CHFA REPORTS

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State of California

MEMORANDUM

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CHFA Board of **Directors** **Date:** August 25, 1999

G Richard Schermerhorn, Director of Programs

From: CALIFORNIA HOUSING *FINANCE* AGENCY

Subject: *HELP* Program Report

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In the **CHFA** *Business* Plan, the Board approved an innovative financing program that was designed to provide affordable housing opportunities through program partnerships with local government entities, *HELP* (Housing Enabled by Local Partnerships) is a $20 million dollar a year, five year, experiment to provide financial support using a loan-to-locality format that provides 3% simple interest funds for up to ten years for local government designed and operated programs that are determined by locality affordable housing priorities.

FY 1998/99 Implementation

The first half of last fiscal year was spent on program development to include focus group meetings with about a dozen locality representatives. The first request for program proposals was mailed to local jurisdictions on January 12, 1999. We received eight applications requesting nearly $14 million against the available $10 million. Through our evaluation of the proposals and discussions with the applicant, we were able to fund all applicants with some receiving less than requested but sufficient monies to support their program proposal.

The second round of program funding was announced April 14, 1999. We received fifteen applications requesting slightly more than $24 million against the remaining $10 million availability. Eleven locality applications were selected, all of them receiving something less than their request but sufficient to support their program proposal.

Attached are summaries of the FY 19998/99 commitments and a brief description of the program objective, parameters and general considerations for local government program design.

Curre Status

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Commitment and Loan have been to the Program participants for their execution and program staff are working with the second round participants to their agreements.

The announcement for FY fund availability of $10 million is planned for September release.

HELP PROGRAM COMMITMENTS
FISCAL YEAR 1998/99 - ROUNDS 1& 2

Locality	Allocation	Nature of Program	No. of households to be served
City of Vallejo	$1,500,000	Short-term h e of credit for mortgage originations for very tow interest rate (1% to 5.5%), permanent loans for first-time homebuym	900
C i of Livermore	$450,000	Subordinate loans for low-income first-time homebuyers for acquisition and rehabilitation of single family homes	40
Sacramento Housing and Redevelopment Agency	$2,000,000	Bridge *financing* for acquisition and rehabilitation of highly troubled multifamily developments (defined as half-plexes to 100 unit developments	250
Housing Authority of the C i of San Luis Obispo	$500,000	Redevelopment funding for 2 affordable multifamily developments	30
City of San Jose	$2,000,000	Acquisition of *sites,* of which buildings will be demolished and replaced with affordable multifamily rental and ownership units	137
City of California City Redevelopment Agency	$1,000,000	Multifamily development construction loans for second phase of affordable rental unit development	43
Pasadena Community Development Commission	$1,000,000	Rehabilitation loans for owners of affordable multifamily housing	60
City of San Buenaventura	$1,550,000	Multifamily rehabilitation loan program administered by the City's housing authority	160
City of Santa Ana	$1,400,000	Multifarmly rehabilitation loan program for specific revitalization areas	500
Redevelopment Agency of the City and County of San Francisco	$1,400,000	Short-term bridge, prcdevelopment and construction financing for new multifamily housing	500
City of Long Beach	$1,200,000	Multifarmly acquisition and rehabilitation loan program for specific revitalization areas	78
Anaheim Housing Authority	$1,150,000	Multifarmly rehabilitation loan program for 4-8 unit apartments in specific revitalization areas	200
Alameda County Housing and Community Development	$1,000,000	Revolving bridge loan program for construction of affordable transitional multifamily housing on the naval *air* station	250
Housing Authority County of Kern	$750,000	Single family acquisition and rehabilitation program	10
City of Santa Barbara	$750,000	Multifarmly acquisition/rehabilitation and new construction program providing predevelopment, bridge and short-term permanent fmancing for affordabk units in a downtown revitalization area	76
City of West Sacramento Redevelopment *Agency*	$750,000	Multifamily/single family acquisition/rehabilitation loan program and job training construction program	340
Baldwin Park Redevelopment Agency	$600,000	loan for home	11
City of Calexico	$500,000	Subordinate loan program for 1st time home buyers	25
Lindsay Redevelopment Agency	$500,000	Rehabilitation and infill *new* construction loan program for 1st time home buyers	12

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HELP PROGRAM COMMITMENTS
FISCAL YEAR 1998/99 - ROUNDS 1 & 2

	COMMITMENTS		NUMBER OF	AFFORDABLE UNITS	
	(MILLIONS)	(PERCENT)	PROGRAMS *	(NUMBER)	(PERCENT)
MULTIFAMILY					
REHAB.	$8,720,000	43.6%	7	1548	43%
NEW	$6,330,000	31.7%	6	1014	28%
SINGLE FAMILY					
REHAB.		10.7%	5	87	2.4%
NEW	$1,070,000	6.4%	2	53	1.5%
EXISTING	$1,725,000	8.6%	3	920	25%
TOTALS	$20,000,000	100%		3,622	100%
RURAL (GOAL 20%	$2,750,000	13.8%	4	84	2.3%
OF FUNDS)					

*Some program are counted in multiple categories

CHFA

'HELP Program

(Housing Enabled by Local Partnerships)

Program Objective

To provide affordable housing opportunities through program partnerships with local government entities consistent with locality affordable housing priorities.

Program Parameters

Affordable Housing. HELP Program funds must be used to directly provide affordable housing units. Housing units must be affordable, with 'affordable" being defined in the context of the unmet housing needs and priorities of the locality. *HELP* Program funds may not be used for technical assistance or administrative *costs.*

Local Government **Involvement.** Local (defined as cities, counties, housing authorities, redevelopment development commissions, .) have a involvement with program. Local government entity involvement *can* include financial contributions of federal, State, and locality program funds, and contributions *such* as land write-downs, fee waivers, density bonuses, and local agency program staffing and administration, etc.

Affordable Housing KELP for use by local government entities for unmet affordable housing as by locality. Local government must how the local priority was established and approved. Commonly, priorities are demonstrated in Housing Elements, Consolidated Plans, *etc.* Providing that the local government entity program directly provides affordable housing and addresses an unmet affordable housing need, single family, multifamily, ownership and rental housing all examples of eligible activities, as acquisition, rehabilitation, infill, predevelopment, development, construction, code

Loan Repayment. HELP funds are available to a local government entity as a loan from CHFA for up *to* 10 years. The loan is 3% simple per annum, with repayment in full no later than 10 years the date of

Format. The *HELP* Program is primarily to use a loan-blender which the local entity contracts to CHFA the funds for it's stated purposes. The format does no require *that* the local government entity provide property or *other* resources as collateral. CHFA may consider a project-by-project approach that concurrence the local government entity and CHFA of *the* project and experience/financial of m the development and for securitization of property(ies) a loan guarantee to retire the CHFA loan.

General for Program Design

Proposal Limitations. Local government entity proposals for participation in the HELP Program are limited to no more *than* $2,000,000 per proposal. Applicants will also be limited to one approved proposal in each fiscal year (July-June).

Priority will given to that are: readily (local agency experience with the of staffing and administrat local *agency* financial capacity, *site* control, local programs in place, implementation plan, market and risk analyses, other financing sources in place, local government authority to proceed), 2) competitive in the relative impact, rather than just the total amount, that leveraging of locality funds, contributions, staffing and administration directly achieves the program objectives, 3) comprehensive in design (feature community building, participatory management or personal enrichment or support services, and 4)

Housing Elements. To in the to have housing conform with of Article 10.6 (commencing with 65580) of 3 of Division 1 of T i 7 of the Government Code. may provide evidence of compliance by submitting a letter of confirmation from the California of Housing and Community or may compliance.

Federal, State, and Local Requirements. Federal, State or local government requirements may apply. These requirements may include Davis-Bacon and/or State Prevailing Wages; Federal, State, or local alien/immigration verification procedures and eligibility; and Article XXXIV (34) compliance.

Rural Area *Goal.* A minimum of 20% of HELP funds is available for area proposals.

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OFFICE OF THE GOVERNOR

August 23,1999

GOVERNOR DAVIS ANNOUNCES $20 MILLION IN NEW STATE AND LOCAL HOUSING PARTNERSHIP AWARDS

SACRAMENTO - Governor Gray Davis today announced that the first $20 million of a 5-year, $100 million program in low-interest loans will be awarded to 19 local agencies by the California Housing Finance Agency (CHFA). These finds will be used to help finance a broad spectrum of single and multifamily housing projects. The approved loans range from $450,000 to $2 million, depending on the type and scope of each project, and are expected to assist more than 3,600 households.

"Increasing the supply of affordable housing is a critical component of sustaining a healthy economy," said Governor Davis. "Over the next 10 years, California is projected to add three million jobs and more than six million people, outpacing the rest of the nation in jobs, income and population growth. A number of studies show that throughout the State, Californians are being forced to spend a higher percentage of their income on housing. We must be creative in our efforts to forge new state and local partnerships to ensure that safe, decent housing is available for our working families."

Recipients of this finding include the cities of Santa Ana, Long Beach, Santa Barbara, Calexico, San Jose, Vallejo, San Buenaventura and Livermore; the Pasadena Community Development Commission; the Sacramento Housing and Redevelopment Agency; the Alameda County Housing and Community Development Department; the Housing Authorities of the Cities of San Luis Obispo and Anaheim, and Kern County; and the Redevelopment Agencies of Baldwin Park, California City, Lindsay, the City and County of San Francisco, and West Sacramento.

These loans will be funded through a newly created $100 million competitive program called HELP (Housing Enabled by Local Partnerships) available to all cities and counties throughout the State. HELP is structured as a "loan to lender" program, with CHFA providing a 3% simple interest loan to qualified local government agencies. Those agencies, in turn, become the lender, directly making loans for projects that address a community's unmet affordable housing need,

"The HELP program challenges local jurisdictions to determine their housing priorities and finding

capacity and to then design a strategy for addressing those issues," continued Governor Davis. "These loans provide local agencies flexibility in designing a program that will meet the needs of their specific community and a source of funds that can be combined with other local, state and federal funds to maximize leveraging opportunities."

Please See Attached List of Loan Recipients

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State of California

MEMORANDUM

To: Board of Directors

Date: August 6,

Ken

Kenneth R. Carlson, Director of Financing

From: **CALIFORNIA** HOUSING **FINANCE** AGENCY

Subject: OF SINGLE FAMILY BOND SALE

On July 29, 1999 the Agency delivered **$358,158,074.20** of single family bonds priced by the Agency and State Treasurer on July 21st. The issue had two purposes, as follows:

Bonds for New Issue

Lendable proceeds of approximately $100 million from Series D will be used to fund over home loans our lenders are originating at interest rates ranging from **6.50%** to **7.25%.** These bonds consist of three sub-series as shown in the table below. 1999 D-1 and D-2 are a combination of replacement refundings of prior bonds and new private activity bond allocation received from CDLAC in June. A portion of the D-2 bonds was issued as capital appreciation bonds *("CABs")* also known as "zero-coupon" bonds. A similar structure was used in the last two deals. Since mortgage interest payments will not be needed to pay the semiannual interest on the a larger portion of the total mortgage interest receipts can instead be used to help retire the taxable component. As a consequence, the taxables, comprising half of the Series D, can be retired more quickly and result in a lower overall cost of funds for the composite transaction.

This issue is our seventh utilizing a structure where the bonds are divided into four classes or each with separate credit ratings, as shown in the second table. Of the $100 million of bonds issued for new loans, $85 million is naturally rated by Moody's and Standard Poor's because of its senior lien position.

Notes to Preserve Tax-Exempt Authority

The $251,560,000 of 1999 Series E bonds was issued as a one-year callable note. The note consists of $158 million of new private activity bond allocation (remaining from the $189.9 million received from CDLAC in June) and $93 of replacement authority related to older CHFA bonds being on August 1. Over the next six to eight months we will use the refunding process to convert increments of the note into long-term tax-exempt bonds. In the meantime, the proceeds of the note will remain invested at an interest rate of 5.51%, resulting in valuable investment earnings. We expect to be able to retain approximately $3 million of these anticipated net earnings and plan to use them primarily to fund additional loans.

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Series F is a taxable convertible option bond included at the request of California Department of Veterans Affairs. This bond is similar to the one we did m for them and will another $6.6 million of tax-exempt authority until it is by their next bond issue. They will reimburse us for our costs associated with this series.

series	Amounts	Interest Rates	Maturities	Tax status
	$ 9,510,000			Non-AMT
1999 Series D-2	40,488,074	3.95-5.92%	8/1/01-2/1/31	AMT
Series D-3	50,000,000	6.88%	8/1/17	Taxable
Series E	25	3.40%	8/1/00	AMT
1999 Series F		5.70%	8/1/31	Taxable
TOTAL	$358,158,074			

CREDIT CLASS	$ AMOUNT	RATINGS Moody's	S & P
Class I	$84,998,074	Aaa	AAA
Class II	9,000,000	Aa2	AA
Class III*	6,000,000	Aa3	AA-
Class IV	258,160,000	MIG-1	SP-1+

* backed by CHFA general obligation

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State of California

MEMORANDUM

To: Board of Directors

Ken Carlson

Ken Carlson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Update on Variable Rate Bonds

Earlier this month we completed our normal semiannual redemption process as well as paid off bonds scheduled to mature on 8/1/99. The results of these standard processes reduced our variable rate debt (supporting fixed rate loan assets) by $19 million. This leaves CHFA with a total of $384.1 million of variable rate debt outstandmg that supports fixed rate loans. This represents approximately 6.5% of our indebtedness. As expected, most of this reduction ($18.6 million) was in the form of taxable variable rate bonds sold for economic refundings. Since these bonds are associated with older, higher interest rate loans, they were anticipated to prepay at a high rate, thus creating a "short average life" (and therefore less interest rate risk) compared to debt sold to fund new loans. As seen in the attached table, 65% of our remaining variable rate debt is in this "shorter average life" category.

As previously reported, we are working with our swap advisor and investment bankers to further analyze the extent of our existing internal hedges and the optimum size and most desirable of external hedging alternatives.

Most of our variable rate debt resets interest rates each week. Current interest rates on our taxable variable rate debt range from 5.05% to 5.30%. Our tax-exempt variables currently range from 2.70% to 3.00%.

Continuing our strategy of using variable rate debt for economic we anticipate selling approximately to million of tax-exempt variable rate bonds in conjunction with an economic refunding as part of our November single family transaction.

Comparison of CHFA Variable Rate Debt
(before and after recent redemption and debt service payment processes)

CHFA VARIABLE RATE DEBT
Prior to Redemptions and Payment of Debt Service

	Tax-Exempt	Taxable	Totals
Short Average Life	**$127.7** million	**$141.8** million	**$269.5** million
Long Average Life	**$13.6** million	**$120.0** million	**$133.6** million

CHFA VARIABLE RATE DEBT
As of **8/02/99** - After Redemptions and Payment of Debt Service

	Tax-Exempt	Taxable	Totals
Short Average Life	**$127.7** million	**$122.8** million	$250.5 million
Long Average Life	$1**3.6** million	**$120.0** million	**$133.6** million
Totals	**$141.3** million	**$242.8** million	**$384.1** million

'Excluding bonds sold to fund variable rate loans

VarRateBdReport899comb.xls
8/24/99

State of California

MEMORANDUM

To: Board of Directors

Date: August 25, 1999

From: Ken Carlson, Director of CALIFORNIA HOUSING FINANCE AGENCY

Subject: ANNUAL INVESTMENT REPORT

As you may recall, at the March 1995 meeting, the Board adopted an Investment Policy and asked me to return periodically with investment report. Attached for your information is the June 30, investment report for the 1998-99 year. This, the fifth such annual investment report, shows that CHFA moneys are invested conservatively and in accordance with the Board-approved Investment Policy.

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CALIFORNIA HOUSING FINANCE AGENCY

INVESTMENT REPORT

June 30,

SUMMARY

As of June 30, CHFA (including CaHLIF) had $7.1 billion of assets, of which more than $1.7 billion (24%) consisted of investments (not mortgages). For the fiscal year, CHFA/CaHLIF total revenues were $545 million, of which $92 million (17%) was investment interest income.

The following table shows what types of investments we hold for different categories of funds. Note that (as for the previous fiscal years) investment agreements *are* our most prevalent type of investment and are used exclusively for our bond funds. As before, our next most prevalent investment is the State's investment pool.

$ AMOUNT INVESTED (MILLIONS)

INVESTMENT TYPE	BOND MONEYS	NON-BOND MONEYS	TOTAL
Investment agreements	$1,123.0	-0-	$1,123.0
State investment pool	223.6	178.7	402.3
Securities	79.7	6.8	86.5
Money market and Bank deposits	85.0	6.0	91.0
Totals	$1,511.3	$191.5	$1,702.8

INVESTMENT AGREEMENTS

As stated in the Investment Policy, we normally invest bond moneys in investment agreements. Such agreements give us a high level of security of principal, a fixed rate of return to match the fixed cost of our debt, and complete liquidity so that we can use them like interest-bearing checking accounts and make deposits and withdrawals on short notice.

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The following table shows the types of bond moneys that are deposited into investment agreements.

INVESTMENT AGREEMENT BALANCES
(Millions of $)

	Bond Proceeds (For Loan Purchases)	COB and Note Proceeds	Reserve Funds	Debt Service Funds	Totals
Single Family	$249.5	$52.9	$130.0	$475.8	$908.2
ti y	161.8	0.0	15.5	37.4	
Totals	$411.3	$52.9	$145.5	$513.2	$1,122.9

The first two attachments show information about our $1.12 billion of deposits with financial institutions providing us with investment agreements. Note the high credit ratings of the institutions and the potential for collateral to be posted if these credit ratings were to fall below a threshold level.

STATE INVESTMENT POOL

As shown by the table on the previous page, we have $402.3 million invested with the State Treasurer in the State investment pool, which, over time, bas given us security, a fair return (5.134% as of June 30), complete liquidity, and administrative simplicity.

As stated in the Investment Policy, we mvest most non-bond moneys in the pool. The amount, however, fluctuates greatly each month, depending on what amount of loans was being warehoused. On June 30 loans totalling $60.8 million were being warehoused, and this amount was returned to the investment pool early in July as the accumulated loans were transferred to bond issues.

We also invest a significant amount of bond moneys in the pool, including Housing Assistance Payments moneys from HUD for the Section 8 projects, servicing impound account moneys and mortgage revenue for some of the older transactions.

SECURITIES

The third attachment displays information about the $86.5 million (amortized value) of securities we hold. The long-term securities were purchased for bond reserve accounts and selected with maturities generally matching those of the related bonds. Note that, because of today's relatively lower rates, the market value of the securities is more than $3.4 million greater than the amortized value.

This investment category includes $23.6 million of recently-acquired Fannie Mae and Ginnie Mae securities backed by our own single family loans. By exchanging CHFA loans for mortgage-backed Securities on an ongoing basis, we anticipate being able to fund an additional *$20* million of loans each year. The resulting securities are eligible investments for certain reserve accounts that are required under our single family bond indentures.

The commercial paper was purchased by our outside trustee (U.S. Bank Trust, National Association) for investment of certain escrow and program account moneys.

MONEY [illegible] AND [illegible] DEPOSITS

Our outside trustee sweeps overnight deposits into a treasury securities money market fund which was paying 4.17% as of June 30. The amount invested in the money market is larger than usual primarily because of the overnight deposit of moneys for July 1 bond redemptions. In addition, this category includes loan servicing revenues held in bank deposit accounts.

Attachments

CALIFORNIA HOUSING FINANCE AGENCY

FUNDS INVESTED IN INVESTMENT AGREEMENTS

TOTALS BY FINANCIAL INSTITUTION RATINGS

Moody's Ratings	Amount Invested 6/30/99	Percent of Total Invested
Aaa	$422,521,068	37.62%
Aal	41,173,259	3.67%
Aa2	19,966,662	1.78%
Aa3	639,337,087	56.93%
TOTAL	$1,122,998,076	100 100%

S & P Ratings		
AAA	$834,679,233	74.33%
AA+	106,615,291	9.49%
	9,062,236	0.81%
AA-	172,641,316	15.37%
TOTAL	$1,122,998,076	100 100%

SUMMARY OF CALIFORNIA HOUSING FINANCE AGENCY FUNDS DEPOSITED IN INVESTMENT AGREEMENTS - JUNE 30, 1999

INVESTMENT AGREEMENT PROVIDER	MOODY'S RATING	STANDARD & POOR. RATING	FUNDS INVESTED IN AGREEMENTS WITHOUT COLLATERALIZATION REQUIREMENTS	FUNDS INVESTED IN AGREEMENTS WITH COLLATERALIZATION REQUIREMENTS	TOTAL AMOUNT INVESTED
AMERICAN INTERNATIONAL GROUP MATCHED FUNDING CORPORATION (AIGMFC)	Aaa	AAA	$32,135,169	$109,871,734	$142,006,904
BANK OF AMERICA	Aa1	AA-	1,064,095	0	1,064,095
BANKAMERICA CORP	Aa3	AA-	1,613,515	0	1,613,515
BAYERISCHE LANDESBANK	Aaa	AAA	0	65,947,355	65,947,355
BERKSHIRE HATHAWAY	Aa1	AAA	910,991	39,198,174	40,109,164
CDC FUNDING	Aaa	AAA	0	45,002,616	45,002,616
CANADIAN IMPERIAL BANK	Aa3	AA-	0	9,897,753	9,897,753
CITIBANK	Aa2	AA-	15,436,825	4,529,836	19,966,662
CITICORP	Aa3	AA-	529,296	0	529,296
COMMONWEALTH LIFE	Aa3	AAA	0	6,630,000	6,630,000
FGIC CAP.MARKETS SERVICES	Aaa	AAA	0	118,382,870	118,382,870
MBIA INV.MANAGEMENT CORP.	Aaa	AAA	0	51,181,323	51,181,323
MONUMENTAL LIFE CO.	Aa3	AAA	0	33,142,816	33,142,816
SOCIETE GENERAL	Aa3	AA-	0	139,569,995	139,569,995
TMG [illegible] PRODU[illegible]	Aa3	AA	0	9,062,236	9,062,236
TRANSAMERICA LIFE CO.	Aa3	AAA	0	332,276,185	332,276,185
PACIFIC LIFE CO.	Aa3	AA+	0	106,615,291	106,615,291
TOTAL [illegible] TED [illegible] AG [illegible]			$51 6[illegible]9,[illegible]91	$1,071,308,184	$1,122,998,075

SUMMARY OF CHFA FUNDS INVESTED IN SECURITIES AS OF JUNE 30, 1999

TYPE OF INVESTMENT	PAR VALUE	BOOK VALUE	MARKET VALUE	WEIGHTED AVERAGE COUPON	WEIGHTED AVERAGE REMAINING MATURITY
S. [illegible] BONDS	$16,377,000	$16,310,613	$19,637,781	9.06%	14.97 Years
S. TREASURY BILLS	2,914,000	2,901,208	2,849,327	4.44%	0.10 Years
REFCORP BONDS	3,465,000	3,804,872	4,408,474	8.79%	21.25 Years
GNMA SECURITIES	17,805,061	17,760,300	16,453,441	10.50%	29.57 Years
FNMA SECURITIES	10,484,404	10,997,123	10,741,155	6.94%	22.81 Years
FHLMC SECURITIES	4,849,000	4,599,624	5,673,330	8.25%	16.93 Years
COMMMERCIAL PAPER	30,138,000	30,138,000	30,138,000	5.13%	0.11 Years
TOTALS . .	$86,032,464	$8[illegible],511,739	$89,901,507		

State of California

MEMORANDUM

To: Board of Directors
California Housing Finance Agency

Date: 24 August 1999

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

Subject: STATE LEGISLATIVE REPORT

It's been a relatively mild summer in Sacramento, but as the State Fair opens and the Legislature returns for their final weeks of session, things start heating up. Lots of issues left to deal with, and little time left to them. As the Governor head's into what us "leg rats" oh-so-affectionately call "the crunch," many believe he will have more than 1,000 bills to act upn. While the Governor currently has 12 days to act on each bill before him (no action on his part results in a bill automatically becoming law), any bill in his posession on September 1 falls into a different category, and his time is extended by 30 days. *An* important point to keep in mind if you are awaiting action and counting days.

I. CHFA [illegible] gisl

AB 1404 **(Dutra)** - would increase by **$2.2** billion **(to** *$8.95* billion) the limit *on* **the maximum** amount of debt CHFA may have outstanding. STATUS: Passed Assembly Housing and Community Development Committee **4/14/99 (9-2)**; passed Assembly Appropriations Committee **4/28/99 (21-0)**; passed the Assembly Floor **5/13/99 (56-13)**; passed Senate Housing and Community Development Committee **6/21/99 (5-0)**; passed Senate Appropriations Committee **7/112/99 (8-4)**; passed the Senate Floor **8/19/99 (28-5)**; **currently pending Governor's Action**.

II. Housing Bonds

AB 398 **(Migden) - would** *create* the **Housing and Homeless Bond** Act of **2000,** including **$600 million for various rental programs administered** by HCD, and **$150** million for the Home Purchase Assistance Program **administered** by CHFA, STATUS: Passed Assembly Committee **on Housing and** Community Development **4/14/99 (7-4),** passed Assembly Appropriations **5/28 (14-7)**; passed Assembly Floor **6/21/99 (45-20)**; pending before the Senate **Housing** and Community Development **Committee. (NOTE:** Of all **the**

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bond bills heard on the Floor that day, this was clearly the most contentious. Recognizing that a 2/3 vote was not attainable at this time, the author included language to make this a majority vote bill. The new language specifically states that notwithstanding any other provision of the bill, no funds can be created, no bonds sold, no appropriations made, no portion submitted to the voters, and no debt or liability created. By including this language, the bill was able to advance as a "placeholder" while discussions continue.)

SB 510 (Alarcón) - currently a spot bill stating the Legislature's intent to enact a Housing Bond Act. The author is currently having amendments prepared to split the bonds over four election cycles (November 7, 2000, November 5, 2002, November 2, 2004, and November 7, 2006) at $245 million each. The total amount of the four bond acts, if approved by the voters, would be $980 million. (Note: Similar to AB 398 above, in order to make the bill a majority vote vehicle and secure its passage from the Senate Floor, on July 12, language was added that declared that the w e n t provisions of the bill "shall not become operative and are for display purposes only, unless this provision is deleted or repealed." This allowed the bill to be taken up and passed off the Senate Floor by a majority vote.) While the distribution of funds is still being discussed, the initial break down contained in the bill is as follows:

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

STATUS: Passed Senate Housing and Community Development Committee 4/19/99 2); passed Appropriations passed the Senate Floor 7/15/99 (22-7); currently pending before the Assembly Housing and Community Development Committee.

m. Miscellaneous

AB (Torlakson) - would the authorization for the Tax Credit to allocate up to $50 million in low income housing tax credits.
STATUS: Passed Assembly Revenue and Taxation Committee 4/5/99 passed Assembly Housing and Community Development Committee 4/14/99 (11-0); passed Assembly Appropriations 5/26/99 (21-0); passed Assembly Floor 5/27/99 (79-0); passed Senate Housing and Community Development Committee 7/12/99 (5-0); currently pending on Senate Appropriations Suspense File.

AB 499 - sponsored by the California Association of Homes and Services for the Aging - would require the Department of Health Services to develop a demonstration project to test the efficacy of providing an assisted living benefit to low-income beneficiaries under the Medi-Cal program. STATUS: passed Assembly Health Committee 3/23/99 (5-0); currently pending on Assembly Appropriations Suspense File (2-year bill).

AB (Cedillo) - would create the Urban Initiatives Act to the reuse of buildings through the designation of urban incentive zones by the Trade and Agency and designation of qualified buildings by the affected local agency. in the bill include property tax relief and income tax credits for qualified buildings. STATUS: Passed Assembly Committee on Consumer Protection, Governmental Efficiency and Economic Development 4/6/99 passed Assembly Appropriations Committee 5/26/99 (15-5); passed Assembly Floor 6/3/99 passed Senate Housing and Community Development Committee 6/21/99 0); passed Senate Revenue and Taxation Committee 7/12/99 (5-0); currently pending before Senate Appropriations Committee.

AB 869 (Keeley) - would create the Community Reinvestment Act establishing a continuing and obligation for insurers to make economically targeted investments in low income and low income communities. STATUS: Passed Assembly Committee 4/14/99 (7-5); passed Assembly Appropriations Committee 6/2/99 (12-3); pending on the Assembly Floor Inactive File (2-year bill).

AB 942 (Dutra) - Previously a spot bill dealing with the importance of all levels of government and the private sector cooperating to ensure an adequate supply of housing is available to meet the needs of all Californians, recent amendments change focus and now require local enforcement agencies to post copies of repair notices in a conspicuous place on the property, and would further require the notice to identify the issuing agency, include information related to any related public hearing or proceeding, and state that the lessee retaliate against the lessor. STATUS: Passed Assembly Housing and Development Committee 5/12/99 passed Assembly Appropriations Committee 5/26/99 (consent); passed Assembly Floor 6/4/99 passed Senate and Community Development Committee 7/12/99 (5-0); passed Senate Appropriations 8/16/99 (on consent); pending on Senate Floor.

AB a spot bill *dealing* with the California Debt Limitation Allocation Committee and the state ceiling on private activity bonds. STATUS: Pending referral to committee (2-year bill).

AB 13%(Lowenthal) - would establishes criteria for HCD to consider when making loans from the Housing Rehabilitation Loan Fund to assisting help preserve affordability of multifamily housing units previously subsidized by the federal government. STATUS: Passed Assembly Committee on Housing and Community

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Development 4/14/99 (7-3); passed Assembly Appropriations 4/28/99 (14-7); passed Assembly Floor 5/24/99 (56-20); passed Senate Housing and Community Development VVke 6/21/99 (5-0); pending before Senate Appropriations Committee.

SB *73* **(Murray)** - would *require* state agencies to establish a minimum participation **goal** of not less than 30% for small **business** enterprises with **respect** to **contracts** for **construction,** professional services and other ***state* contracts** in *general.* STATUS: **Passed** Senate Governmental Organization VVke 3/23/99 (8-0); passed Senate **Local Government** 4/21/99 (4-1); **passed** Senate **Appropriations** *Committee* 5/28/99 (8-5) **passed** *the* **Senate Floor** 6/1/99 (24-14); Senate Local Government VVke 7/8/99 (5-3); **currently pending** before senate **Appropriations** committee.

SB **948 (Alarcón)** - amends the Ellis Act regarding the withdrawal of rent-controlled housing units from the market. **Passed** Senate Housing and Community Development 4/7/99 (5-0); passed Senate Appropriations VVke 7/29/99 (on consent); passed Senate Floor 5/6/99 (21-13); passed Assembly Local Government 7/12/99 (6-3); currently pending before Senate Appropriations Committee.

SB 1121 **(Alarcón)** - sponsored **by HCD,** streamlines existing multifamily categorical programs into a single, consolidated program. STATUS: Passed Senate **Committee on Housing** and Community Development 4/19/99 (7-0); passed **Senate** Floor 5/6/99 (23-6); passed Assembly Housing and Community Development 7/12/99 (6-2); currently pending before **Senate** Appropriations.

MEMORANDUM

To: CHFA Board of Directors Date: September 7, 1999

From: G Richard Schermerhorn, Director of Programs
CALIFORNIA HOUS FINANCE AGENCY

Subject: Preservation Status Report

The purpose of this memo is to update preservation program and initiative information provided to the Board during the past few months and to include the results of numerous staff discussions and meetings regardmg the current state of the preservation market.

The CHFA Business Plan recogmzes two definitions of "preservation". For general program purposes, we have defined preservation as "the co-option of any existing housing for affordability" whch would include the acquisition/rehab of a current market rate project to affordable use. Within the broad definition we recogmze "at-risk" preservation as the potential loss of any currently subsidized affordable housing.

<u>BACKGROUND</u>:

The current attention and interest in affordable housing preservation is not new. In the mid-1980's, the state legislature generated some 30 bills in response to a similar housing preservation problem but stepped back from the issue when HUD implemented the federal Emergency Low Income Housing Protection Act (ELIPRA) and the Low Income Housing Preservation and Resident Act (LIHPRHA) provided funding for projects at risk. These federal initiatives terminated approximately two years ago. California has some subject to ELIPRA or Plans of Action whch were designed to assure an additional 20-50 years of affordability.

In the meantime, the project based Section 8 subsidy contracts covering approximately 114,000 units in California were reaching their 20 year expiration period. Attached is the latest report from the California Housing Partnership Corporation regardmg Prepayments Initiated or Completed in California. In his parting report to the Legislature's Preservation Working Group, Bill Rumpf reported that nearly 17,000 units are opting out of the Section 8 program and he projected that the number will double within the next five years.

1027 Over the past two Board meetings, information has been presented regarding a number of program activities and initiatives underway recognizing the current at-risk preservation problem to include:

FEDERAL INITIATIVES:

Multifamily Assisted Housing Reform and Affordability Act (MAHRA) (also known as Mark-to-Market) - Federal law passed in October 1997 designed to restructure the financial structure of projects with Section 8 contracts that exceed market rents.

Mark Up To Market (HUD Notive H-99-15)- allows projects to receive an increase in Section 8 project-based rents if the projects are:

a) owned by a for-profit entity,
b) eligible to opt out,
c) rent comparable study shows that surrounding market rents are higher than the contract rents and higher than 110% of the HUD Fair Market Rent (FMR). Requires owners to agree to 5 years of contract renewals, subject to appropriations.

Tech Assistance Grants (ITAG) - finded by HUD and administered by the Low Income Housing Fund (UHF) provides grants up to $75,000 for resident capacity-building and predevelopment finds for potential acquisitions of properties with Section 8 rents above 100% of FMR.

Outreach and Training Grants (OTAG) - HUD has selected three California organizations (Coalition for Economic Survival, California Coalition for Rural Housing Project, and Housing Rights Commission of San Francisco) to perform tenant outreach and training in Mark-to-Market eligible projects.

STATE INITIATIVES:

HOME Preservation Program - California Department of Housing and Community Development (HCD) issued a NOFA March 30, 1999, reserving up to $6 million from the state HOME allocation for acquisition, rehabilitation and other costs. Projects must be in areas not receiving a direct HOME allocation.

HCD Acquisition/Rehabilitation Program - The FY2000 budget signed by the Governor included $2.5 million for predevelopment loans and technical assistance for at-risk units and $6 million for a broad-purpose acquisition/rehab program. HCD issued a NOFA August 12, 1999, offering $1.4 million of the $2.5 million for preservation and acquisition loans under HCD's Urban Predevelopment Loan Program (UPLP). These loans would be for predevelopment purposes for up to three years at a 3% interest rate for local governmental agencies, nonprofit corporations and limited partnerships where all of the general partners are nonprofit mutual or public benefit corporations. HCD has also issued a NOFA offering $470,000 for technical assistance and tenant education purposes.

California Debt Limit Allocation Committee (CDLAC) - has recognized preservation of at-risk housing as one of the priority allocation factors. In March 1999, allocated tax-exempt bond authority to acquisitions involving approximately units of HUD assisted housing.

California Tax Credit Allocation Committee (CTCAC) - the Qualified Allocation Plan (QAP) has included a 10% apportionment for at-risk units.

California Notice Reauirement Amendments - SB 1205 modlfied the state requirements for notices to cities and tenants regardmg of Section 8 or prepayments and the state's right of refusal law.

California Housing Finance Agency (CHFA) - $20 million first mortgage loan program at 5%, 30 years, fixed rate for qualified non-profit borrowers acquiring/ rehabbing at-risk projects. The Agency also budgeted $15 million for transition support purposes.

There has been considerable uncertainty and discussion the past two years regardmg the extent of the preservation problem and what should be done. The majority of the at-risk units are in HUD's portfolio whch accounts for annual subsidles to California projects estimated in excess of $500 million. The initial federal response was the Mark-to-Market program but it quickly became clear that only a small percentage of HUD's California portfolio would be affected as most of the Section 8 contracts in the state were at or below current market rates.

Last year we attempted to provide a taxable mortgage for preservation financing purposes but the marketplace was uninterested. At the time the buyer-seller activity was focused on projects in markets that had appreciated beyond HUD's fair market rents. From last year's focus group meetings we learned that many owners were still weighing their options to include waiting on any HUD decision that might offer inducements to remain in the Section 8 program.

This past year, HUD did respond to the opt-out issue with the Mark-Up to Market Program whch, although limited in funding and applicability, represented a major policy shift towards the preservation of their portfolio.

In response to addltional input from our clients early this year, we narrowed our loan focus for this year's Business Plan offering a 501(c)(3) long term, fixed rate first mortgage at 5% for qualified non-profit borrowers. The objective was to provide a financing vehicle that did not require the use of the limited Private Activity Bond resource and could also lower debt service costs to something equivalent to a 4% tax credit transaction.

1029 UPDATE:

Following the Board's preservation workshop meeting in July, staff conducted a series of discussions with clients and industry experts regardmg the current status of the preservation market, the applicability of our current loan programs and solicited input regardmg any addltional support we might provide.

During the preservation workshop, it was noted that in addltion to the HUD Section 8 inventory, there are approximately 27,000 below-market local bond financed units with more than half expiring by next year. The question was raised whether high interest rate local agency financings done in the mid-to-late 80's may still be outstandmg and in need of refunding. Accordmg to the industry experts including the market-share leaders both in local agency multifamily bond underwriting and financial consulting, virtually all of these high interest rate transactions have already been refunded. According to these private sector sources, the industry has already sought out these projects and provided its services to the borrowers.

We also conducted interviews with more than a half dozen Southern California affordable housing developers as well a focus group meeting with a dozen Northern California non profit sponsors. At the focus group meeting, a local government housing representative noted that his community had made efforts to intervene with the expiring local bond financed projects to extend their affordability and was told by owners..."We're counting the minutes until the regulatory agreements expire".

The following are the highlights of our discussions with sponsors regardmg the current state of the market:

* Although there is interest by non profits in acquiring at-risk projects on a case by case basis, they find it extremely difficult to pursue the acquisition of at-risk projects because real estate transactions are currently all cash in 60-90 days. They say it takes at least a year to put together the necessary layers of financing to support the purchase and rehab of a project. One non profit representative stated that he only has so much time and resource and that it makes more sense for them to put it into a known end result such as new construction than expend the time and energy for deals that won't work.

  The non profits also report that conventional lenders are more cautious about financing acquisitions limiting transactions to 80% LTV and requiring acceptable take-out financing plans.

* The general availability of locality money is either reduced or non existent. Locality set-asides funds have been substantially utilized and the annual availability is now less than half of the funding levels of the past few years.

* Although opt outs are continuing particularly in escalating rental markets, there are a number of owners still holding on to properties as they are uncertain as to the tax impacts and they see Section 8 subsidles continuing possibly approximating street

rents.

* Although rents and market values for rental housing are increasing in many California markets, there are some signs of slow down and even softening. The consensus of the sponsors is that market rents will generally continue up for the next couple of years.

* There is some tenant displacement occuring in the Southern California markets where tenants losing their project based support in markets with higher rents are forced to leave the area and find projects accepting vouchers. The problem is not as wide spread as in Northern California but it is growing. With the large inflow of low-income tenants into Southern California, the sponsors believe it will be an increasing problem.

* Although there is some interest in the long term 501(c)(3) financing structure, non profit sponsors agree that they suffer from a lack of acquisition financing. The bond/tax credit structure is preferred for permanent financing as tax credits provide a source of rehab funds, but sellers are not willing to wait for the time it takes to put the permanent financing pieces together.

The sponsors and developers generally agreed that there is a serious preservation problem particularly in the very high cost areas but there is no single solution. In fact, it is their view that HUD's rethinking of support for its portfolio has taken some pressure off the opt out problem as owners re-evaluate their circumstances. They also believe that there will continue to be acquisition opportunities on a selective basis, however marginal projects with substantial rehab needs will probably not work. And the single most requested addltional tool is a source of acquisition funds for 60 day acquisitions.

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Federally-Assisted Multifamily Housing Prepayments Initiated or Completed

State of California

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County	Prepay/Opt-Out Initiated	Prepay/Opt Out Complete	Total Units
Alameda	299	640	939
Butte		106	106
Contra Costa		82	82
Del Norte		60	60
El Dorado		100	100
Glenn		10	10
Imperial	31		31
Kern	60	250	310
Los Angeles	2,979	3,707	6,686
Merced	46	50	96
Monterey	62	17	79
Orange		716	716
Placer		184	184
Riverside	241	483	724
Sacramento	170	964	1,134
San Bernadmo		432	516
San Diego	1,076	1,507	2,583
San Joaquin	80	66	146
San Mateo		280	280
Santa Clara		900	900
Santa Cruz	78		78
Shasta			
	28		28
		363	363
Sonoma		225	225
Tulare	64	48	112
Ventura		211	211
Yolo		95	95
TOTAL UNITS	5,298	11,586	16,884

Note: The Prepay/Opt Out Complete total includes 1,203 units acquired by purchasers that are subject to tax credit and/or tax-exempt bond regulatory restrictions.

California Housing Partnership Corporation

August 20, 1999

Note: This data is b a d on information compiled by HUD field offices. It is quite likely that figures above understate the number of uniu prepaid and convened to market-rate use. These figures will be updated quarterly.

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