

MEMO

Date: August 15, 2016
To: High Cost Task Force Members
From: Mark Stivers, TCAC and Jeree Glasser-Hedrick, CDLAC
Subject: Follow up to High-Cost Task Force Discussions

I would like to thank you all for your time and valuable input to our discussions about addressing high-cost projects. The brainstorming was particularly helpful, and the feedback to the ideas we presented was insightful. Jeree and I want to follow up on those discussions and let you know where we would like to go. It is our intent to pursue the first two ideas administratively and the remaining items as proposed regulation changes. The latter of course will allow for extensive public comment and deliberation and will ultimately be decided by Committee members.

1. Omit the value of donated land and improvements, fee waivers, and any other donated costs excluded from basis from the sources and uses budget and total cost calculation for 4% projects. Whereas TCAC needs this data for purposes of determining the tiebreaker in 9% projects [it figures into the numerator and denominator for the tiebreaker], there is no such value to including these imaginary costs in 4% calculations given that they are never paid and do not figure into eligible basis. The idea is for the total costs and costs per unit to be more accurate of true costs.
2. Add a line to staff reports calculating a project's lifetime rent benefit. We would suggest having the market analyst calculate this number based on market rents – targeted rents * 55 years. The idea is to put cost data into the context of public benefit.
3. Limit CDLAC bond allocation on a per unit basis (adjusted by the number of bedrooms) in the General and Rural Multifamily Pools as follows:

Studio and SRO:	\$382,500
One-bedroom:	\$400,000
Two-bedroom:	\$427,500
Three-bedroom:	\$472,500
Four or more bedroom:	\$497,500

This concept does not limit costs outright but does limit the amount of tax-exempt bonds and 4% tax credits that would be available to high-cost projects. Because bonds must finance at least 50%

of aggregate basis (land plus depreciable assets), the effective limit on costs would be twice the figures listed above.

4. Provide a developer fee incentive to minimize costs for 9% new construction projects. First raise the base cash out developer fee limit on 9% new construction projects to \$2.2 million. Then apply the incentive such that the cash out fee equals the base cash out fee (15% of basis or \$2.2 million) plus or minus a 1% increase/decrease to the base cash out fee for each 1% that the high-cost test (eligible basis/threshold basis limit) is below/above 100%. For example, a project that has a high-cost percentage of 90% would have a cash out developer fee limit of 16.5% of basis or \$2.42 million. A project with a high-cost test of 120% would have a cash out developer fee limit of 12% or \$1.76 million.

The developer fee limit would be trued up at placed in service based on actual costs. The idea is to give developers a financial incentive to reduce costs in a way that does not affect the competitiveness of the project. In all cases, the maximum amount of developer fee in basis would remain at \$1.4 million so as not to award more credits per unit. The concept is not applied to 9% rehab projects because costs are easily altered by reducing acquisition prices or the scope of work, neither of which we want to encourage generally. Also, the concept is not applied to 4% projects, which already have an incentive to reduce costs to minimize financing gaps.

To mitigate the disadvantage to projects in naturally high-cost areas, TCAC is considering an additional increase in the threshold basis limit for projects within high-opportunity areas. TCAC is still exploring the amount of the increase and how to define a high-opportunity area. With respect to the latter, one idea is provide the increase for a project in an area that meets all of the following criteria:

- Within a city with a population of at least 50,000
 - Within a county that has a 9% threshold basis limit for 2-bedroom units equal to or less than \$300,000.
 - Deemed to have the highest opportunity by the UC Davis Regional Opportunity Index for Places (see the dark green shaded areas on the middle “Place” map at <http://interact.regionalchange.ucdavis.edu/roi/webmap/webmap.html>) .
5. Eliminate the ability for high-cost projects (those with a high-cost test percentage greater than 130%) to proceed in competitive tax credits rounds with approval of committee. In the event that the committee were ever to consider approving such a project to be considered, it is not clear what standards the committee would use to differentiate between high cost projects. To the extent that a revised standard may be warranted, this seems more appropriate for a regulation change to alter the test itself, rather than an ad hoc decision based on individual projects. To mitigate the disadvantage to projects in naturally higher-cost portions of a region, TCAC will consider the threshold basis increase for high-opportunity areas described in #4.

6. Reduce minimum unit size requirements for 1- and 2-bedroom units by 50 square feet and for 3- and 4-bedroom units by 100 square feet. The idea is to allow all projects to reduce costs by creating somewhat smaller units while continuing to ensure that tenants enjoy high-quality living spaces.
7. Allow rehab projects to seek waivers to the minimum size requirement for community space where community space already exists. The idea is to allow rehabilitation projects that may need to reconfigure existing space to reduce costs while continuing to ensure that projects have sufficient space to provide high-quality services and community activities.
8. If a project's parking ratio exceeds the standards established by AB 744 of 2015 [for 100% affordable projects, .5 spaces per unit for TOD and senior projects and .3 spaces per unit for special needs projects; this concept would not apply to other types of projects], do not allow basis for the cost of parking over the standards. This could be calculated in one of two ways:
 - Have the applicant and accountant determine the project's cost per parking space and exclude from basis an amount proportionate to the number of excess spaces.
 - Assume that all surface parking spaces cost \$10,000 per space and that all structured or underground spaces cost \$30,000 per space (or some other amount in both cases) and reduce basis by the number of excess spaces multiplied by the fixed cost per space.

Now that AB 744 has generally trumped local parking requirements for certain types of projects, this would effectively require local governments to pay for any increased parking if they conduct a study to evade the AB 744 standards.