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California Agency Aims to Beat the Tax Bill and Allocate Bonds for Affordable Housing.

LOS ANGELES — The California Debt Limit Allocation Committee is holding emergency meetings in the hope of allocating $900 million in remaining private activity bond capacity for affordable housing by the end of the year.

The remaining bond capacity typically could be carried forward for three years, but with the looming Congressional threat of PABs being eliminated on Dec. 31, the state could lose the bond capacity it receives for affordable housing.

“The goal is to award all of the available money allocated for PABs,” said Laura Whittall-Scherfee, who was named CDLAC’s executive director in June. “So, if a tax reform bill passes that says PABs can’t be issued after Dec. 31, we have done everything we can.”

The full House of Representatives voted last week to enact a Tax Cuts and Jobs Act that eliminates PABs as of Dec. 31. The House bill would have to be reconciled with a Senate bill, which is still in the works, but so far preserves PABs.

CDLAC added meetings to its calendar to adopt emergency regulations to streamline the approval process and get the money out the door.

Proposed changes fall under three categories: to clean up typos and add clarity, to streamline the application process with CDLAC and the California Tax Credit Allocation Committee, and a process to fast-track applications in response to the proposed tax bills.

CDLAC and CTCAC are the two California treasurer’s office agencies that finance affordable housing. CDLAC oversees bond financing for affordable housing developments and administers the federal and state Low-Income Housing Tax Credit Program.

Under the new guidelines, applicants could file a joint application to be reviewed by the two agencies, said Jeree Glasser-Hedrick, deputy treasurer for retirement security and housing policy.

CDLAC will vote Tuesday on whether to approve asking the Office of Administrative Law to review streamlined regulations. If the committee votes in favor, it starts a five-day period of public comment on the matter and a 10-day review period by OAL.

After that, CDLAC would meet again on Dec. 1 to vote on whether to approve the emergency regulations. Issuers would then have until Dec. 5 to submit applications for affordable housing projects to CDLAC. At the Dec. 20 meeting, CDLAC would approve what could become a long-list of applications.

The agency and treasurer’s office have created an email service to keep issuers that frequently tap the program aware of the changes and deadlines for this year’s allocation, Whittall-Scherfee said.

Applicants would have to agree to issue bonds no later than midnight Dec. 31, Whittall-Scherfee said.

CDLAC's role is to be a benefactor of private activity bond volume that is capped by the federal government, Glasser-Hedrick said. If PABs go away, so does CDLAC's primary mission, she said. The state doesn't have a replacement funding source, Glasser-Hendrick said.

"Given what has happened, we are just in wait-and-see mode," she said. "We are hoping for the best and planning for the worst."

CDLAC is proceeding on dual tracks, Whittall-Scherfee said.

"We want to get all the allocations out by the end of the year with the expectation that the bonds have to be issued or the bond capacity expires," Westall-Scherfee said. "But, we are also proceeding as if we will be doing next year what we have been doing for the last 20 years, which is why we are working on creating the joint applications with CTCAC to award bond allocations."

The $900 million in private activity bonds are tied to the 4% tax credit program. Under that program, issuers have to issue 50% of the cost of a project in PABs in order to qualify to receive money under the 4% tax credit program.

The Senate tax plan includes an increase in the separate 9% tax credit program that benefits affordable housing, but there is concern that corporations, who typically buy the tax credits, will not be as interested – or in need of the tax break – because both the House and Senate tax bills propose lowering corporate taxes from 35% to 20%.

The uncertainty currently surrounding the future of PABs is expected to drive issuance for the rest of the year.

Some issuers are planning to pull forward certain 2018 advance refundings and PAB issues into 2017 in order to beat the Dec. 31 deadline, according to the Ramirez & Co. Municipal Market Weekly.

The broker-dealer said in the report that it is anticipating $29 billion in unanticipated gross supply could result from the accelerated issuance by year-end, which could bring its revised projection for total 2017 gross supply to about $397 billion. The shift could lower the amount expected in 2018.

By Keeley Webster

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