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Ratings



Second Party Opinion

# California Housing Finance Agency 2023 Series A Bonds

**Jul. 25, 2023**

The California Housing Finance Agency (CalHFA) is a state agency established in 1975 that provides financing and programs that help low- and moderate-income individuals and families throughout the state access affordable housing, both as homebuyers and renters. Its mission is to invest in diverse communities with financing programs to advance its single- and multifamily programs, and to date, CalHFA has funded the creation or preservation of more than 73,000 affordable housing units. It is raising US$87.9 million through its 2023 Series A bonds to finance loans made through CalHFA's multifamily division. The agency will apply the proceeds of the bonds toward refinancing permanent mortgage loans for the completed construction, acquisition, and/or rehabilitation of affordable housing projects (2023 Series A Borrower Projects) located throughout central and Northern California.

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In our view, California Housing Finance Agency 2023 Series A Bonds, published on July 25, 2023, is aligned with:

- ✔ Social Bond Principles, International Capital Market Association (ICMA), 2021 (with June 2022 Appendix 1)
- ✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✔ Sustainability Bond Guidelines ICMA, 2021

## Issuer's Sustainability Objectives

CalHFA's mission is to invest in diverse communities throughout the state by financing home ownership and affordable rental programs that assist low- to moderate-income Californians with securing affordable housing. Through its multifamily program, CalHFA works with other state agencies, local jurisdictions, and private developers to finance the development of high-quality, energy-efficient affordable rental housing, many of which fall under the federal Low-Income Housing Tax Credit (LIHTC) program. As a California agency created to finance affordable housing, CalHFA's current permanent lending program must also comply with the state's Green Building Standard regulation (Title 24) and climate strategy related to the promotion of energy- and water-efficient buildings.

CalHFA is issuing sustainable bonds that will support the financing activities of its multifamily program and the state's overarching sustainability objectives. The transaction will refinance permanent mortgage loans for six multifamily rental affordable housing projects that feature environmental benefits, in accordance with California's Title 24 Building Standards and the California Tax Credit Allocation Committee (CTCAC)'s Qualified Allocation Plan (QAP).

# Second Party Opinion Summary

## Use of proceeds

**Alignment** ✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines.

**Score** Not aligned | Aligned | **Strong** | Advanced

CalHFA's Preliminary Offering Statement (POS) clearly details that the proceeds of the bonds will be applied toward refinancing mortgage loans that previously financed the acquisition, construction, and rehabilitation of a portfolio of six multifamily rental developments in central and Northern California. The properties comply with strict state-level green building standards across the portfolio, with additional energy-efficiency criteria applied to the portfolio's San Francisco-based rehabilitation projects.

## Process for project evaluation and selection

**Alignment** ✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

**Score** Not aligned | Aligned | Strong | **Advanced**

CalHFA evaluates its multi- and single-family projects based on eligibility criteria that align with the federal tax-exempt bond authority requirements and other state- and authority-mandated standards. The POS details project evaluation processes that include how projects are approved and the way CalHFA identifies and manages perceived social and environmental risks associated with the eligible projects.

## Management of proceeds

**Alignment** ✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

The issuance is for a 100% refinancing with proceeds immediately transferred to CalHFA for the eligible projects. As such, we do not view the inclusion of tracking methods and/or details of the management of unallocated proceeds as necessary.

## Reporting

**Alignment** ✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

**Score** Not aligned | **Aligned** | Strong | Advanced

CalHFA provides the projects' qualitative environmental and social performance indicators in the POS, such as inclusion of EnergyStar appliances and compliance with state-level environmental regulations. Where applicable and feasible, quantitative performance indicators such as the projects' local area median income (AMI) bands served and energy efficiency improvement benchmarks for its new construction and rehabilitation projects are also included.

# Transaction Assessment

## Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

| Commitments score | Not aligned | Aligned | **Strong** | Advanced |
|---|---|---|---|---|

We consider CalHFA's overall use of proceeds commitments to be strong.

The agency will allocate the proceeds of the bonds exclusively toward refinancing mortgage loans that previously financed the construction of four multifamily developments and two major rental property rehabilitations. In total, the portfolio provides 570 affordable housing rental units restricted to families whose household income falls between 30% and 80% of the local AMI. Ancillary services such as childcare centers, access to social security agents, and/or educational workshops related to building financial and technological literacy as well as job training are provided onsite at each of the properties. In addition, all multifamily developments are within walking distance of public transit. In our view, these additional services constitute the provision of access to essential services and affordable basic infrastructure, as outlined in ICMA's Social Bond Principles.

Further, each of the portfolio's properties meet Title 24's strict regulatory standards, updated in 2019, which outline several mandatory energy- and water-efficiency measures for new constructions and major renovations throughout the state. Beyond this portfolio-wide standard, all units are equipped with EnergyStar-certified appliances as a requisite for receiving low-income housing tax credits through the CTCAC's QAP. Half of the portfolio (three out of six developments) also meet voluntary market-based green building standards, such as a minimum Leadership in Energy and Environmental Design (LEED) Gold Rating and/or 75 GreenPoints from the GreenPoint Rated Multifamily designation, which we view favorably.

The transaction documents also make clear that the issuance is a 100% refinancing of the developments' original mortgage loans, with the oldest loan dating back approximately 4.5 years. We view this lookback period as in line with best market practices within the affordable housing sector.

For these reasons, we view the projects as spanning sustainability themes of affordable housing, energy efficiency, sustainable water and water management, green buildings, access to essential services, affordable basic infrastructure, and socioeconomic advancement and empowerment, all eligible project types outlined in ICMA's Social and Green Principles.

## Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

| Commitments score | Not aligned | Aligned | Strong | **Advanced** |
|---|---|---|---|---|

We consider CalHFA's overall process for project selection and evaluation commitments to be advanced.

CalHFA's POS clearly outlines the project evaluation process and exclusionary restrictive criteria dictated by federal and state-level statutory requirements that it uses to select eligible social projects. Under these eligibility terms for CalHFA's Tax-Exempt Permanent Loan and Conduit Issuer Programs, representing half of the issuance's portfolio, bond proceeds must be allocated to projects that maintain strict guidelines. These include: at least (i) 20% of the units rent restricted and occupied by individuals whose incomes are 50% or less of AMI, or (ii) 40% or more of the units rent restricted and occupied by individuals whose income is 60% or less of AMI, with adjustments for household size in both cases. In the latter case, a minimum of 10% of the units must be at 50% or less of AMI. For its Mixed-Income Loan Program, representing the other half of the portfolio, projects are restricted to rent levels between 30% and 120% of local AMI. These developments must maintain at least: (i) 20% of total units at or below 50% AMI; (ii) 10% of total units between 60% and 80% of AMI, with an average of 70% or greater of AMI; and (iii) the minimum range between the lowest and highest targeted occupancy level at 40%. Positively, CalHFA's financed mortgage loans exceed these standards; excluding the six manager units, 47% of the financed units are reported to be at or below 60% of AMI while 100% will be at or below 80% of AMI.

From an environmental perspective, all multifamily projects must also adhere to Title 24 and the State's QAP criteria, both of which provide guidelines for the development of housing that is relatively energy- and water-efficient as well as supportive of the state's plan to achieve carbon neutrality by 2045. Two of the portfolio's six projects are based in San Francisco, thereby falling under the Housing, Opportunities, Partnerships, and Engagement San Francisco (HOPE SF) program run by the San Francisco Mayor's Office of Housing and Community Development (SFMOHCD) and must therefore also comply with the 2019 San Francisco Green Building Code (SF Green Code), which requires multifamily rehabilitation developments over 25,000 square feet to achieve a 10% increase in energy efficiency. Given the portfolio's overarching alignment to the TCAC's QAP, additional environmental recommendations, including LEED and GreenPoint Rated certification, are encouraged to ensure projects meet the highest environmental standards. These voluntary certifications are fulfilled by half of the refinanced projects.

Furthermore, the eligible projects are subject to a thorough review process. Within CalHFA, eligible projects are reviewed and underwritten by multifamily staff within its multifamily programs division and are subsequently presented to the agency's Senior Loan Committee and/or board for approval. Senior leaders at CalHFA, CTCAC, and the California Debt Limit Allocation Committee (CDLAC) with significant affordable housing financing experience ultimately and collectively ensure that developments will provide quality housing at rent levels that low- and moderate-income individuals and families can afford, including confirmation of tax-exempt bond allocation.

CalHFA's project evaluation process by its multifamily programs staff also involves a review of associated social and environmental risks and mitigants to ensure the eligible projects promote diverse and equitable communities. Some risk-mitigating actions include recurring market surveys of appropriate AMI levels, mixing of income brackets in CalHFA-managed developments to promote equitable areas of opportunity, environmental impact assessments for every development, and the use of energy-efficient housing materials and appliances where possible to support the sustainability strategy of the state as well as healthy environments for current and future residents.

## Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

CalHFA will immediately apply the net proceeds of the Series A bond issuance to repay the original loan financing for the construction and rehabilitation of the affordable housing projects in the transaction portfolio. As such, we do not view a commitment to temporarily manage or periodically adjust the use of proceeds as necessary.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ California Housing Finance Agency 2023 Series A Bonds is aligned with this component of the Sustainability Bond Guidelines

Disclosure score: Not aligned | **Aligned** | Strong | Advanced

We consider CalHFA's overall reporting practices to be aligned.

CalHFA reports on the allocation of the net proceeds from the transaction within the bond issue's POS. This information follows CalHFA's guidelines in its table entitled "2023 Series A Project Summaries" found in the POS, Appendix I. As a quasi-public state agency subject to federal regulations, CalHFA is also legally mandated to conduct annual financial audits, which include reviewing the allocation of the proceeds from the bond series. Separately, CalHFA's impact metrics for each of the projects are subject to audit by federal, state, and local governments, as well as mission-aligned third parties, as part of the LIHTC program.

In its "2023 Series A Project Summaries" and corresponding transaction documents, CalHFA reports on the fully realized qualitative social and environmental attributes of its refinanced projects, such as affiliated subsidy programs, LIHTC eligibility, and the environmental standards or certifications followed. CalHFA also provides quantitative performance indicators on enforced tenant AMI bands to demonstrate the portfolio's social impact. CalHFA falls short, however, of committing to disclose quantitative environmental impacts of all projects. While the POS makes clear that rehabilitation developments must achieve at least a 10% energy efficiency improvement compared with pre-existing usage and that EnergyStar appliances will be applied throughout the portfolio, quantitative environmental metrics allowing for comparability and benchmarking are not used, limiting our view. Such quantitative metrics may include disclosures on the amount of CO2 emissions avoided, gallons of water saved, and kilo Btus of energy conserved throughout the projects or a commitment to include such metrics in annual impact reports for stakeholders' reference.

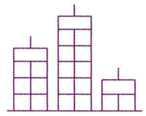
# Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

California Housing Finance Agency 2023 Series A Bonds intends to contribute to the following SDGs:

| Use of proceeds | SDGs | |
|---|---|---|
| Affordable Housing | **1. No poverty*** | **11. Sustainable cities and communities*** |
| Socioeconomic Advancement and Empowerment | **1. No poverty*** | **10. Reduced inequalities*** |
| Access to Essential Infrastructure | **10. Reduced inequalities*** | |
| Energy Efficiency | **7. Affordable and clean energy*** | |
| Sustainable Water and Wastewater Management | **11. Sustainable cities and communities*** | |

| | |
|---|---|
| Green Buildings |  **11. Sustainable cities and communities*** |

*The eligible project categories link to these SDGs in the ICMA mapping.