Cal HFA

REPORTS

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MEMORANDUM

To Board of Directors Date: October 30, 2002

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS HOME MORTGAGE REVENUE BONDS 2002 SERIES OPQR

On September 18th we set interest rates on $31.4 million of fixed rate bonds and set swap rates for $158.6 million of variable rate bonds for a total of $190 million. The transaction proceeds will be used to fund approximately 1,230 new loans.

As shown in table below, the level of taxable bonds blended into our structures has declined as we try to provide mortgage rates that are competitive to falling market rates.

Date	HMRB Series	Taxable Percentage
July 2001	2001 LMNOP	70%
September 2001	2001 QRS	62%
November 2001	2001 TUV	40%
January 2002	2002 ABC	50%
March 2002	2002 DEFG	50%
May 2002	2002 HJK	35%
July 2002	2002 LMN	35%
September 2002	2002 OPQR	29%

The 29% taxable structure for the Series OPQR bonds provides an overall interest cost of 3.71% that will be supported by our anticipated loan portfolio, with loan rates expected to range from 4.75% to 5.75%. In comparison, the interest cost for the previous issue was 4.376%.

As expected, we were again faced with very low short-term investment rates. As we wait for our lenders to send us loans for purchase, our bond proceeds are invested at rates significantly below our cost of funds. The current daily rate for the State investment pool, where we are investing our proceeds, is 2.43%, giving us negative carry of 1.28%. Therefore, we again decided to delay the delivery of a portion of the bonds and delay the commencement of the swaps until a time when most of the loans would be originated.

The bonds were structured in four series as shown on the table below. The $56 million Series O bonds are taxable variable rate LIBOR indexed bonds that were purchased by the Federal Home Loan Bank of San Francisco. The $61 million Series P bonds and $41.6 million Series Q bonds are tax-exempt variable rate demand obligations with liquidity provided by Lloyds Bank and the Bank of Nova Scotia. For the Series O, P, and Q bonds we have arranged interest rate swaps to provide a fixed rate cost of funds. The interest rate swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds. The $31.4 million AMT Series R bonds were structured as serial bonds.

SERIES	O	P	Q	R
$ Amount	$56,000,000	$61,000,000	$41,600,000	$31,400,000
Type of Bonds	Indexed Floaters	VRDO	VRDO	Serial
Tax Treatment	Taxable	AMT	AMT	AMT
Maturities	2033	2027	2033	2003-2014
Average Life	5 yrs.	14 yrs.	20 yrs.	N/A
Interest Rates	Variable	Variable	Variable	1.45-4.00%
Reset Frequency	Quarterly	Daily	Daily	N/A
Swap Rates	3.989%	3.148%	3.82%	N/A
Bond Delivery Date	10/17/02	12/12/02	12/12/02	10/17/02
Swap Start Date	2/3/03	12/12/02	12/12/02	N/A
Credit Rating	Aaa/AAA	Aaa/AAA	Aa2/AA- VMIG-1/A-1	Aaa/AAA
Bond Insurer	MBIA	MBIA	N/A	MBIA

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State of California

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MEMORANDUM

To: Board of Directors

Date: October 30,2002

Ken Carlson

Ken Carlson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: STATUS OF THE DRAWDOWN BOND PROGRAM

The table on the following page reflects drawdown bond program activity since the September 12,2002 Board meeting. Note that there were no additional drawdown bonds added during this period, and $1 13.7 million were redeemed or are scheduled for redemption, leaving a November 14 balance of $534.5 million.

As discussed previously, the drawdown bond program is our relatively new mechanism for preserving tax-exempt bond authority for future use, providing a less expensive and more flexible alternative to our former practice of issuing notes for this purpose under our Home Mortgage Revenue Bond indenture. Each of our current issues of tax-exempt Home Mortgage Revenue Bonds acts as a refunding of a like portion of drawdown bonds.

Drawdown bonds are issued in variable rate form and have monthly rate resets based on an index. The bonds are secured solely by their proceeds, which are invested in investment agreements with financial institutions with high credit ratings. The investment agreements backing the bonds bear interest at rates equal to or slightly in excess of the rate of the bonds, based on the same index as the bonds.

We expect to issue additional drawdown bonds in January 2003 which will be used to preserve tax-exempt refunding authority related to bond redemptions scheduled for February 1,2003.

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Drawdown Bond Program Activity

Single Family Drawdown Bonds	Bonds Outstanding at 9/12/02	Draws (Issuances) Since 9/12/02 Board Meeting	Redemptions Since 9/12/02 Board Meeting	Bonds Outstanding at 11/14/02
2002 A	$ 14,820,000	$ 0	$ 14,820,000	$ 0
2002 B	197,950,000	0	31,850,000	166,100,000
2002 C	15,475,000	0	0	15,475,000
2002 D	352,900,000	0	0	352,900,000
Totals	$581,145,000	$ 0	$113,670,000	$534,475,000

Multifamily Drawdown Bonds	Bonds Outstanding at 9112/02	Draws (Issuances) Since 9/12/02 Board Meeting	Redemptions Since 9/12/02 Board Meeting	Bonds Outstanding at 11/14/02
2002	$ *0*	$ 0	$ 0	$ *0*

State of California

MEMORANDUM

To: Board of Directors **Date:** October 30,2002

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

The following report describes our anticipated bond and swap positions as of the end of November. It takes into account bond pricings and interest rate swap agreements already agreed to even if actual issuance or swap commencement takes place on a later date. Since the previous Board meeting, we have contracted to issue $190 million of new bonds, of which $158.6 million will be variable but swapped to fixed rates. In mid-November we plan to contract to issue another $250 million of variable rate bonds, and we have included estimates of these new transactions in the report.

Variable Rate Debt Exuosure

As noted in the previous report, we have reached a milestone where more than half of our indebtedness is variable rate rather than fixed. The total amount of CalHFA variable rate debt will now be $4.3 billion, 52% of our $8.3 billion of total indebtedness. As shown in the table below, our "net" variable rate exposure will be $691 million, 8.3% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments.

VARIABLE RATE DEBT
($ *in millions)*

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
Single Family	$551 *	$2,572	$589	$3,712
Multifamily	10	540	102	652
Total	$561	$3,112	$691	$4,364

* includes drawdown bonds

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As discussed in each previous report, our $691 million of net exposure provides a useful internal hedge against today's low interest rate scenario, where we are experiencing low short-term investment rates and fast loan prepayments. For example, interest rates for the State Treasurer's investment pool, where we invest our single family bond proceeds, have now fallen to 2.43%. In addition, the high incidence of single family loan prepayments since early in 2001 has kept our loan portfolio from expanding in spite of our $1 billion annual new production. However, debt service savings on our unswapped variable rate bonds helps to offset the economic consequences of low investment rates and high prepayments. As an example, the interest rates on our $437 million of unswapped taxable variable rate bonds are currently in the 1.75% - 1.90%range, levels far lower than we ever imagined.

The table below summarizes this current risk position (unchanged since the last Board meeting).

NET VARIABLE RATE DEBT
(\$ *in millions)*

	Tax-Exempt	Taxable	Totals
Short average life	$166	$282	$448
Long average life	88	155	243
TOTALS	$254	$437	$691

Interest Rate Swaps

Currently, we have arranged a total of 61 swaps with seven different counterparties for a combined notional amount of $2.89 billion and expect to enter into another $220 million of swaps during November. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings will help us continue to offer exceptionally low interest rates to multifamily sponsors and to serve a great many additional homebuyers. The table below provides a summary of our notional swap amounts, including the November swaps.

INTEREST RATE SWAPS
(\$ *in millions)*

	Tax-Exempt	Taxable	Totals
Single family	$1,090	$1,482	$2,572
Multifamily	540	0	540
TOTALS	$1,630	$1,482	$3,112

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The table below shows the diversification of our swaps (not including the swaps to be contracted for in November) among the seven firms acting as our swap counterparties. Note that our swaps with Lehman Brothers, Bear Stearns, and Goldman Sachs are with structured subsidiaries that are special purpose vehicles used only for derivative products. We have chosen to use these subsidiaries because the senior credit of those firms is not as strong as that of the others.

SWAP COUNTERPARTIES

Swap Counterparty	Credit Ratings Moody's	S & P	Fitch	Notional Amounts Swapped (*$ in millions*)	Number of Swaps
Merrill Lynch Capital Services Inc.	Aa3	A+	AA-	$ 928.5	18
Salomon Brothers Holding Company Inc.	Aa1	AA-	AA+	592.0	13
Lehman Brothers Derivative Products Inc.	Aaa	AAA	NR	589.1	16
Bear Stearns Financial Products Inc.	Aaa	AAA	NR	452.2	7
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aaa	AA+	NR	127.7	3
UBS AG (Union Bank of Switzerland Aktiengesellschaft)	Aa2	AA+	AAA	101.4	2
JPMorgan Chase Bank - New York	Aa3	AA-	AA-	97.1	2
				$2,888.0	61

Note that, with interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

Because all of our swaps have been entered into to establish "synthetic" fixed rates for our variable rate bonds, we receive floating rate payments from our counterparties in exchange for a fixed rate obligation on our part. In today's market, with very low short-term rates, the net periodic payment owed under our swap agreements is from us to our counterparties. As an example, on our August 1,2002 semiannual debt service payment date, we made a total of $39.8 million of net payments to our seven counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

Basis Risk

All swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because swap floating rates are based on indexes, which consist of market-wide averages, while bond floating rates are specific to the individual bond issue or series.

Periodically, the divergence between the two floating rates widens, as market conditions change. These divergences were anticipated when we entered into the swaps. In today's market, we have encountered one such divergence that is worth noting as it pertains to our LIBOR-based swaps used in conjunction with the Agency's tax-exempt variable rate bonds. Based on a conservative reading of historic patterns, we chose to enter into these swaps at 65% of LIBOR, the market benchmark taxable floating rate index. These swaps afford us with excellent liquidity and great savings compared with other alternatives.

Disruptions between supply and demand can skew the ratio of tax-exempt rates to taxable rates. As an example, today the short-term market has been flooded with new issues of variable rate and short-term bonds, including State of California revenue anticipation notes and the California Department of Water Resources bonds to reimburse the State general fund for the power purchases in 2001. As a result, the ratio of national tax-exempt rates to LIBOR has at times approached 100%, and has averaged 74.4% year to date. In October, the average was 90.6%.

Over the past few years, the relationship between our variable rate bonds and 65% of LIBOR has varied widely – from a low of less than 50% to a high of 100%. On average, our original judgment of using 65% of LIBOR has seemed right. When the percentage is very high – as it is today – the swap payment we receive falls short of our bond payment and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low.

Risk of Changes to Tax Law

For an estimated $1.16 billion of the $1.63 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In addition, we bear this same risk for $271 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $1.43 billion, less than 18% of our $8.3 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take every time they purchase our fixed-rate tax-exempt bonds.

Amortization Risk

Our interest rate swaps (and the underlying bonds) amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have been designed to accommodate prepayment rates between two and three times the "normal" rate. To the extent that more prepayments are received, the excess must then be invested, used for the redemption of other (unswapped) bonds, or recycled directly into new loans. As noted in previous reports, the incidence of prepayments rose from an average of $30 million per month in 1999 and 2000 to an average of $67 million per month for 2001 and $96 million per month so far this year. For the last three months prepayments have averaged $120 million.

Our high rate of prepayments is currently in excess of what we had planned for, and we are using a mix of the above techniques to manage the excess liquidity. To the extent that we choose to recycle directly, then fewer new bonds will need to be sold. So far during this fiscal year we have purchased $35 million of new loans with excess prepayment money from prior year bond issues.

Types of Variable Rate Debt

The table on the next page shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate Bonds	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
Single Family	$125	$1,737	$1,850	$3,712
Multifamily	0	0	652	652
Total	$125	$1,737	$2,502	$4,364

Since September of 2000 we have been able to sell all of our taxable single family variable rate bonds to the Federal Home Loan Banks. Twelve different issues totaling $1.12 billion have been purchased by the San Francisco FHLB, and a thirteenth issue of $70 million was purchased by the Topeka FHLB. These bonds have all been designed as indexed-rate securities and have no put feature. In addition, our $534 million of currently outstanding drawdown bonds are indexed-rate securities.

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Liquidity Providers

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements, if our variable rate bonds are put back to our remarketing agents and cannot be remarketed, these institutions are obligated to buy the bonds. For the next several single family transactions we expect Dexia Credit Local, a highly-rated Belgian bank, to provide liquidity. Fannie Mae is providing liquidity for this year's multifamily VRDOs and has become our largest participant. We have also asked Freddie Mac to act as a liquidity provider in 2003.

LIQUIDITY PROVIDERS
($ in millions)

Financial Institution	$ Amount of Bonds	Type of Bonds
Fannie Mae	$ 423.6 *	MF
Lloyds TSB	333.0	SF
Commerzbank	281.6	SF
CalSTRS	257.0	SF/MF
Bank of Nova Scotia	207.3	SF
Westdeutsche Landesbank	197.6	SF/MF
Landesbank Hessen-Thuringen	183.3	MF
KBC	153.5	SF
Bayerische Landesbank	139.4	SF
Dexia Credit Local	103.0 *	SF
Bank of New York	101.4	SF
Bank of America	81.0	SF
State Street	23.5	SF
Morgan Guaranty	16.9	SF/MF
Total	$2,502.1	

* **Including amounts anticipated for the transactions being arranged in November.**

Recently Standard & Poor's downgraded the short-term ratings of Commerzbank, one of our biggest providers, from A-1 to A-2. The result has been that our Commerzbank-backed bonds have had to be remarketed at higher rates than other bonds backed by financial institutions with A-1 or A-1+ ratings from S&P. While Commerzbank continues to have acceptable short-term ratings from Moody's and Fitch, we are considering the option of eliminating our investors' exposure to Commerzbank through a variety of means, including converting Commerzbank-backed taxable bonds to indexed mode (and selling them to the FHLB) and replacing Commerzbank with other liquidity providers for tax-exempt bonds.

State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date: 30** October **2002**

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

Subject: 2002 Final **Legislative Report**

Federal Activitv

As you know, this year our efforts were focused on passage of S 677 and HR 951, which, among other things, would have repealed an archaic provision of law commonly referred to as "The Ten Year Rule." This rule prevents us from recycling loan repayments that come in 10 years after the original date a bond is sold, requiring instead that those payments be used to repay the original bond. When we originally started talking about this issue last year, our Financing Division estimated that we were losing the ability to recycle approximately **$250** million each year. However, because interest rates have been low and refinancing activity so high, the most recent estimates indicate we will lose the ability to recycle approximately $500 million in **2002.**

The good news is **436** Members of Congress signed on as cosponsors, including **83% (45/54)** of the California delegation. The bad news is that Congress recessed without taking action on this item. But that doesn't mean we've given up on achieving relief for 2003!

According to the NSCHA, both Houses are currently scheduled to reconvene for a November **12 -** 14 lame-duck session to attempt to wrap up appropriations, terrorism insurance, homeland security, prescription drug, bankruptcy, and possibly some tax bills. Depending on the outcome of the elections and the willingness of both the House and Senate and the Administration to work out their differences, there is some talk that Congress may return for a second, longer lame-duck session in December. Ways and Means Committee Chairman Bill Thomas has stated that House Republicans would wait for the Senate to act on outstanding tax issues, rather than debate among themselves the parameters of another tax bill. Mr. Thomas made clear that the House would be ready to respond to the Senate, saying, "if the Senate does any of these things, we'll come back." NCSHA reports that Senate Majority Leader Tom Daschle (D-SD) has not ruled out taking up Finance Committee Chairman Max Baucus' (D-MT) small business tax bill during the lame-duck session. That bill currently contains a one-year repeal of the Ten Year Rule, provided a limited term relief while permanent repeal is pursued. So, for the time being, CalHFA will continue to talk to Members of the California Delegation to try to impress upon them the importance of dealing with the Ten Year Rule during the lame-duck session, stressing the housing resources and opportunities that will be lost if they fail to act this year.

State Activity 1013

September 31 officially marked the end of the 2001-02 Legislative Session, as the Governor had until Midnight on that date to take action on those bills that were before him. According to the Governor's Press Office, over the past four years, the Governor has signed 4,223 bills, vetoed 1,043, and allowed 11 to become law without his signature.

Just this year, the Governor signed 1,773 bills, vetoed 264, and allowed one to become law without his signature. Below is a chart showing the final disposition of the bills that I reported to you throughout this year, including any veto or signing messages the Governor may have issued:

BONDS

AB 14 **Goldberg** **School Facilities.**
status: **09/27/2002-Chaptered by Secretary of State - Chapter No. 935, Statues of 2002**
This bill contained language to clean up a drafting error that occurred in AB 16 (below). AB 16, which authorized the Kindergarten-University Public Education Facilties Bond Acts of 2002 and 2004, also reauthorized the Homebuyer Down Payment Assistance School Fee program, but only if the Emercency Shelter and Housing Trust Fund Act of 2002 is not passed by the voters.

AB 16 **Hertzberg** **School Facilities.**
status: **04/26/2002-Chaptered by Secretary of State - Chapter No. 33, Statues of 2002**
This bill authorized two state general obligation bonds to be placed before the voters to fund various education-related facilities. The first would be a $13.05 billion bond on the November 2002 ballot, and the second, a $12.3 bond in November of 2004. This bill also contained language to recreate the Homebuyer Down Payment Assistance (School Fee) program, to reimburse homebuyers the costs associated with school construction development fees. This provision will be administered by CalHFA, and will only go into effect if the Emergency Shelter and Housing Trust Fund Act of 2002 is not passed by the voters.

AB 1927 **Kehoe** **Neighborhood Infrastructure Bond Act.**
status: **05/22/2002-In committee: Set, second hearing. Held under submission.**
This bill would have enacted the Neighborhood Infrastructure Bond Act of 2002, which, if adopted, would have authorize the issuance of bonds in the amount of $6,000,000,000 to fund infrastructure needs related to housing and neighborhood revitalization. The act would have been administered by the California Infrastructure and Economic Development Bank.

SB 1227 **Burton** **Housing and Emergency Shelter Trust Fund Act of 2002.**
Status: **04/22/2002-Chaptered by Secretary of State - Chapter No. 26, Statues of 2002**
This bill enacts the Housing and Emergency Shelter Trust Fund Act of 2002, which, if adopted, would authorize the issuance of $2.1 billion in general bonds for various housing programs.

CONSTRUCTION DEFECTS

SB 800 **Burton** **Construction Defects**
Status: **09/20/02 - Chaptered by Secretary of State - Chapter No. 772, Statutes of 2002**
This bill 1) provides for detailed and specific liability standards for newly constructed housing, 2) creates a pre-trial process that includes a builder's right to repair an alleged defect, and 3) provides third-party inspectors with immunity from liability.
Comments: This bill is the product of extended negotiations between builders, insurers and consumer attorneys.

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HOMEBUYER ASSISTANCE

AB 1170 **Firebaugh** **Housing: Downpayment Assistance.**

Status: **09/20/2002-Chaptered by Secretary of State - Chapter No. 724, Statues of 2002**

This bill creates the Building Equity and Growth in Neighborhoods (BEGIN) Program and BEGIN Fund. Monies in the fund would be made available, upon appropriation, to the department for grants to cities, counties, and cities and counties for assistance in the form of 2nd mortgage loans for downpayment purposes to qualifying new home buyers in those cities. counties, and cities and counties that have taken prescribed actions to remove barriers to affordable housing. Comments: Funding for this program is contained in the Housing and Emergency Shelter Trust Fund Act of 2002.

INSURANCE

AB 1486 **Dutra** **Mortgage Guaranty Insurance.**

status: **09/09/2002-Chaptered by Secretary of State - Chapter No. 429, Statues of 2002**

This bill increases the allowable total indebtedness on which this insurance may be wriien to 103% of the fair market value of the real estate securities.
Comments: Sponsor: Mortgage Insurance Companies of America Mortgage.

LOCAL LAND USE

AB 1866 **Wright** **Housing: Density Bonuses.**

Status: **09/29/2002-Chaptered by Secretary of State - Chapter No. 1062, Statues of 2002**

This bill authorizes the Department of Housing and Community Development to allow a city or county to identify sites for 2nd units based upon relevant factors, including the number of 2nd units developed in the prior housing element planning period.

AB 2028 **Canciamilla** **General Plans: Urban Growth Boundary.**

Status: **04/30/2002-In committee: Hearing postponed by committee. (Refers to 4/24/2002 hearing)**

This bill would have required the land use element and diagram of a general plan to include an Urban Growth Boundary that indicates the area to which the city or county intends to extend urban services over the next 20 years. The bill would require the land use element to include policies that, among other things, encourage urban growth within this boundary and requires that the boundary be consistent with the objectives of the State Comprehensive Plan

AB 2158 **Lowenthal** **Coastal Development Permits: Affordable Housing Requirements.**

status: **08/28/2002-Chaptered by Secretary of State - Chapter No. 297, Statues of 2002**

This bill requires the California Coastal Commission to take appropriate steps to ensure that all coastal development permit conditions existing on January 1, 2002, relating to affordable housing are enforced and exist for the term of the permit. The bill additionally provides that the above provision is not intended to retroactively authorize the release of any housing unit from coastal development permit requirements relating to affordable housing.

AB 2292 **Dutra** **General Plans: Residential Density.**

Status: **09/19/2002-Chaptered by Secretary of State - Chapter No. 706, Statues of 2002**

This bill prohibits a city, county, or a city and county, by administrative, quasi-judicial, or legislative action, from reducing, requiring, or permitting the reduction of the residential density for any parcel to a lower residential density that is below the density that was utilized by the Department of Housing and Community Development in determining compliance with housing element law, unless the city, county, or city and county makes written findings supported by substantial evidence that the reduction is consistent with the adopted general plan, including the housing element, and the jurisdiction's share of the regional housing need, as specified
Comments: Sponsor: California Rural Legal Assistance

SB 1509 **Dunn** **Property Tax Revenue Shifts: Exemption: Affordable Housing Developments.**
Status: **09/27/2002-Vetoed**
This bill would have, for the **2003-04** fiscal year and each fiscal year thereafter, reduced a city or county's Educational Revenue Augmentation Fund (ERAF) contribution by an amount equal to the city or county's share of the property tax lost due to new tax-exempt low-income housing.

Veto Message: To Members of the California State Senate: I am returning Senate Bill 1509 without my signature. This bill would reduce a city or county's Educational Revenue Augmentation Fund (ERAF) contribution by an amount equal to that city or county's share of property tax lost due to new tax-exempt affordable housing. The state General Fund would have to backfill lost ERAF revenues. Although I recognize the need for greater affordable housing opportunities for low-income Californians, the state's $24 billion deficit would make the redirection of funds necessary to backfill ERAF revenues very difficult. Any reduction in total property tax revenues to K-14 school districts would result in a General Fund cost of the same amount because Prop. 98 requires the state to backfill property tax revenue losses to these local agencies. This bill, white otherwise meritorious, could result in losses exceeding $2 million in 2003-04, increasing each year thereafter. For these reasons, I cannot sign this legislation. Sincerely, GRAY DAVIS

MISC

AB 1891 **Diaz** **Housing Trust Funds.**
Status: **09/20/2002-Chaptered by Secretary of State - Chapter No. 725, Statues of 2002**
This bill requires the Department of Housing and Community Development to establish a program to make matching grants to local agencies or nonprofit entities that have housing trust funds, to provide financing for rental housing projects affordable to very low income families, as prescribed. Unused funds would revert for use in the Multifamily Housing Program.
Comments: Funding for this program is contained in the Housing and Emergency Shelter Trust Fund Act of 2002.

AB 2330 **Migden** **Landlord and Tenant.**
Status: **09/29/2002-Chaptered by Secretary of State - Chapter No. 1061, Statues of 2002**
This bill redefines security (deposit) to include any charges imposed at the beginning of tenancy, excepting application screening fees, and would specifically include within the definition costs associated with processing a new tenant and costs associated with cleaning the property, as specified. The bill requires the landlord under specified circumstances to notify the tenant in writing of the tenant' s option to request an initial inspection and the tenant's right to be present at the inspection. If the tenant requests an initial inspection, the bill requires the landlord to make that inspection prior to a final inspection, after the tenant vacates, and to provide the tenant with an itemized list of potential deductions from the security, as specified. The bill requires that the tenant have the opportunity to remedy identified deficiencies, as specified, during the period following the initial inspection until the end of the tenancy. The bill changes the amount of statutory damages for certain violations from $600 to twice the amount of the security.

AB 2787 **Aroner** **Building Standards: Universal Design.**
status: **09/20/2002-Chaptered by Secretary of State - Chapter No. 726, Statues of 2002**
This bill requires, by December 31,2003, the Department of Housing and Community Development, in consultation with other specified state agencies, and without significantly impacting housing cost and affordability, to develop guidelines and at least one model ordinance for new construction and home modifications that are consistent with particular principles of universal design or other similar design guidelines

AB 2972 **Aroner** **Discrimination: Homeless Youth.**
Status: **09/29/2002-Chaptered by Secretary of State - Chapter No. 1074, Statues of 2002**
This bill specifies that the provision of housing for homeless youth, as defined, is authorized by the state, and shall not be considered age discrimination, notwithstanding any provision of state law or of local ordinances.

SB 423 **Torlakson** **Workforce Housing Reward Program.**
status: **09/12/2002-Chaptered by Secretary of State - Chapter No. 482, Statues of 2002**
This bill establishes the Workforce Housing Reward Program to be administered by the department to provide local assistance for the construction or acquisition of capital assets to cities, counties, and cities and counties that provide land use approval to affordable housing developments, as specified.

SB 1403 **Kuehl** **Landlord-Tenant.**
status: **08/28/2002-Chaptered by Secretary of State - Chapter No. 301, Statues of 2002**
This bill requires an owner of a residential dwelling giving notice to a tenant of his or her intent to terminate the dwelling to give at least 60 days' notice prior to termination or 30 days' notice prior to termination if the tenant has resided in the dwelling for less than one year or if other-enumerated circumstances are satisfied.

SB 1654 **Burton** **Governor's Office: Homelessness.**
status: **09/30/2002-Vetoed**
This bill would have established the Office of Homelessness within the Governor's office, with specified duties and responsibilities, to coordinate the efficient use of state resources to improve the management and oversight of all state homeless programs and to make annual recommendations to the Governor and the Legislature.

Veto Message: To Members of the California State Senate: I am returning Senate Bill 1654 without my signature. This bill would have established a state Office of Homelessness within the Govemor's Office. The office would have been charged with coordinating state services to the homeless, identifying gaps in the delivery of services to the homeless, and making annual recommendations to the Governor and the Legislature on ways to improve homeless services. Having a central point of contact within state government on homeless issues has merit. Such an office could serve as a clearinghouse of information and could provide staff support to the Interagency Task Force on Homelessness that was created by my Executive Order of March 22, 2002. However, the Department of Finance estimates the cost of operating such an office could be as high as $500,000 annually. SB 1654 has no appropriation attached to it. Although the state cannot afford new programs at this time, in the interim, I am pleased by the progress already made by the Task Force in improving coordination of homeless services. I have made a strong personal commitment to combating homelessness in California, especially by focusing on prevention of homelessness, and I have directed the Task Force to continue its work and to report back on additional progress made by December 1,2002. Additionally, I have directed state agencies to develop a set of recommendations to reduce the incidence of homelessness in California, convened the State's first Summit on Homelessness, and established an interagency task force to improve integration of services and recommend and implement strategies to prevent individuals and families from becoming homeless. I have approved appropriations of over $64 million in new State funding for the Emergency Housing Assistance Program, including $25 million for the creation of new homeless shelter facilities and the expansion of existing facilities, as well as $39 million for shelter operations. I also signed legislation making National Guard armories permanently available as winter homeless shelters. I have approved $45 million in funding for the Supportive Housing Initiative Act that provides permanent housing with services for formerly homeless disabled adults. In signing Senate Bill 1227, placing Proposition 46 on the November ballot, this $2.7 billion measure, if approved, will help the neediest Californians end the cycle of homelessness and move to permanent housing, while also assisting California's workforce and their families and other lower income households, obtain safe and affordable rental housing. I will continue my commitment to eradicate homelessness in California. Sincerely, GRAY DAVIS

1017

SB 1821 **Dunn** **Assisted Housing.**
status: **09/28/2002-Chaptered by Secretary of State - Chapter No. 1038, Statues of 2002**
This bill requires notices for the termination of a subsidy contract, termination of rental restrictions, or prepayment of the mortgage on an assisted housing development to be given prior to the expiration, as specified, rather than prior to the termination of rental restrictions. The bill prohibits the owner from disposing of the property if that would result in the expiration of low-income use restrictions unless those designated entities have been given an opportunity to purchase the property.

SCA 13 **Alarcon** **Local Government: Special Taxes and General Obligation Bonds: Local Development.**
Status: **08/07/2002-Set, first hearing. Hearing canceled at the request of author.**
This measure would have authorized a local government with the approval of a majority of its voters voting on the proposition, to impose a special tax, that it is otherwise authorized to impose, if the tax is imposed exclusively to fund projects related to transportation and other local development, as provided.

PRESERVATION

SB 372 **Dunn** **Preservation Interim Loan Programs.**
status: **09/20/2002-Chaptered by Secretary of State - Chapter No. 721, Statues of 2002**
This bill establishes two new interim loan programs to preserve affordable housing at risk of converting to market rate rents.

Signing Message: To the Members of the California Legislature: 1am signing Senate Bill 372, which would establish two new programs to preserve housing units at risk of losing existing subsidies that would otherwise no longer remain low-cost units. The Housing and Emergency Shelter Trust Fund Act of 2002 will fund these programs if passed by the electorate in the November 2002 elections. If the bond does not pass, it is not my intent to fund these programs using General Fund, given the projected status of the General Fund over the next few fiscal years. Sincerely, GRAY DAVIS
Comments: *Sponsor.* Housing California and NHDC. Funding for this program is included in the Housing and Emergency Shelter Trust Fund Act of 2002.

PREVAILING WAGES

AB 2590 **Cogdill** **Prevailing Wages.**
status: **04/29/2002-Re-referred to Com. on L. & E.**
This bill would have required the Department of Industrial Relations to provide a discount to the prevailing wage for specified crafts in eligible counties, pursuant to a specified formula

SB 972 **Costa** **Public Works: Prevailing Wages.**
status: **09/28/2002-Chaptered by Secretary of State - Chapter No. 1048, Statues of 2002**
This bill excludes from the requirements of public works and prevailing wage laws: housing developments funded with below-market rate loans, if the occupancy of at least 40% of the units are restricted to tenants with incomes at 80% of the area median income or less for at least 20 years; Self-Help housing projects if the homebuyer perfoms at least 500 hours of construction work; repair or rehabiltation work of less than $25,000 performed on transitional homeless facilities operated by a non-profit entitiy; assistance in the form of mortgage assistance, downpayment assistance, or for the rehabilitation of a single family home; and the construction, expansion, or rehabilitation of an emergency or transitional housing shelter operated by a nonprofit organization, provided at least 50% of the total costs of the project (excluding real property) are derived from nonpublic sources.

Signing Message: To the Members of the California Legislature: I am signing Senate Bill 972, 1 am signing this legislation because it is a step in the right direction. However, there may be a need for clean-up legislation next year. Sincerely, GRAY DAVIS

1018

SB 1355 **Alarcon** Public **Works:** Prevailing Wages.
Status: **02/14/2002-To** Com. on **L.** & I.R.
This bill would have excluded from the requirements of public works and prevailing wage laws self-help housing projects financed pursuant to a specified statute, and would have specified that this provision and amendments made by a prior statute do not preempt local ordinances requiring the payment of prevailing wages on housing projects.

REDEVELOPMENT

AB406 **Diaz** Redevelopment.
Status: **02/07/2002-From** committee: Filed with the Chief Clerk pursuant to Joint Rule 56. **Died** pursuant to Art. **IV,** Sec. 10(c) of the Constitution.
This bill would have required redevelopment agencies to use not less than 25% of all tax revenue allocated to the agency for low- and moderate-income housing.

Smart Growth

AB 857 **Wiggins** Infrastructure Planning: Priorities and Funding.
Status: **09/28/2002-Chaptered** by Secretary of State - Chapter **No.** 1016, Statues of 2002
This bill (1) revises the contents of the State Environmental Goals and Policy Report; (2) revises the contents of the Governor's Five-Year Infrastructure Plan; **(3)** requires the Governor to develop a conflict resolution processes; and (4) extends the sunset clause for the land use dispute mediation process.

*Signing Message: To Members of the California State Assembly: I am signing Assembly Bill 857. I commend the authors for their dedication and commitment to the important environmental and long-tern planning needs of California. This bill establishes three specific planning priorities for the state, to be used in determining which state infrastructure projects should be financed. It further requires state agencies, when requesting such financing to state how projects would conform to these priorities. Finally, this measure requires my OPR to establish a protocol for resolving conflicts between state agencies, agency functional plans, or state infrastructure projects. To allay concerns about the bill's balanced implementation, I am directing OPR to implement the bill's three planning priorities and their effect on the infrastructure plan in a fair and equitable manner and to do so within existing resources. I ask that OPR, with the assistance of all state agencies, prepare the **2003** Environmental Goals and Policy Report and to examine conflicts, which may exist between and within state agencies and their policies and programs. I remain committed to seeing these important responsibilities through. Further, I am appointing members to the Planning Advisory and Assistance Council to assist my Administration in the completion of these various tasks and to ensure a comprehensive product, inclusive of local government and regional perspectives. Sincerely, GRAY DAVIS*

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