STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

The Westin Hotel
San Francisco International Airport
Millbrae, California

Thursday, November 14, 2002
9:30 a.m. to 11:36 a.m.

Reported and Transcribed by: Ramona Cota

<u>A P P E A R A N C E S</u>

<u>Directors Present</u>:

CLARK WALLACE, Chairman

JULIE I. BORNSTEIN

CARRIE A. HAWKINS

PAT NEAL

LUPITA OCHOA

THERESA A. PARKER

ANNETTE PORINI

JACK SHINE

LAURIE WEIR

<u>Staff Present</u>:

TOM HUGHES, General Counsel

JOJO OJIMA

A P P E A R A N C E S   (C O N T I N U E D)

For the Staff of the Agency:

NANCY ABREU

KEN CARLSON

TINA ILVONEN (Consultant to CalHFA)

IRENE JENKINS

ROGER KOLLIAS

RICHARD LaVERGNE

DOM MAIO

DI RICHARDSON

LINN WARREN

Counsel to the Agency:

STANLEY J. DIRKS, Orrick, Herrington & Sutcliffe

Members of the Public:

ALVIN BONNETT, EAH

CAROLE GALANTE, BRIDGE Housing

GORDON SCHANCK, University of California

RICHARD SCHERMERHORN

I N D E X

P R O C E E D I N G S

THURSDAY, NOVEMBER 14, 2002   MILLBRAE, CALIFORNIA 9:32 A.M.

CHAIRMAN WALLACE: I will call the meeting of the CalHFA to order. Wait until I go get that packet and see if I'm doing that right. It's going to be years in training that we are going to need to do this, you know, Terri. And the minutes reflect that.

MS. PARKER: It's a quarter every time you make a mistake.

CHAIRMAN WALLACE: Okay, I'm out of here. If we may then, secretary, call the roll.

ROLL CALL

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir for Mr. Angelides?

MS. WEIR: Here.

MS. OJIMA: Mr. Bayuk?

(No response).

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Here.

MS. OJIMA: Ms. Neal for Ms. Contreras-Sweet?

MS. NEAL: Here.

MS. OJIMA: Mr. Czuker?

(No response).

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Here.

MS. OJIMA: Mr. Klein?

(No response).

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Here.

MS. OJIMA: Ms. Porini for Mr. Gage?

MS. PORINI: Here.

MS. OJIMA: Ms. Ochoa for Mr. Finney?

(No response).

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: We have a quorum.

CHAIRMAN WALLACE: We have a quorum. I hate to say it this way but it's a bare quorum.

MR. SHINE: B-A-R?

CHAIRMAN WALLACE: Yes, B-A-R-E. But we do have a quorum. Which means, on any vote nobody up here can leave the room, okay. Laurie, nice to have you here. Welcome. Angelides won the election so he sent you now and gave Jeanne the rest of the year off?

MS. WEIR: Thank you. I'm delighted to be here and we are delighted that Phil won the election. Jeanne is taking a bit of time to put together the new tax credit program, which is an economic development tax credit program, as well as re-working her cue-out for the housing tax credit program. She is a very busy person right now so I am pleased to represent both her and the Treasurer today.

CHAIRMAN WALLACE: We're happy to have you, thank you.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 12, 2002 MEETING

With that let's go to Item 2 on the agenda, approval of the minutes. And I know I had a few corrections so let's see what I did. On page 23 -- these are the minutes of the September 12, 2002 Board Meeting. I believe on line 9 that -- Ramona, you weren't here last meeting. No wonder. Those remarks I think were Bob Klein's, not Linn Warren's, starting on line 9. Read that, Linn, and see if you could possibly have said something like what I think Bob said.

MR. WARREN: I'll take credit for Mr. Klein's comments at any time, Mr. Chairman.

CHAIRMAN WALLACE: I would be careful.

MR. WARREN: Yes, I know. I'll examine that, sir.

CHAIRMAN WALLACE: Page --

MR. WARREN: Page, sir?

CHAIRMAN WALLACE: Twenty-three, starting with line 9. It looks like -- And I kind of vaguely remember. It looks like the exchange was --

MS. PARKER: Are you on page --

CHAIRMAN WALLACE: I'm sorry, it's --

MS. PARKER: He's on --

CHAIRMAN WALLACE: What is the number here? I'm on the upper right hand corner, 23, line 9.

MR. HUGHES: Also a note, Mr. Chairman, that on page 24 the next speaker is Mr. Warren so undoubtedly the names are incorrect.

CHAIRMAN WALLACE: I want Linn to look at it since Klein isn't here. You can take credit for it if you want but I don't think you want to.

MR. WARREN: No, Mr. Chairman, I would rather not take credit for it. Thank you, though. I believe it is Mr. Klein.

CHAIRMAN WALLACE: It's Mr. Klein, Ramona. Again, I am going upper right hand corner, page 23, line 9. It should be Mr. Klein not Mr. Warren making those remarks. The second one that I picked up is way back on 83, again upper right hand corner. On line 13, Chairman Wallace. Does everybody know what *IRUM* means? And the answer is, Pat? (Laughter). Never heard of it. It is IREM, Institute of Real Estate Management. So it is not IRUM, Institute of Useless Managers or something like that. So it should be, all caps, I-R-E-M.

And the third one on page 154 upper right hand corner. Again, 154, line, Chairman Wallace: "and the FAOC ..." It should be CAOC, not FAOC. We're talking about this historic agreement between CBIA and FAOC, which should be CAOC. Jack, am I right? So those are the changes that I saw. Anybody else? Hearing and seeing none the Chair will accept a motion to approve the minutes as amended.

MS. HAWKINS: So moved.

CHAIRMAN WALLACE: Carrie.

MS. NEAL: Second.

CHAIRMAN WALLACE: Pat. Any discussion on the motion from the Board or the audience? Hearing and seeing none, secretary, call the roll, please.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir?

MS. WEIR: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Here. Yes, aye. I'm sorry.

CHAIRMAN WALLACE: It's okay, Pat.

MS. OJIMA: Thank you, Ms. Neal. Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Wallace.

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Okay, the minutes have been approved.

CHAIRMAN WALLACE: The minutes of the September 12, 2002 Board of Directors meeting are hereby approved. Moving on to Chairman/Executive Director comments.

CHAIRMAN/EXECUTIVE DIRECTOR COMMENTS

I really don't think I have any but you probably do, Terri. Are you on a roll there?

MS. PARKER: Yes, Mr. Chairman, I do have just a few comments. Obviously, as all of you know, Prop 46, the housing bond, passed during the election last week. And what was really great about it was not only that it passed, but the strong passage of the proposition, which essentially really can give the housing community a fair amount of certainty of a fund source for the next three to five years.

The California Housing Finance Agency has a role in the bond. We have one program that we will be administering in partnership with HCD, that's a preservation program for rental housing, then on the home ownership side we have $290 million of down payment assistance that is in a number of programs.

We met the day after the bond passed to, essentially, look internally about what we need to be doing and our timelines for when we will be implementing those various programs. Many of these programs we have implemented in the past with state general fund money, the down payment assistance program specifically, the schools facilities fees program, so we have resolutions and authorizations for those programs. So our plan is to be, hopefully, starting to implement those around the first of February.

We will be updating in our January meeting our Business Plan. I will give you a little bit more information about all of that specifically. The one area that we do have some work on is the $85 million that is in the mortgage insurance fund. We have a meeting set to meet with CAR next week to begin discussions with them about uses for that money, and we intend to follow that up with a broader group of folks in focus groups to, essentially, see what would be a way to expand and utilize that money in an efficient and effective manner.

I guess if nothing else, we have many things that we are working on with respect to the bond, but we are also going to touch on some other issues that the staff thinks are good places for the Agency to be going on an entrepreneurial effort. We are going to be enjoying presenting them to you. Again, we will be doing a mid-year update in our January meeting which would lead to, obviously, discussion through the first part of next year about where we are going to go with our Business Plan 2003/2004 and for the next five years.

CHAIRMAN WALLACE: Any questions of Laurie or my report?

MS. PARKER: That was Terri, not Laurie.

CHAIRMAN WALLACE: I just got back from South

Africa and I'm about ten time zones -- I'm at about the Azores right now. But then I usually am. Okay, anything on Terri's report? Hearing and seeing none let's move on to the projects. Linn Warren, Item 4.

MR. WARREN: Thank you, Mr. Chairman. Before I start I would like to make just a couple of introductions, if I may, of new staff with the Agency. With us today is Irene Jenkins. Irene has just joined us as the deputy director of multifamily. Irene is here. Irene joins us from Massachusetts and we are very pleased to have Irene. She, for the last several years, worked in private development for assisted living and senior care facilities. Prior to that she was director of housing at the Vermont and Rhode Island Housing Finance Agencies as well as a fairly good tenure of time at HUD. Irene has come to California and we are very pleased to have her. She will be responsible for, basically, the underwriting and loan production for the Agency.

Also with us today is Ruth Vakili, who is here. Ruth recently joined us after eight years as a construction manager and development officer with the Santa Clara Housing Authority. She worked with Matt Steinle, who many of you know, in a very successful program down there. Prior to that Ruth was with the City of San Jose in the housing department and before that was a construction loan officer. Ruth moved to Sacramento and we are very pleased to have her join us and to fill out our underwriting staff. We welcome them both and you will be seeing a lot of them in the future.

CHAIRMAN WALLACE: Are you happy to be here, Irene, from Massachusetts?

MS. JENKINS (FROM THE AUDIENCE): I'm thrilled. It was snowing the day we were leaving.

CHAIRMAN WALLACE: We are happy to have you both, welcome.

RESOLUTION 02-26

MR. WARREN: Thank you, Mr. Chairman. The first project for your consideration today is Mandela Gateway. At the prior Board Meeting the staff mentioned to the Board that we are beginning to look at more HOPE VI projects as far as portfolio loans for the Agency and Mandela, with BRIDGE Housing, is the first in this particular initiative.

Briefly by way of background: HOPE VI Projects is a funding initiative, a redevelopment initiative, by HUD to address dilapidated public housing units throughout the country through large grants and subsidy loans to basically demolish and revitalize these projects. One of the main components of HOPE VI is not only the replacement of the public housing units, but also the inclusion of other income levels, essentially a mixed-income project. It is a model that has been very successful and we are very fortunate to have BRIDGE here with us on this. BRIDGE is also involved in a very large HOPE VI project in San Francisco known as North Beach, so they have a great deal of experience with that.

By way of background: The request today is for basically three loans. The first is a taxable loan in the amount of $2 million at the interest rate of 6.5 percent, 15 year fully amortizing. The second is a Section 8 increment loan and this is in the amount of $1.9 million, 6.5 percent, 10 year; we will explain the terms in just a moment. The third is a FAF loan and let me spend a little bit of time on that. The FAF loan amount is for $900,000, or potentially up to $1.2 million in the event that the Section 8 contract for the project is not obtained from HUD.

Back to the second loan for just a moment. As the Board has seen in the past, we often make loans at the difference between underwriting rents and the Section 8 contract rents; hence, the name *increment loan for Section 8*. We have done a number of these over the years. As a matter of fact, the very first one we did was with BRIDGE several years ago. We feel that is an acceptable underwriting risk. Certainly the continuation of the Section 8 subsidies administered by the Oakland Housing Authority is a fairly safe underwriting risk.

In the event that the Section 8 does not materialize, then we would want to lend more money in the form of the third subsidy loan, increasing the loan from

$900,000 to $1.2 million. If the Section 8 does not continue, then the Oakland Housing Authority is prepared to step in with a loan of $1.6 million to backstop the absence of the Section 8, and Tina can elaborate on that a little bit more in the future.

The third loan is a bit of a departure for us. It is going to be funded through FAF savings, which is excess revenues we receive from restructuring of Section 8 properties pursuant to the McKinney Act, and it will be residual receipts. We occasionally do these. This is essentially a gap financing loan, which in discussions with BRIDGE and the Oakland Housing Authority, is really needed to make the project work. If the Section 8 does go to the property then the loan is basically a 30 year loan. If the Section 8 does not arrive then we will make this a 55 year residual receipt loan. As extra monies become available or if Section 8 may continue then those monies will be directed toward the early retirement of the FAF loan.

So we really have a conditional approval at this juncture. If the Section 8 arrives, then we will go with the $900,000 residual receipts loan. If it does not, then we will move that to the $1.2 million residual receipt loan and drop the request for the $1.9 million. So with that, I am going to stop and let Tina go through the project.

CHAIRMAN WALLACE: Linn, what is FAF?

MR. WARREN: Financing Adjustment Factor. What happens is if we have a Section 8 project today, which the Agency has, and the underlying bonds are refinanced, what HUD decided to do was not reduce the amount of the Section 8 contract. Instead, any savings that may occur through the refinancing of the underlying debt would be shared 50/50 between HUD and the Agency. This also occurs with fellow HFAs. This money then, pursuant to an agreement with HUD, is re-lent out to, basically, promote affordable housing. There are certain restrictions that go along with FAF money, but we need to find ways to spend this money per our agreement with HUD. So FAF is an acronym for the source of where this money came from.

CHAIRMAN WALLACE: Okay.

MR. WARREN: So with that, Tina, why don't you go ahead and start on the project.

MS. ILVONEN: Okay. Let me see. This is a picture of the site in West Oakland. This is the BART station right here, so the site is across from the BART station. It is two contiguous sites. This site right here is the housing that is being replaced, the public housing that is being replaced. It is 46 units, which will be demolished. This site is three separate sites that are going to be placed together to make up the second half of the Mandela Gateway site.

CHAIRMAN WALLACE: Tina, we are looking north toward Berkeley?

MS. ILVONEN: This is Oakland.

MR. WARREN: Oakland.

CHAIRMAN WALLACE: Downtown Oakland, Lake Merritt.

MS. ILVONEN: This is downtown Oakland right here. This is the BART station.

CHAIRMAN WALLACE: The freeway heading off to the right off the screen is heading towards the south.

MS. ILVONEN: I think that's 980.

MR. WARREN: 880.

MS. ILVONEN: It's 880.

CHAIRMAN WALLACE: And maybe for reference, Carole, can you help? Where is our Acorn project?

MS. ILVONEN: There is another slide that we will have.

MR. WARREN: Let's go up one.

MS. ILVONEN: Yes. This is heading towards --

CHAIRMAN WALLACE: BRIDGE has a big Acorn project, where is that? Can you point it out, Carole?

MS. GALANTE (FROM THE AUDIENCE): You need the previous slide to show it. It's right in here.

CHAIRMAN WALLACE: Okay. Okay.

MR. WARREN: And also by way of reference, Acorn is there and the Agency has down in this area and up in here two Section 8 projects we refinanced called Mohr and Oak (phonetic). We have done a fair amount of business in this part of Oakland.

CHAIRMAN WALLACE: Right.

MR. WARREN: I'm sorry, Tina, go ahead.

MS. ILVONEN: Okay. Let me just talk about West Oakland first since I have got the picture of West Oakland up. The market area for the project was defined as the City of Oakland from the market study completed. During the past decade West Oakland showed modest population growth, increasing five percent from 23,000 people in 1990 to 24,000 in 2000. The average unemployment rate in Oakland was 7.1 percent in 2000. Median 2001 household incomes in the City of Oakland were at $41,000, while in West Oakland median income was $20,418. As of March 2002 the occupancy rate in Oakland was 92 percent. In addition there are currently 1,600 families on the Section 8 wait list and 500 on the public housing wait list.

(Ms. Ochoa entered the meeting room.)

West Oakland land uses are approximately 20 percent single family, 15 percent condominiums, 30 percent apartments, 30 percent commercial and 5 percent industrial.

The next slide: The Mandela Gateway site is across from the West Oakland BART station and is planned to be a gateway from the BART station to the surrounding neighborhood that was damaged by the Loma Prieta earthquake in 1989 when sections of the Cypress freeway collapsed. Reconstruction of the relocated I-880 freeway created a number of development opportunities outlined in the Transit Village Action Report, which recommended a development of mixed-use, mixed-income development on the key parcels surrounding the BART station, including the Mandela Gateway site.

There you can see the freeway and there is the BART station right there. The project will be developed on two contiguous sites between Seventh and Eighth Streets. The west parcel, which is this parcel, is approximately 1.7 acres between Center and Mandela. This block will be accessed via a shared driveway with the for sale townhomes that BRIDGE is also developing, which will be right here and possibly right here, which is a vacant site also.

The east parcel is 2.85 acres and that will be bound by Mandela Parkway and Union Street. It ends mid-block between Mandela Parkway and Union Street. Right there. This is a close-up of the sites from the BART station. Looking at the site this is the housing that is being replaced, this is the east parcel. You can see that's the J&A Trucking site. This is a closeup of the Westwood Garden public housing that will be replaced.

While I'm looking at the site close up I am going to talk about the environmental. CalHFA has reviewed a Phase

I and Phase II environmental site assessment for the project which was completed by Treadwell & Rollo in August 2002. Both blocks have soil contamination on the site that appears to be the result of past or current activities on the site. No evidence was found indicating contamination by off-site sources. You see we have got a truck repair facility on the site. Also, this is the Caltrans lot.

Because contamination was found in the soil in both blocks, mitigation measures such as capping or off-site disposal will be required for a significant amount of the soil. In addition, the soil will qualify as hazardous waste if excavated or disposed. Treadwell & Rollo recommends additional sampling and site mitigation plans should be prepared. Currently the additional soil sampling has been completed, but I have not yet reviewed that; the report has not been finalized. The site mitigation plans are nearly complete, pending review of the civil engineers' grading plan. The report will specify what amount of soil can be capped below the podium and what amount will need to be removed from the site. Review and approval of the final soil sampling and the mitigation plans by the Agency and its environmental consultant are a condition of closing.

In addition to the Phase I and Phase II, an archeological testing report was completed in October 2002. There was a discovery of a prehistoric midden deposit, which is basically shells, discarded shells from A.D. 610 to A.D. 1280. It's what people were eating back then. Further archeological testing in the form of further exploratory procedures and on-site monitoring during project construction are recommended in order to mitigate any adverse impacts to these resources.

In addition, an abatement work plan was completed in October 2002 on the existing Westwood Garden Apartments. Lead-based paint, asbestos and fluorescent light ballasts containing PCBs were found and that will all require removal and disposal prior to demolition of those apartments. Lastly, a seismic risk evaluation and NEPA review will be ordered. A condition of final commitment will be satisfactory review of these documents.

This is the site plan. This is the Mandela site right here. This is the for sale townhomes there, up at the top. That may also be for sale townhomes. This is also the Mandela site. The west block has one building.

The proposed buildings will be four stories on Seventh Street and will step down to lower townhouses and flats that match the residential character of the buildings across from Eighth Street because there's Victorians over here. The podium for each block will be ringed with wood-framed flats and townhouses up to four stories on the south. The east block will contain additional freestanding three-story apartment buildings in the center of the podium, here.

The design incorporates a range of features to meet the needs of the development's targeted populations. Semi-public plazas mark the entrance to the development and the neighborhood. A 10,300 square foot outdoor town square, two outdoor play areas for children, a basketball area, 181 resident parking spaces, six management and maintenance offices, two large laundry rooms, community space for residents, including a 1,375 square foot community room, and a computer room with six to ten work stations. The development will be fenced and gated and will have security guards on duty 16 hours per day Monday through Friday and 24 hour coverage on the weekends.

The project will also have two ground floor retail spaces totalling approximately 8,000 square feet along Seventh Street, which are to be owned by Mandela Gateway Residential Partnership but will be financed separately. In addition, there will be a two-story drugstore space of approximately 12,400 square feet located on the corner of Seventh and Center Streets. The drugstore will have a separate parking lot for 58 cars and a loading dock, and the drugstore will have legally distinct air rights and ground parcels, a separate ownership and separate financing. So that is not part of the Mandela Gateway project, that is separately owned.

The project will have 168 units; 46 will be the public housing replacement units. There will be a total of 36 one bedrooms, 80 two bedrooms, 42 three bedrooms and 10 four bedrooms. These are the rents. These rents do not show the ACC rents, which are at $385 per unit. Those are the subsidized --

MS. PARKER: Tina, what is ACC.

MS. ILVONEN: Annual Contribution Contract from HUD to the Oakland Housing Authority. Those funds will be passed to the partnership.

MR. WARREN: Maybe just real briefly: ACC rents are designed to, basically, equal the operating expenses for the contract. By definition, ACC rents cannot support debt, it basically is public housing funds. And that is set every year based upon operating expenses. So that is why it is so low. They are tied to whatever the tenants can pay and what it takes to operate the public housing component of the project.

MS. ILVONEN: The tenants on the public housing wait list in Oakland, their average AMI income is 17 percent, so these are going to be very, very low income units. We did not put them on there because they are so low. There's also five units at 40 percent rents that are not on this chart. But we have got the units at 45 percent, 50 percent, 60 percent, and the market rates are quite higher. The market rate rents for the -- These are the market rate rents for the market study.

The market rate rents for the appraisal are actually a little bit lower than that; $925 for the one bedrooms, $1,050 for the twos and $1,250 for the threes. But they are still below 90 percent of the -- The restricted rents are still 90 percent or lower of the market rents, even with these lower appraised rents. I just got the appraisal in a few days after the Board write-up was completed, so I was not able to include those rents in there.

The other thing about the rents is there's going to be 30 units that have Section 8 rents, hopefully. We should know about the Section 8 contract next week. The Section 8 rents are higher than the market rate rents, and the Section 8 contract should be for ten years. So when you look at the cash flow, the Section 8 rents are shown only in years 1 through 10 because there is expected to be a ten year Section 8 contract. The term of the Section 8 loan is also ten years, to match the expected term of the Section 8 contract. That's years one through ten.

In years 11 through 15, this is a worst-case scenario, showing the Section 8 rents going to zero. There is a deficit that will be covered by a long-term operating reserve. We are going to have $459,000 up front deposited into a long-term operating reserve, and those funds will not need to be drawn until years 11 through 15 and only if the Section 8 contract does not extend past year 10. Which if they get the Section 8, it is very likely that the contract will extend. So this is a worst-case scenario.

MR. WARREN: It is important to note that of the $450,000 our estimate is we will not need all of that.

MS. ILVONEN: No.

MR. WARREN: It will just be about a third that might be needed.

MS. ILVONEN: The estimate is $212,000.

MR. WARREN: Right, so it's roughly half that. But that is the reserve. But if the Section 8 continues, and we certainly would expect that it would for a project like this, then that would be used to reduce debt or for project purposes, it would stay with the project. So if the Section 8 does continue, as your materials indicate, any excess savings or any development costs savings on the project would go to reduce the FAF loan and to reduce the subsidy loan as quickly as we can. HOPE VI projects don't like to carry debt, that is why we have shorter terms. We try to underwrite it that way to make it debt free as soon as possible.

As I said at the outset, BRIDGE Housing is the developer on this; the John Stewart Company will be the property manager. They both have a fair amount of experience with HOPE VI projects. The Oakland Housing Authority, which is the organization that drives these HOPE VI has been very cooperative. They have a number of HOPE VI initiatives all through Oakland and this is one of them. So with that we would like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: Questions from the Board?

MS. HAWKINS: Mr. Chairman.

CHAIRMAN WALLACE: Carrie.

MS. HAWKINS: I was surprised to see this residual receipts component because it has not been characteristic of the kinds of loans that we make. Is it because of the combination of financing here that that's a possibility, or is that something we are going to be seeing more of in our lending?

MR. WARREN: I think, Ms. Hawkins, what we have decided to do on the residual receipts is target that for HOPE VI projects only, at this juncture.

MS. HAWKINS: Okay.

MR. WARREN: Part of the reason for doing the residual receipts lending is to ease the burden of local financing. As you can see in the materials here, if the Section 8 does not materialize, then Oakland has to come up with $1.6 million. There was a funding gap anyway on Mandela, but we looked at other HOPE VI projects throughout the state; and we feel that if we offer a subsidy loan in some nature, $1 million, $1.5 million, $2 million, whatever the number might be, then we do lessen the burden of financing on localities and potentially lessen the burden of 9 percent credits. So I think that's the goal. But for right now it will be limited to HOPE VI-type projects, which is a pretty discrete number.

MS. HAWKINS: And I had a second comment. I was concerned about, of course, the cost per unit, always. But I spoke with the sponsor prior to the meeting, and she explained to me how the costs go up in order to get the density component. So it's just one of those circumstances that in order to get the density, the cost goes up, the higher we go up the building. Is that --

MR. WARREN: That is right. Along those lines, Ms. Hawkins, I think that other Board Members have asked that as we do more of these in-fill transactions, which by definition are denser and cost more, one could argue, on a square foot basis, that we provide greater cost detail in the Board packages. Which we will to give the Board Members a better sense of how these costs break down. But you are right, that is the nature of these types of projects.

MS. ILVONEN: Another reason why the costs are high on this is because the costs include the 8,000 square feet of retail space; there is also podium construction. Also, HUD requires prevailing wage and also Section 3 local and resident hiring. So that all increased the costs on this project.

CHAIRMAN WALLACE: Jack.

MR. SHINE: The retail space. You said that was owned by someone else?

MS. ILVONEN: The 8,000 square feet of retail space is owned by the Mandela Gateway residential project, but the 12,400 square feet of commercial space for the drugstore will be owned separately. That will have a separate ground parcel and that will be financed separately.

MR. SHINE: So this loan covers 8,000 feet of commercial space owned by somebody. Who is that?

MS. ILVONEN: The Mandela Gateway partnership, the partnership that we are loaning to.

MR. WARREN: The partnership that developed the residential will also -- Part of our collateral will include the 8,000 square feet and they will also own the --

MR. SHINE: So that is included in the $30 million construction costs at $157 a foot?

MR. WARREN: Yes.

MS. ILVONEN: Yes.

CHAIRMAN WALLACE: Carole, Mandela Gateway Associates. Who is that?

MS. GALANTE (FROM THE AUDIENCE): The partnership is --

CHAIRMAN WALLACE: This is Carole Galante, President of BRIDGE, for the record.

MS. GALANTE (FROM THE AUDIENCE): The matching partner of that partnership is BRIDGE Housing. In association, two members will sit from the Oakland Housing Authority on that nonprofit board. A BRIDGE-controlled entity will have controlling interest in the managing partner.

CHAIRMAN WALLACE: Right. So it is the developer/ owner, essentially. Yes.

MR. SHINE: Does that mean that the positive income, if any, derived from the retail operation is incorporated somewhere in this cash flow?

MS. ILVONEN: It is not incorporated in the cash flow. We assumed that the retail space will be at a break-even, we did not include it in the cash flow at all.

MS. GALANTE (FROM THE AUDIENCE): But if it is there it would be available. It's partnership income and you are securing the entire parcel.

MR. WARREN: Right.

MR. SHINE: So that income potential is encumbered as well?

MS. GALANTE (FROM THE AUDIENCE): Correct.

MR. WARREN: Yes. But as Tina indicated, it is not reflected in the underwriting.

MS. PARKER: It's worst-case scenario underwriting.

CHAIRMAN WALLACE: Linn, we had 46 public housing units in the traditional sense. What is their status under this scenario?

MR. WARREN: There will be 100 percent replacement. Is that correct?

MS. ILVONEN: Yes.

MR. WARREN: And they will have the first right of refusal for available units when the project is completed.

CHAIRMAN WALLACE: Is it public housing as a part of the project or has it got a --

MR. WARREN: The public housing units will be interspersed throughout all of the units, there will not be a designated public housing section. That is typical of HOPE VI projects and that is the goal, dispersion.

CHAIRMAN WALLACE: Carole.

MS. GALANTE (FROM THE AUDIENCE): Sorry. I just want to highlight what the HOPE VI program really means. HOPE VI is a program of HUD to basically replace old public housing that is concentrated in one location and to disperse it as part of a greater community revitalization and mixed-income development. The whole HOPE VI program and the HUD funds in here for HOPE VI are designed to do exactly what Linn was saying. So we are tearing down the 46 concentrated public housing units, interspersing them with, you know, 168 additional units. The residents who were public housing residents will be able to return to the development and pay still 30 percent of their income for rent, and HUD will still subsidize the operation of 46 units within the broader development, but the development is now owned by a private partnership with tax credits and with private financing.

This is really a complicated terminology to get your arms around because in some ways they are really no longer public housing units in the traditional sense, but they are serving the needs of those what were traditionally public housing residents. So these are very complex new terminologies that we need to become familiar with. Hopefully, the Board will be seeing some more of these kinds of developments throughout the state.

CHAIRMAN WALLACE: You couldn't tell the public housing unit from a non-public housing unit?

MS. GALANTE (FROM THE AUDIENCE): You can't tell the public housing unit from --

CHAIRMAN WALLACE: It's the source of the funding for the rents that is distinguishing here.

MS. GALANTE (FROM THE AUDIENCE): Correct.

MR. WARREN: Right.

MS. GALANTE: Absolutely.

MR. WARREN: That's the mixed-income nature, even though it is all affordable, of HOPE VI projects. And some HOPE VI have market rate components, by way of example. Carole is exactly right, the distinction of public housing tenancy gets lost, quite honestly, as you look at a project. And that is one of the benefits of the HOPE VI.

CHAIRMAN WALLACE: Which is the idea.

MR. WARREN: Which is the idea. As well as revitalizing housing.

MS. PARKER: I don't think we cut Carole any breaks on architectural design review.

MS. ILVONEN: Actually, that is another reason why the costs were expensive on this, because of the architectural design review. They were making sure that this was going to be a very beautiful project because it is the first in the transit development corridor. They had to add a lot of design features on this. So that's another reason why the costs were expensive.

CHAIRMAN WALLACE: Dick, could you crank up the lights just a tad again, please. Dick.

MS. PARKER: LaVergne?

CHAIRMAN WALLACE: LaVergne. That helps. I can now read my notes. Oh, Schermerhorn is back, let there be light. Any further questions from the Board or the audience? I commend staff and BRIDGE too. This is our first HOPE VI?

MR. WARREN: Yes, it is.

CHAIRMAN WALLACE: Yours too, Carole?

MS. GALANTE (FROM THE AUDIENCE): This is actually our third.

CHAIRMAN WALLACE: Third.

MS. GALANTE (FROM THE AUDIENCE): Yes. I actually would just like to make one more comment if I could, which is, I have just been incredibly impressed with Linn and Tina's ability to get their arms around very complex financing. I have been in the business, as I think most of you know, for twenty-two years now and this is probably the most complicated project, notwithstanding our larger HOPE VI deal in San Francisco. This one has had incredible numbers of complications. Dealing with your sister agency at Caltrans has been quite a joy. From environmental issues to archaeological issues to transit issues to adding the HOPE VI to the retail component. As you heard the presentation, you can add all that up and understand how complex this is, and we are doing this in a very short time frame. We are racing for our tax credit deadlines, to close and start construction in February; so all of that has made this very complex but exciting development.

For those of you who were around during the Loma Prieta earthquake, this site was -- if you looked at that first slide you can see the curvilinear nature of the Caltrans site because that's where the 880 freeway originally passed. And Mandela Parkway, which is the street that comes through the center of the two developments is now the major gateway into the West Oakland BART station. But previously the freeway went through this site and cut through the middle of West Oakland. When the freeway was relocated, it has opened huge new opportunities around the transit corridor to do these kinds of transit villages.

So it is very exciting. I really appreciate CalHFA's willingness and ability to get their arms around a complicated project like this and jump in. Particularly with the FAF money, and help us close some very difficult gap financing issues. We are very excited.

CHAIRMAN WALLACE: Would you do it again?

MS. GALANTE (FROM THE AUDIENCE): Absolutely. You know I love these kinds of things. It's what you live for.

CHAIRMAN WALLACE: Twenty-two years just becomes 44 years, Carole. Pat.

MS. NEAL: Yes, Mr. Chairman. In defense of Caltrans--I do this on the Coastal Commission so why change now. We were and have been involved with Caltrans on all of that land around there that we had from the very beginning because Oakland Housing Authority came up to us first. We had a very difficult time with Caltrans, which we have had all along, not just here but all over the state, in explaining to them that they had to get rid of the excess property and the under-utilized property. We actually had to mandate that if we could do it for affordable housing, they were to cooperate. So we finally put that together.

They had one lease -- One of those parcels was to the post office and we said, negotiate to move the post office because they are not using it. They were using the parking lot for training drivers. So they finally came to a very, very good price, I believe, on the parcels. The whole development in there is going to be beautiful as far as all the pictures that I have in the office. Caltrans did finally understand what they were supposed to do. We are doing the same thing in Los Angeles on some of the under-utilized things for affordable housing too.

CHAIRMAN WALLACE: Well, on that high note, you probably would like to make the motion of approval.

MS. NEAL: I would like to move that we approve Resolution 02-26.

MS. HAWKINS: I would like to second it.

CHAIRMAN WALLACE: We have a motion and a second to approve the project. Any discussion on the motion from the Board or anyone from the audience? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir?

MS. WEIR: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.
MS. OJIMA: Ms. Neal?
MS. NEAL: Aye.
MS. OJIMA: Ms. Hawkins?
MS. HAWKINS: Aye.
MS. OJIMA: Mr. Shine?
MR. SHINE: Aye.
MS. OJIMA: Mr. Wallace?
CHAIRMAN WALLACE: Aye.
MS. OJIMA: Resolution 02-26 has been approved.
CHAIRMAN WALLACE: Resolution 02-26 is hereby approved. Thank you.
MS. PARKER: Mr. Chairman, I just want to thank the staff. I wanted to note that Tina came down from Seattle where she was in a car accident yesterday. We were very concerned about her, but obviously her dedication to the California Housing Finance Agency and this project -- I just wanted to thank her particularly for being here today.
MS. ILVONEN: Thank you.
MR. WARREN: Appreciate it.
CHAIRMAN WALLACE: Thank you. Okay, moving on to the next project, Dick. Linn. Sorry about that.
MR. WARREN: Yes.
CHAIRMAN WALLACE: When I saw Schermerhorn back there, it was just a throwback to the rougher times.

MR. WARREN: Referring to the former director of programs as a throwback, okay. Hi, Dick.

MR. SCHERMERHORN (FROM THE AUDIENCE): Hi, Linn.

RESOLUTION 02-27

MR. WARREN: Thank you, Mr. Chairman. Our next project is Woodglen Vista. At the September meeting, as the Board will recall, we had a discussion about refinancing our existing Section 8 projects. Soon after that Woodglen Vista, which is a project we had discussions with the sponsors about a year and a half ago, at which time he asked for refinancing, at that time we turned him down, and for a couple of reasons. We did not have a program in place to allow for the refinancing of existing Section 8 projects, particularly the coterminous ones that had a 40 year loan and 40 year HAP contracts; and at that point in time we had not worked through some of the risk issues that were involved with refinancing these Section 8 projects.

Since that time, as the Board knows, we spent basically a year or so working on the refinancing policy for the Section 8s and at or about the time that the Board reviewed that back in September, Woodglen Vista resurfaced. So at this juncture we think that we would like to see some more of these projects. We have addressed the risk issues. The programmatic and policy issues that were set forth in the guidelines back in September are embedded within the Woodglen

Vista credit presentation, and we will go through those in just a minute. But this is the first project of our portfolio through the system that reflects the refinancing guidelines that we discussed with the Board, and quite frankly, have been discussing with the Board for almost two years now.

The financing request is fairly straightforward. There is a first mortgage amount of $9,150,000, 5.9 percent interest rate. That is higher than our street rate because pursuant to the refinancing guidelines we will be charging a full spread on these refinancings. The second loan is $1.3 million, also at 5.9 percent, 16 years. This is, again, a Section 8 increment loan. Both of these loans are 501(c)(3) debt that will not be involving private activity bond or four percent credits. With that I am going to stop right there and let Roger Kollias of our L.A. staff describe the project.

MR. KOLLIAS: Okay. Woodglen Vista is an existing 199 unit family community in Santee, California. Santee is located in East San Diego County, approximately 19 miles east/northeast of San Diego city. It is served by two major freeways, State Route 52 and State Route 125. When these freeways are linked with State Route 67, Santee will enjoy direct access to seven regional freeways. The area is served by the County Transportation Bus System and the San Diego Trolley, which provides seven day service to the outlying communities as well as to downtown San Diego.

In the past Santee was considered a bedroom community of San Diego; however, of late it has been coming into its own. There is available land for development, an example of that being a 705 acre master-plan development known as the Town Center Project. This project has commercial, residential, civic and residential uses and the commercial is anchored by such tenants as Wal-Mart, Costco and Home Depot. The other major employers in the area include hospital, retail, biotech, education and government. The median 2000 income of Santee was $53,625. Average houses range from $200,000 to $500,000 with the average being at $300,0000.

Woodglen Vista is located on the west side of Magnolia Drive between Kerrigan Street to the north and Woodglen Vista Drive to the south. The area is predominately residential in character. Contiguous to the property to the west is Woodglen Vista Park, a municipal park. To the south across Woodglen Vista Drive is a grammar school. Approximately three blocks to the south along Magnolia Drive is the high school. There is neighborhood shopping one-half to one mile along Magnolia Drive in either direction.

Access to the property is by way of Kerrigan Street and Woodglen Vista Drive. Perimeter on-site parking is available for 266 vehicles. Here is a typical building elevation as we have here. This right here is the community building which includes the office, the recreation, the pool area. The site is comprised of 24 two-story walk-up wood frame and stucco apartment buildings, the breakdown of which is 44 one bedroom units, 96 two bedroom units and 48 three bedroom units. The project has been well maintained. Here is an interior view of the recreation room as well as the children's play area and the laundry room.

For underwriting purposes the rents on Woodglen Vista Apartments were underwritten at the 50 and 60 percent rent level. We have 20 percent of the units at 50 percent and 80 percent at 60 percent. There will be a regulatory agreement which runs for 50 years which will cover these requirements. The project also benefits from a Housing Assistance Payment or HAP contract which has a remaining term of 16 years. This --

MS. PARKER: Roger, excuse me. Why don't you just leave one of the doors open. I think the poor people will be fighting it if we try to make you get up and close it every time someone leaves. Great, thank you.

MR. KOLLIAS: The HAP contract runs for a period of 16 years. In sizing the two loans the first loan was underwritten utilizing rents at the 50 and 60 percent rent level. The HAP contract pays in excess of the 50 and 60 percent level so that incremental portion was used to size the secondary loan which will amortize in 16 years over the remaining term of the HAP contract.

MR. WARREN: I was negligent to point out there's a couple of small changes in your credit package which were passed out. On the Project Summary page you will see there's the Reserves at the bottom, which is shaded in gray; they have been changed. The change reflects that the initial deposit for the Replacement Reserve is $188,000 or $1,000 per unit. We also have a Transitional Operating Reserve which initially will be deposited; also $188,000, which will grow to approximately $400,000 in year 16 or approximately seven months worth of debt service at the time the Section 8 contract should expire. If the Section 8 continues, as we would certainly expect it would, either on a contract continuation or in vouchers, then the Transitional Reserve would not be required and the monies would be retained with the property for project purposes. The only other change that you will note is on our Cash Flows. You will see a line item which is basically a cash draw of $7,500 per year. That is to supplement the transitional reserve deposit to have it obtain the $400,000 level in year 16.

The purchaser of the property is Jamboree Housing of Southern California. This is an organization that is known to us. We have done one project with Jamboree several years ago. In the meantime they have done a number of projects throughout Southern California both on their own and as managing general partners. We are very pleased to have them as the purchaser of Santee.

The project, as Roger indicated, is in extremely good shape, it has been very well maintained. All the reserves that are with the project will remain with the project, and we have also budgeted $5,000 per unit for enhancements and any rehabilitation we may think is necessary to supplement the service program that Jamboree will bring to the project. We set that aside and we will be working with Jamboree in the future to determine how best to spend that amount of money, which would come out of existing reserves. So with that we would like to recommend approval and be happy to answer any questions.

CHAIRMAN WALLACE: It's encouraging to see. This is an original project for us.

MR. WARREN: It is. It was 1975?

MR. KOLLIAS: It went into service in 1979.

MR. WARREN: In 1979.

CHAIRMAN WALLACE: It's encouraging to see that it worked. It's maintained. You don't have a lot of catching up to do. I guess our asset management folks are doing a good job monitoring all this.

MR. WARREN: Yes, they are.

CHAIRMAN WALLACE: Any questions from the Board?

From the audience? Good, it is nice to see us get into it and that the guidelines are working, Linn.

MR. WARREN: Yes.

CHAIRMAN WALLACE: The Chair will entertain a motion of some sort.

MS. BORNSTEIN: Mr. Chairman, I move adoption of the resolution.

CHAIRMAN WALLACE: Julie. You want to get your name in the books, Laurie?

MS. WEIR: Second.

CHAIRMAN WALLACE: Let's show Jeanne we can operate even in her absence. Second by Laurie. Any discussion on the motion by the Board or the audience? Hearing and seeing none, secretary, call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir?

MS. WEIR: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 02-27 has been approved.

CHAIRMAN WALLACE: Resolution 02-27 is hereby approved. Okay, moving on. We have got a couple of contracts in Items 5 and 6 that we are going to be talking about. Precedent to that I would like to call on our legal counsel, Tom Hughes, because if I do not, the meeting will stall. Kind of set the stage for why we are doing this and the rationale and background for contract review.

MR. HUGHES: Right. Thank you, Mr. Chairman. I know that the Board is not used to seeing a lot of contracts come before it for approval. When we get to Item 7 on the agenda, I am going to give a brief update on our contracting approval process and where I think we can streamline that and make it a little bit more up to date.

But as an introduction to the two contracts that are coming before the Board this morning: Our statutes essentially require that the Board approve the issuance of debt securities, basically our bond issuances, and in addition to that, other major contractual obligations. We have ourselves defined, back in 1985, those major contractual obligations as contracts that expend over $500,000. When the amount of a contract is indeterminate, the regulation gives the general counsel the ability to determine whether or not a particular contract should come to the Board.

I have taken a pretty strict interpretation of this so the two contracts that we have before the Board this morning are both contracts in which the compensation is based upon, essentially, program volume, and to that extent the compensation is indeterminate, although they are based on fees that are defined in the contract but will be earned depending on program volume. After the two contract agenda items, then I would like to go back and update the Board a bit about where we are in our contracting process and to give the Board a heads-up as to what we are going to be pursuing next year. With that I think we can go into our two agenda items.

CHAIRMAN WALLACE: Very good. That's you on Item 5, Linn.

RESOLUTION 02-28

MR. WARREN: Thank you, Mr. Chairman. About a year ago when the legislation was passed by Congress which allowed refinancing of old HUD 202 projects, a momentum was really beginning to develop among the industry to address these old 202's and recapitalize them and refinance them, and the Agency felt that this was a very important role for us to play.

(Chairman Wallace exited the meeting room.)

At the time, though, we certainly had concerns in a couple of areas. Number one was capacity and two had to do with dealing with HUD. This was a brand new series of guidelines for HUD, they were finding their way--and still are, one could argue--on these projects. So we searched about for, basically, a contract underwriter or partner to help us with underwriting and marketing the 202 program and to help us with HUD. Somewhat of a unique role. Most of the normal lenders do not have the HUD experience; or if they have the HUD experience, they do not have the ability to look at the financing.

We began discussions with Ziegler mid-year and began to develop some preliminary guidelines. Basically what the contract is for is that Ziegler Financing Corporation, which is a national organization, both as a bond underwriter--although that will not be their role in this particular case, they will merely be a lender and contract underwriter--will be to market the Agency's 202 program. They will underwrite the property; they will evaluate the physical needs assessment; they will underwrite the borrower, because these nonprofits need to be looked at as far as their own financial capacity; develop credit packages for the Board which we would in turn bring to the Board or if they fall under our delegated amount, approve internally by the senior staff loan committee; and then assist the Agency at close.

The actual funding, however, will be a normal

CalHFA funding process. This is not a DUS relationship. They will help us up to the funding close, and at that point in time the Agency's normal loan close process will take over and we will complete that. Then after that we will service the loans as we normally do and we will also have asset management. So it is a departure from a DUS-type situation in that the work that Ziegler will do will basically end at the loan close.

But that said, these are fairly complicated deals, we have lots of issues we have to deal with with HUD. Ziegler's main office for their FHA insurance is located in Bethesda and their staff has direct relations with HUD folks there and we find it to be very valuable. So we have elected to use Ziegler as the only contract underwriter, only for the 202 program since it is a very discrete population, and to help us over the next two years to try to work on this portfolio. They will be compensated in the amount of 1.25 percent, which is basically paid out of loan proceeds. That will be an all-in cost. The Agency may advance funds on a periodic basis but generally speaking they would be paid out of loan fees and out of loan proceeds at the time.

We think this is a good partnership. We have done some guidelines with Ziegler. We think this is going to be a very good program for the 202s and it leverages our capacity to outreach more projects. So we would like to ask approval.

And again, for the reasons that Tom indicated, the contract limits amount put us in a situation that we want the Board to view these and, obviously, ask for approval. So with that I'd be happy to answer any questions.

MS. HAWKINS: Thank you. Are there any questions from the Board? None.

MS. PARKER: Carrie, since you don't have a quorum I don't know that you can take action on this.

MS. HAWKINS: Yes, that's right.

MS. PARKER: I'm not sure whether it would be expeditious if Nancy could do her presentation and then when Clark came back, you could -- That would be a suggestion.

MS. HAWKINS: Okay, thank you. I thought we had one extra but we don't.

MS. PARKER: No. Unfortunately, when Lupita came -- We would like to make sure that we welcome Lupita. It does not happen very often that you have the three ex-officios sitting that do not have the ability to vote. Much as I would like it but Annette, Lupita and I cannot help you out there on a quorum for voting.

MS. HAWKINS: Okay, thank you. Let's then proceed with Terri's suggestion. There she is.

RESOLUTION 02-29

MS. ABREU: Thank you very much, Carrie. The Agency is seeking authority to negotiate and enter into a contract with General Electric Mortgage Insurance Corporation, which is known as GEMICO, to provide reinsurance services and related automation to the Agency's mortgage insurance division.

As some background and kind of consistent with what we have talked about in the past: We have spent the last several months reviewing the processes, procedures and operations within the mortgage insurance group and as such elected to terminate the current reinsurance treaty we have with Hanover as of December 31. We are only able to cancel it on an annual basis, so we felt that it was very critical that we put them on notice and effectively cancel it at the end of the year.

We also felt as part of the review that a lot of the technology that we were using within mortgage insurance services was very antiquated, and we could not retrofit it in a timely manner to continue our current flow of business, let alone expand it going forward. So we elected to distribute solicitations or requests for proposals on July 1 to five of the seven private mortgage insurance entities asking them to provide us bids on both reinsurance and automation of some of our processes.

The bids were reviewed by a senior management team that included myself, Tom Hughes, Bruce Gilbertson and Dick LaVergne. We also retained a gentleman named Ken Bjurstrom who works with a company named Milliman USA who is a national renown actuarial company and consulting firm. Ken and his team's expertise is in mortgage insurance so we asked Ken to join our team and to advise the Agency as to the best structure of the bids and which one, from the economics, made most sense.

Both the team and Ken made a recommendation to Terri towards the end of August, first part of September, that we select GEMICO as our reinsurance partner going forward. We have had some discussions with GEMICO. They were notified in September that we have chosen them subject to Board approval, and we have started some discussions with them on a go-forward basis subject to the approval we are seeking today from the Board.

MS. HAWKINS: Thank you, Nancy. Are there any questions from the Board?

MR. HUGHES: As we wait for our chairman to get back I can probably launch into my discussion of the contract approval process in general.

MS. HAWKINS: Okay.

MR. HUGHES: Then we can do the votes on the two particular resolutions. Before I do that I should -- Linn having introduced his new folks, I should introduce that we have a new person too in Legal, which is Misty Miller. Misty is a new legal assistant, and she will be backing up JoJo, who we have learned cannot be at all places at all times and do everything, so we have a little bit of extra help. I would just like to welcome her. You may, as Board Members, have an opportunity to talk to her at some point as well.

PROCEDURES FOR APPROVAL OF CONTRACTS BY BOARD

With respect to our contracting process: As we have looked at some of these things, it's occurred to us that it may have been quite a while since we have discussed what our procedures are with the Board. So in an effort to make sure that the Board understands how we are handling these things, I thought I would take just a couple of minutes to do an update and to also give the Board a heads-up as to how we would like to handle some of these matters in the future.

As I mentioned earlier, our statute requires that the Board approve our bond issuances and other major contractual obligations. Back in the mid-80s, by regulation, we defined those major contractual obligations as contracts that expend $500,000 or more. The regulations further give the general counsel a certain amount of ability to do interpretations of this statute and to determine when a contract should come to the Board or not.

There are many issues that might be subject to that type of interpretation. You can see that a contract may expend $500,000 over a period of years. Over the ensuing years there are many other situations in which contracts might expend $500,000 that might not be completely intuitive. As we looked at some of the examples of contracting, a single family REO property that we take back, as we get into high-cost areas, might be worth $500,000 or more. And rather than come back to the Board, which of course meets every other month, for every single type of contracting authority that might technically be required, I have been looking at an alternative method.

The Board at the beginning of each year at the January meeting does actually approve a wide range of contracting. Our bond resolutions in both the single family and the multifamily side both contain provisions that authorize virtually any kind of necessary contracts to implement those programs. I was looking at them this morning and, for example, on the single family side the Board authorizes the Agency to enter into the servicing contracts, contracts with lenders, so on and so forth. The same is essentially true on the multifamily side. Virtually every kind of agreement that could be entered into in the implementation of those lending programs is, in fact, covered by those broad resolutions.

We would really like to take the same approach with respect, not only to these two bond-funded lending programs but with respect to other operational needs of the Agency, the mortgage insurance operation, and also the normal operational contracts, when we pay insurance premiums, amend our leases. The kind of normal operational contracts that we would anticipate entering into in every given year.

So rather than having the general counsel sitting there trying to guess which contract should or should not go to the Board, I think it would make a certain amount of sense to bring to you each January a resolution that would cover the type of routine operational contracting that we think might at some point exceed the $500,000 level and to get a broader authority to do that over each year.

I would point out that that the discretion in terms of bringing these back to the Board would probably -- in most cases it would either be contracts that we have not managed to identify on the resolution, or it would be matters that we simply think the Board really would want to know about, things that are so significant that we really think we should. A good example of that was the G.E. contract. When we looked at that, we decided that regardless of whether we had authority to do that, we wanted the Board to know what we were doing in the reinsurance area so if the Board has any questions we can answer that.

(Chairman Wallace returned to the meeting room.)

So there is no action item here this morning, but we would anticipate at the next January meeting bringing you back a resolution that would pretty much cover our routine contracting authority in areas where we think over one year or a period of years we might exceed that $500,000 threshold.

CHAIRMAN WALLACE: Questions from the Board? I sense Carrie coming on.

MS. HAWKINS: Yes. I think that sounds like it makes good sense. When you say you would bring before the Board any expenditures that would exceed that, I think that would then cover the fact that if direction was going to change from the Agency --

For example, in the past -- I'll just give you an example of what happened. There was a period of time way back when the Agency was going to expand its servicing portfolio. Well, it became very sensitive because this would then compete with the private mortgage bankers. And the reason it came up was because the servicing software and the programs were going to cost more than $500,000. So the purchase was split in two. Therefore, the Board would never be aware of it if it was split in two.

That kind of thing can occur and then it would become very sensitive. Because once our clients would become aware of this, this would become very much of a problem as if we were competing with the companies we were serving in the private sector. So I just -- It sounds like what you are saying is, you will tell us in advance regarding the nature of this so therefore we can make a decision at the Board level.

MR. HUGHES: Yes. Rather than resort to methods such as the one that you have described, I think it would make more sense to simply lay out those areas in which we feel we might need that contracting authority. We would, obviously, not be in a position at the beginning of each year to give you each and every contract. We would lay out the areas and the type of contracts in a broader sense, much like the two resolutions that are before us today that would give the Executive Director the authority to enter into those particular types of contracts. So I think that's correct.

CHAIRMAN WALLACE: In the post-Enron era, boards are being scrutinized. So I think as you look at this -- Scrutinized for not having appropriate oversight. So we need to be sensitive to that. On the other hand, Tom, I guess if we were to approve, you were to decide or our current regulation, if we were to approve every contract that aggregated in excess of $500,000, that is all we would be doing. So my sense is, maybe you will need to look at that number. That is a 1986 number. It probably pales by comparison to what a relative number might be today.

But I do think we need to be -- And I think you are on the right track. We give Carlson and Terri huge authority in the bonding area, now three continuing resolutions each year, as I recall. I think it is appropriate that we do something similar here because we should not be involved in the administrative trivia of implementing type contracts consistent with existing policy.

MR. HUGHES: I think that's correct. Also, of course, the Board continues and will continue to review our annual operating budget and will see the total expenditures that we are making during the course of years.

CHAIRMAN WALLACE: Yes, but that still. There's going to be certain types where we are cutting new grounds. Maybe the General Electric thing is that sort of a thing where it may be affecting policy. Then I think we need to see it.

MR. HUGHES: Right. And I think we are quite sensitive to that. We would like to make sure, though, that we have the broad authority as we need it to enter into operational contracts and not have to wait every two months to try and do that and/or burden the Board with significant amounts of what are basically routine approvals.

MS. PARKER: Mr. Chairman, let me just add to that. We have had a lot of discussion among the staff about this because we recognize that to a tremendous extent we have, I have, a day-to-day sense of operating authority. But we are also mindful about, to some extent, the privilege that we have, that it's a trust with the Board. That every day, in that sense, we have to look at the work that we have and look at it from the standpoint as a Board Member. Is this something that we believe the Board needs to know about? If we violate that trust that would undermine, in that sense, our ability to operate with the flexibility and the freedoms that you have given us. We hold that trust. We expect, in that sense, to honor that by bringing issues that we think are important for you all to know about and make sure that they are presented in ways that it just doesn't get slipped through. The things that are important for you to know from a policy basis, that you are aware of them.

CHAIRMAN WALLACE: I think we are on the same wavelength. So you will be back in January with some kind of proposal. Right now is it general counsel has the authority to--almost discretion--under our 1986 resolution?

MR. HUGHES: Well, it is actually regulation.

CHAIRMAN WALLACE: Regulation.

MR. HUGHES: There's really two areas, probably. One explicitly where the general counsel, in the event that the compensation or the amount under the contract is indeterminate, the general counsel is given the power to determine whether that comes to the Board or not. Which I think really means that the general counsel is supposed to in some way guess whether that amount will exceed $500,000 or not. And then another section of the regulation essentially gives the general counsel the power to issue interpretations of the statute. You can see that there may be issues whether a contract is for a single year and then is extended for a term of multiple years or runs for multiple years. There is probably operational pressure in that event to try and get the deal done. Whereas, from my point of view, a more sensible approach would be to simply lay those matters out to the Board at the beginning of each year and let us have the authority to deal with it as needed.

CHAIRMAN WALLACE: We will look forward to seeing what magic you can bring out of all this.

MS. HAWKINS: Mr. Chairman.

CHAIRMAN WALLACE: Yes.

MS. HAWKINS: I wanted to make it clear it was several directors and lives ago that the example came up. I want to make sure it does not reflect on Terri Parker for certain.

MS. PARKER: Mr. Chairman.

CHAIRMAN WALLACE: Do you accept that?

MS. PARKER: I was going to move on and say that we have two items that we need your votes on as a quorum.

CHAIRMAN WALLACE: No action on Item 7, let's back up to Item 5. Is there any discussion as a result of that presentation? Are you ready for -- Was there a motion made?

MS. WEIR: There was no motion made.

CHAIRMAN WALLACE: No.

MS: WEIR: I have a quick comment.

MR. WARREN: Yes, please, Laurie.

MS. WEIR: I noticed that the contract is a -- The consultant will only get paid if the deal ultimately goes through. In my line of work we see a lot of that. Every now and then we do see the desire to sort of push that project, particularly on these kinds of financings where there are layers of financing and they are complex financing. There may be a time when the consultant might put in a real considerable amount of time and we will need to back off of the project. So at the end of the day I think CalHFA staff needs to make sure that the projects that are going forward are not the square peg being forced through the round hole, but that they really are the right projects to go forward.

MR. WARREN: Yes.

CHAIRMAN WALLACE: You are not uncomfortable, Linn.

MR. WARREN: Not uncomfortable. We understand that these are complex and Ms. Weir is exactly right. But they have to meet the program guidelines, and they have to follow our normal underwriting and the Board has to approve them or the Agency has to approve them. So there are a number of safeguards in place.

CHAIRMAN WALLACE: Okay, any further comments from the Board or the audience? The Chair will entertain a motion of some sort.

MR. SHINE: Moved.

CHAIRMAN WALLACE: Jack.

MS. BORNSTEIN: I'll second.

CHAIRMAN WALLACE: And Julie. Here we go again, Jack and Julie went down the hill. Over the hill. Jack, not again? No, don't go there. Okay. We do have a motion. Any discussion on the motion by the Board or the audience? Hearing and seeing none, secretary, call the roll on Item 5.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir?

MS. WEIR: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 02-28 has been approved.

CHAIRMAN WALLACE: Resolution 02-28 is hereby approved. Moving on to Item 6 on our agenda. You had discussion but, I take it again, no motion. Any further discussion on the item as presented by Nancy?

MS. NEAL: Mr. Chairman.

CHAIRMAN WALLACE: Yes.

MS. NEAL: I move Resolution 02-29 be approved.

CHAIRMAN WALLACE: Moved by Pat.

MS. HAWKINS: I'll second it.

CHAIRMAN WALLACE: Second by Carrie. Any discussion by the Board or the audience on 02-29? Hearing and seeing none, secretary, please call the roll.

MS. OJIMA: Thank you, Mr. Chairman. Ms. Weir?

MS. WEIR: Aye.

MS. OJIMA: Ms. Bornstein?

MS. BORNSTEIN: Aye.

MS. OJIMA: Ms. Neal?

MS. NEAL: Aye.

MS. OJIMA: Ms. Hawkins?

MS. HAWKINS: Aye.

MS. OJIMA: Mr. Shine?

MR. SHINE: Aye.

MS. OJIMA: Mr. Wallace?

CHAIRMAN WALLACE: Aye.

MS. OJIMA: Resolution 02-29 has been approved.

CHAIRMAN WALLACE: Resolution 02-29 is hereby approved. Moving on then.

U.C. STUDENT HOUSING FINANCE PROGRAM

Back on to the agenda, Item 8, the U.C. Student Housing Finance Program, which we heard a little bit, or hints of, last meeting.

MR. WARREN: Yes.

CHAIRMAN WALLACE: And now more meat on the bone, Linn?

MR. WARREN: Yes. If I could ask Gordon to join me. I would like the Board to meet Gordon Schanck. Gordon is the director of Real Estate Services Group for the Office of the President, University of California. Gordon, in conjunction with Randall Young, has been involved with the development of the privatized housing initiative for the University of California campuses.

As the Chairman correctly indicates, at our last Board meeting we brought up the potential for the Agency to finance privatized student housing on U.C. campuses through the U.C.'s privatized leasehold program. So let me give you a little bit of background as to why we are here. I want to reserve the time we have for Gordon to describe the program and why U.C. has adopted this model, and why we all think that this might be an excellent partnership between the University of California and CalHFA.

Traditionally the Agency looks at initiatives across the board. We use our financial strength to enhance programs and this works in the area of special needs, HELP and preservation. Wherever the unmet need is we try to apply our financing strengths to enhance and improve the project. So we have a long history of doing that. But interestingly, when we began the discussions with Gordon and his staff -- Also here today is Al Bonnett who is the director of development for EAH, a nonprofit in Marin County. Al and his organization have actually done some student housing initiatives with U.C. and Al is here to answer any questions you have in that area.

But what we looked at: One of the issues that the University of California has is an effective financing mechanism to deliver 501(c)(3) debt for the development of these projects. On a permanent basis the University is gravitating towards nonprofit ownership/development for some very good reasons. One of them being that the profit that a for-profit developer may take, take those out, they can go back into the project in either lower rents or increased quality. And Gordon can probably address this better than I in the future.

But one of the things that the Agency brings to this particular project is our very effective delivery of 501(c)(3) debt. We do it better than anybody else in the state in a pooled bond issue and arguably as well as anybody in the country. We think that is a benefit the University can take advantage of. By our estimates, at this juncture with some of the underwriting that we have done we can save at least ten percent if not more off total development costs through our financing and that money would be translated into lower rents for students and/or higher quality of the projects.

In reading the U.C. materials I think our goals really are aligned. The University wants to see these complexes. And again by way of background, these are apartment complexes for upper-division graduate students and married students. It is not freshman dormitory housing, it is actual apartment complexes of, what we think, very high quality. The University wants to see their projects built to 40 year-plus useful life. Their design standards are very rigid, so are ours, so we think we are on the same page as far as the design quality.

It is a bit of a departure for the Agency but we also think it is an effective use of our resources. One issue that did come up at the last Board Meeting was the matter of affordability. I will take one moment to address that and then turn the mic over to Gordon. We do have our standard 20 percent at 50 percent set-aside, and that holds true for all of the lending that we do, whether it is Section 8 or new construction.

We believe, however, in reviewing this with bond counsel and with Tom's shop, the general counsel's office, that we can meet the affordability on a per bed or per bedroom basis. In other words, the affordable students would be spread throughout the project and not concentrated in individual units, which we think would be counterproductive anyway. This would be specific to this program.

Obviously, it cannot be applied to normal lending programs. But we need to spend more time on the issue to see if we can find legal clearance to do so. But the preliminary indication is we can do it this way. And since income calculations do not include financial aid for students, if you take that out of the income mix, then the University has indicated that at any given point in time the 20 percent set aside could be met by the students that reside in these complexes.

But as I said, that will require some more work with us and our bond counsel. So we think that may solve the affordability issue and we certainly think these types of loans would be a good use of our resources. We certainly feel there's benefits and they would help us generate income to do other programs. So with that I am going to stop and let Gordon talk about the program and how U.C. came here and why they selected this particular model.

MR. SCHANCK: Thank you, Linn. I want to really thank the Board for taking some time to hear about our program today, and we really appreciate Linn Warren's consideration and creativity in looking at a way we can work together, U.C. and CalHFA.

As I am sure many of you know there is quite an increase in student housing demand, what we call the Housing Echo or Tidal Wave 2, the baby-boom generation's children. We have rapid increase in the number of students at the University, approximately 62,000 students over the coming decade through 2011/2012. A 38 percent increase in the number of students on our campuses.

In responding to this need, as I think you heard at your prior meeting, had a housing task force that looked at the problem, solutions to the problem and the program we had been evolving to do privatized as well as develop our own housing. Pat Neal was part of that task force.

Among the things the task force determined was how many additional beds we would need for our students. We talk in terms of beds in student housing. For our single students, obviously on a per-unit basis; for married and family students and where you would have one or two beds per bedroom, typically in a complex, usually a mix of two, three, sometimes four bedroom units. Some singles in the mix for upper division students, particularly graduate students as well.

In any case, we determined a need for nearly 40,000 beds of additional housing through 2011/2012. Of that we feel we need 18,000 to be delivered through our privatized housing model. This is development of housing on a ground lease on our campuses on our land, which is entitled, under our long-range development plan on each of the ten University of California campuses. So again, a significant percentage. About 45 percent of the additional beds we feel we need are going to come through this privatized program. And again, these will be the apartment-style housing that Linn described.

We currently have six completed projects through the evolution of this model as old as 17 years ago. I think Davis started with some married and group housing on this model. But more recently we have evolved into, again, the single student housing, apartment-style housing. We have three projects currently under negotiation that will comprise a total of 3,400 beds. Again, multiple students in a single apartment. Much the way students rent housing in the community surrounding our campuses.

So anyway, there is a need for more student housing, not only on our campuses but off our campuses. If you look at the numbers, 63,000 students and 40,000 beds, we are already behind on housing. Many of our communities are impacted by our presence, their housing stock is impacted, and, of course, we are in communities where it is very difficult to add additional housing stock off campus. Though we would welcome that because there is a need for more housing than we are going to be able to provide through this model.

There are six principal reasons we use the privatized student housing model to supplement our own on-campus housing programs. The first is that it does not add debt to our balance sheet. Our model is an arm's length transaction so it is very important for us, given the programmatic needs we have that go beyond the bond support that we get from the State and gifts from our donors, that we keep our debt capacity available for that as well as for our portion of the housing program.

Secondly, any additional beds that come on a privatized basis do not result in an increase in our current rates. In other words, if the average cost of new housing is more than existing on a per-bed basis. And, of course, we try to level our rates across the system or across any campus. We do not need to raise existing rates. The University does not have to take construction or operating risk on these projects; again, they are arm's length.

(Tape 1 was changed to tape 2.)

There is potential construction cost savings. Our core competency is not in doing stick-built two- and three-story apartment-style housing. In the housing area it is more the high-rise, higher density dormitories with food service. It avoids getting us into a new business for those campuses that don't currently have apartment-style housing. And then finally, we feel there is a potential operating cost savings overall. These factors can result in lower rents to our students. Of course, affordability of the university experience is something that is an important goal for us.

Again, our goal is to do arm's length, ground leases between the University and a private development team which will design, finance, construct and operate apartment-style student housing on our campuses.

We typically select the development team through an RFQ/RFP process. We have come to prefer working with nonprofits, although some of our early projects were fully for profit projects. We find that our goals are more compatible with nonprofit entities. We certainly do not rule out the for profit sector but there is more of a confluence of goals in terms of our affordability and quality goals. Secondly, of course, the opportunity through public finance, tax-exempt financing, to lower the overall carrying cost of the units and therefore lower rents.

The nonprofit partner who is ultimately the owner of the project may partner with a for profit developer, particularly for a larger project, to lead the construction effort. But typically, of course, there would be nonprofit ownership to qualify for this financing. The University refers students to the project. We are very involved in quality control as any ground lessor is with their property. But this is an arm's length transaction and we do not guarantee occupancy, we do not guarantee the performance of the project. But obviously we look very closely before a project goes forward and take a ground lease to our Board to make certain that a project is viable.

We look at -- These projects, again, are targeted at single students because of the apartment mix, but we will do some family or married student housing in this program. While student demand is very strong, I should also note that many of these projects are developed on campus and on the periphery where they would be accessible to the general public. Should student demand ever flag over the life of the ground lease they could be rented to the general public. Our ground leases provide for that. With that I will turn it back to Linn and any questions you may have about our program.

MR. WARREN: Thank you, Gordon. I think that summarizes it. The site selection and underwriting are really critical for us in reviewing this with Gordon and the staff. How they view these sites pursuant to their long-range development plans on each campus is critical. And Gordon puts out an interesting point. That many of these sites are in the non-core area. They are on the periphery of many of the campuses with near traffic ways. And one underwriting consideration, as Gordon correctly points out, is if for some reason, and I don't think it is likely but possible, that student demand may fall off, given the quality of these projects is that outside rental is a possibility as one safety valve.

What we are asking for today is--obviously as you see it is not an action item--input from the Board. We would like to proceed to begin to work out some of the details. The devil is always in the details. We would want to start to flesh out some of these programmatic issues, work through underwriting considerations, throw in legal issues that we have with both bond counsel and our affordability issues. Perhaps in January we shall have a sense of how these projects would fully underwrite. We would have to work out construction period risk, who would be a construction lending partner, all of the details we have to work through.

The underwriting is actually very interesting because there is a seasonality to it. As I said in the last Board Meeting, there is a bifurcation between graduate students and upper division, the married component, the public sector component. So it is a very interesting underwriting exercise and we have made some good strides in the area. But we would like to ask the Board to go ahead and proceed with at least further explanation of this initiative and see where it takes us.

CHAIRMAN WALLACE: It's a great idea. As we said, I think, subject to the details. I understood last meeting it was just Berkeley. But it is all nine campuses or soon to be ten?

MR. SCHANCK: Well, essentially all ten. UCLA probably would not have any available land, and they have a very strong on-campus housing program and a very large housing off-campus component.

CHAIRMAN WALLACE: But it's all --

MR. SCHANCK: Certainly Santa Cruz, Irvine, San Diego, Merced, Riverside. Davis very active in this program.

CHAIRMAN WALLACE: I'm a graduate of Berkeley and it seemed crowded when I was there 50 years ago. I don't know where you are going to put them but assumedly you could.

MR. SCHANCK: One of the three projects I mentioned is at Albany Village. We have our own housing projects there but there will now be a privatized project developed there.

CHAIRMAN WALLACE: It's a great idea.

MR. WARREN: It might be worthwhile just to mention size. I think, Gordon, you indicated that the University is gravitating towards relatively smaller projects. Maybe comment on that to give the Board a sense of the total development costs of some of these.

MR. SCHANCK: Well, we do have three projects now that are on the order of up to 1,500 units. Well, over 1,000 beds apiece, obviously, 3,400 units. Let's see, 500 units in the Irvine project.

MR. WARREN: Right.

MR. SCHANCK: Those projects are as high as $100 million. We are finding that is pretty hard to do. We have a huge need, so obviously there is a focus to bring a lot of housing on as rapidly as possible. But I would see our future projects being smaller. Historically they have been smaller, in the $30 million to perhaps $50-60 million range.

CHAIRMAN WALLACE: You were saying two and three stories?

MR. SCHANCK: Typically.

CHAIRMAN WALLACE: As opposed to the high-rise dormitory. Is that what you are contemplating?

MR. SCHANCK: Again, this is apartment-style housing.

CHAIRMAN WALLACE: Right.

MR. SCHANCK: Typically stick-built housing.

CHAIRMAN WALLACE: Yes.

MR. SCHANCK: And it would be two and three story. Our projects at Albany Village and Irvine, that's what we are looking at. We do have a project, we are looking at San Diego, which is a mix of, I think, five up to eight story. But it is still apartment-style housing. It is just a denser location on the edge of that campus but very close to the core.

MR. WARREN: That's right. It is mid-range density depending upon the site. If you get an opportunity to look at the --

CHAIRMAN WALLACE: How many units per quote/unquote acre?

MR. WARREN: I knew you were going to probably ask me that. I don't know. I am going to say 24 an acre.

CHAIRMAN WALLACE: Yes.

MR. WARREN: I would say mid-range in there. But Gordon is right, for those campuses that don't have land, we are looking at higher density high-rises. But Davis, for example, has land, as I understand it, which might have a lower density.

MR. SCHANCK: Yes. Davis would be more like 20 per acre.

MR. WARREN: Probably.

MR. SCHANCK: Irvine. Al, you may know because you are working on that project. Pushing, what, 28 or 30?

MR. BONNETT (FROM THE AUDIENCE): That's correct.

MR. SCHANCK: Per acre?

MR: BONNETT (FROM THE AUDIENCE): That's correct.

MR. WARREN: Yes. Which is mid-range for us and that is pretty typical for the stick-built. So that is the design that we normally see anyway.

CHAIRMAN WALLACE: Albany Village is actually in Albany, off campus, but owned by the Regents?

MR. SCHANCK: Right.

CHAIRMAN WALLACE: It has been there a long time.

MR. SCHANCK: It's off San Pablo and Buchanan.

CHAIRMAN WALLACE: Yes.

MR. WARREN: That is the area.

CHAIRMAN WALLACE: That is also my concern. On campus at Berkeley, for example, that is not necessarily where you are talking about building this, it's some off sites nearby peripheral owned by the University.

MR. WARREN: I think it's a combination of both.

MR. SCHANCK: Right. Right. There are some sites in the Berkeley community that are currently parking that may be looked at for this kind of program that are off campus but within walking distance.

CHAIRMAN WALLACE: It is tough to get to the basketball game on Friday night and find a parking place as it is. Put it down by Division of Forestry or something like that.

MR. SCHANCK: I've looked at that block many times and thought rather than growing corn there we should have students. It's coming.

CHAIRMAN WALLACE: Well, throw it on the north side by the architecture building. They need revamping anyway. In any case, it is a terrific idea, I think.

MR. SCHANCK: Of course, at Davis, Riverside and Irvine we have a lot of land available for this kind of use.

CHAIRMAN WALLACE: Santa Cruz.

MR. SCHANCK: Yes.

CHAIRMAN WALLACE: Well, I, for one would love to see something like this, assuming, Linn, we can get through all the details that you are talking about.

MR. WARREN: Yes.

CHAIRMAN WALLACE: It is a great concept. You must have your fingerprints on this too (referring to Ms. Neal).

MR. WARREN: Well, we have the benefit that the project that Al is working on with EAH, the Irvine that Gordon referred to, is that we have asked that if we could proceed with this, we would basically shadow that process even though we would not be involved in it, I think. To shadow the process and learn as much as we can about this with the hopes of opportunities coming up and going forward.

CHAIRMAN WALLACE: Is it done elsewhere? Is this a brand new model or are other schools doing this?

MR. SCHANCK: It's done all around the country but our model is different than where it is done anywhere else. In fact, when some of the large student housing developers come into the state, they have to adapt to our arm's length situation. We do not do it with a captive university-run foundation. In part because of the balance sheet concern, and in part because we have a strong enough market for the housing that it can stand on its own.

CHAIRMAN WALLACE: You will never be able to meet the demand in Berkeley, for example. Jack and then Pat.

MR. SHINE: I'll defer, go ahead.

CHAIRMAN WALLACE: Pat and then Jack.

MS. NEAL: It is very exciting. Gordon, what, about 14 months we were together on the task force?

MR. SCHANCK: A-ha.

MS. NEAL: Pretty exciting work that we did. And some of the projects that we looked at all over the state are really fine products. I am very excited that we have the possibility for CHFA to be involved in this.

CHAIRMAN WALLACE: You mean CalHFA.

MS. PARKER: Only if we call ourselves CalHFA.

MS. NEAL: Okay, CalHFA.

CHAIRMAN WALLACE: You won't be the last. Jack.

MR. SHINE: I think this is a very nice way to house students. I was personally involved in some of those things in San Luis Obispo many years ago. But I go back to the discussion we had at our last meeting which is an issue that I think we need to address. That is, number one, where is the money going to come from? And number two, are we set up for doing that? And number three, is it in any way directly or indirectly going to take away from anything that we are doing or trying to do both from the staffing and the financial point of view?

CHAIRMAN WALLACE: All good questions.

MR. WARREN: Those are good questions. I think from a financial standpoint--and if Ken is still here he can address that--but certainly since these are 501(c)(3) debt, my sense is we certainly have the capacity to raise that in the bond markets. That should not be a particular issue. As far as capacity, Jack, we have looked at that. These would add up to probably two projects a year, for example, and we do 30 to 40. And although they are large and fairly complex, our sense is, and our history has been, when you are dealing with experienced sponsors -- and although the University is not guaranteeing this, they are going to be involved in the process.

They go more quickly and with some greater degree of ease than smaller, more difficult projects. The staff has grown over the last year, we have grown to meet the demands of our existing programs and we have grown to meet the demands of new initiatives. And I think that is part of what we do. So as I said at the Board Meeting last year, we are not going to do initiatives that will detract away from our mission. But that said, we are also going to find a way to do high quality initiatives and manage the resources to meet the need. So two projects a year with the staff we have, quite frankly, I think that is doable.

MS. PARKER: Mr. Chairman, let me add a little bit to this discussion because we are looking at a number of things that we are doing, particularly implementation of our additional responsibilities under Prop 46. We appreciate the comments that you have raised, they have been raised many times by your colleague, Mr. Klein, who is not here today, about whether or not the Agency has the resources and the capacity. Let me just tell you that we are also working on looking at our organization.

We have a new staff person that is working with Jackie, Victor James who is here, who is actually out of the legal shop, looking at our classifications along with a consultant. More than likely we are going to be needing to go and talk to our colleagues in other parts of state agencies about our classifications, our salary levels, to make sure that we have the kinds of expertise that we need across the Agency to take on these more entrepreneurial types of activities. That is what we are planning on doing. To the extent that we do these types or additional types of entrepreneurial activities, we need to make sure that we have the resources and the expertise to carry them through.

MR. SHINE: When you say *resources*, you are talking about personnel?

MS. PARKER: Right.

MR. SHINE: Or are you talking about available cash to underwrite the cost of new personnel? And if so, where does that come from, and does that in any way take away money that we might want to use for other things to fulfill our mission of getting families in homes or housing?

MS. PARKER: Obviously, each one of the entrepreneurial activities that we would look at there would be costs associated with them and there would be funding. Some proposals that have come forward do not necessarily pay for themselves. We often talk about the teachers home lending program that we do as one of those examples but we think that has good public benefit to it.

But that is not the case in this particular situation. The Agency would be covered for what its expenses would be, in that sense, personnel. I think Ken can talk with you about the financing and risk to the portfolio but we would certainly be compensated for the personnel. The question that really remains is whether or not we need to cover the expertise through hiring outside consultants or whether we use in-house personnel to take care of it.

MR. SHINE: Both of which have costs. I take it what you are saying then is that the projects when they come in would in some fashion underwrite it.

MS. PARKER: Absolutely.

MR. SHINE: Whether they succeed or fail, whether we fund them or not --

MS. PARKER: Right, yes.

MR. SHINE: -- there would be a G&A component to it.

MS. PARKER: Right. And the other thing for you to know too. That certainly is the discussion that the Board has every year when it adopts its Business Plan. We go through all of the available resources and look at what activities we could do. And to the extent that those add or detract or compete among one another, that is the time that the Board gets to essentially decide what direction that they want staff to follow through on.

MR. SHINE: And you do not feel that our ability to raise money based upon the credit standing that we have, by virtue of taking on these projects, would then reduce what we could do elsewhere. If this would be an addition to everything that we could borrow, and absent this project we would be in the same shape, that's one thing. Maybe I am not coming across correctly.

MS. PARKER: This is not a take-away from something else. This is on the margin. Something more that we can do.

MR. SHINE: And how many units a year? If you have a two bedroom apartment that is a four man apartment, right?

Is that what you are talking about?

MR. SCHANCK: Four-person.

MR. SHINE: A four person apartment, *excuse moi*.

CHAIRMAN WALLACE: Don't go there.

MR. SCHANCK: It can be.

MR. SHINE: So how many --

MR. SCHANCK: For graduate students, if we were targeting graduate students with a single bed per bedroom it could be two, it could be four.

MR. SHINE: How many units per year in these couple of projects then is it your anticipation that would result if we do this program that you are talking about?

MR. WARREN: If the size goes down I would say between 400 and 800.

MR. SHINE: So you would be taking 400 to 800 units of this type of financing and it would have no impact on our ability to do what we are doing anyway. With or without.

MR. WARREN: Jack, it might be good if Ken can address the financial capacity to raise the debt for this. That might go to the question of can we develop the financial resources to fund these things. Is that the basic question?

MR. SHINE: Yes.

MR. WARREN: If not, you can ask another question.

CHAIRMAN WALLACE: Ken.

MR. SHINE: It's just a yes or no answer. You guys know what you are doing. I am just asking kind of an overview question. If we have **X** dollars a year of credit, does any of that get reduced by our going to the market for this kind of debt? And if it does not, great; if it does, then it does.

CHAIRMAN WALLACE: Ken.

MR. WARREN: Ken.

MR. CARLSON: Mr. Chairman.

CHAIRMAN WALLACE: Yes or no?

MR. CARLSON: Well, the good news is that multifamily lending is supported by the general obligation of the Agency, which is rated in the low AA categories by both Moody's and Standard & Poor's. We are working with Standard & Poor's now having them analyze our whole existing portfolio to determine how much of a capital haircut we should be getting for it. And I think what this will greatly do, once they see the particulars about the kind of lending that we have done in the past, is we will free up more capacity on our part to do more lending for multifamily. And this is, in many ways, just exactly the same kind of lending we have done all along; it is just larger individual projects.

I think multifamily is an area of our business that we have tried to grow, and we have run up against some impediments to that growth in trying to compete with the private sources of credit enhancement and private sources of lending that are there all the time. I think this is a much better partner for us and a much better way for us to grow without really cutting in on and without having to take projects away from the normal sources from which they obtain their financing.

MR. SHINE: So in the aggregate at the end of the day we will be doing more than we might otherwise because of this kind of project, in your opinion?

MR. WARREN: That's right.

MS. PARKER: Yes.

MR. CARLSON: I think Linn will agree to that. It will increase our volume of business.

MR. WARREN: I think that is true. And I think, as Ken indicated, the financial capacity to raise debt should not be impaired.

CHAIRMAN WALLACE: Carrie.

MS. HAWKINS: As I understand it, it is actually a niche that we probably should be in because others are not in that niche and others will do what else we would have done or instead. Is that what you are saying?

MR. WARREN: Probably the way to approach it, and Gordon can address this, but I think there are other credit providers but the cost is higher.

MS. PARKER: They can get it done; it is just a matter of fact that we provide --

MR. WARREN: The monies that we save go to the benefit of the project. I am going to let Gordon comment on what he has come up against. Other finances are out there but it is somewhat limited. There is not a wide range of people offering this kind of financial product.

MR. SCHANCK: Affordability is a very important component of these projects for us, so anything we can do -- That is why we are focusing on nonprofit ownership. Anything we can do to reduce the cost is very desirable, and this has been one avenue that we would like to pursue for that reason. But we also see some other reasons just in terms of having some continuity in the program. Not having to start over every time with a new underwriting team I think would also be a desirable feature of working together.

CHAIRMAN WALLACE: Linn, this isn't going to take away from the other projects. We are trying to build up our multifamily portfolio. This is another way of doing that.

MR. WARREN: I don't think so, Mr. Chairman. I think Terri's point is well taken though. We do need to look at resources every year.

CHAIRMAN WALLACE: You bet.

MR. WARREN: As new initiatives come through we have to decide what is viable. Do we have to enhance or add to our resources? How do we do all of that? This initiative is no different. It does not get a free pass just because of what it is; we have to look through this stuff. But I think we are confident we can get there.

CHAIRMAN WALLACE: Julie.

MS. BORNSTEIN: Thank you, Mr. Chairman. I am pleased to see that you are exploring this because I know not only is the U.C. impacted, but those communities where U.C. campuses are located are also impacted. We deal with them in terms of their housing element and meeting the needs of their non-student population. But I have a couple of questions. At one point, Linn, you made a comment about seasonal nature. When you are looking at underwriting these units, are you assuming a 12 month occupancy or are you assuming a school year occupancy?

MR. WARREN: I think that, and maybe Gordon can address this, but I think it depends on the lease that is signed. Some underwriting models I have seen, Ms. Bornstein, had some summer higher vacancy rates, some do not. I think it depends on the lease obligations.

MS. BORNSTEIN: Will the sponsors be prohibited from requiring a year lease if a student only wants to be there nine months? That certainly affects affordability.

MR. SCHANCK: There is a market that you are competing with, both off campus and some on campus housing. In the Irvine project case while they certainly can do 12 month leases, the target market is a 9 month lease.

At a lot of our schools another thing that is happening is increased summer activity. One of the ways we are dealing with our growth is to emphasize summer programs. So several of our campuses, Santa Barbara is a good example, are substantially increasing their summer program, which will increase summer demand. So you will either have leases on a 12 month basis or students who come in for that 3 months.

At Riverside the project that we did there most recently, those contracts are on a 12 month basis and that works in that market. It is a more affordable product anyway so the students are willing to take that on.

MS. BORNSTEIN: Certainly affordability is one of the concerns of this Agency. Having had personal contact with a requirement in a student housing market to take a 12 month lease regardless of the fact that the student was only going to be there 9 months, that clearly affects affordability.

The second question I guess goes to the monitoring in terms of affordability, particularly if the units are going to be counted and rented on a per bed basis. Because my experience is that students usually form those groups that go as a group of four or a group of five to rent an apartment, and most students do not ask their friends what their personal finances are to determine who qualifies as an affordable tenant and who does not. Will that increase the monitoring for either our Agency or the U.C. in a way that might affect our cost analysis?

MR. WARREN: I think this might be appropriate if Al Bonnett is here from EAH. This is something I have discussed with Al as to how do we monitor this issue. I will let Al, I know he has dealt with this.

MR. BONNETT (FROM THE AUDIENCE): The way --

CHAIRMAN WALLACE: Al, why don't you take Ken Carlson's seat and the mic. Introduce yourself and who you represent for the record, please.

MR. BONNETT: Thank you. I am Al Bonnett, I am assistant VP there at EAH. We have done two of these properties right now with the University of California, one on the Davis campus and one the Riverside campus. By this time next month we will hopefully have closed the loan for the Irvine campus. The property that we own on the campus at Davis has the same restrictions on it that we are going to be talking about here with the California Housing Finance Agency. We do all of the monitoring ourselves for that. The way the students come to us, they can come as a group if they choose or we can put them together. It depends on the circumstances of the students. In no way is the income information that they provide to us available to other students, not even their roommates. That is confidential. Does that answer your questions?

MS. BORNSTEIN: Then you attempt to balance the building overall to meet whatever affordability requirements, if it is 20 percent or 50 percent?

MR. BONNETT: Yes.

MS. BORNSTEIN: You would then monitor that and have to move people around among properties?

MR. BONNETT: Among the units.

MS. BORNSTEIN: Among the units, okay.

MR. BONNETT: That is correct.

MS. BORNSTEIN: Okay, thank you.

CHAIRMAN WALLACE: Any further questions of the Board? By the Board? For the Board?

MR. SHINE: What is, Mr. Chairman, the proposal here? Just to study it some more?

MR. WARREN: Yes.

CHAIRMAN WALLACE: Well, the proposal is to keep going forward to try and find the devils in the details. Conceptual.

MS. PARKER: We wanted to make sure that the Board was comfortable with us moving forward in discussions about seeing if we can have products to come back to bring you. Obviously, we wanted to make sure that you are open to this concept before we go through and actually look at what would be involved in each individual deal.

MR. WARREN: Right.

MR. SHINE: You are talking about bringing back sample deals or real deals, as the case may be.

MR. WARREN: It could be a sample deal, I think, Mr. Shine. I think the next logical step in any program -- We are going to sit down and write program guidelines. We are going to sit down with Gordon and his staff and Al since they have done this, and we are going to work through what the actual program underwriting guidelines would look like, what does the construction lending look like. That is how we sort out all these details. And the goal is it is an unambiguous program and we are clear on what we have to do. That just takes legwork.

MR. SHINE: So under your impacts then would be the discussions we have been having here --

MR. WARREN: Absolutely.

MR. SHINE: -- About the impact on the Agency.

MR. WARREN: What is this going to take?

MR. SHINE: And the implications of credit.

MS. PARKER: Resources, financing.

MR. SHINE: Right, exactly.

MR. WARREN: Finance, asset management, legal. All of the things we go through when we try to build a program. But we have to get the stuff down on paper.

CHAIRMAN WALLACE: Anybody on the Board disagree with giving them reign to run with this, subject to bringing it back with the model guidelines, etcetera?

MR. SHINE: I would like to get that evaluation.

CHAIRMAN WALLACE: As long as you do not make it in any way, shape or form, this model, available to Stanford it's okay. (Laughter) Some things never die. Okay. I think you have got your direction.

MR. WARREN: Thank you, Mr. Chairman.

CHAIRMAN WALLACE: Thank you, Al, Gordon.

MR. BONNETT: Thank you.

MR. SCHANCK: Thank you.

CHAIRMAN WALLACE: I suspect we may see you again.

MR. SCHANCK: I look forward.

CHAIRMAN WALLACE: I hope so.

MS. PARKER: Mr. Chairman, before we close just one thing. I wanted to point out to all the Board Members that at your seats you have your very own CHFA marketing tool kit.

MR. LaVERGNE (FROM THE AUDIENCE): CalHFA.

MS. NEAL: CalHFA.

MS. PARKER: Oh, I did. CalHFA.

MS. NEAL: You did.

MR. LaVERGNE (FROM THE AUDIENCE): Bravo.

MS. NEAL: Okay. All right, that's a gotcha.

MS. WEIR: I would move that those quarters go to the general fund.

MS. PARKER: Believe me, I have put my -- Here I was, I was going to, like, do it and I screwed up. Which includes the most recent CalHFA Annual Report. I did it again. No, I said it right, I said it right.

CHAIRMAN WALLACE: Terri has a plane to catch. She is understandably distraught.

MS. PARKER: I just want to make sure staff gets the credit for the work, particularly our marketing people, what we have done. This is our new and improved Annual Report. It has had a diet, it is down to 16 pages. When I came we were doing 36 page annual reports. I just want to give credit to the staff. We will be working even more diligently to continue to use our new acronym.

OTHER BOARD MATTERS

CHAIRMAN WALLACE: Let's move to Item 9, which is discussion of any other non-agendized items by the Board.

MS. BORNSTEIN: Mr. Chairman, one very quick item. I have regards to everyone from Ken Hobbs who I was able to see at the twentieth anniversary birthday of the Coachella Valley Housing Coalition. He has relocated in the Coachella Valley and sends his regards to everyone.

CHAIRMAN WALLACE: Good. And Pat.

MS. NEAL: I wanted to know, and possibly the staff can, if it is possible, give us an update at the next meeting. We have rather a crisis in obtaining insurance in the State of California and I wondered if any of the projects, if they are having any problems with the renewal on their insurance.

CHAIRMAN WALLACE: Like terrorism insurance?

MS. NEAL: No, I am talking about fire insurance.

CHAIRMAN WALLACE: Overall.

MS. NEAL: Yes, just regular, regular insurance.

CHAIRMAN WALLACE: Just general. Homeowners-type policies.

MS. NEAL: Homeowners. From what I understand, the fix that we were able to use in 1994 after the Northridge earthquake where we just told them to get plain fire insurance to close the loan is not available and becoming scarcer and scarcer. Some of the fees have gone up 40 --

MS. PARKER: We'll ask Margaret to have a report in the next Board Meeting's Board package.

MS. NEAL: Some of the premiums have gone up 40 percent over last year.

CHAIRMAN WALLACE: It's nationwide. I just left New Orleans, the National Association of Realtors convention, and it is a nationwide epidemic. So it is not just us; it is a real serious problem.

MR. SHINE: It is interesting to note that with the new AB 800 or SB 800 bill that passed that we talked about last meeting.

CHAIRMAN WALLACE: Yes.

MR. SHINE: That insurers are beginning to come back to California in construction. With more people here it does not matter whether it is construction or existing, that competition will in the long run, I hope, help provide a broader base of insurers at a somewhat lower rate. But I am keeping my fingers crossed.

CHAIRMAN WALLACE: CNA is back. Okay, any other items non-agendized?

PUBLIC TESTIMONY

Are there any members of the public, Item 10, who have any comments of non-agendized items? Maio.

MR. MAIO (FROM THE AUDIENCE): Yes.

CHAIRMAN WALLACE: Yes.

MR. MAIO (FROM THE AUDIENCE): I am Dominick Maio, I'm the information technology chief for CHFA. I thought it would be good to mention --

MS. NEAL: CHFA?

MS. PARKER: CalHFA.

MR. MAIO (FROM THE AUDIENCE): Oh, I did it myself. That goes right to my point, right to my point.

MR. SHINE: That's 25 cents.

MR. MAIO (FROM THE AUDIENCE): I thought it would be good to mention to the Board and others in the room that the e-mail addresses of everyone at CalHFA have changed and CalHFA now replaces C-H-F-A. The addresses are the same in all other regards.

MS. BORNSTEIN: So could you tell us --

MR. MAIO (FROM THE AUDIENCE): The old addresses will stop working at the end of the year.

MS. BORNSTEIN: I often give out your website when I am out speaking, so what is the website that we are now to give out?

MR. MAIO (FROM THE AUDIENCE): It's now www.calhfa.ca.gov.

MS. BORNSTEIN: Okay.

MR. MAIO (FROM THE AUDIENCE): Thank you.

CHAIRMAN WALLACE: We will institute a ten cent fine starting with the next meeting.

MS. RICHARDSON: No, 25. We have a 25 cent.

CHAIRMAN WALLACE: Oh, 25 cent. Boy, this public is active today. We have got a $30 billion deficit and we are going to knock it off at two bits a crack. Okay, the next meeting is January 9 back here in the new year. In the meantime have a happy holiday season and a Happy New Year, and we will look forward to seeing you bright and sunny on January 9. We are adjourned.

(The meeting was adjourned at 11:36 a.m.)

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Dated this 24th day of November, 2002, at Sacramento County, California.

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Ramona Cota, Official Transcriber

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