TAX-EXEMPT BOND FINANCING & AN OVERVIEW OF THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE (CDLAC)

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Agenda

- Overview of Bonds
- CDLAC Structure
- CDLAC Program and Processes

BONDS

What Are Tax-Exempt Bonds?

- Bonds are a form of debt.
- When investors purchase bonds, they essentially lend money to the bond seller, or issuer.
- The issuer promises to pay the investor a specified rate of interest over the life of the bond and to repay the bond when it comes due.
- Government agencies sell bonds to finance a variety of projects and activities. Corporations may also sell bonds to finance projects and/or capital expenditures.
- Governments *typically* issue tax-exempt bonds; Corporations *typically* issue taxable bonds.

Municipal Bonds

- Bonds issued by government agencies are called municipal bonds.
- Municipal bonds are used to finance projects that benefit the public such as roads, schools, bridges, etc.
- Most bonds issued by government agencies are tax-exempt.
- In addition to the tax-exempt status, repayment of the bonds is the responsibility of the government entity issuing the bonds. This strengthens the security of the bonds providing greater assurance to investors they will get paid on time and in full.
- The tax-exempt status and minimal risk of default lead investors to agree to lower interest rates making it a more attractive financing tool.

Private Activity Bonds

- Government agencies may also issue tax-exempt bonds on behalf of private businesses.
- These bonds are known as "Qualified Private Activity Bonds" and may be issued for various purposes such as low income multi-family housing, industrial development, etc.
- The lower borrowing costs facilitate the development of projects that may not otherwise be feasible if financed at market rates.
- Like municipal bonds private activity bonds are tax-exempt, but payment of principal and interest on private activity bonds is the responsibility of the private business receiving the proceeds.
- Private activity bonds are a low-risk alternative for communities to finance projects.

CDLAC

California Debt Limit Allocation Committee (CDLAC)

The California Debt Limit Allocation Committee (CDLAC) is a three member Committee comprised of the State Treasurer as Chair, the Governor, and the State Controller.

CDLAC was created in 1986 by Governor Proclamation in response to the 1986 Tax Reform Act, which imposed an annual limit on the dollar amount of tax-exempt private activity bonds that may be issued in a state. The Act also required each state to designate an entity to allocate the state's ceiling among various state and local issuers. In California CDLAC is that entity.

The Committee has three non-voting advisory members, the Director of the Department of Housing & Community Development, the Executive Director of the California Housing Finance Agency, and a local government representative appointed by the Chair of the Committee.

Statutory Responsibilities

State: The California Debt Limit Allocation Committee (Committee) was statutorily created in 1987, in response to the 1986 Federal Tax Reform Act. California Government Code Section 8869.80 et seq. defines the Committee's responsibilities as follows:

- **Set the Annual State Ceiling**: The Committee is required to establish the California allocation limit for private activity bonds (the CAP). Historically, the Committee has used the "per capita" formula as prescribed by the U.S. Treasury. For example, the 2015 cap was set at $3,880,250,000. The 2015 CAP is based on the December 2014 population estimate of 38,802,500 (38,802,500 x $100 = **$3,880,250,000**).

- **Allocate the State Ceiling**: The California Debt Limit Allocation Committee is granted the sole authority for allocating the annual CAP in California.

CDLAC Programs

- CDLAC is a fee based program and receives no federal or state funding.

- Agencies and organizations authorized to issue tax-exempt private activity bonds or mortgage credit certificates must receive an allocation from CDLAC.

- The bonds issued utilizing the private activity bond allocation are purchased by municipal bond investors and/or are privately placed.

- CDLAC has adopted Regulations for allocating the annual state ceiling.

- The Committee has seven (8) program pools for the issuance of tax-exempt private activity bonds:

Qualified Residential Rental Program (Multifamily)

These bonds assist developers of multifamily rental housing units to acquire land and construct new units or purchase and rehabilitate existing units. The developers in turn produce mixed-income, and affordable rental housing for low and very low-income households by reducing rental rates to these individuals and families. Projects that receive an award of bond authority have the right to apply for non-competitive 4% tax credits.

Bond Authority for Rental Projects is awarded to three sub-pools:

- **General Pool** (Projects having more than 50% of total units designated as Restricted Rental Units);
- **Mixed Income Pool** (Projects having 50% or fewer of total units designated as Restricted Rental Units);
- **Rural Project Pool** (Projects located in a rural area as defined by California Health and Safety Code Section 50199.21 but shall not include a Mixed Income Project).

Single-Family Housing Program

- Mortgage revenue bonds (MRBs) can be issued to assist first-time homebuyers to purchase homes.

- State and local governmental agencies and joint powers authorities can also issue MCCs. Homebuyers use the MCC to reduce their federal tax liability by applying the credit to their net tax due.

- Utilizing these programs Homebuyers may purchase single-family homes, either free-standing detached, condominiums or townhouses.

- Program participants must meet program income limits and must purchase a home that falls within the program's purchase price limitations.

Single-Family Housing Program (Cont.) (Inactive)

Extra Credit Teacher Home Purchase Program

- Participants must be employed at a High Priority school and make a commitment to work at a High Priority school for at least three years
- Program participants must meet program income limits and must purchase a home that falls within the program's purchase price limitations
- CalHFA, the state administrator, has suspended the ECTHP program and is currently serving eligible teachers through their traditional Mortgage Credit Certificate Program

Single-Family Housing Program (Cont.)

Home Improvement & Rehabilitation Bond Program

- MRBs or MCCs can be issued to assist existing or purchasing homeowners to improve or rehabilitate existing homes
- Single-family homes, either free-standing detached, condominiums or townhouses are all eligible
- Program participants must meet program income limits and the loan must be within the program's home value limitations

Small Issue Industrial Development Bond Program (IDB's)

- IDBs are issued to assist small manufacturing facilities finance capital expenditures
- IDBs support expansions of existing manufacturing companies
- IDBs serve to create new jobs and retain existing jobs within their communities

Exempt Facility Program

- Exempt Facility Bonds are issued to finance a variety of community serving facilities including solid waste disposal and waste recycling facilities

- The interest rate savings enable the project owners to maintain lower customer rates or minimize customer rate increases, while at the same time assisting the communities they serve to meet their mandated requirements to protect and enhance the environment

- Exempt facility projects also benefit the communities by creating new jobs

Beginning Farmer Program

- Beginning Farmer Bonds are used to finance small first time farmers
- Proceeds can be used to purchase eligible agricultural land, construction/improvements, breeder livestock and equipment for qualified farmers.
- Eligibility, permissible items and loan limits are set by the IRC.
- 2015 is the first year this program has received a bond reservation

Student Loan Program (Inactive)

- Student Loan Bonds are issued to either financing direct loans to college students and their parents or to purchase bundles of already-originated loans on the secondary market.

- Currently, three agencies are authorized to issue tax-exempt bonds for student loan programs in California: ALL Student Loan Corporation, Educational Funding Services, Inc. (EFSI) and the California Educational Facilities Authority.

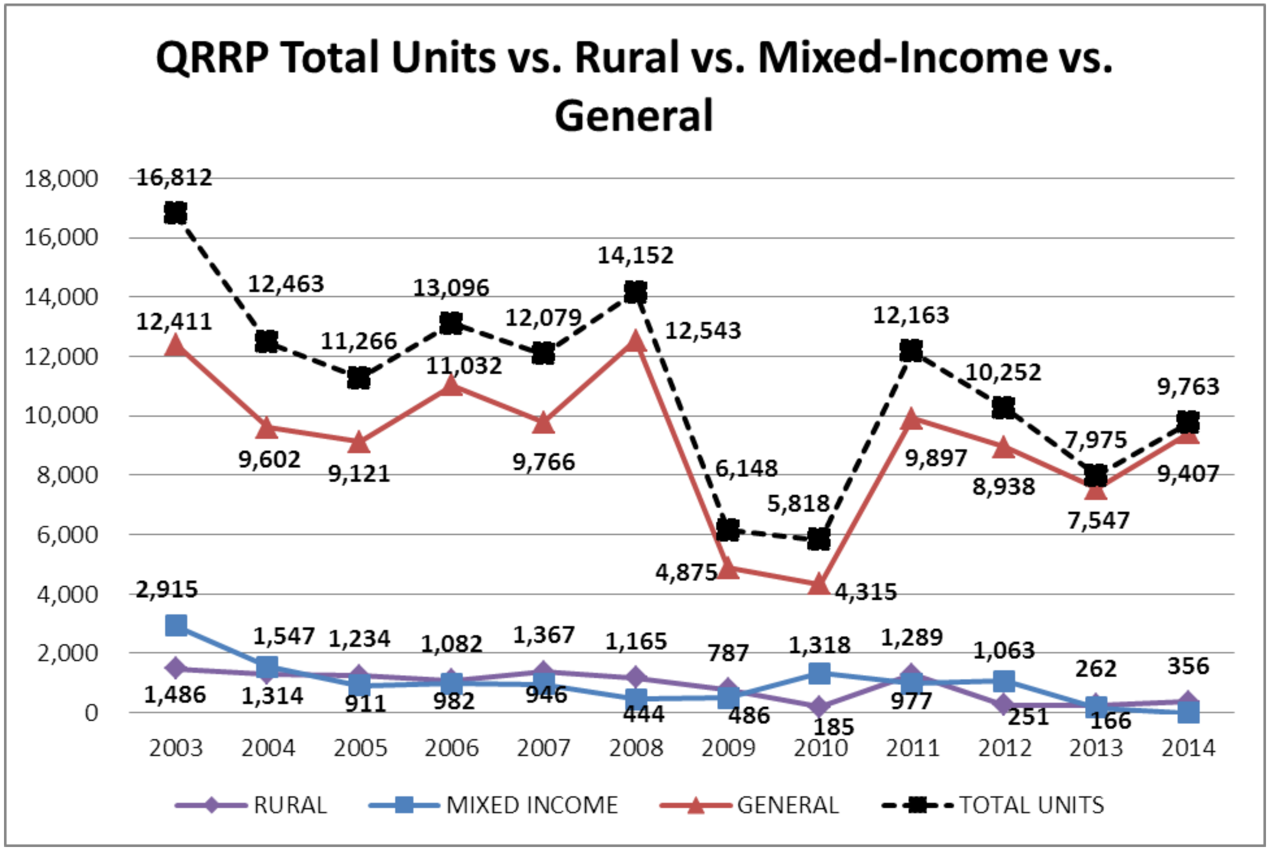
- The HIRE Act of 2010 de-authorized the federal government's student loan insurance program; a key credit enhancement source for the sale of these bonds. Though it is still possible, the likelihood of any further student loan-backed private activity bond issuance is extremely remote.

2015 Recap

Recent Annual Activity

Annual PAB Volume Cap Award Activity - 2008-2014							
Reflects Number of Projects Awarded Per Year							
Program Pool	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Qualified Residential Rental Program	156	84	67	145	103	90	106
Single Family Housing Program	27	38	19	14	19	10	12
Extra Credit Teacher Home Purchase Program	0	0	0	0	0	0	0
Industrial Development Bond Program	7	0	10	2	2	1	4
Exempt Facility Program	13	1	11	4	10	2	8
Student Loan Program	1	0	0	0	0	0	0
GRAND TOTALS	***204***	***123***	***107***	***165***	***134***	***103***	***130***

2015 Recap
Multifamily Annual Activity



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