGISLATIVE REPORT

The 1999 Legislative Session is finally under way, with a number of new names and faces. The Assembly Housing and Community Development Committee has only one returning member; the remaining ten members, including the Chairman (Lowenthal) and Vice Chairman (House), are new to the Committee (three are new to the Legislature). The Senate Housing and Community Development Committee has a better mix of new and returning members, with four new members (including the Chairman, Senator Alarcón) and three returning members. We have had the opportunity to meet with most members of both committees, and can tell you they are all interested and eager to address the issue of affordable housing.

I. Budget Issues

Senate

Two Senate Budget Subcommittees recently heard the Governor's proposals related to housing. Most of the items were approved as proposed, including \$2 million to the Department of Housing and Community Development (HCD) for farm worker housing grants; \$1 million to HCD for the Self-Help Housing Program for families who build their own homes with sweat equity; and \$5 million to HCD to create housing for CalWORKS families transitioning from welfare to self-sufficiency (this proposal was modified to cap HCD's administrative costs).

The \$1 million included in the Governor's Budget to allow the National Guard to continue the shelter programs at California armories during winter months was moved from the Department of the Military to HCD for its Emergency Housing Assistance Program, which is distributed to all counties on a per capita basis.

The \$2.5 million proposed for HCD to use for a variety of housing programs in conjunction with the Housing Task Force was partially approved (\$200,000 for the operation of the Task Force) with the option to approve the remaining amount at a later time. The \$1 million proposed for the Department of Mental Health to create a new program for supportive housing which focuses on CalWORKs special needs' populations was augmented by \$1 million, with an agreement to consider an additional \$2 million upon review of the May revise numbers.

Assembly

Both the Department of Housing and Community Development and the Department of Mental Health are currently scheduled for hearing before their respective Assembly subcommittees on Wednesday, April 7.

As always, it is important to keep in mind that these actions reflect the recommendations of Budget subcommittees, and have not been agreed to or approved by the Governor or the Department of Finance.

II. CHFA Sponsored Legislation

AB 1404 (Dutra) - would increase by \$2.2 billion (to \$8.95 billion) the limit on the maximum amount of debt CHFA may have outstanding. STATUS: Pending Committee Assignment.

CHFA will also be co-sponsor of the Assembly Housing committee Omnibus Bill (bill number pending) that will address a number of technical and noncontroversial housing-related issues, including clarifying CHFA's authority to make both secured and unsecured loans; clarify CHFA's ability to do bridge financing or financing for terms shorter than the standard 30-years; and the deletion and correction of a number of out-of-date statutes. STATUS: Pending Introduction.

III. Housing Bonds

AB 398 (Migden) - would create the Housing and Homeless Bond Act of 2000. This measure, which is still in spot bill form, would authorize an unspecified dollar General Obligation Bond to be placed on the ballot to fund a number of programs within HCD. Programs currently contained in the bill include the construction and rehabilitation of low-income rental housing, migrant farm labor centers and other farmworker housing, emergency housing and assistance to homeless persons, and predevelopment and land purchase loans for lower-income housing in rural areas. STATUS: Referred to Assembly committee on Housing and Community Development, no hearing date scheduled.

SB 510 (Alarcón) • currently a **spot** bill stating ~~the~~ Legislature's ~~intent~~ to enact a Housing Bond Act. ~~The~~ author is **currently** having amendments prepared to split the **bonds** over four election cycles (November 7, 2000, November 5, 2002, November 2, 2004, and November 7, 2006) at **\$245 million each**. The total **amount** of the four bond **acts**, if approved by the voters, would be **\$980 million**. While the distribution of **funds** is still **being discussed**, the **initial** break down will be as follows:

- **\$65 million** for first-time homebuyers programs, with 20% ~~set~~ aside for public safety **(CHFA)**
- **\$35 million** for rental housing (HCD)
- **\$12.5 million** for welfare to work housing (HCD)
- **\$50 million** for senior and disabled housing (HCD)
- **\$5 million** for self-help housing (HCD)
- **\$50 million** for rehabilitation/ code enforcement of single and multi family housing **(HCD)**
- **\$25 million** for farmworker housing programs (HCD)

IV. Miscellaneous

AB 97 (Torlakson) • would make permanent a two-year **\$15 million** increase (from **\$35 million** to **\$50 million**) in the State **Low Income Housing Tax Credit**. **STATUS:** Set for **hearing** before the Assembly Revenue and Taxation Committee **March 22, 1999**.

AB 431 (Dutra) • would clarify that a trustee *can* invalidate a sale and **refuse** to issue a **trustees deed** if the **deed** is invalidated by a pending **bankruptcy** or **otherwise**. **STATUS:** Referred to Assembly Judiciary Committee, no **hearing set**.

AB 499 (Aroner) • sponsored by the California **Association** of Homes and Services for the Aging • would **require** the Department of Health Services to develop a demonstration **project** to **test the efficacy** of providing an **assisted** living benefit to low-income **beneficiaries** under **the** Medi-Cal program. **STATUS:** Referred to Assembly **Health Committee**, no **hearing date scheduled**.

AB 601 (Cedillo) • would create the **Urban Initiatives Act** to **encourage** the reuse of underutilized buildings through the designation of urban incentive **zones** by the Trade and **Commerce Agency** and designation of **qualified** buildings by the **affected** local agency. **Incentives** included in **the** bill include **alternative** building regulations and **standards**, exemption from CEQA, property tax relief, and **income tax credits**. **STATUS:** Double **referred** to Assembly Committee on **Consumer Protection**, **Governmental Efficiency**, and **Economic Development** and the **Natural Resources** Committee, no **hearing** dates scheduled.

1007

AB 869 (Keeley) - would create the Community Reinvestment Act establishing a continuing and affirmative obligation for insurers to make economically targeted investments in low income and very low income communities. STATUS: Pending referral to committee.

AB 942 (Dutra) - currently a spot bill dealing with the importance of all levels of government and the private sector cooperating to ensure an adequate supply of housing is available to meet the needs of all Californians. STATUS: Pending referral to committee.

AB 943 (Dutra) - currently a spot bill dealing with the California Debt Limitation Allocation Committee and the state ceiling on private activity bonds. STATUS: Pending referral to committee.

AB 13% (Lowenthal) - would establish criteria for HCD to consider when making loans from the Housing Rehabilitation Loan Fund to assisting help preserve affordability of multifamily housing units previously subsidized by the federal government. STATUS: Pending committee assignment.

SB 73 (Murray) - would establish a statewide participation goal of not less than 30% for small business enterprises with respect to professional bond services and state contracts in general. STATUS: Set for hearing before the Senate Governmental Organization Committee March 23, 1999.

SB 109 (Knight) - would allow first time homebuyers to deduct the costs of their private mortgage insurance from their personal income tax for the first five years they own the dwelling. STATUS: Referred to the Senate Revenue and Taxation Committee, no hearing set.

SB 1106 (Hayden) - would allow local jurisdictions to impose rent control restrictions on low or moderate income units created specifically to preserve and sustain affordable housing through inclusionary programs and other unspecified means, and would require local jurisdictions to include a provision regarding the preservation of affordable housing within their housing elements. STATUS: Pending referral to committee.

SB 1121 (Alarcón) - sponsored by HCD, currently a spot bill that could be used for a variety of purposes, including housing task force recommendations, restructuring of HCD's multifamily housing program, or other Administration general housing related issues. STATUS: Referred to Senate Committee on Housing and Community Development, no hearing date scheduled.