EXECUTIVE SUMMARY – 2005 Program Highlights

Tax Credit Units in California Exceed 200,000

In 2005, the California Tax Credit Allocation Committee ("TCAC" or "the Committee") awarded over $71 million in competitive 9% federal Low Income Housing Tax Credits to 71 proposed housing projects.

Project Type	# of Projects Funded
Family	50
Senior	17
Single Room Occupancy	1
At-Risk	3

In addition, more than $54 million in state credit was awarded to 18 competitive projects, while an additional $19 million in state credit was allocated to 10 projects receiving 4% credits with tax-exempt bonds.

A total of 4,916 additional affordable housing units will be built using the 2005 9% credit awards, bringing the total aggregate number of units in the competitive, 9% program in California to 95,954. When including tax-exempt bond financed units, the total aggregate number of California units assisted with tax credits since the program's inception is 200,154.

Demand for Tax Credits

Applications for competitive 9% credits received in 2005 totaled 123 (as compared to 137 in 2004), with 71, or 58%, receiving a tax credit allocation. The demand over supply for tax credits in 2005 was slightly lower than that of 2004, when only 47% of all applications received credit allocations. Despite the lower ratios, TCAC still receives more high scoring applications than it can fund. The total dollar amount of federal credit requested was $123.6 million, while the amount available to allocate was $71 million or 57% of the requested amount.

Geographic Apportionments Affect Credit Distribution

In 1997 the Committee created geographic apportionments and in 2004 updated the geographic apportionments to align the distribution of tax credits with statewide housing needs. Credits are apportioned to each of 10 areas by a formula incorporating population, housing costs, poverty and urbanization. The formula determines the amount of credits available to counties, after funding the supplemental, non-profit homeless apportionment portion of the nonprofit set-aside, rural and special needs/SRO set-asides. Table 1 shows statewide credit distribution in relation to targeted apportionments based on the percentage of federal credit available by formula. The targeted apportionment does not account for prior years' results and their effect on availability in 2005.

TABLE 1
2005 Geographic Apportionments versus Allocations

Geographic Area	Targeted Aportionment	Percent of Total Allocation
Los Angeles County	33%	23.86%
Central	10%	14.87%
Alameda, Contra Costa, Marin, Napa, Solano, Sonoma Counties	10%	9.05%
San Diego County	10%	10.97%
Inland Empire	8%	15.66%
Orange County	8%	9.57%
San Mateo & Santa Clara Counties	6%	1.81%
Capital/Northern Area	6%	7.57%
Coastal California	5%	1.54%
San Francisco County	4%	5.10%
TOTAL	**100%**	**100.00%**

Continued Increase in the Number of Projects Financed with Tax-exempt Bonds

In 2005, the Committee reserved credit for 120 projects financed with the proceeds of tax-exempt bonds, a 5 percent increase over the 112 projects for which credits were reserved in 2004. The 120 projects recieved $73,893,061 in annual federal tax credits and and will produce 11,066 low-income units. In addition, 10 of the 119 projects recieved a total of $19,092,357 State credits.

Monitoring Activities

In 2005, the Committee conducted monitoring activities at 523 tax credit projects to fulfill the IRS requirement that all completed tax credit developments must be inspected at least once every three years. Activities included visits to the developments to review files and physically inspect the units and common areas. At least 20% of the files and units at each development were inspected. Of the 523 developments inspected, 417, or 79.7%, were found to have no incidents of non-compliance. The remaining 106 developments had at least one incident of noncompliance. In most cases the non-compliance was due to over-charging rents, inadequate file documentation or not performing timely income recertifications. Of the 7,908 tenant files inspected, 7,827 or 99.0% were found in compliance with income restriction requirements. In cases where too much rent was charged, all locatable residents received refunds.

I. RESULTS OF THE 2005 PROGRAM

Section 50199.15(a) of the California Health and Safety Code requires the Committee to submit an annual report of the prior year's activities to the Legislature. The statute requires the Committee to report information as follows: the total amount of housing credit allocated; the total number of low-income units that are, or will be, assisted by the credit; the amount of credit allocated to each project, other financing available to the project, and the number of units that are, or will be, occupied by low-income households. The report also must include information that describes the low-income status of units reserved for low-income occupancy from projects receiving allocations in previous years. Appendices A, B and C of this report contain data for 2005 as well as prior program years. Appendix D contains a summary description of the tax credit programs.

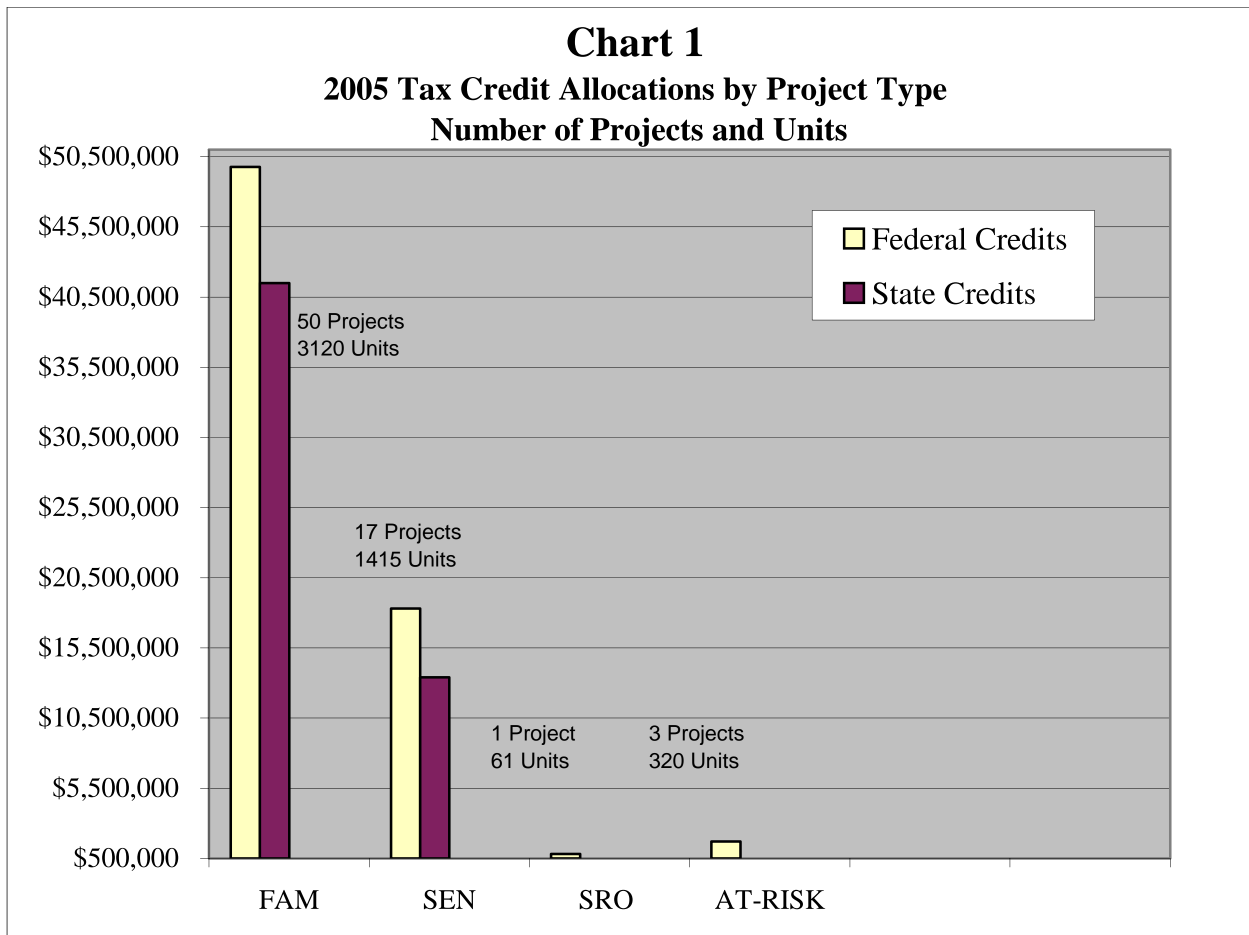
The 9% Program

In 2005, the per capita annual federal credit ceiling was $66,403,528 (or a total of $664,035,280 of federal credits available for investors over a ten-year period). In addition to the per capita credit, this total amount does not include $4,330,493 of credit returned to the Committee and $848,068 available from the “national pool”, that is, from credit of other states that is divided among states that have allocated all their credit in the preceding year. The total, per annual federal credit, awarded to projects in 2005 was $71,112,511, or or a total of $711,125,510 of federal credits available for investors over a ten-year period.

Applications

In 2005, applicants requested approximately $123 million in federal credit exceeding the approximate $71 million available in annual federal credit. In addition, $78 million in total state credit was available. Applicants requested all of the $78 million in state credit. Table A-1 in Appendix A provides a summary listing by county of all projects allocated credit in 2005. The 2005 federal 9% tax credits assisted 71 projects in 24 counties. Of those projects, State tax credits assisted 18 projects in 7 counties.

Chart 1 breaks down the 2005 allocations by housing type. Of the 71 projects that received a 9% allocation, fifty (50) are designated for large families (3-bedroom or larger units accounting for at least 30% of total project units), seventeen (17) are designated for seniors, one (1) provides Single Room Occupancy units, and three (3) projects are "at risk" of conversion to market rate.



Housing Types

State regulations require all 9% tax credit applicants to compete under one of five housing types. Table 2 outlines the distribution of units and credits among those housing types in 2005.

Table 2
2005 Housing Type Units and Credits

Housing Type	Projects Awarded Credit	Low Income Units	Total Annual Federal Credits Awarded	Percentage of Total Annual Federal Credits Awarded	Current Goals
Large Family	50	3,120	$49,775,642	70.00%	65%
Single Room Occupancy	1	61	$824,840	1.16%	10%
At-Risk	3	320	$1,715,044	2.41%	5%
Special Needs	0	0	0	0%	5%
Senior	17	1,415	$18,797,025	26.43%	15%

The majority of Large Family projects are new construction with an average size of 62 units in 2005. By geographic location, in comparison to rural projects, inner-city projects tend to be smaller and suburban projects larger. By State regulation, at least thirty percent of the units in Large Family projects must be 3-bedroom or larger units. Typical project amenities include laundry facilities, equipped play areas, outside family areas, community rooms, day care facilities, and security systems.

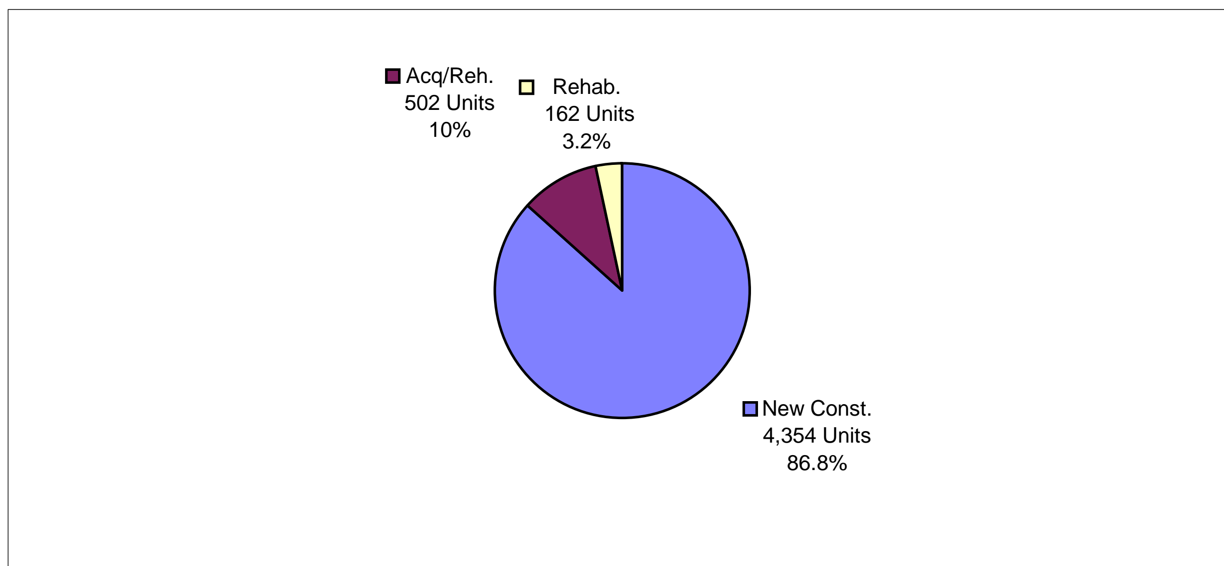
In 2005, TCAC funded one (1) single-room occupancy (SRO) project for 61 units. This project is the rehabilitation of an existing building, a common scenario among tax credit awarded SROs. SRO projects are often rehabilitated urban hotels. SRO units do not have a separate bedroom, although they may have private bathroom and/or kitchen facilities. All units must be targeted on average to households with incomes of 40% of area median. Typical project amenities include laundry facilities, furnished community rooms, community kitchens and security. In addition, various social services are available to assist the tenants, including job counseling and drug and alcohol rehabilitation.

Senior projects are generally new construction with an average size of 83 units in 2005. In comparison, the average unit count among all federal 9% projects in 2005 was 70 units. Most senior projects are comprised of 1-bedroom units and are on sites within walking distance of basic services. Typical project amenities include a security call system, furnished community rooms and laundry facilities.

Finally, At-Risk projects are comprised of federally assisted units that are approaching or beyond the time when they can convert to market rate developments. In 2005, their average size was 107 units. At-Risk is the only housing type that does not have any relevance to the type of tenants that will be targeted by the project, and in fact many of the At-Risk projects target one or more of the other populations represented by TCAC's housing types.

Chart 2 shows the number of 9% units and projects by construction type. Projects awarded credit contain 5,018 total units, with 4,916 available at affordable rents to low income households. Of the total units, 4,354 will be newly constructed, and 664 existing units will be rehabilitated.

Chart 2
2005 Unit Distribution by Construction Type



As required by federal and state law, at least 10% of the annual 9% tax credits available must be set aside for nonprofit sponsors. State law also provides for 20% rural and 2% small development set-asides. Table 2 shows that 9.33% of the federal credits and no state credits were allocated to qualifying nonprofit sponsors competing in the nonprofit set aside, which includes the nonprofit homeless assistance apportionment set-aside. However, nonprofit sponsors compete effectively in all of the set asides and the general pools, and overall 42% of the applications awarded credit were sponsored by a nonprofit that could otherwise qualify to compete in the nonprofit set aside. Over 20% of available federal and state credits went to rural projects, including those within the Rural Housing Service set-aside. Finally, 2.2% of federal credit and 5.37% state credits were awarded to small development projects. Table 3 outlines the 2005 allocation of 9% federal tax credits among the various set-asides and apportionments.

Table 3
2005 Allocations by Set-Aside

Set-Aside	Projects	Low Income Units	Federal Allocation	% of Total	State Allocation	% of Total
Homeless Assistance	1	61	$824,840	1.17%	$0	0%
Nonprofit	5	303	$5,762,257	8.16%	$0	0%
RHS	4	191	$2,740,382	3.88%	$6,407,220	11.67%
Rural	12	848	$11,620,604	16.46%	$10,537,058	19.20%
Small Development	5	93	$1,554,043	2.20%	$2,949,162	5.37%
At-Risk	3	320	$1,715,044	2.43%	$0	0%
Special Needs/SRO	0	0	$0	0.00%	$0	0%
General Pool	41	3100	$46,895,381	65.70%	$35,006,856	63.76%
Total	**71**	**4916**	**$71,112,551**	**100.00%**	**$54,900,296**	**100.00%**

Federal and State Credits-Per-Low-Income-Unit Increases from 2000-2005

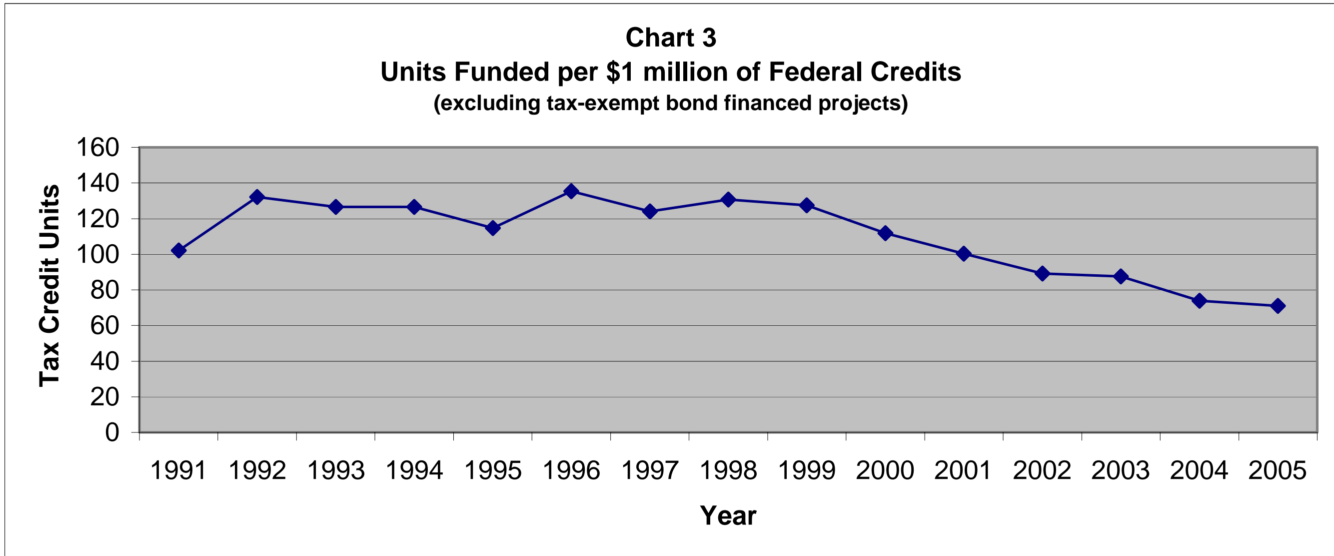
Table 4 summarizes data on credits-per-low-income unit for projects allocated ceiling credit from 2000 through 2005. The data has been updated from previous annual reports, and reflects returned credits and unsuccessfull projects.

Table 4
9% Federal and State Credits per Low Income Unit: 2000-2005

Year	Total # of Projects	10-Year Total Federal Credit	4-Year Total State Credit	Total Low Income Units	Total Federal and State Credit per Low Income Unit
2000	81	$503,988,360	$54,057,979	5,066	$110,155
2001	67	$510,298,140	$35,333,660	5,124	$106,486
2002	67	$620,815,290	$91,754,982	5,281	$134,931
2003	80	$620,711,740	$74,136,925*	5,203	$133,548
2004	64	$604,595,340	$72,024,434*	4,482	$150,964
2005	71	$711,125,510	$54,900,296*	4,916	$155,823

** In addition to the above figures, $9,683,098 in State credits were awarded to tax exempt bond deals in 2003; as were $3,248,707 in 2004, and $19,092,357 in 2005.*

Chart 3 reflects the number of units expected to be produced per million dollars of tax credit in program years 1991 through 2005.



The 4% Program

In 2005, the Committee awarded 4% credits to 120 projects financed with the proceeds of tax-exempt bonds. A total of $73,893,061 annual 4% federal credits were allocated to these projects, an amount that exceeded the annual 9% federal credits allocated for the third year in a row. For the past three years, tax-exempt projects have been eligible to compete for state credits. Of these 120 projects awarded annual federal credits in 2005, 10 received allocations of state credits totaling $19,092,357. These projects will generate 11,279 affordable units, 379 more low income units than in 2004. Table 4 summarizes data on credits-per-low-income unit for projects allocated ceiling credit from 2000 through 2005. The data has been updated from previous annual reports, and reflects returned credits and unsuccessfull projects.

Table 5

4% Federal and State Credits per Low Income Unit: 2000-2005

Year	Total # of Projects	10-Year Total Federal Credit	4-Year Total State Credit	Total Low Income Units	Total Federal and State Credit per Low Income Unit
2000	85	$323,530,200	$0	10,719	$30,183
2001	115	$521,803,590	$0	13,814	$37,774
2002	124	$581,120,660	$0	11,997	$48,439
2003	136	$720,933,210	$9,606,279	13,189	$55,390
2004	110	$651,984,150	$3,248,707	10,900	$60,113
2005	120	$738,930,610	$19,092,357	11,279	$67,207

II. KEY EVENTS DURING 2005

In August 2005, William J. Pavão was appointed as Executive Director to the Committee. Prior to that, Mr. Pavão had served with the State Department of Housing and Community Development for over 22 years, the last 8½ as the Deputy Director over the Department's Financial Assistance Division. During his tenure, the Department broke all previous records for awarding voter-approved bond dollars to deeply income targeted housing projects. In part, the Department's success was due to close coordination with TCAC and California Debt Limit Allocation Committee practices.

Early in 2005, the Committee made extensive regulatory changes designed to clarify the regulations and streamline the allocation process. Specific changes to the 9% program included the introduction of a minimum unit size requirement for all unit types. In addition, the Committee significantly strengthened its underwriting requirements by increasing the per-unit minimum rehabilitation standard and requiring an operating reserve. The latter change reflect's conformity with a long-held national best practice standard.

In October of 2005, the State Monitoring Contract between TCAC and Compliance Solutions, Inc., terminated. The contract covered monitoring responsibilities in five Southern California counties: Riverside, San Bernardino, Los Angeles, San Diego, and Orange. In 2005, Compliance Solutions inspected 168 properties or 31.8 %, of our yearly portfolio in the counties mentioned above. In 2006, TCAC increased staffing by 3 analyst positions in order to absorb the added workload as a result of losing the contract in these five counties.

III. CUMULATIVE PROGRAM RESULTS: 1987 THROUGH 2005

The existing active portfolio of 9% tax credit projects encompasses total annual federal allocations of over $809 million in 1,444 projects with 91,108 affordable housing units.[1] A total of 525 of these projects used state credits totaling more than $832 million. Beginning in 1998, a historic trend reversed and the Committee began to award more tax-exempt bond projects credit than 9% tax credit projects. In 2000, the ratio of tax-exempt bond projects awarded credit to 9% projects awarded credit was approximately 3 to 2 and that rough ratio has held constant through 2005. In total, the existing active 4% tax credit projects add an additional 103,587 affordable housing units in 971 projects to the Committee's portfolio.

---

[1] These numbers include 9% projects that have been awarded credit in one year, and returned for additional Federal or State credit in another (where they were treated as a separate application). The number of these projects is minimal.

Since the Low Income Housing Tax Credit program's inception, a combined total of 200,155 affordable units have been generated by the both the 9% tax credit and tax-exempt bond programs.[2] TCAC estimates that over $10 billion in project equity has been, or will be, raised from the allocations of federal and state tax credits for both 9% tax credit and tax-exempt bond financed projects.[3] Credits are generally offered through partnerships to investors, and their value is the price the investor judges the credits to be worth in terms of the future tax benefits they will receive from the credits, along with other benefits they receive by owning a project.

State Credit Program Effectiveness

In 2005, $73 million in state credits were allocated while the amount of state credits requested was approximately $78 million. The $73 million in state credits include over $19 million allocated to tax exempt projects and $4.6 million in State credit exchanged for 9% credits.

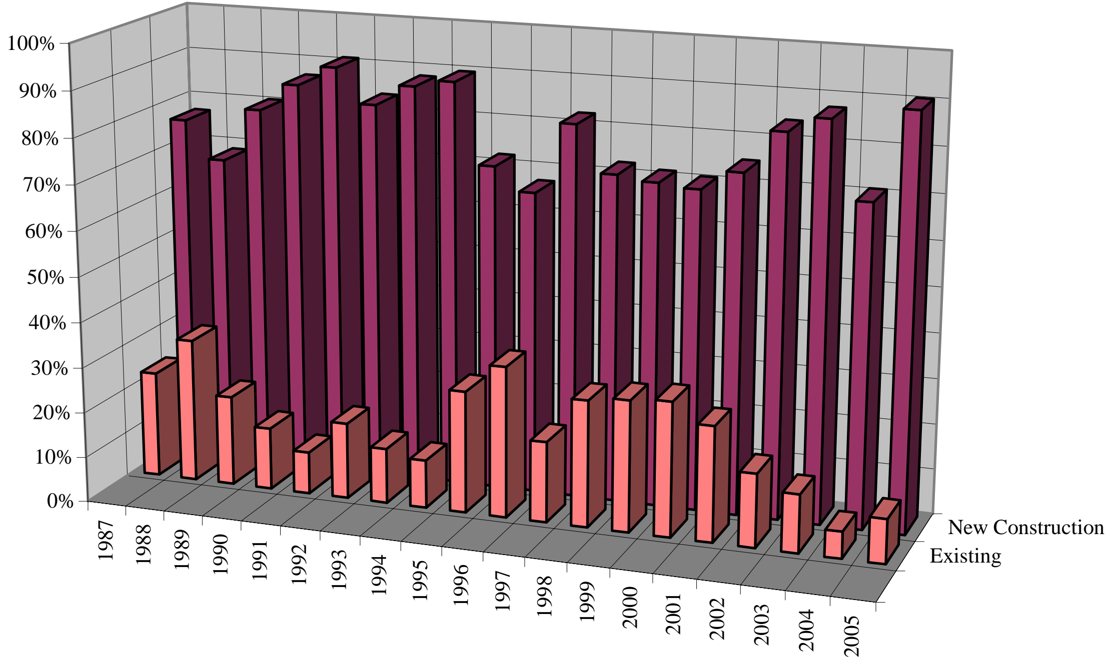
State credits are particularly important to projects not located in designated high cost areas, or those using federal HOME Investment Partnership Program funds. For these projects, state credits generate additional equity funds which, as intended, fill a financing gap that remains after federal credits have been allocated.

New Construction Outpaces Rehabilitation Projects

Chart 4 shows 9% projects by construction type since the inception of the program in 1987 through 2005. The percentage of new construction projects has shown a slight increase, and far exceeds that of rehablitation projects. In fact, rehabilitation has dimished gradually since 2000. However, 4% rehabilitation projects have remained strong, with rehabilitation projects receiving 26-61% of all 4% credit awards.

[2] These figures include projects whose initial compliance period has expired.
[3] This estimate is based on the total federal and state credits allocated to both 9% and 4% projects, assuming a credit price of $0.75 per credit.

Chart 4
9% Distribution of Projects by Construction Type



Housing Types

Table 6 shows the ten-year total for Federal credits and the four-year total for State credits for all 9% projects awarded credit from 1990-2005. Since housing types were not taken into consideration under the Qualified Allocation Plan prior to 1990, the totals have been provided only for 1990-2005. In the early 1990s, 13 projects were still allowed as to be a “non-targeted” housing type, and including them would effectively prevent TCAC from ever meeting its current goals in the aggregate. Therefore, Table 6, only shows the current distribution of 9% credits by housing type for those housing types currently allowed by regulations.

Table 6
Total Amount of Credit to Projects by Currently Allowed Housing Types

Project's Housing Type	1990-2005 Credits Awarded	% of Total	Current Goals
Large Family	$5,916,142,430	69.80%	65%
Single Room Occupancy	$618,702,248	7.30%	10%
At-Risk	$21,1948,108	2.50%	5%
Special Needs	$353,921,627	4.18%	5%
Senior	$1,374,580,748	16.22%	15%
Total	$8,475,295,161	**100.00%**	**100%**

The Committee has readily met its current goal percentages for the distribution of credit to both Large Family and Senior projects. However, the housing type goals for Single Room Occpancy, At-Risk and Special Needs are not being met in the aggregate.[4]

Set-Asides

The Legislature established certain set-asides for types of projects, types of ownership, and location of developments. Ten percent (10%) of the federal 9% tax credits are set aside for Nonprofit Organizations (consistent with federal law); twenty percent (20%) of the federal ceiling is set aside for Rural Areas, of which fourteen percent (14%) is available for projects financed by the Rural Housing Service programs; two percent (2%) of the federal 9% tax credits are set aside for qualified Small Development projects consisting of 20 or fewer units. Additionally, by regulation, five percent (5%) of the federal 9% tax credits are set-aside for "At-Risk" projects and two percent (2%) of the federal 9% tax credits are set aside for qualified Special Needs / SRO projects. Eligible projects that apply under the Nonprofit, At-Risk, Small Development or Special Needs/SRO set-asides automatically compete with all other projects in the general allocation pool if insufficient credits are available in the set-asides.

The RHS and Small Development set-asides were not established until the 1990 application cycle. The At-Risk set-aside was established in 2000. The Special Needs/SRO set-aside was established in 2003.

[4] Tthere are several reasons why the Committee has not met the Special Needs, Single Room Occupancy and At-Risk housing type goals: 1) Even though a special set-aside exists for Single Room Occupancy and Special Needs projects, the populations served by the these projects may present unique challenges to developers, owners and managers that limit their numbers; 2) the At-Risk goal may be difficult to reach in the aggregate, or even on an annual basis, because the oldest 9% At-Risk project in the Committee's portfolio dates from 1998; 3) the At-Risk set aside was not established until 2000; and 4) many At-Risk projects are seeking and being awarded tax-exempt bonds and 4% credits.

The data is grouped by the projects' *application* set-aside, although they may actually have been *funded* from the general allocation pool. The Committee's most reliable data on set-aside awards is found from 1997 to the Present, therefore, Table 7 only summarizes projects receiving tax credits in 1997-2005.

Table 7
9% Projects, Credits and Low Income Units Produced, 1997-2005

Set Aside	Projects (b)	Credits Awarded (a)	% of Total Credit	Low Income Units	% of Low Income Units
At-Risk *	30	$186,844,855	3.57%	2,770	6.22%
General Pool	280	$2,900,862,967	55.46%	23,058	51.80%
Nonprofit	96	$674,343,466	12.89%	6,594	14.81%
Nonprofit HA	39	$191,275,841	3.66%	1,811	4.06%
Rural	120	$934,639,445	17.87%	7,603	17.08%
Rural / RHS	35	$199,781,095	3.82%	1,765	3.97%
Small Development	45	$111,010,890	2.12%	715	1.61%
Special Needs / SRO **	3	$31,689,216	0.61%	202	0.45%
Total	**648**	**$5,230,447,775**	**100.00%**	**44,518**	**100.00%**

(a) The amount of credits awarded represents the sum of the ten-year total federal and four-year total State credits awarded. (b) May include a diminus number of 9% projects that were awarded credit in one year and allowed to return for additional credit in another. *The At-Risk Setaside was established in 2000. ** The Special Needs / SRO Setaside was established in 2003.

Geographic Distribution

In 1997 the Committee created geographic apportionments and in 2004 updated the geographic apportionments to align the distribution of tax credits with statewide housing needs. Credits are apportioned to each of 10 areas by a formula incorporating population, housing costs, poverty and urbanization. The formula determines the amount of credits available to counties, after funding the supplemental, non-profit homeless apportionment portion of the nonprofit set-aside, rural and special needs/SRO set-asides.

Since the inception of the program in 1987, federal 9%, 4% and state tax credits have been allocated for affordable housing developments in 55 of the 58 counties in California. Table B-1 in Appendix B compares the percentage of total tax credit units by county to the county's population as a percentage of total state population, including the number of projects, number of rental units produced (or in construction), and credit dollars by county. These tables reflect data as of December 31, 2005. The current status of projects may not necessarily be reflected in this historical data.

Los Angeles County continues to be the largest beneficiary of the program, receiving over 31% of the federal and state tax credits. In total, annual federal credit of over $301 million and total state credit of over $68 million have been allocated to 628 projects in Los Angeles County, which will result in over 43,000 affordable units. Santa Clara remained the county with the second highest number of units awarded, with San Diego close behind. Many smaller, more rural counties have also benefited from the tax credit program.

Demand for Credits

In 2005, the requests for tax credits included a high percentage of applications that were complete and eligible, but simply did not score high enough on the initial point review to receive an award. Staff anticipates a similar level of demand is anticipated for 2006.

Table 8 summarizes the amount of federal and state credits allocated to projects in years 1987 through 2005. Table 8 provides data that represent allocation activities as of December 31 of the year in which the awards were made. These data are the results of actions taken that year and reflect only a snapshot of the program at that point in time.

Table 8
Credits Allocated as of December 31 of the Allocation Year: 1987-2005

Year	Federal Credits Available	Federal Credits Awarded+	Number of Projects and Units		State Credits Available	State Credits Awarded	Number of Projects and Units	
1987	$32,956,250	$4,825,463	63	2,264	$34,578,625	$6,818,086	17	755
1988	$34,578,750	$16,438,953	175	5,504	$34,578,625	$35,461,086	67	2,545
1989	$35,210,000	$34,444,417	155	7,960	$35,000,000	$61,433,913	74	3,792
1990	$36,328,750	$31,399,269	84	4,592	$35,000,000	$28,976,550	26	1,490
1991	$41,258,231	$41,258,231	78	4,277	$35,000,000	$34,855,113	28	1,547
1992	$63,517,994	$63,517,994	133	8,528	$35,000,000	$48,699,970	29	2,183
1993	$70,434,569	$70,434,569	128	9,001	$35,000,000	$49,043,203	32	2,185
1994	$67,113,568	$67,113,568	122	8,612	$35,000,000	$47,220,796	30	2,135
1995	$44,427,630	$44,818,924	84	5,855	$47,133,862	$48,469,566	28	1,994
1996	$46,494,200	$47,215,733	107	6,467	$33,599,382	$36,006,092	30	1,718
1997	$42,130,174	$41,911,674	77	5,213	$35,038,813	$33,913,707	17	1,213
1998	$43,688,538	$43,688,538	86	5,757	$51,453,018	$50,234,029	37	2,697
1999	$44,205,301	$44,205,301	85	4,967	$51,784,811	$53,557,722	32	2,433
2000	$50,672,338	$50,672,338	81	5,667	$56,684,151	$56,040,292	32	2,218
2001	$52,078,900	$52,078,900	67	5,228	$71,207,244	$35,918,710	23	1,581
2002	$60,302,560	$60,302,560	68	5,518	$105,652,910	$91,928,018*	24	2,492
2003	$62,194,578	$62,194,578	86	5,450	$83,835,107	$83,835,107**	37	2,841
2004	$68,362,090	$68,362,090	65	4,508	$78,666,648	$74,810,332***	25	1,644
2005	$71,007,983	$71,007,983	72	4,939	$78,593,303	$79,593,303****	28	2,139

Note: Since 1989, the Committee is authorized to use remaining unused and returned credits from previous years.
+Includes forward commitments and\or second-phases in year credit available.

* In addition to the $91,928,018 state credit allocated in 2002, $13,630,399 of 2003 state credit was forward committed in 2002.
** Includes $9,683,098 in state credit allocation to 8 tax-exempt projects with a total of 713 units, which are reflected in the number of projects and units.
*** Includes $3,248,707 in state credit allocation to 3 tax-exempt projects with a total of 140 units, which are reflected in the number of projects and units.
****Includes $19,092,357 in state credits allocation to 10 tax-exempt projects with a total of 963 units, which are reflected in the number of projects and units. Also includes $4,600,650 in state credit allocation to CA-2004-024 in exchange for a partial return of their federal credit allocation from 2004.

IV. MONITORING - PROJECT PERFORMANCE AND PROGRAM COMPLIANCE

As required by law, during all reservation phases a project is monitored for its progress in meeting milestones and reservation requirements up until it is placed in service. Additionally, IRC Section 42 and state statutes require state allocating agencies to monitor occupancy compliance throughout the credit period. The Internal Revenue Service (IRS) requires that allocating agencies notify it of any noncompliance or reporting failures by owners. The monitoring requirement begins at occupancy and continues under the project regulatory agreement for periods ranging from 30 to 55 years. Federal law requires that each project be monitored when "placed-in-service" and then every three years during the compliance period. The Committee must determine, among other requirements, whether the income of families residing in low-income units and the rents they are charged are within agreed upon limits stated in the regulatory agreement. Additionally, the Committee must now conduct physical inspections of units and buildings in each development

TCAC's compliance monitoring procedure requires project owners to submit tax credit unit information annually. The information is captured on a number of TCAC forms: Annual Owner Certification, Project Ownership Profile and Annual Owner Expense report. Information is analyzed for completeness, accuracy and compliance. In most instances, a grace period is allowed to correct noncompliance, although the IRS requires that all noncompliance be reported to the IRS, whether or not the violation is corrected.

Investors are at great risk should noncompliance be discovered, because the IRS could recapture credits claimed in years of noncompliance. The Committee's compliance monitoring program provides for newly placed-in-service projects to receive an early review of rent-up practices so that compliance problems may be avoided.

Data presented in Appendix C show the results of the Committee's 2005 compliance monitoring activities. Table C-1 in Appendix C lists occupancy information received from project owners for all "placed-in-service" projects. Of the 7,908 units reviewed for compliance, 81 were found to have households that were not income-eligible at move-in. Other deficiencies, including rent overcharges and missing income recertifications were cited during file inspections. During 2005, 106 projects were cited with notices of "non-compliance," and 417 projects were determined to have no irregularities. In total, 106 properties had findings of non-compliance that were uncorrected and reported to the IRS in 2005. Project owners must now bring projects into compliance or risk losing credits against their federal (and in some cases state) tax liability.

Compliance Report for Projects Placed in Service

Health and Safety Section 50199.15 requires the Committee to report all projects that were allocated tax credits in previous years, the total number of units in each project, the number of units assisted by the credit to be occupied by low-income tenants, and the number of units occupied by low-income tenants.

In 2005, Committee staff conducted file inspections for approximately 30.0% of projects in the portfolio. Of the 7,908 files inspected, low-income tenants occupied 7,827, or 99.0% of tax credit units as intended. The inspection findings for units with tenants that were not income-eligible at move-in were reported to the Internal Revenue Service, as required.

Table 9
Results From Compliance Monitoring File Inspections Conducted in 2004
By Year of Allocation

	1988 -1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	*Total*
Projects Inspected	65	44	57	51	47	27	33	18	36	11	66	56	11	1	***523***
Total Units	3688	2961	4066	3595	3412	1647	2693	2103	3896	1106	6706	5145	1063	36	***42117***
Required Low-Income Units	2970	2524	4059	3439	3382	1543	2430	1732	3715	974	6093	4726	1042	35	***38664***
Unit Files Inspected	618	518	834	704	691	317	496	354	755	198	1237	967	212	7	***7908***
Inspected Units with Low-Income Occupants	614	515	830	688	680	311	492	350	749	195	1230	957	209	7	***7827***

In addition to reporting the results of file inspections, Committee staff also asked project owners to report the occupancy of required tax credit units. The information may be used for determining file inspection selections for projects in which owners have either not reported occupancy information or have not successfully rented units to qualifying tenants.