STATE OF CALIFORNIA
CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS
SPECIAL MEETING

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Tuesday, April 23, 2013
10:00 a.m.

Minutes approved by the Board
of Directors at its meeting held:
November 12, 2013

Attest: [Signature]

Reported by: DANIEL P. FELDHAUS
California Certified Shorthand Reporter License #6949
Registered Diplomate Reporter, Certified Realtime Reporter

Daniel P. Feldhaus, C.S.R., Inc.
Certified Shorthand Reporters
8414 Yermo Way, Sacramento, California 95828
Telephone 916.682.9482 Fax 916.688.0723
FeldhausDepo@aol.com
CalHFA Board of Directors Special Meeting – April 23, 2013

APPEARANCES

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
President/CEO
Self-Help Enterprises

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

RUSSIA CHAVIS
for Brian P. Kelly
Acting Secretary
Business, Transportation & Housing
State of California

JANET FALK
formerly Vice President of Real Estate Development
Mercy Housing

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

MATTHEW JACOBS
Co-Managing Partner
Bulldog Partners, LLC

TIA BOATMAN PATTERSON
General Counsel
Sacramento Housing and Redevelopment Agency

JACK SHINE
Chairman
American Beauty Development Co.
APPEARANCES

Board of Directors Present
continued

LAURA WHITTALL-SCHERFEE
for Randall Deems, Acting Director
Department of Housing and Community Development
State of California

--o0o--

Participating CalHFA Staff

VICTOR J. JAMES II
General Counsel

JAMES S.L. MORGAN
Acting Chief
Multifamily Programs

JOJO OJIMA
Office of the General Counsel

--o0o--

Public Testimony

DAVID MADRIZ
California Housing Advocate

--o0o--
## Table of Contents

<table>
<thead>
<tr>
<th>Item</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Roll Call</td>
<td>5</td>
</tr>
<tr>
<td>2. Chairman/Executive Director Comments</td>
<td>6</td>
</tr>
<tr>
<td>3. Update, review, discussion, and consideration of current status of Governor’s Reorganization Plan II, with regard to California Housing Finance Agency and Department of Housing and Community Development</td>
<td>7</td>
</tr>
<tr>
<td>4. Discussion of other Board matters</td>
<td>48</td>
</tr>
<tr>
<td>5. Public testimony: Discussion only of other matters to be brought to the Board’s attention</td>
<td>48</td>
</tr>
<tr>
<td>David Madriz, California Housing Advocates</td>
<td>48</td>
</tr>
<tr>
<td>6. Adjournment</td>
<td>50</td>
</tr>
</tbody>
</table>

Reporter’s Certificate                                               51
BE IT REMEMBERED that on Tuesday, April 23, 2013, commencing at the hour of 10:03 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

--oOo--

CHAIR CAREY: We are officially in session. And I would like to welcome everyone to the special April 23rd meeting of the California Housing Finance Agency's Board of Directors.

--oOo--

Item 1. Roll Call

CHAIR CAREY: Our first item of business is roll call.

MS. OJIMA: Thank you.

Ms. Falk?

MS. FALK: Present.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

(No response)

MR. HUNTER: Mr. Jacobs?

MR. JACOBS: Here.

MS. OJIMA: Ms. Chavis for Mr. Kelly?

MS. CHAVIS: Here.
MS. OJIMA: Ms. Carroll for Mr. Lockyer?

MS. CARROLL: Here.

MS. OJIMA: Ms. Patterson?

(No response)

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

(No response)

MS. OJIMA: Ms. Whittall-Scherfee?

MS. WHITTALL-SCHERFEE: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Ms. Matosantos?

(No response)

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Here

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Good.

--000--

Item 2. Chairman/Executive Director Comments

CHAIR CAREY: All right, the next item of business is Chair/Executive Director comments.

I will defer and turn the microphone to our
Executive Director.

MS. CAPPIO: And I will hold my comments until the next item.

CHAIR CAREY: Great.

--oOo--

Item 3. Update, review, discussion, and consideration of current status of Governor's Reorganization Plan II, with regard to California Housing Finance Agency and Department of Housing and Community Development

CHAIR CAREY: Okay, with that, we'll move on to the update, review, and discussion of the Reorganization Plan.

MS. CAPPIO: Good morning.

I appreciate the opportunity to meet with the Board today.

We are in the midst of some intricate discussions on how to better align and coordinate housing programs and services for Californians.

The Board has an important role in this effort. And we thought that a more focused meeting would give us all more time to dive in and have a more substantive discussion than likely could be had at the May Board meeting, where the agenda is already full.

To begin, I want to be clear that we are not
expecting any type of formal action today but, rather, comments, concerns, suggestions, and questions about what we’ve outlined in the staff report.

The Governor is in the midst of reviewing a proposal; and we cannot fully present that until they have completed their review. But we thought that we would build on the September staff report, where you originated discussed the Governor’s Reorganization Plan, the Little Hoover Commission testimony, and our work to date; and have a more substantive discussion. What we can talk about is how it would really work, in terms of realigning certain functions and better coordinating certain activities.

We wanted to go deeper into some of those general principles. And we are still operating with consistency to the Little Hoover Commission testimony and the overall scope and premise of the Governor’s Reorganization Plan.

What we’ve been focusing on during the last few months is how we can actually work together -- day-to-day operations, functions, what we share now, and what could be more efficient, what we can build on, and how we can increase capacity if we worked better together.

We have gone into that in lurid detail. And
given the general constraints and established statutory frameworks that CalHFA works within, we need to make sure that the Board has an opportunity to review and consider these issues and give us feedback.

In short, I can just safely say, this is a work-in-progress.

Before I get into the specific issues, I want to give the Board a sense of the process from here on out.

We are still on target to move into the new Business Consumer Services and Housing Agency on July 1, along with HCD.

In practical terms, that means that eventually, we'll be working with a different cabinet secretary and within a new agency. And BT&H, as we've known it, will be split up, and Transportation will become its own agency.

As we continue to work with the Governor's office, we will eventually finalize the PID, or "project implementation document." And there may be legislative changes as part of this. We don't know that. And we will definitely have some, probably technical cleanup changes and other non-substantive changes just to make everything fit together.

Once we have sign-off on a Governor's office
reorg. proposal, we will be back to the Board for final review and confirmation.

Now, onto the issues.

I’m going to generally outline these issues, and I believe probably, I should say, go through them; and then we could go through them one by one, or however the Board desires to do this.

First, as we’ve worked together with HCD as a joint executive team these last couple of months, what we have found is that we’ve been able to capture joint principles and other overall goals and objectives that we share.

There is a better -- there is a more detailed discussion as Attachment A to your staff report. But in brief, we believe that a better coordination of housing activities will produce better services and programs; that the connections we’re able to make with other initiatives of this administration, such as smart growth, greenhouse gas reduction, and reduction in vehicle miles traveled, points directly to being more targeted and policy-focused.

We believe we can improve asset management and financial assistance; and in that way, build a better stock of housing for all Californians who need it.

Secondly, we’ve been keenly aware that CalHFA’s
financial and operational independence has to be maintained in this effort. Our principles as outlined in the September 2012 staff report are that CalHFA will remain completely self-supporting; that the Board will continue to administer the Agency with primary budget and financial responsibilities; that CalHFA, so as to remain and retain its financial effectiveness and integrity, will continue to be responsible for critical decisions that affect the performance of the Agency, namely, those that have to do with debt obligations and attracting new capital; and that the Executive Director will continue to be appointed by the Governor for a five-year term.

Any anticipated statutory changes are not expected at this point to interfere with these basic principles.

Third, both CalHFA and HCD, in working together, have reviewed its major functions, both separately and jointly. And we have preliminarily determined those areas that can be integrated immediately and those areas that require further work, so that we can collaborate and consolidate as fits.

There's also a third bucket, where there's those functions that are unique to each agency and we don't believe have a lot of integration potential and, therefore, will remain essentially separate.
I'll note to you that we're looking at this reorganization effort as essentially remaining separate and independent entities, but having interagency agreements or other ways that we can work together to form a better consolidation of efforts in the affordable housing realm.

To date, this effort so far is depicted in Attachment D to your staff report. It's a chart. And as depicted, marketing and communications, housing policy and development are shown to be immediately integrated, along with legislation. We can begin, and we have been working on, fully integrating these departments — meaning, that they will be merged and work for both entities.

The next set of functions represents a work-in-progress, and a lot more work in order to get it right. Single-family programs and lending, multiple family programs and lending, and asset management will be further vetted to look at how and in what ways we work together, and how that will look, likely being formalized through an interagency agreement.

Those areas that will remain separate include Financing, Fiscal Services, and Accounting, Single-Family Portfolio Management, Codes and Standards on the HCD side, and Internal Audits on the HCD side.
I think when you're looking at how to work better together and more closely together, we've tried to really work on the definitions of what we mean by "integration" and what we mean by "consolidation" or "collaboration."

In all cases, we are assuming, again, as I have noted, that we will remain formal and separate entities, so that staff will either be employed by CalHFA or HCD.

On those functions where we share teams or working groups, we will develop a cost-allocation system to carefully track expenses and staff time. The system is particularly important for CalHFA because we need to demonstrate through our annual auditing process and other cost-containment systems that we are spending CalHFA resources on CalHFA activities.

Reporting relationships within those working groups or teams will be based on an already-established lead concept. There will be a lead person designated for that working group, and that person will be responsible for the work, and making sure that the members of the team are working well together.

As I mentioned, in the integration concept, we expect a fully integrated team, that we will merge until those functions are fully integrated, and then serve both teams.
For collaboration, again, mostly we are looking at interagency working groups being formed.

It's important to note, again, that CalHFA's funds, we are anticipating, will not be used to support HCD's operations. Thus, the Agency's finances will not be put under further stress.

In terms of conflict resolution, which is an important piece of any working together -- at least when you're still getting along, working out how you'll resolve conflicts while you're still getting along -- I have often thought that divorce proceedings should occur in the first part of a marriage, not the last. But at this point, what we are looking at is that those conflict-resolution procedures will be part of any formal interagency agreement; and there has to be a way to vet those tensions, they will necessarily be present when we look at a loan or another project; because we both come from different value sets. That will have to be worked through within the interagency agreement.

At the end of the day, what I will note to you, though, is that as recommendations come up through those working groups, they will be vetted independently by HCD or CalHFA. So in other words, if there is a loan and CalHFA has a loan in the deal and HCD has a grant or subsidy in the deal, hopefully, that final deal will be
agreed upon, and then separately acted by you as the Board or me as the Executive Director, if it’s less than $4 million; and similarly, through the HCD process, which they have a loan and grant committee, ultimately signed off on by the Executive Director.

If there is a conflict, we’ll have to follow the conflict-resolution procedures.

Lastly, and just to note to you before we get into the discussion, we will be housed in separate offices. We have a long-term lease at 500 Capital and in West Sac; and HCD has to move out of their offices in June or July because they’re currently owned by PERS, and PERS needs the space. So they have entered into a long-term lease in Sacramento, in the Natomas area. So we will be essentially separate, but we will be still working together, but that will present necessarily practical considerations.

And finally, in this effort, we’ve been able to talk with, and will continue to talk with states that have gone through similar efforts recently, most notably, Louisiana and New York. They have insights and comments that I think would be very informative and helpful.

With that, that ends my presentation.

But I would be glad -- Chair, I don’t know how you want to do this, maybe take them one by one -- the
issues one by one, and see if there's any concerns or
discussion about them.

CHAIR CAREY: Will that work?

MR. GUNNING: Yes.

CHAIR CAREY: Okay, sure.

MS. CAPPIO: So, first, overall shared goals
and objectives. Pretty self-explanatory. But that's
what -- we've been working with that list; and,
obviously, it may expand over time. But we think we have
a solid basis for mutual and shared objectives.

Secondly --

CHAIR CAREY: Do you have a sense of what --
how would you envision that first point in the shared
overall, in terms of elevating affordable housing's
presence in state policy?

MS. CAPPIO: I think a unified presence with
us with a single executive leadership team, as we are
formulating, would be better coordinated and better able
to respond to legislative inquiries or Governor's office
inquiries. And we know more about what each other is
doing by the mere nature of working together.

CHAIR CAREY: HCD has had a sort of traditional
role in some issues licensing housing element
enforcement.

Do you see that changing in any way?
MS. CAPPIO: No. That would remain an HCD function.

CHAIR CAREY: Okay, great.

MR. GUNNING: Mr. Chairman?

CHAIR CAREY: Yes, Mr. Gunning?

MR. GUNNING: And I don't know how to say this, but just to say it; but as you described that, the phrase "separate but equal" pops into my head. And we know that didn't work.

And so can you help me understand why this is different, and why this isn't separate but equal?

MS. CAPPIO: I think that because of the statutory constraints that CalHFA now has, we need to develop firewalls as necessary in order to maintain our separate and independent authority. That doesn't mean that we are in a box, not sort of understanding or in any way interested in what else is happening.

We have worked together for years -- both agencies have worked together for years. Some of that work has been very good.

I'm interested in institutionalizing the best parts of that good working relationship, and being able to resolve conflicts in a more positive way than has been from time to time demonstrated by both agencies.

And I believe that those walls, once we are
working together regularly, particularly as a unified executive team, will be breaking down. This is about breaking down silos and working better together.

Does that help you?

MR. GUNNING: It’s getting there.

MS. CAPPIO: Okay.

MR. GUNNING: Let’s keep talking about it.

CHAIR CAREY: One question -- go ahead, Janet.

MS. FALK: I’m just going to throw this out there. I understand why CalHFA has to be separate.

Why not just merge HCD into CalHFA? It seems to me that there’s -- what you’re creating is just like more work. It’s not simplifying things because you’re invoicing each other and all of this -- I mean, there are separate approvals.

MR. JACOBS: But the rating agencies won’t -- I mean, will the rating agencies be okay with that?

MS. FALK: I’d really like to understand the basic rationale for why that hasn’t happened.

I understand why CalHFA can’t become part of the State agency; but why can’t it go the other way?

MS. CAPPIO: We run on different fuel. We run on -- we are total self-supporting and not subject to any budgetary or any other influence of the State.

If we merged, that would be a factor we’d have
to deal with; and definitively, that would potentially affect our ratings with the bond-rating agencies.

MS. FALK: But don’t many states have all of their housing functions in one agency?

MS. CAPPIO: Yes.

MS. FALK: So a housing finance agency and performs the function -- you know, allocates tax credits and does grants and other things.

So how do they do it?

MS. CAPPIO: They're statutorily established differently.

And, Victor, do you want to chime in here?

MR. JAMES: Sure, yes. The fundamental differences are the means by which, as Claudia said, we're fueled differently. The fundamental means by which each is funded is from a different source. CalHFA is, of course, funded through the commercial market, selling bonds in the private sector; and it feeds itself on the difference between what it borrows money for and what it lends money for. And we have our own independent credit rating for those reasons.

And as opposed to HCD, which is funded by way of grants or Propositions 1C and 46. And they are also controlled through the General Fund statutorily, and are subject to all of the State regulatory requirements with
regard to appropriations of staffing, and also those
limitations imposed by outside forces with regard to
grants, the source of revenue that they receive.

And their fundamental model is, of course, just
different in the way they administer their grant
programs, their financing programs. And so you would be
taking what is a traditional governmental construct and
placing it in a component unit, a non-governmental, or
at least not completely governmental construct, which
would offer a lot of questions -- arguably confusion --
over how that single budget would be allocated, because
you would be part state government appropriation process
and part not. Because as the Board well knows, all
CalHFA's operating budget comes to the Board, and the
Board sets its staffing levels; as opposed to HCD, whose
staffing level goes through the legislative process and
through the Governor's State Budget Act.

So those practical kinds of concerns with basic
operational differences are quite large.

The other entities that Ms. Cappio mentioned,
both Louisiana and in New York, are two interesting
models that we will look at.

(Ms. Patterson entered the meeting room.)

MR. JAMES: In New York, what they did was they
integrated, or more collaborated, between five or so
entities. They've put them together, but they still remain separate in their financial obligations, their financial operations. The City of New York's Housing Finance Agency is still a separate entity. And they have a shared CEO, but they don't share financial statements. And they have shared administrative services, some of the personnel services and other basic administrative services. But they otherwise remain separate to ensure the integrity of, I guess, the confidence of the capital market with regard their bond issuances. I presume that's their policy decision for doing so.

Louisiana has done a complete merger, which is recent. But the other big, big difference with Louisiana and us, in particular, is that with Louisiana, their bond issuances are individually rated. And our capital structure includes a general obligation, as you all know. Our Housing Finance Fund has its own obligation, its own rating, and we obligated that in many of our indentures.

And so the capital market looks at our ability to manage our risks in our financial structure and our capital structure generally as an entity. And to the extent that that would be as is pointed out in the memo that Claudia has prepared, to the extent that that would be politicized in some way with regard to the traditional state budgeting process, it would make it unsettled and,
thus, not have the stability that the capital market wants and needs.

MR. JACOBS: Are we going to run this sort of final plan by the agencies before we, as a board, vote? Run this by the credit agencies, just to make sure they're kind of comfortable with the split?

MR. JAMES: I'm sorry, could you repeat --

MR. JACOBS: Are we going to run our final plan by the credit agencies just for their kind of blessing, before we as a board vote on it?

MR. JAMES: Well, we hadn't thought about running it by the credit agencies. I imagine we could raise it with them. But we are talking to our auditors and our outside counsels. They are also -- the auditors, in particular, are very, very critical to this process.

MR. JACOBS: Right.

MR. JAMES: Because all of our indentures and all of our other debt obligations have to meet Governmental Auditing Standards. And so they need -- and those have specific requirements that deal directly with this board's independence, separate from that State Budget Act process.

And to the extent that that is interfered with in some way, it would make it problematic for an auditor to reach the findings that we meet those auditing
standards which satisfy our indenture requirements.

MR. GUNNING: But on the same hand, too, is point -- I mean, as we go forward and because of the scrutiny between the two agencies, some sort of letter or some sort of heads-up that we're doing this would make sense, or at least some outreach.

MR. SHINE: From the agencies -- from the rating agencies?

MR. GUNNING: To the rating agencies, that the State of California is considering this, would this have an impact, do you care, do you want to know?

MR. JACOBS: But, yes, these are not state obligations; this is an independent agency.

MR. JAMES: Right.

MR. JACOBS: Just to make it clear.

MR. JAMES: Right, right.

Well, and also, to be clear, frankly, we've just recently issued a preliminary official statement on a refunding that we recently did. And we've addressed that.

And at this point, as Ms. Cappio has said, the statutes haven't changed. Our statutory authority and our independence under our statutes haven't changed. So, I mean, we're making those representations right now.

We will continue to apprise -- we can
affirmatively reach out to them and let the rating agencies know, "This is the structure." But as I said to you, we have already reached out to our auditors and our outside attorneys.

And as we refine this process, we'll reach out to them; and as we get closer to a more definitive construct of what that looks like, we will certainly reach out to them.

MR. GUNNING: But the reorg. was written up in the OS, and so they're aware of it? The rating agency was aware of it?

MR. JAMES: Well, the reorg. wasn't written up, meaning, restated in the OS?

MR. GUNNING: Yes.

MR. JAMES: No, no, it wasn't.

MR. GUNNING: So that we're going through this process, none of that was in the official statement?

MR. JAMES: I honestly can't recall whether we expressly said that there is this Governor's reorg. going on.

I think we did. I think we did refer to it. But I am certain that what we said was that -- we must have referred to it, because I'm certain that what we said is, there is no statutory change to our statutory independence.
MS. CAPPIO: And through the Chair, Board Member Gunning, I will also note to you that we’ve been keeping the ratings agencies informed. We talk to them all the time.

MR. GUNNING: Okay, that’s the answer. That’s the answer.

MS. CAPPIO: That may be just part of the job at this point in our rating history. And they have been very inquisitive, and asked some pointed questions about that. So they’re very interested in maintaining the management capacity and structure of CalHFA, because it’s been solid through the storm that we have been through. So they’re highly aware.

MR. GUNNING: So let me follow up on Janet’s question.

So Louisiana didn’t work.

What was the other example?

MR. JAMES: New York.

MR. GUNNING: New York?

And then that doesn’t give us a different integration model that could work?

MR. JAMES: Yes, New York has remained separate in its operations. Its financial and operational -- it has remained financially and organizationally separate as an operation, as an ongoing concern from that entity that
it is a part of.

MR. SHINE: So is it fair to say that unofficially, you have an open line of communication with the rating agencies, and they have not frowned but, rather, smiled on your comments thus far?

MS. CAPPIO: I think that's safe to say.

MR. JACOBS: Maybe it would help if we could walk through just a typical multifamily project, with a loan and a grant, and how -- who would handle what, just to kind of illustrate. I mean, would that -- or maybe at the next meeting, just to do that.

MS. CAPPIO: Okay, I think we could probably do that now. But I wanted to get back to Janet's query about it being more complicated and, therefore, why are we doing this.

Well, one of the broader mandates of the Governor's Administration is for government to work more effectively. And to the extent practical, we've been trying to figure out how that exactly works.

And cost-allocation systems, we do that now, and so does HCD, with a federal grant or -- so the systems, to some degree, are in place. All what we're working with, to some degree, is in place. What we're trying to do, is figure out how to raise the game and work better together in a fundamentally more coordinated
manner.

My dream is to have a single portal where someone coming in for a project would be vetted by a joint working group, perhaps even CDLAC and TCAC. And at the beginning, those funding sources and sort of what we have available, they could rely on rather than the way it works now, which both you and I know is less than ideal.

And so that may be my Pollyanna-ness; but I really want to make sure that we aspire to that kind of service for the folks who create affordable housing in our state.

MS. FALK: I completely agree. And I'm being a little bit of a gadfly here just to get some of these issues on the table.

MS. CAPPIO: Yes, absolutely.

MS. FALK: But one of the things that you mentioned was that there are different value sets in the agencies. And having been a customer of both of them, I can certainly attest to the fact that that's true. And I think that that's an impediment to making some of this work.

Do you actually have some thoughts about actually just addressing that head-on instead of having it just be two different groups with two different value
sets?

MS. CAPPIO: Yes. I mean, I -- believe me, that’s been apparent.

I think one of my values is that I’m not attached to either value set at this point; I’m just seeking to understand each value set, and then figuring out ways that they can be brought closer together.

We have been attacking that head on. And I want to get to Matt’s example of a loan project -- because I think we could give you a real one. We have a couple of real ones recently that we could walk you through.

But we do the same stuff, we have different emphasis. And I think part of bringing cultures together, is agreeing on a common set of values. And we have to catch up on the HCD side. But we plan to do that. And I think it would be really important to work from the same values as housing entities working on affordable housing for the State of California.

So there will be organizational development and team-building as part of this effort. There has to be, so that we both can understand each other.

Right now, some meetings remind me of interplanetary gatherings. But there is a -- you know, there’s a lot of opportunity here. And it’s interesting,
because the more that we’ve joined together and really
gotten down into the weeds, I think the more common
ground there is.

CHAIR CAREY: It is difficult culturally,
because when you’re a lender, your goal is to make a deal
work. When you’re managing funds that you’re a steward
for, that came from someplace else, you’re inherently
worried about what could go wrong. And those two value
sets get in the way.

If there is that same shared value of trying to
work together to work for the customer, then it helps a
little bit; but it is a challenging conflict of cultures.

MS. CAPPIO: So if you’ll indulge me, I’ll
briefly take Project X, which is only loosely based on a
real event.

CHAIR CAREY: No names used?

MS. CAPPIO: Right, exactly, so we keep
everyone safe.

So this project was a small risk preservation
project in an area of California where there was -- the
refinancing -- yes, refinancing of a CalHFA loan -- and
there also happened to be a loan on it from HCD.

The lead entity was CalHFA, and we went merrily
along. And then we ran into some concerns and issues
regarding rent levels. And that’s where the cultures
basically -- there was tension, because from HCD's point of view, the maintenance of maintaining those lower rent levels, even though they hadn't been raised in years, even to where they could be, was more important than -- that that was the most important value, where we wanted to make the deal work, and wanted to underwrite in a manner where the deal would be viable to our investors and to the nonprofit entity.

As we've gone through those theoretical and real examples, it's interesting to note that if there were those kinds of discussions at the beginning, those detailed, very critical discussions on what exactly is happening and what's being proposed, I think we could have headed off a lot of conflict.

And, Jim, do you have anything to add to that?

MR. MORGAN: I will be succinct.

We've taken that particular example and expanded on it.

MS. CAPPIO: The theoretical example?

MR. MORGAN: The theoretical example, and have actually, from the chief level down, have made direct communication with section chiefs, frontline managers, and staff, to make sure any subsidy from either agency that's in the deal, the calls are directed -- either directed by CalHFA and HCD.
So those calls come in.

We initiate the call, and I've told staff: We shall initiate the call to make sure we are all together in concept meetings, and also on what it is, the structure of the deal, so we can talk up-front and behind the scenes to make the process go smoothly.

MS. WHITALL-SCHERFEE: And I would just like to add, that these conversations haven't just been happening within CalHFA, they have been happening between HCD and CalHFA. Because we recognize, on both sides, that this cooperation is really, really important. So it is certainly not limited to CalHFA.

MS. CAPPIO: I also think that one of the hidden advantages of working more closely together, is that the nonprofit and other sponsors of affordable housing, there will be one entity or a working group responsible for that project. And we could have a similar set of expectations and communications; and they can't pit one side against the other. There will be a common set of information needs and other kinds of standards that will be applied, so everyone will know what the other one is doing, which has distinct advantages as well. Because as we have gone into the examples that haven't worked so well, that has been a key concern, that the other entities that were involved in
the deal didn’t know exactly what was happening, and it was fairly critical information.

Do you have other questions?

MS. FALK: No. The only thing I would add, is that I notice that throughout what you wrote, there is an emphasis on developing best practices. And that, I think, is very key to making it all work.

And I really commend you for pursuing that line.

MS. CAPPIO: Thank you.

So if we can --

CHAIR CAREY: Oh, I’m sorry, a quick question.

MS. PATTERSON: It’s more of a statement.

So along the lines of the best practices -- because I have seen an agency act as lender and act as grant administrator. Our agency is a perfect example of that, Sacramento Housing and Redevelopment Agency, even though they have separate independent entities, our redevelopment stayed separate, its credit rating stayed separate. We administered it by common staff.

And one of the ways in which we got to best practices is we adopted a set of multifamily lending guidelines. So whether it is our lending component or whether it is our grant component, we marry those funds together, and we are able to leverage several millions
of dollars, in that it went to our governing boards, and there was a standardized set of multifamily guidelines. So whether it’s administration of a grant or the administration of a loan, we had, you know, certain underwriting guidelines in that set of common -- and that’s how we established our best-practices model. And it has worked quite well.

And culturally, it worked together because we had the same cultural -- we were all going for the same goals. And so it’s worked for 40 years. So it can be done.

I think the governance structure is extremely important in how is you set it up on the front end. And I see where this was problematic. Because it’s like, they didn’t ask the right questions, I think, on the front end to be able to help it more efficiently fit together. But it is possible.

CHAIR CAREY: Thank you.

MS. CAPPIO: On to the next issue, perhaps -- or just general questions at this point?

We’ve touched on this a little bit, but CalHFA resources obviously need to be spent on CalHFA activities. And the main details in this is that systems need to be set up accordingly by both CalHFA and HCD. We’re just beginning to get into the guts of this. But
we don’t think it is insurmountable. It will be more work initially. But once the systems are established, it will be much like administering another program that we have from time to time -- for instance, KYHC, where we bill separately. We have to bill back, or CalHFA gets reimbursed, and vice versa.

CHAIR CAREY: Are there any statutory limits there or bond-financing-related limits there in terms of CalHFA resources only being used for CalHFA? Or is it just a principle?

MS. CAPPIO: I think it’s statutory. It is statutory.

MR. JAMES: Yes, it’s effectively all of the above.

By statute, our statutes have been created so that we’re not subject to direction or control, nor can our funds be borrowed by another governmental entity. And it’s for those reasons.

And then there is also, of course, our fiduciary obligation, which is to make sure that our financial strength is maintained, and that has to do with the way we go about spending our revenues -- structuring debt, capital restructuring or loan structures, or whatever it is that we do. All that we do is, of course, to fulfill our fiduciary obligations to the Agency and
its mission.

CHAIR CAREY: Okay, great. Thanks.

MS. CAPPIO: Next, maintaining the stability, confidence, and independence of the CalHFA executive team I guess can't be underestimated, again, given that this has been a big plus for us in working with our rating agencies, and the stability and competence of that team needs to be maintained.

That said, this effort will take time; but we at this point don't anticipate that time will in any way materially affect the stability of the CalHFA executive team.

CHAIR CAREY: So just circling back a little bit, you haven't seen any really positives or negatives in terms of impact on our ratings or whatever from this restructuring?

MR. JAMES: No.

CHAIR CAREY: It's a neutral reaction?

MR. JAMES: Correct.

CHAIR CAREY: Okay, great.

MS. CAPPIO: And I will note to you, just in case you didn't read it, that in the last rating write-up we got, they complimented the management team. So they've known about this. And I've reported on it during conference calls and in person for at least a year. They
know what’s happening. They get the packets. And we will continue to have that kind of communication with them.

CHAIR CAREY: That’s good.
And you’re right.
MS. CAPPIO: Exactly.
CHAIR CAREY: That’s been a theme through years of audits and ratings.
MS. CAPPIO: It’s been big.
CHAIR CAREY: And it’s been pretty critical to us.
MS. CAPPIO: Yes.
Any other general or specific concerns or questions as we roll through this?
CHAIR CAREY: Yes?
MR. GUNNING: In your write-up, Claudia, you mentioned here that both CalHFA and HCD will be working with different cabinet secretaries?
MS. CAPPIO: Oh, well, we will be changing cabinet secretaries soon.
MR. GUNNING: But it would be the same one?
MS. CAPPIO: It will be the same one.
MR. GUNNING: Okay. Not...
MS. PATTERSON: Do we have a problem?
MS. CAPPIO: Thank goodness.
CHAIR CAREY: Claudia, it may be premature, but I’m wondering, the reference to the executive leadership team and such, at the moment, the Agency has an executive director in you, and HCD does not have a current director?

MS. CAPPIO: There’s an acting executive director, Randy Deems --

CHAIR CAREY: Right.

MS. CAPPIO: -- who is the chief deputy director.

CHAIR CAREY: And if I recall, the PID said that this agency would report through HCD. Is that still the -- can you share what the picture for that governance structure is?

MS. CAPPIO: At this point, I am still in process with that with the Governor’s office, so I can’t go into detail with that. But that’s a lot of what we are trying to work through right now with the final recommendations going to the Governor’s office. So I anticipate that I will be able to discuss that at the May meeting.

CHAIR CAREY: What is the -- the New York model, you said they have one CEO, in essence?

MR. JAMES: Yes.

CHAIR CAREY: And who is that CEO employed by?
MR. JAMES: That CEO is the former cabinet --
what would be our secretary -- if we had a secretary of
housing, or a secretary of Business, Transportation and
Housing.

CHAIR CAREY: Yes, I think that’s a great idea,
secretary of Housing.

MR. JAMES: It’s the former secretary -- or
current secretary -- at their state level. And they’ve
brought five organizations within that umbrella.

And it was really -- well, my personal view,
just from looking at the structure, I have not talked to
their counsel yet, though I plan on doing so this week --
my personal view is, it was largely to -- at least with
regards to the housing finance agencies -- to coordinate
administrative support, because they’ve otherwise
remained separate.

And, again, that’s because of the business
model that they use, which is just like our business
model.

And to the point about the current draft of
the reorganization that CalHFA is in Business,
Transportation -- excuse me, Housing and Community
Development, that is true. But, of course, with the
exception of that provision, all of our other statutory
provisions remain the same, as you know.
So we continue to be as we are in terms of our statutory independence and our mission and our business model.

CHAIR CAREY: Yes?

MS. PATTERSON: Have you all looked at perhaps a joint powers authority that would serve as a staffing entity, perhaps, in which CalHFA would remain a separate independent agency with a separate independent board, HCD would remain a separate, independent department of the State of California, but you would have a governmental staffing entity that would provide the governance that would provide the common staff, the common policies, but then those entities remain separate independent entities? But that would give you the governance structure perhaps to be able to operate and do things -- I mean, because that’s the hard part, is trying to figure out what is the governance structure and what does that look like.

And so one of the issues seems like, how do you marry staff and obtain these efficiencies while maintaining the independence of each of these different -- this department and this board.

And so I just throw that out there. Under California law, there is the ability for municipal governments to create joint powers authorities. And one of the purposes of those, kind of, is to provide a
staffing entity, so to speak, that would be able to
provide those services.

MR. JAMES: One of the practical problems --
one of the practical problems that we face is, again,
the governance, the underlying economic -- or the
financial obligations of us versus them, the sources for
appropriations, the sources for spending authority.

CalHFA is largely exempt from most governmental
constraints or requirements. We’re exempt from the
contracting process, for example, which is huge. And
part of the reason for that is when we were created,
however many years ago, in 1975, was to make us
operationally nimble. Because, you know, it’s one of the
those unfortunate realities that when it comes time to
let a contract, in much of government service, it takes
six, eight months, a year or longer to get a contract
let, when we can do so pretty quickly.

We still, obviously, go through our diligence
and make sure that it’s a responsible contract and all
that stuff.

Staffing is another huge area where CalHFA, by
virtue of this board having the authority to set its
staffing levels, can decide if we need -- our current
staffing, our current allocation, I think, is in the
neighborhood of 340 or something. If you decided we
needed 350 because we have this huge demand on loan servicing, you could say -- we could come to you and ask
for that authority, and you could grant that.

In most of government service, they have to go back and there is an elaborate process to make that happen. And it's dependent, of course, on the overall budget from the Governor's office.

CHAIR CAREY: Which is not to say, we haven't experienced some of those gray areas that exist.

MR. JAMES: Right. That's right.

MS. CAPPIO: Like furloughs.

CHAIR CAREY: Exactly.

MR. JACOBS: But theoretically, CalHFA staff could be contracted to administer grants on behalf of -- or to service?

MR. JAMES: Yes, sure, sure. We do that. I mean, our MHSA program, we charge an administrative fee, and we run that program on behalf of --

MR. JACOBS: So that might be an efficient way, just for entire programs?

MR. JAMES: I guess that's a possibility. I mean, statutorily, we can -- HCD has statutory authority to contract out programs. But I think those become sort of the operational business kinds of decisions that have to be worked through.
MR. JACOBS: Right.

MR. JAMES: Because -- the other side of that is, when you look at allocation of resources, allocation of staff, HCD is basically appropriated year by year for its funding. And if they don't get enough appropriation, then their staff would get cut, or they might want more staff because they have a greater service need, and they ask for more money to hire more staff to provide this service. But it might be decided that they can't have it, and so they do without.

It might be that they don't have sufficient appropriations for overtime. And so what happens is, they just -- I don't mean to be pejorative about it, but they kind of stop working. Obviously, people will continue to work and they will do what they have to do to be professional and responsible; but at some point, they might not get paid overtime for the overtime that they might otherwise incur.

We at CalHFA are freed from those constraints. We, obviously, have our budgetary constraints that, you know, we have to be consistent with our operating budget that we present to the Board. But we are much, much more nimble than that. And so if you were, for example, to come to CalHFA and ask us to manage one of their programs, one of HCD's programs, the question would be:
Are there sufficient appropriations to meet the needs?
And so if they ran out of money -- because they project
X-amount of dollars. And if at the end of the eight,
nine months they run out of money and they can't pay the
bill anymore, what do we do? Well, that would become an
expense of CalHFA.

And I'm not suggesting that we couldn't do
those kinds of things, but I think they would have to be
thought through.

And all of that would go to our obligations,
our fiduciary obligations to ensure our financial
strengths of the Agency.

MS. WHITALL-SCHERFEE: I think there's a
fundamental difference, too, of the job classifications.
We're under different job classification structures. So
that is another area that needs to be explored more
before we can really talk about how we could work more
closely, as you're describing it.

MR. JACOBS: I mean, it just could be so much
more efficient on one loan, if there's a grant and just
to have one person.

MR. SHINE: Or not. Or not.

MR. JAMES: Ultimately, you would still --
well, presumably, it may still very well go back to those
respective appointing powers for the authorization for
the loan.

Very clearly, a CalHFA loan would have to come back either to the Board or to the Executive Director, even if you had the loan prepared, originated by someone other than a CalHFA staff member.

But I think the practical side of that is -- and we are talking to each other right now on this collaborative process. And if I may, I think it's a very powerful -- these conversations that are going on are very powerful, and I'm very, very optimistic that it's going to work well. And the key, truly, is the collaboration -- the talking -- at the very beginning of that process, of the loan origination, and getting very clear on what the ultimate end game is and what each interest needs. And when you're clear on that, and you've got conviction or confirmation from each other and you're committed to that, then you get to that closure much more quickly and efficiently for everyone, for the borrower -- particularly for the borrower.

Because right now, or historically, they've sort of bounced between meeting CalHFA's needs, meeting HCD's needs, and other localities, and that sort of thing.

So I think that this collaborative process that Claudia is referring to is a huge -- will be sort of a
landmark.

MS. FALK: I guess I would like to caution that in this process, I could just see -- I'll take an example of, say, documents you need for a loan, that HCD has these, CalHFA has those. And so they all -- you know, nothing gets eliminated; they just all get -- it gets worse instead of better. And, I mean, there is a real danger, I think, that that could happen.

In many ways, the asset management, it's the same thing. If you go down to the lowest common denominator of everybody, then it becomes even a more cumbersome process; and it needs to become a more simple process.

MS. CAPPIO: A point well taken. And, yes, we really need to watch it with that.

But I think, as Victor has said, as we've gotten into the weeds a little bit, there are big opportunities for better coordination of standardized agreements; doing only one report, one time, but having it be used by both agencies, like a Phase I. That just required just another sentence in our own agreement or in HCD's own agreement of, this can be used by either agency rather than doing it twice.

Those things, I think, cumulative, as Victor mentioned, are very powerful to work better.
CHAIR CAREY: A shared vision will do a lot to get to that point.

MS. CAPPIO: And, you know, I will note to you, this is not for the faint of heart.

CHAIR CAREY: Right.

MS. CAPPIO: But for me, it is really worthwhile doing. And this is one of the reasons why I make the daily trip up here: To really make sure that we could make this kind of impact, if we can.

So I remain fully committed.

CHAIR CAREY: Are there other questions or thoughts?

(No response)

CHAIR CAREY: Did you want to make any other points about specifics in the rest here?

MS. CAPPIO: No. I've written down some comments that you have had. And we will take those and continue to work with them.

The rating agency, the communication with the rating agency's best practices, the multiple family guidelines, I thought, was a really wonderful suggestion. I'm going to ask for a copy.

And if there is anything else that the Board members wish to impart, we will be glad to listen at this point as we move forward.
CHAIR CAREY: At this point, the timing is that the revised PID is in process?

MS. CAPPIO: Yes, that's correct.

CHAIR CAREY: And will be complete as part of the May Revise or...

MS. CAPPIO: Likely not. But I can't say. We are on a journey here.

CHAIR CAREY: Right.

MS. CAPPIO: So all I know is, this week I have what I need, up to the Governor's office. It's in their court.

CHAIR CAREY: Okay.

MS. CAPPIO: Okay. I really appreciate your time and the ability to get into a little bit more focused discussion.

Thank you.

CHAIR CAREY: I think it was good to be able to get this on the table outside of a construct of a regular meeting. I think that was very helpful, because it gives us room to think. And also for those members that weren't able to be here, to be able to think through it a bit and perhaps they may have some questions at the meeting which is in just -- two weeks?

MS. CAPPIO: Two weeks.

CHAIR CAREY: Two weeks.
Thank you.

MS. CAPPIO: Thank you.

--oOo--

Item 4. Discussion of Other Board Matters

CHAIR CAREY: Any other Board matters?

(No response)

--oOo--

Item 5. Public Testimony

CHAIR CAREY: Seeing none, this is an opportunity for public testimony.

If there’s anyone in the audience who would like to address the Board on a matter not on the agenda, we would be open to that at this time.

Yes?

MR. MADRIZ: Can I make a comment?

David Madriz from California Housing Advocates.

I was just hearing Ms. Cappio’s testimony, and I just had a little comment on the merger that the Governor -- Part 2 of the Governor’s plan states, “The two entities shall share the same basic mission: To provide leadership programs and policies, directions to expand affordable housing opportunities for Californians.”

So I see that as a way the Governor, as telling these two agencies to expand housing for Californians for...
not only high-income people, but also for low-income people. And I’m eager to see this merger.

And I’m kind of -- the discussion done earlier, I kind of see that the two entities -- that CalHFA does not want to merge.

I see it would be better for them to merge so we can get different policies in the way to administer the funding to get more Californians to get housing in California.

As a housing counselor, I think CalHFA needs a lot of work.

And I notice there’s new Board members. I really would like you to take special attention to the audit that CalHFA has, the 2010 audit. I think that’s very important while you’re considering what you’re considering right now.

I’m not sure if CalHFA has -- the Board has any power, how they work with the Governor, because this is the Governor’s final say, it’s my understanding, from Claudia’s testimony.

Basically, those are the only two points I wanted to make right now, hearing the testimony. And I appreciate it.

Thank you very much.

CHAIR CAREY: Thank you.
And I think regardless of structure or process, we all share the goal of increasing opportunity for affordable housing for all Californians.

Is there anyone else who wishes to address the Board?

(No response)

--00o--

Item 6. Adjournment

CHAIR CAREY: Seeing none, then we are adjourned.

(The special meeting of the Board of Directors concluded at 11:01 a.m.)

--00o--
REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 29th day of April 2013

__________________________
DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

Daniel P. Feldhaus, CSR, Inc. 916.682.9482
THIS PAGE
INTENTIONALLY
LEFT BLANK