CALIFORNIA PUBLIC FINANCE AUTHORITY

Kings County Government Center
1400 W. Lacey Boulevard
Hanford, California 93230
☎ (559) 852- 2362 FAX (559) 585-8047

Agenda

Tuesday, August 2, 2016

Place: **County Board of Supervisors Chambers**
Kings County Government Center, Hanford, CA

Time: **11:00 a.m.**

1. **CALL TO ORDER**
ROLL CALL – Clerk to the Board

2. **APPROVAL OF MINUTES**
Approval of the minutes from the June 21, 2016 regular meeting.

3. **CONSENT CALENDAR**
A. Consideration of approving an inducement resolution 16-05I for:
    1. Vista Tower Apartments, LP (Vista Tower), City of Los Angeles, County of Los Angeles; up to $30,000,000 of revenue bonds.
B. Consideration of approving resolution 16-06M for the addition of program participant to the Authority.

4. **NEW BUSINESS**
A. Consideration and discussion in regards to Asset Acquisition of the Lorenzo Student Housing Project. (Staff – Mike LaPierre / Scott Carper)

5. **PUBLIC COMMENT**
Any person may directly address the Board at this time on any item on the agenda, or on any other items of interest to the public, that is within the subject matter jurisdiction of the Board. Five (5) minutes are allowed for each item.

6. **STAFF UPDATES**

7. **ADJOURNMENT**
Adjourn as the California Public Finance Authority.

CALIFORNIA PUBLIC FINANCE AUTHORITY

2. APPROVAL OF MINUTES

Approval of the minutes from the June 21, 2016 regular meeting.

CALIFORNIA
PUBLIC
FINANCE
AUTHORITY

CalPFA

Kings County Government Center
1400 W. Lacey Boulevard
Hanford, California 93230
☎ (559) 852- 2362 FAX (559) 585-8047

Action Summary

Tuesday, June 21, 2016

Place: **County Board of Supervisors Chambers**
Kings County Government Center, Hanford, CA

Time: **11:00 a.m.**

1. B 1 **CALL TO ORDER**
ROLL CALL – Clerk to the Board
ALL MEMBERS PRESENT

2. **APPROVAL OF MINUTES**
Approval of the minutes from the June 7, 2016 regular meeting.
ACTION: APPROVED AS PRESENTED (RF/JN/RV/CP/DV-Aye)

3. **CONSENT CALENDAR**
A. Consideration of approving resolution 16-05M for the addition of program participant to the Authority.
ACTION: APPROVED AS PRESENTED (RF/JN/RV/CP/DV-Aye)

4. **PUBLIC COMMENT**
Any person may directly address the Board at this time on any item on the agenda, or on any other items of interest to the public, that is within the subject matter jurisdiction of the Board. Five (5) minutes are allowed for each item.
None

5. **STAFF UPDATES**
None

6. **ADJOURNMENT**
The meeting was adjourned at 11:16 a.m..

CALIFORNIA PUBLIC FINANCE AUTHORITY

3. CONSENT CALENDAR

A. Consideration of approving an inducement resolution 16-05I for:

1. Vista Tower Apartments, LP (Vista Tower), City of Los Angeles, County of Los Angeles; up to $30,000,000 of revenue bonds.

B. Consideration of approving resolution 16-06M for the addition of program participant to the Authority.

RESOLUTION NO. 16-05I

A RESOLUTION OF THE CALIFORNIA PUBLIC FINANCE AUTHORITY SETTING FORTH THE AUTHORITY'S OFFICIAL INTENT TO ISSUE MULTIFAMILY HOUSING REVENUE BONDS TO UNDERTAKE THE FINANCING OF VARIOUS MULTIFAMILY RENTAL HOUSING PROJECTS AND RELATED ACTIONS

WHEREAS, California Public Finance Authority (the "Authority") is authorized and empowered by the Title 1, Division 7, Chapter 5 of the California Government Code to issue mortgage revenue bonds pursuant to Part 5 (commencing with Section 52000) of the California Health and Safety Code (the "Act"), for the purpose of financing multifamily rental housing projects; and

WHEREAS, the borrowers identified in Exhibit A hereto and/or related entities (collectively, the "Borrowers") have requested that the Authority issue and sell multifamily housing revenue bonds (the "Bonds") pursuant to the Act for the purpose of financing the acquisition and rehabilitation or construction as set forth in Exhibit A, of certain multifamily rental housing developments identified in Exhibit A hereto (collectively, the "Projects"); and

WHEREAS, the Authority, in the course of assisting the Borrowers in financing the Projects, expects that the Borrowers have paid or may pay certain expenditures (the "Reimbursement Expenditures") in connection with the Projects within 60 days prior to the adoption of this Resolution and prior to the issuance of the Bonds for the purpose of financing costs associated with the Projects on a long-term basis; and

WHEREAS, Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Projects with proceeds of a subsequent tax-exempt borrowing; and

WHEREAS, the Authority wishes to declare its intention to authorize the issuance of Bonds for the purpose of financing costs of the Projects (including reimbursement of the Reimbursement Expenditures, when so requested by the Borrower upon such terms and condition as may then be agreed upon by the Authority, the Borrower and the purchaser of the Bonds) in an aggregate principal amount not to exceed the amount with respect to each Project set forth in Exhibit A; and

WHEREAS, Section 146 of the Internal Revenue Code of 1986 limits the amount of multifamily housing mortgage revenue bonds that may be issued on behalf of for-profit borrowers in any calendar year by entities within a state and authorizes the governor or the legislature of a state to provide the method of allocation within the state; and

WHEREAS, Chapter 11.8 of Division 1 of Title 2 of the California Government Code governs the allocation of the state ceiling among governmental units in the State of California having the authority to issue private activity bonds; and

WHEREAS, Section 8869.85 of the California Government Code requires a local agency desiring an allocation of the state ceiling to file an application with the California Debt Limit Allocation Committee (the "Committee") for such allocation, and the Committee has certain policies that are to be satisfied in connection with any such application;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Authority as follows:

Section 1. The above recitals, and each of them, are true and correct.

Section 2. The Authority hereby determines that it is necessary and desirable to provide financing for the Projects (including reimbursement of the Reimbursement Expenditures) by the issuance and sale of Bonds pursuant to the Act, as shall be authorized by resolution of the Authority at a meeting to be held for such purpose, in aggregate principal amounts not to exceed the amounts set forth in Exhibit A. This action is taken expressly for the purpose of inducing the Borrowers to undertake the Projects, and nothing contained herein shall be construed to signify that the Projects comply with the planning, zoning, subdivision and building laws and ordinances applicable thereto or to suggest that the Authority or any program participant, officer or agent of the Authority will grant any such approval, consent or permit that may be required in connection with the acquisition and construction or rehabilitation of the Projects, or that the Authority will make any expenditures, incur any indebtedness, or proceed with the financing of the Project.

Section 3. This resolution is being adopted by the Authority for purposes of establishing compliance with the requirements of Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations. In such regard, the Authority hereby declares its official intent to use proceeds of indebtedness to reimburse the Reimbursement Expenditures.

Section 4. The officers and/or the program managers of the Authority are hereby authorized and directed to apply to the Committee for an allocation from the state ceiling of private activity bonds to be issued by the Authority for each of the Projects in an amount not to exceed the amounts set forth in Exhibit A, and to take any and all other actions as may be necessary or appropriate in connection with such application, including but not limited to the payment of fees, the posting of deposits and the provision of certificates, and any such actions heretofore taken by such officers and program managers are hereby ratified, approved and confirmed.

PASSED AND ADOPTED by the California Public Finance Authority this 2nd day of August, 2016.

The undersigned, an Authorized Signatory of the California Public Finance Authority, DOES HEREBY CERTIFY that the foregoing resolution was duly adopted by the Board of Directors of said Authority at a duly called meeting of the Board of Directors of said Authority held in accordance with law on August 2, 2016.

By: ______________________________
Authorized Signatory

EXHIBIT A

Project Name	Project Location	Project Description (units)	New Construction/ Acquisition and Rehabilitation	Legal Name of initial owner/operator	Bond Amount
Vista Tower Apartments	City of Los Angeles, County of Los Angeles	230	Acquisition and Rehabilitation	Vista Tower Apartments, L.P.	$30,000,000

RESOLUTION NO. 16-06M

RESOLUTION OF THE CALIFORNIA PUBLIC FINANCE AUTHORITY APPROVING AND RATIFYING THE ADDITION OF PROGRAM PARTICIPANTS TO THE AUTHORITY

WHEREAS, pursuant to the provisions of the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Act"), Kings County and the Housing Authority of Kings County entered into a joint exercise of powers agreement (the "Agreement") pursuant to which the California Public Finance Authority (the "Authority") was organized;

WHEREAS, pursuant to Section 12 of the Agreement, the Authority may add a qualifying public agency to become a Non-Charter Member (an "Additional Member") upon the filing by such public agency with the Authority of a resolution of the governing body of such public agency requesting to be added as an Additional Member of the Authority and adoption of a resolution of the Board approving the addition of such public agency as an Additional Member;

WHEREAS, the Cities and/or Counties listed on Exhibit A hereto (the "City/County") have by resolution requested to join the Authority and the Authority has authorized each such City/County to become an Additional Member pursuant to the provisions of the Agreement;

WHEREAS, the Board hereby finds and determines that each City/County is qualified to be added as an Additional Member to the Authority;

NOW, THEREFORE, BE IT RESOLVED by the Board of the California Public Finance Authority, as follows:

Section 1. This Board hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The addition of the Cities and/or Counties listed on Exhibit A hereto as Additional Members of the Authority is hereby approved, confirmed and ratified, and any actions heretofore taken on behalf of each City/County is hereby approved, confirmed and ratified.

Section 3. This resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED by the California Public Finance Authority this ____ day of ________, 20__.

I, the undersigned, an Authorized Signatory of the California Public Finance Authority, DO HEREBY CERTIFY that the foregoing resolution was duly adopted by the Board of Directors of the Authority at a duly called meeting of the Board of Directors of the Authority held in accordance with law on ________ __, 20__.

By: ________________________________
Authorized Signatory
California Public Finance Authority

EXHIBIT A

ADDITION OF CITIES AND/OR COUNTIES AS ADDITIONAL MEMBERS OF THE CALIFORNIA PUBLIC FINANCE AUTHORITY

1. City of Los Angeles

CALIFORNIA PUBLIC FINANCE AUTHORITY

4. NEW BUSINESS

A. Consideration and discussion in regards to Asset Acquisition of the Lorenzo Student Housing Project. (Staff – Mike LaPierre / Scott Carper)

DATE: AUGUST 2, 2016

PURPOSE: CONSIDERATION OF THE FINANCING AND ACQUISITION OF A STUDENT HOUSING FACILITY IN THE CITY OF LOS ANGELES

PRIMARY ACTIVITY: STUDENT HOUSING

LEGAL STRUCTURE: ASSET OWNERSHIP

Background:

CalPFA staff has been in discussions with representatives of G.H. Palmer Associates (the "Developer") about the possible acquisition of a student housing facility known as the Lorenzo (the "Project") near the University of Southern California campus in the City of Los Angeles, CA. The proposed acquisition by the CalPFA would be similar to the proposed financing and acquisition of the Farmers Market Complex in Sacramento, CA discussed with the CalPFA Board on May 24, 2016. The acquisition of the Project by CalPFA would allow for the preservation of much needed student housing in downtown Los Angeles throughout the term of CalPFA's ownership. The Project acquisition is estimated to be around $600 million.

Discussion:

The Project is a mixed use development consisting of 913 furnished residential units containing 3,648 beds, a health and wellness center, ancillary common areas, recreational amenities, and approximately 24,500 square feet of retail space. Of the 913 furnished residential units, 867 units are currently reserved for student housing and 46 units are set aside for very low-income persons earning 50% or less of the Area Median Income. The Project was opened in two phases starting in the summer of 2013 and received its final Certificate of Occupancy from the City of Los Angeles in June 2015. Today, all 46 of very low-income units have been leased and approximately 95% of the student beds have been leased for the 2016 fall semester (150 beds remain open).

The Project is leased predominantly to students who attend the University of Southern California and surrounding universities and colleges, including Loyola Marymount, Mount St. Mary's, Pepperdine, Occidental, Los Angeles City College, UCLA, and Los Angeles Trade Technical College. Nonetheless, the Developer is under no agreement or requirement to continue leasing to students or maintaining the facility as a rental property in the future with the exception of the very low-income rental units which are restricted for 30 years.

As a condition for gaining land use entitlements and permits to develop the Project, the Developer worked closely with City of Los Angeles and a host of coalition organizations (see **Attachment A**) to develop a community benefits program memorialized in a Cooperation Agreement to maximize the Project's benefits to the South Los Angeles community. The Community Benefits Program Presentation (see **Attachment B**) details the numerous community benefits agreed to by the Developer that would need to be assumed by CalPFA should it proceed with the Project ownership.

Among other things, these community benefits include:

- Development of a Health and Wellness Center dedicated to health care, improving nutrition, wellness, health awareness and education, and fitness solely for low-income and indigent families and individuals in South Los Angeles.
- Set aside of five (5%) percent (approx. 46 units) of the Project's units to individuals or families earning at or below 50% of the area median income.
- Employment of local low-income and at-risk job applicants to facilitate the Project construction in accordance with the City's Living Wage Ordinance.
- Permanent employment opportunities for local low-income job applicants for which 60% of the permanent jobs meet the City's Living Wage Ordinance
- Promotion of small business development by way of the Developer's contribution of $300,000 to a Community Benefits Fund to be used as a revolving loan fund for small business in South Los Angeles.
- Improvement of transit oriented development by way of the Developer's contribution of $200,000 to the Community Benefits Fund to improve transit oriented designs and create smart growth projects in South Los Angeles.

The proposed acquisition by CalPFA of the Project will assist in the continued provision of these community benefits and will facilitate the Lorenzo to satisfy the local universities' needs to provide high quality additional housing to fulfill their respective educational missions. If acquired by CalPFA, the project will be committed exclusively for student housing with the CalPFA ownership in place pursuant to a recorded restrictive covenant agreement in a form generally per the draft attached as **Attachment E**.

The proposed bond structure would include CalPFA's issuance of approximately $450MM of Series A Bonds privately placed with an institutional investor as well as approximately $150MM of Series B Bonds purchased by the Developer or an affiliate entity. The bond proceeds would be used by CalPFA to acquire the real property improvements and related FF&E as well as a long-term ground leasehold interest from the Developer. The Developer will retain a reversion right in connection with its sale to CalPFA. More information regarding the Project transaction description can be found on **Attachment C.**

As a part of the CalPFA Board's review, included on **Attachment D** is a brief legal analysis prepared by Orrick, Herrington & Sutcliffe that describes the various types of liability CalPFA should consider in owning such an asset along with possible ways to mitigate exposure. The CalPFA Board may recall a similar document and discussion when establishing the CalPFA Asset Ownership Program last year.

Recommendations:

Based on the preliminary public benefit findings of the proposed acquisition of a student housing facility by CalPFA in order to preserve student housing, the CalPFA Board shall consider authorizing staff to (1) engage the City of Los Angeles in obtaining the necessary CalPFA local approval, and (2) work with the bond counsel and other finance professionals to prepare the Project acquisition documentation in accordance with the CalPFA Asset Ownership Policy subject to further review and consideration by the CalPFA Board.

CALIFORNIA PUBLIC FINANCE AUTHORITY

Attachment A

The list of community groups and nonprofits that are party to the Cooperation Agreement include:

- Coalition for Responsible Community Development, a California [nonprofit] corporation;
- Community Development Technology Center, a California nonprofit corporation;
- Esperanza Community Housing Corporation ("Esperanza"), a California [nonprofit] corporation;
- Tenemos que Reclamar y Unidos Salvar La Tierra-South LA ("T.R.U.S.T. South LA"), a California nonprofit corporation;
- Natural Resources Defense Council, Inc., a New York nonprofit corporation;
- Playa Vista Job Opportunities and Business Services, a California non-profit corporation;
- Strategic Actions for a Just Economy ("SAJE");
- St. Francis Center, a California non-profit corporation;
- St. John's Well Child & Family Center, Inc., a California non-profit corporation;
- United University Church, a California [nonprofit] corporation; and
- Vermont Village Community Development Corporation, a California [nonprofit] corporation.

Attachment B

Community Benefits Program Description

THE LORENZO – STUDENT HOUSING

The Lorenzo

- Exclusive student housing .6 miles from The University of Southern California (“USC”) and adjacent to Los Angeles Trade Technical College.
- 913 total furnished housing units containing 3,648 beds with approximately 24,500 sq. ft. of retail space. 867 of these units are for student housing and 46 of these units are reserved for low income families.
- Adjacent to the expo line.
- Regular shuttles to and from USC.

THE LORENZO – STUDENT HOUSING

Typical Student Living Unit

THE LORENZO – STUDENT HOUSING

Features

- Libraries with Computer stations
- Free Wi-Fi
- Swimming Pool
- Gym
- Bicycles
- Music Practice Room
- Central Kitchen

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

- On Site Community Health and Wellness Center
- 5% Affordable Housing
- Construction Jobs
- Permanent Jobs
- Small Business Support
- Transit Oriented
  Development Planning

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

St. John’s Health and Wellness Center

- 7,500 sq. ft. wellness center located at 23rd Street.
- Provided at no charge for 20 years (estimated value $4.5M).
- An architect was made available to assist in the design and of the Center.
- St. John’s participated in designing and planning the Center.
- $2,103,000 was contributed towards operating support, equipment and supplies.
- $160,000 was contributed for Community Health Promoters through the local Esperanza program.

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

Affordable Housing

- Five percent of Lorenzo's units are reserved for households making "very low" income.
- They are operated in compliance with City and LAHD requirements.
- Units will stay affordable for 30 years.
- Coordination with neighborhood coalitions prior to leasing these units and upon vacancy for referrals.
- Rental priority is given to tenants working and living in Los Angeles.
- In addition to the restricted units, $1,050,000 was contributed to an affordable housing trust fund.

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

Construction Jobs

- 30% local hiring goal
  - Includes 10% at-risk hiring goal with at least 8% referred by the jobs coordinator.
  - Priority given to residents within 3 miles of the project.
  - Workers received a living wage.
- 30% union labor utilized during construction.
- $60,000 was contributed for coordination and training.
- In addition, $40,000 was contributed for third party oversight.

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

Permanent Jobs

- Local hiring goal of 40% for the entire project.

- Jobs pay a living wage.

- Exclusive hiring of local workers during the three week period following notification of job opportunity before initial operations.

- $300,000 was contributed for job training, referral services, monitoring and enforcement.

THE LORENZO
PUBLIC BENEFITS AND COMMUNITY INVOLVEMENT

Small Business Support

- 10% of retail space is set aside for 10 years for local small businesses.
  - Privately owned by local residents.
  - Producing less than $300,000/year.
  - Less than 15 employees.
  - Not affiliated with national or corporate chain.
- $300,000 was contributed for small business loans.

Transit Oriented Development Support

- $200,000 was contributed into a Transit Oriented Development planning fund.

THE LORENZO
INDUSTRY AWARDS AND RECOGNITION

- 2014 PV Award for Jobs Program at Lorenzo

CALIFORNIA PUBLIC FINANCE AUTHORITY

Attachment C

Description of Lorenzo Project Transaction

DESCRIPTION OF LORENZO TRANSACTION

The following is a description of how the Lorenzo transaction might be structured to accomplish three goals: (i) CalPFA is the issuer of the bonds; (ii) CalPFA is treated as owner of the project for federal income tax purposes; and (iii) CalPFA is treated as the owner of the project for California local property tax purposes. Note that we are not experts in California property taxes and will not be opining on or taking responsibility for that issue, but we offer the following structure with the hope that whoever is responsible will find it useful.

The Project is a student housing project in the City of Los Angeles that currently is owned by a private developer. CalPFA is a political subdivision of the State of California that is not a taxpayer for federal income tax purposes.

The structure of the transaction is a sale of the real property improvements and related FF&E by the private developer to CalPFA and a long-term ground lease (e.g., 50 years) of the land from the private developer to CalPFA. The term of the ground lease will be substantially longer than the useful life of the real property improvements. Thus, the term Project specifically refers only to the real property improvements and related FF&E, together with the leasehold interest in the land. The private developer will retain a reversion right (described below) in connection with its sale to CalPFA. CalPFA will issue and sell senior bonds and will pay the proceeds of those bonds (less costs of issuance, including CalPFA's fees, etc.) and all of the subordinate bonds to the private developer in exchange for the Project.

The reversion right retained by the private developer is an automatic transfer from CalPFA of title and possession of the Project back to the private developer upon the earlier to occur of (1) termination of the ground lease prior to expiration or (2) the expiration of the term of the ground lease. The bonds are non-recourse bonds to be paid solely from Project revenues. The bonds consist of senior bonds sold publicly for cash and subordinate bonds that are seller take-back debt. All of the bonds will satisfy our requirements to conclude that they are debt for federal income tax purposes. The bond structure requires that all cash flow from the project after operating and maintenance cost are paid and reserves are filled is used to pay debt service on and or to redeem bonds. Thus, although the stated term of the bonds will be at least 35 years, it is expected that all of the bonds will be retired in less than 35 years.

CalPFA will select a third party professional manager(s) to operate the Project and maintain the facilities. It will delegate most of its responsibilities as Project owner to the manager(s), the bond trustee or a financial consultant (BLX?) that CalPFA may engage to monitor and report to it on the financial performance of the Project.

Attachment D

CalPFA Liability Analysis

Memo

To	California Public Finance Authority
From	Roger L. Davis
Date	July 26, 2016
Re	Ownership Structure

The following is a discussion of potential liability to California Public Finance Authority (CalPFA) in connection with financings in which CalPFA takes ownership of a project being financed (the "ownership structure").

By way of organizing the discussion, CalPFA's exposure to liability related to its issuance of bonds can be broken down into four categories. This is true whether the bonds are issued in the traditional conduit structure or in the proposed ownership structure. The four categories are contractual liability, tort liability, liability for expenses, and operational responsibilities. The last differs from the first three in that the first three are about financial liability whereas the last is about liability to take action even if costs are covered.

1. Contractual Liability.

A. One of the questions sometimes raised is whether the possibility that CalPFA might be held liable to pay its bonds from its own assets, if there were insufficient revenues from the project financed with those bonds, is more likely when it owns that project (ownership structure) than when it lends proceeds of those bonds to an unrelated borrower that owns the project (conduit structure). The answer is no there should be no difference whatsoever, and, assuming the documents are properly drafted in each case, no real possibility CalPFA would be held liable to pay its bonds other than from pledged project revenues whether the conduit structure or the ownership structure was used.

The contract with bondholders in either case makes it perfectly clear that the bonds are not a debt of the issuer (e.g., CalPFA), nor is the issuer liable to pay the bonds except from pledged revenues from the project. The bonds, the indenture providing for their issuance and the official statement (if any) also contain a legend (usually in all caps or bold) to the effect that:

> "The Bonds do not constitute a debt or liability of the State or any political subdivision, other than the Authority, but shall be payable solely from the funds provided therefor. The Authority shall not be obligated to pay the principal or redemption price of or interest on the Bonds, except from the funds provided therefor under the Indenture and neither the faith and credit of the State or any political subdivision or the Authority is pledged to payment of the principal or redemption price of or interest on the Bonds."

This is the same protection that CalPFA has in its normal conduit financings. For that matter, it is the same protection a county, for example, would have in something like a water revenue bond issue. We are not aware of any cases that held to the contrary.

B. CalPFA would, in the ownership structure, be party to a number of contracts in addition to the bonds, just as in all of its traditional conduit structure bond issues. Examples include the loan agreement and bond purchase agreement in the conduit structure and the management agreement and project purchase agreement in the ownership structure. In each case, those contracts would contain language to the effect that:

> "The Authority shall not be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damages, claims or actions of any conceivable kind under any conceivable theory under this Agreement or any document or instrument referred to herein or by reason or in connection with this Agreement or other document or instrument except to the extent moneys are available therefor under and in accordance with the terms of the Indenture."

So, CalPFA should have no contractual liability that extends beyond moneys available under the bond indenture, and ownership of the project should not make it any more likely than would be the case in a traditional conduit structure that CalPFA would be liable for any contractual obligation, whether under the bonds or any bond related contract, except, in each case, to the extent moneys are available under the indenture.

2. Tort Liability. "Tort" refers to some wrongful act or condition other than breach of contract. For this purpose, we can break it down into potential tort liability associated with the bonds and potential tort liability associated with the project.

A. The bond related tort liability relates primarily to possible violation of the so-called anti-fraud provisions of the federal securities laws, principally Rule 10b-5, which prohibits making misstatements or omissions of material fact in connection with the sale of securities (including municipal bonds). Typically, the place where such misstatements or omissions may occur is the official statement.

CalPFA may, in theory, be somewhat more exposed to misstatements or omissions in an official statement or other disclosure document in the ownership structure than in a typical conduit structure solely for the reason that in the conduit structure it is easier to ascribe responsibility for some of the information in that disclosure document to the nonprofit corporation or other borrower, and in the ownership structure there is no third party borrower. However, the information ascribed to the borrower in that disclosure document is typically limited to the information about the borrower and the project. Information about the borrower, of course, is simply not applicable in the ownership structure, where the relevant equivalent information might be about the manager hired by CalPFA to manage the project, which information can be ascribed to that manager. Information about the project may be ascribed to the seller. In any case, the disclosure document is considered the Issuer's document and additional means are deployed (whether in conduit structure or ownership structure) to limit the Authority's scope of responsibilities and potential exposure.

Some ownership structure bonds are privately placed to a single investor, in which case there is no official statement or other disclosure document. In a proposed offering to a limited number of potential investors, the draft limited offering memorandum (much like an official statement) stated that:

> "The information set forth herein (other than that furnished by the Authority which appears under the captions "THE AUTHORITY" and "LITIGATION") although obtained from sources which are believed to be reliable, is not guaranteed as **to** accuracy or completeness, and is not to be construed as a representation by the Authority as to any matter or fact contained therein."

All or most of the ownership structure transactions are expected to be privately placed, whether to a single buyer or a small number of qualified institutional investors or accredited investors. Whether or not there is a limited offering memorandum with something like the above—quoted language aimed at limiting the scope of the Authority's responsibility for the content, in each case, the investor will be required, as a condition to purchasing the bonds, to execute a so-called "big boy investor letter" which, quoting from the one used in a typical transaction, includes representations from the purchaser to the effect that

> "Investor acknowledges that it has either been supplied with or been given access to information to which a reasonable investor would attach significance in making investment decisions, and Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the Project and the Bonds and the security therefor so that, as a reasonable investor, the Investor has been able to make its decision to purchase the Bonds. Investor acknowledges that it has not relied upon the Authority for any information in connection with the Investor's purchase of the Bonds."

Note that there are a number of other protections for CalPFA contained in the investor letter.

Another potential source of bond related tort liability would be actions taken or omitted by the Authority that result in taxability of the bonds. In the typical conduit structure the borrower would be responsible for most actions that could affect taxability, primarily private use of the project or arbitrage investment of bond proceeds. Ownership structure issuers have addressed this concern by hiring BLX Group to provide post-issuance review and compliance monitoring.

In general, it is very rare (albeit not unprecedented) for issuers of bonds to be charged with bond related tort liability.

B. The project related tort liability relates to harm to persons or property from the operation or condition of the project. Examples with respect to a student housing project might include slip and fall injuries of residents, guests or staff, food poisoning from the cafeteria, water or fire damage to students' personal effects, environmental liabilities and the like. For this category, the exposure to CalPFA would be clearly greater and more direct in the ownership structure.

This exposure has been addressed to the satisfaction of the ownership structure issuers and the law firms representing them, as follows. The operation of the project was contracted out to a well-known and highly regarded manager of [student housing] projects, and the property and issuer were required to be insured at levels recommended by a special insurance consultant hired by the issuer to design and annually review the insurance package and its adequacy, and the issuer also hired BLX Group as financial consultant to oversee performance of the Manager, make sure the insurance was in place and timely renewed, and periodically report to the issuer. In addition, the issuer received limited indemnities from the seller of the project and from the manager, but we would consider those indemnities of less importance than the foregoing contractual delegations and insurance.

3. Liability for Expenses. In the typical conduit structure financing in which CalPFA loans the proceeds of the bonds to a hospital or multifamily housing developer or other corporation as borrower, that borrower agrees to reimburse or indemnify CalPFA for any expenses it may incur and any losses, damages, claims, actions or liabilities related to the bond transaction.

In the ownership structure, there may be some modest indemnifications coming from the seller and the manager, but there is no borrower to provide this kind of blanket indemnification. Of course, as most conduit issuers have learned, indemnifications are only worth what the borrower/indemnifier is worth and willing to pay and often the borrower/indemnifier is a special purpose entity with no assets other than the project. To address this issue, the ownership structure transactions have built into the cash flow a number of protections which arguably may be superior to indemnification (depending on the creditworthiness of the indemnifier).

Revenues are deposited first (before debt service on the bonds) into an Operating Expense Fund to cover budgeted operating expenses, which includes fees and expenses of the Authority, including legal expenses, and insurance costs. Budgets are prepared annually and therefore include only anticipated expenses, which, however, may include expenses that arise from unexpected events that occurred in the preceding year the costs of which remain unpaid or continue into the current budget year. There is also an Operating Reserve Fund which comes behind debt service on the senior bonds, but ahead of debt service on the subordinate bonds. The Operating Reserve Fund covers any extraordinary costs and expenses, including indemnification, not covered by the Operating Expense Fund. Further, the subordinate bonds absorb the first and substantial part of the risk of any shortfall in revenues, acting in effect as a buffer of protection for the Operating Expense Fund and Operating Reserve Fund.

4. Operational Responsibilities. As noted at the start, this category is different than the others because it's not about exposure to liability but to operational responsibilities, for which the Authority would be fully compensated.

As you might guess, more operational responsibilities might be expected of CalPFA in the ownership structure, where it owns the project, than in the conduit structure, where a borrower owns the project and is expected to be responsible for its operation.

Like the other issuers of ownership structure bonds, CalPFA has no real staff or ability to undertake responsibility for any operational activities. As a result, all of those responsibilities were delegated to one or more of the bond trustee under the bond indenture, the manager under the facilities management agreement, and the financial consultant (essentially the issuer's stand in for matters not covered by the trustee or manager and to monitor their performance) under a financial consultant services agreement.

I hope the foregoing helps frame the issues, and how they were addressed in prior ownership structure transactions. This discussion is intended as general background and not as an exhaustive analysis or as legal advice, and should not be relied upon in connection with any particular transaction.

I would be happy to answer any questions.

CALIFORNIA PUBLIC FINANCE AUTHORITY

Attachment E

Form of Restricted Use Covenant Agreement with the land (exclusive student housing)

Recorded at the request of and mail to:

California Public Finance Authority
2999 Oak Road, Suite 710
Walnut Creek, CA 94597
Attn: Mike LaPierre

----------------------SPACE ABOVE THIS LINE FOR RECORDER'S USE-------------------------

RESTRICTED USE COVENANT AGREEMENT RUNNING WITH THE LAND

This Agreement is made this ____ day of _______, 2016, by the California Public Finance Authority ("CalPFA") and Palmer/Flower Street Properties, a California Limited Partnership ("P/F").

RECITALS

WHEREAS, CalPFA is acquiring the real property improvements and related FF&E, subject to certain rights retained by P/F, and a long-term ground leasehold interest in the land commonly known as The Lorenzo and located at 325 West Adams Blvd in the City of Los Angeles, County of Los Angeles, State of California 90007 ("Property"), which address is also set forth in Section 1(a) hereof, and whose legal description is set forth in Exhibit "A," which is attached hereto and incorporated herein by this reference; and

WHEREAS, P/F owns the land where the Project is situated and is retaining certain rights in the Property; and

WHEREAS, CalPFA is acquiring its said interests in and intends to operate and manage one or more residential units in the Property (hereinafter the "Project") for the purpose, and with the commitment and agreement that 95% of the units at the Project (each a "Restricted Unit") will be used exclusively for Student Housing and/or Faculty and Staff Housing; and

WHEREAS, CalPFA and P/F agree to restrict usage of the Restricted Units to Student and/or Faculty and Staff Housing during the term of the Exclusive Use Restriction Period; and

WHEREAS, CalPFA, in consultation with its property management company, shall develop and adopt policies and regulations to ensure the Restricted Units will be rented to and occupied by students, faculty and/or staff of a public college, public university, or private college or private university for not less than the Exclusive Use Restriction Period. It is the desire of CalPFA and P/F to enter into this Agreement to ensure that such requirement is fully complied with.

NOW THEREFORE, in consideration of the mutual covenants and representations herein contained, the parties hereto covenant, represent and agree as follows:

1. Fundamental Provisions

(a) Property Address: 325 W. Adams Blvd., Los Angeles, CA 90007.

(b) Total Number of Residential Units at the Project: 913

(c) Total Number of Restricted Units at the Project: 867

2. Definitions.

For purposes of this Agreement, the terms listed below shall have the meaning thereinafter specified.

(a) Agreement. "Agreement" means this Restricted Use Covenant Agreement Running with the Land entered into by CalPFA and P/F.

(b) CalPFA. "CalPFA" means the CALIFORNIA PUBLIC FINANCE AUTHORITY, a joint exercise of powers agency duly organized and existing under the laws of the State of California, together with any successor to its rights, duties and obligations.

(c) Exclusive Use Restriction Period. "Exclusive Use Restriction Period" means the period beginning on the date CalPFA issues the Lorenzo Governmental Purpose Bonds and acquires the Project, and ending on the later of the following:

(1) the first date on which no Lorenzo Governmental Purpose Bonds with respect to the Project are outstanding; or

(2) the first date on which CalPFA no longer owns the Project.

(d) Faculty and Staff Housing. "Faculty and Staff Housing" means a residential unit occupied by an individual holding a faculty appointment or a staff position at a public or private university, or a public or private college.

(e) P/F. "P/F" means PALMER/FLOWER STREET PROPERTIES, A CALIFORNIA LIMITED PARTNERSHIP, which is a California limited partnership.

(f) Project. "Project" refers to the six (6) story building comprised of a total of nine hundred and thirteen (913) residential units over subterranean parking.

(g) Property. "Property" means that certain real property and the Project situated thereon, commonly known as The Lorenzo and located at 325 W. Adams Blvd., in the City of Los Angeles, County of Los Angeles, State of California, which address is set forth in Section 1(a) hereof, and whose legal description is set forth in Exhibit "A."

(h) Restricted Units. "Restricted Units" means those 867 units at the Project not reserved for Very Low Income individuals through Agreement Number C-120121 of Los Angeles City Contracts.

(i) Student Housing. "Student Housing" means a residential unit in the Project for use and occupancy by an individual enrolled at a public college, public university, or private college or private university.

(j) Lorenzo Governmental Purpose Bonds. “Lorenzo Governmental Purpose Bonds” means tax-exempt governmental purpose bonds issued by CalPFA pursuant to Section 141 of the Internal Revenue Code for the purpose of acquiring the Project in order to preserve and maintain needed student housing on a long-term basis.

3. Term.

The covenants and conditions contained herein shall run with and burden the Property for the Exclusive Use Restriction Period. CalPFA and P/F hereby acknowledge and agree that the Restricted Units shall be owned, managed and operated as Student Housing and Faculty and Staff Housing during the Term of this Agreement.

4. Conversions.

No part of the Project will at any time during the Exclusive Use Restriction Period be owned by a cooperative housing corporation, nor shall the parties hereto take any steps in connection with a conversion to such ownership or use, and the parties covenant that they will not take any steps in connection with a conversion of the Project to condominium ownership during the Exclusive Use Restriction Period.

5. Tenant Qualification.

Each Restricted Unit shall be reserved and rented solely as Student Housing or Faculty and Staff Housing during the Term of this Agreement. All of the Restricted Units will be available on a continuous, “first-come, first-served” basis to students enrolled in a private or public university or college, and faculty and staff holding an appointment or staff position with a private or public university or college and meeting management’s standard rental criteria, during the period beginning on the date hereof and ending on the termination or expiration of the Exclusive Use Restriction Period. No units in the Project shall be occupied by CalPFA or P/F.

6. Operation of the Project.

CalPFA will own, and will manage and operate or cause to be managed and operated the Restricted Units to provide student, faculty and staff housing comprised of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities. None of the Restricted Units will at any time be used as a hotel, motel, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home or trailer court or park; provided that the use of certain units for tenant guests on an intermittent basis shall not be considered transient use for purposes of this Agreement.

7. Design of the Project

All of the Restricted Units will be similarly constructed units, and each such unit in the Project will contain facilities for living, sleeping, eating, cooking and sanitation for a single person or persons, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink. The Project consists of a parcel or parcels that are contiguous except for the interposition of a road, street or stream, and all of the facilities of the Project comprise a single geographically and functionally integrated project in which the Restricted Units are reserved for Student Housing or Faculty and Staff Housing, as evidenced by the ownership, management, accounting and operations of the Project.

8. Recording of Agreement.

The parties hereto shall cause this Agreement to be recorded in the Official Records of the County of Los Angeles.

9. Governing Law

This Agreement shall be interpreted under and be governed by the laws of the State of California.

10. Counterparts

This Agreement may be executed in counterparts, each of which, when the parties hereto have signed this Agreement, shall be one and the same instrument.

11. Entire Agreement

The provisions herein constitute the entire agreement by the parties hereto. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party or anyone acting on behalf of any party, which are not embodied herein, and that any other agreement, statement or promise not contained in this Agreement shall not be valid or binding except more restrictive agreements.

(Signatures and notary acknowledgments on following pages)