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DATE: June 23, 2015
TO: Low Income Housing Tax Credit Stakeholders
FROM: Anthony Zeto, Development Section Chief
SUBJECT: 2015 Second Round Guidance

With this memorandum, the California Tax Credit Allocation Committee ("TCAC") is providing guidance for prospective second round applicants.

Advisory Guidance to Second Round Applicants

During first round reviews of nine percent (9%) and four percent (4%)-plus-State credit applications, TCAC staff identified areas to clarify for second round applicants. The following notes clarify TCAC's expectations for application content and award decision-making.

Rural Set Aside Applications

Pursuant to TCAC Regulations Section 10315(c), "Twenty percent (20%) of the Federal Credit Ceiling for any calendar year, calculated as of February first of the calendar year, shall be set-aside for projects in rural areas as defined in H & S Code Section 50199.21 and as identified in supplemental application material prepared by CTCAC. For purposes of implementing Section 50199.21(a), **an area** is eligible under the Section 515 program on January 1 of the calendar year in question if it either resides on the Section 515 designated places list in effect the prior September 30, or is so designated in writing by the USDA Multifamily Housing Program Director."

An application received for an existing project previously awarded Section 515 financing does not qualify the application to compete in the Rural Set Aside unless the **area** meets the requirements above.

For additional information on the Rural Status methodology, please refer to the TCAC website:
<http://www.treasurer.ca.gov/ctcac/2015/methodology.pdf>

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Market Study

Pursuant to TCAC Regulations Section 10322(h)(10), market studies submitted must be prepared within 180 days of the filing deadline by an independent 3rd party. The market study shall be updated if the proposed project rents change by more than five percent (5%), or the distribution of higher rents increases by more than 5%, or 180 days have passed since the first site inspection date of the subject property and comparable properties. TCAC shall not accept an updated market study when more than twelve (12) months have passed since the earliest listed site inspection date of either the subject property or any comparable property. In such cases, applicants shall provide a new market study. If the market study does not meet the guidelines or support sufficient need and demand for the project, the application may be considered ineligible to receive Tax Credits.

Unsuccessful First Round applications re-applying in the Second Round must adhere to the timing requirements as it relates to site inspection date and market study preparation referenced above. In addition, the proposed rents in the application must be based on the 2015 Income and Rent Limits (<http://www.treasurer.ca.gov/ctcac/2015/supplemental.asp>). The change in the rents must be updated in the market study (either within the study or as an attachment to the study) and reflected on the Market Study Rent Comparability Matrices to meet the basic threshold requirements noted in TCAC Regulation Section 10325(f)(1).

For more information regarding the Market Study guidelines, please refer to the TCAC website at: <http://www.treasurer.ca.gov/ctcac/mktstudy/2015.pdf>

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Lowest Income Point Category

Pursuant to TCAC Regulations Section 10325(c)(7), applications requesting points in the Lowest Income point category must be in accordance with the Lowest Income Points Table. The points requested in the Points System worksheet of the application (Page 40-41) must match the unit targeting in the Rent and Income section of the Application worksheet (Page 17). An example for points requested in the Point System worksheet on Pages 40-41, in accordance with the Lowest Income Points Table, is shown below.

10% @ or below 30% AMI (15 points)
10% @ or below 35% AMI (12.5 points)
10% @ or below 40% AMI (10 points)
10% @ or below 45% AMI (7.5 points)
10% @ or below 50% AMI (5 points)

The above unit targeting must match unit targeting in the Rent and Income section of the Application worksheet on Page 17.

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Environmental Clearance

TCAC is providing further clarification relating to environmental clearance for the Readiness to Proceed point category. Tab 26 of the application must include National Environmental Policy Act (NEPA) environmental clearance documentation for **each** federal funding source in the project. In some cases, the same Responsible Entity under NEPA 24 CFR Part 58 is providing additional funds for the project from a different federal funding source. In those cases, NEPA may be exempt, but documentation (i.e. Finding of Exemption form) must still be included in the application.

- As an example, if a project has HOME funds where a NEPA review has already been completed and the project is subsequently awarded CDBG funds, the application must contain NEPA environmental clearance documentation for the HOME **and** CDBG funds no matter the level of NEPA environmental clearance (i.e. exempt, excluded, FONSI, etc.).
- In another example, if a project has HUD Project-based Section 8 and HOME funds, the application must contain NEPA environmental clearance documentation for both sources.

For rehabilitation projects that are Exempt from NEPA, an explanation for the exemption **and** exemption documentation (i.e. Finding of Exemption form) must be submitted in Tab 26.

In addition to the clarifying information above, please also refer to previously posted guidance relating to environmental clearance for the Readiness to Proceed point category on the TCAC website at:

- Memorandum dated May 26, 2011:
(<http://www.treasurer.ca.gov/ctcac/2011/firstround/update.pdf>)
- Memorandum dated June 20, 2013:
(<http://www.treasurer.ca.gov/ctcac/2013/secondround/guidance.pdf>)

If applicants have circumstances regarding NEPA environmental clearance not addressed in the above guidance, please contact your regional TCAC analyst immediately.

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Approvals Necessary to Begin Construction for Readiness to Proceed Point Category

Any item on TCAC Application Attachment 26, “Approvals Necessary to Begin Construction”, that are marked Not Applicable must include documentation stating why it is not applicable. No items can be left unchecked.

If any item on Attachment 26 contains a statement that says “not required” or “not reviewed” by this agency, you must submit another Attachment 26 completed by the agency that does have oversight of the approval(s).

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Proposed Regulation Changes

On April 17, 2015, TCAC proposed some changes to the regulations. Subsequently, TCAC published to the TCAC website the final set of proposed changes in response to comments on June 2, 2015. These proposed changes were adopted at the June 10, 2015 Committee Meeting and can be found on TCAC website at:

- June 10, 2015 Adopted Regulations
(<http://www.treasurer.ca.gov/ctcac/programreg/2015/20150610/regulations.pdf>)

As you prepare applications for the second round, please review the proposed regulation changes referenced above to assure that your application meets the requirements of the regulations.

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State Credit Calculation

For all projects, state tax credits are calculated from the federal Requested Unadjusted Eligible Basis. Federal and state statutes both use the term “qualified basis.” For purposes of calculation, the federal qualified basis is eligible for the 130% basis boost if a project location is in a DDA or QCT. The state qualified basis is always calculated from the non-boosted federal basis, and does not include the 130% basis boost.

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Miscellaneous

Following are some of the application errors of first round applicants. Please review your applications carefully to avoid or correct these errors:

- Failure to include explanatory information when submitting multiple, lengthy, and interrelated documents;
- Failure to include all necessary documentation to support site amenity point requests;
- Failure to provide detailed explanations for approvals on TCAC Application Attachment 26 identified as “N/A”;
- Failure to provide documentation verifying NEPA completion for each federal funding source (i.e. HOME, CDBG, HOPWA, NSP, USDA RHS financing, HUD Project-based Section 8, etc.);
- Failure to properly complete the Funding Source table on Page 21 of the E-application;
- Failure to note caution formula prompts in the E-application (i.e. funding gap, exceeding limits, etc.);
- Failure in copying the correct application to the flash drive/CD/DVD ***Make sure the application being submitted is for the correct project you are submitting for.***

When preparing your application for the second round, please also refer to the following guidance previously posted or updated on the TCAC website.

- 2015 Application Information
<http://www.treasurer.ca.gov/ctcac/2015/application.asp>
- Competitive Tax Credit Application Submittals:
<http://www.treasurer.ca.gov/ctcac/2015/submittals.asp>
- Current Guidance for TCAC's Sustainable Building Method and Minimum Construction Standards for Energy Efficiency:
<http://www.treasurer.ca.gov/ctcac/2015/sustainable.asp>
- 2015 Application Workshop Questions and Answers:
<http://www.treasurer.ca.gov/ctcac/2015/workshops/questions.pdf>
- Redevelopment Agency (RDA)-Related Application Requirements
<http://www.treasurer.ca.gov/ctcac/2015/rda.pdf>
- 2015 Guidance for First Round Applicants Re-Appling in the Second Round:
<http://www.treasurer.ca.gov/ctcac/2015/guidance.pdf>

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If you have any questions regarding the above guidance items, please contact your regional analyst (<http://www.treasurer.ca.gov/ctcac/assignments.pdf>).