CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

2017 Annual Report

Affordable Housing for California

April 2018

John Chiang
Treasurer
State of California

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

2017 Annual Report

Report on the Allocation of Federal and State Low Income Housing Tax Credits in California

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 specifically requires the Committee to report the following information:

- 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, assisted by the credit; and
- sufficient information to identify the projects.

The report must also describe the status of units reserved for low-income occupancy from projects receiving allocations in previous years. Page 41 of this report contains a link to additional data for 2017 and earlier program years.

This entire report can also be viewed at: http://www.treasurer.ca.gov/ctcac/2017/annualreport.asp

**cover photos of current portfolio projects, top to bottom: Avila Avenue Apartments II, Twenty Three Nevin, PATH Villas Eucalyptus*

The State Treasurer's Office and the California Tax Credit Allocation Committee comply with the Americans With Disabilities Act (ADA).
If you need additional information or assistance, please contact the California Tax Credit Allocation Committee
at (916) 654-6340 or TDD (916) 654-9922.

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Executive Summary
2017 Program Year

In 2017, the California Tax Credit Allocation Committee ("TCAC" or "the Committee") awarded $97.1 million in competitive nine percent (9%) annual federal Low Income Housing Tax Credits (LIHTCs) to 64 proposed housing projects. These awards will induce $961.5 million in private equity investment into the projects, allowing recipients to develop a total of 3,844 affordable rental housing units. The majority of projects awarded 9% tax credits result in new housing units built (new construction). In 2017, 3,050 (81%) of the affordable units receiving 9% tax credit awards will be new construction.

The Committee's non-competitive four percent (4%) program awarded $124.9 million in annual federal tax credit to 105 proposed housing projects. Recipients will develop 9,492 affordable rental housing units, funded with approximately $1.255 billion in tax credit equity investments. The 4% program produced a more equitable balance of new construction and rehabilitated housing compared to 9% awards. In 2017, awards were made for development of 4,220 new construction affordable housing units (50%) using 4% tax credits.

Included with the 9% and 4% federal tax credit awards listed above, the Committee provided 24 of these projects with competitive state tax credit awards totaling nearly $102.2 million. State credits are instrumental in providing additional equity to projects when federal tax credits fall short of a project's needed financing, and state tax credit awards permit federal credits to be stretched across more projects, resulting in more housing built.

TCAC has assisted more than 405,000 affordable units with tax credit awards since the program's inception in 1987.

In 2017, the Committee staff physically monitored 825 tax credit projects and over 14,697 units. Monitoring visits include reviewing files and physically inspecting the units and common areas. Internal Revenue Code Section 42 and state statutes require state allocating agencies to monitor occupancy compliance at least once every three years throughout the initial 15-year credit period. For the remaining 40 year term of the regulatory agreement, TCAC staff monitors on a five year

cycle. When TCAC monitors a project, it inspects and reviews at least 20% of the files and residential units.

Monitoring visits can result in findings of non-compliance. In most cases the non-compliance is due to over-charging rents, inadequately documenting resident files to establish income eligibility, or violating uniform physical conditions standards. Of the 825 initial credit period developments inspected in 2017, 772 or 94% had some incident of non-compliance, but a large majority of the non-compliance issues were promptly corrected. During the 15-year federal compliance period, the IRS may recapture federal tax credits from owners for findings of non-compliance. Thereafter, and for violations of state requirements that exceed federal standards, TCAC may issue negative points to owners, levy fines, or pursue legal action.

9%

Low Income Housing Tax Credits

I. 2017 Accomplishments & Results - 9% Tax Credits

Overview

In 2017, the per capita annual federal tax credit ceiling was $92,237,540. In addition, $4,471,955 in net annual federal tax credit[1] was returned to the Committee during the year, and $426,613 in annual credit was awarded by the Internal Revenue Service to California from the "national pool."[2] TCAC retained $563,501 unallocated from the 2016 credit ceiling, and this brought the annual federal credit ceiling available to California in 2017 to $97,669,609. California allocated $97,105,701, with $593,908 in annual credits remaining at year end. While low income housing tax credits are referred to in annual terms ($97,105,701), each award earns investors 10 years of annual federal tax credits. The real value of the $97,105,701 in annual federal credits allocated in 2017 was $971,057,010.

Mission Cove Seniors (CA-16-068)

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[1] Net of federal credit exchanges, typically for high-rise buildings.
[2] National pool credits are unused tax credits from other states that are divided among states that have allocated all their credit in the preceding year.

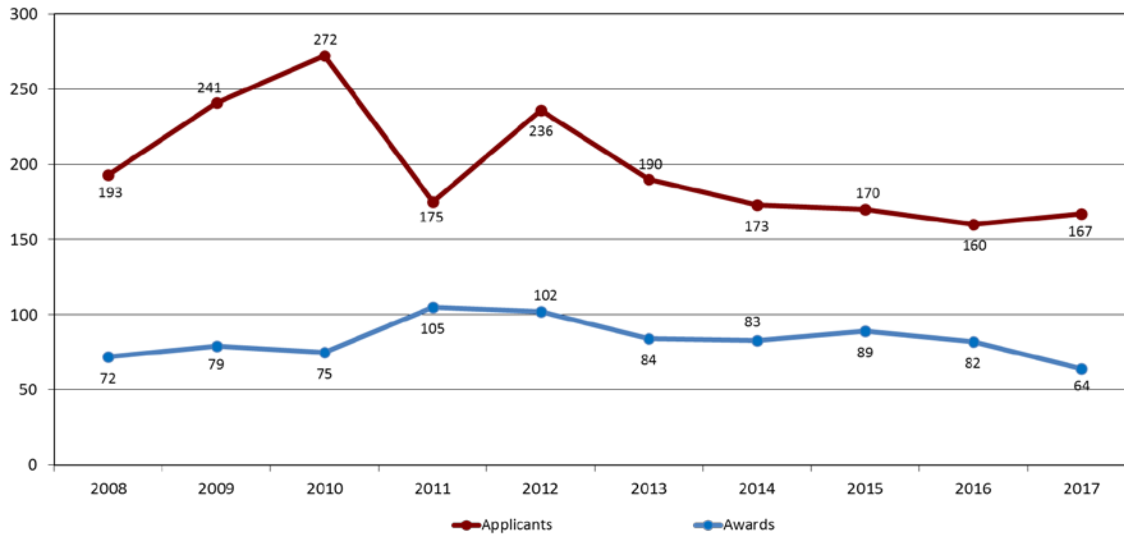
2017 Demand for 9% Tax Credits

Applicants submitted a total of 167 applications for competitive 9% tax credits in 2017 with 64 projects, or 38%, receiving a tax credit allocation. The success rate in 2017 was lower in comparison to the previous year. Over the past five years application success rates have ranged from 43% (in 2012) to 51% (in 2016).

Applications

In 2017, 167 9% applicants requested approximately $227.4 million in annual federal tax credit, exceeding the $97.7 million available.[3] Seventy-one of the 167 applicants also requested approximately $244.4 million in total state tax credit. Chart 1 below provides additional historical data on federal credit ceiling applicants.

Chart 1
9% Application Submissions 2008 – 2017



[3] This amount includes second round reapplications.

Housing Types

State regulations require all 9% tax credit applicants to compete as one of five housing types. These include: Large Family (3-bedroom or larger units accounting for at least 25% of total project units); Senior; Single Room Occupancy (SRO) units; Special Needs (e.g. persons with developmental, physical, or mental health disabilities, physical abuse survivors, homeless persons, or persons with chronic illness); and affordable projects "At-Risk" of conversion to market rate. Table 1 outlines the distribution of low-income units and tax credits among housing types for 9% federal and state tax credits awarded in 2017. The listed "goal" refers to the distribution of federal tax credits, not units.

Table 1
2017 9% Housing Type Units and Credits

Housing Type	Projects Awarded Credit	Low Income Units	Total Federal Credits Awarded	Total State Credits Awarded	Percentage of Total Credit	2017 Goals
Large Family	28	1,658	$437,643,060	$30,350,659	44.23%	65%
Special Needs	20	1,105	$289,842,120	$26,383,330	29.88%	25%
Senior	12	835	$196,864,900	$19,772,227	20.47%	15%
SRO	1	88	$23,872,100	$8,037,745	3.02%	15%
At-Risk	3	158	$22,834,830	$2,541,513	2.40%	15%

Tax Credit Set-Asides

Consistent with federal and state law, TCAC sets aside ten percent (10%) of the available 9% tax credits for nonprofit entities. State law also provides that 20% of federal credits be set aside for allocation to rural projects. TCAC regulations provide for a 4% set-aside for special needs and SRO developments and a 5% set-aside for affordable housing at risk of converting to market rate developments. While Table 2 below outlines the 2017 allocation of 9% federal tax credit among the various set-asides and the geographic apportionment, projects initially applying under certain set-asides may have been awarded under a different set-aside or apportionment. This is due to the nature of the 9% competitive system, which allows nonprofit, special needs/SRO, and at-risk set-aside applicants to compete in the geographic apportionment if unsuccessful in their set-aside.[4] Table 2 provides information on the federal and state allocations for each set-aside.

[4] Please refer to TCAC Regulation Sections 10315 and 10325(d) for further information.

Table 2

2017 9% Allocations by Set-Aside

Set-Aside		Projects	Low Income Units	Total Federal Allocation	% of Total	Total State Allocation	% of Total
Nonprofit	Homeless Assistance	6	395	$97,514,150	10.04%	$15,635,150	17.95%
	Nonprofit	0	0	$0		0	
Rural	RHS/Tribal/HOME	3	190	$49,651,670	20.05%	$10,498,418	43.24%
	Rural	8	496	$145,086,400		$27,153,615	
At-Risk		3	158	$22,834,830	2.35%	$2,541,513	2.92%
Special Needs/SRO		3	246	$57,088,740	5.88%	$4,151,515	4.77%
Geographic Apportionment		41	2,359	$598,881,220	61.67%	$27,105,263	31.12%
TOTAL		**64**	**3,844**	**$971,057,010**	**100.00%**	**$87,085,474**	**100.00%**

Qualifying nonprofit awards were not limited to those funded within the Nonprofit set-aside. Project applications submitted to the Nonprofit set-aside may have been awarded in the above Geographic Apportionment if unsuccessful in the set-aside. Of the $97.1 million in annual federal credit awarded, 30.4% was awarded to Nonprofit set-aside applicants.

Geographic Apportionments and Credit Distribution

Table 3 below shows the portion of federal and state tax credit distribution awarded in the geographic apportionments. This table includes only those projects receiving funding from the geographic apportionments, and does not include projects funded in these geographic regions under the set-asides. For set-asides, please refer to page 7. The Target Apportionment of Table 3 does not account for prior years' results and their effect on available tax credit in 2017. That is, those areas receiving more credits than they were apportioned in 2016 had their 2017 apportionments discounted by the overage amount. In addition, regions awarded less credit than was available for their region in 2017 will have a greater amount of credit available in 2018. The Allocation Percentages shown below, however, do reflect these additions or subtractions.

Table 3
2017 Federal and State Apportionments and Allocations

Geographic Area	Target Apportionment	Allocation Percentage	Allocation Amount
City of Los Angeles	17.6%	22.89%	$143,306,830
Balance of Los Angeles County	17.2%	16.11%	$100,874,390
North and East Bay Region	10.8%	11.29%	$70,691,630
Central Valley Region	8.6%	10.30%	$64,480,410
San Diego County	8.6%	7.26%	$45,462,580
Inland Empire Region	8.3%	7.54%	$47,201,778
Orange County	7.3%	5.30%	$33,198,287
Capital and Northern Region	6.7%	5.97%	$37,366,618
South and West Bay Region	6.0%	0.87%	$5,469,070
Central Coast Region	5.2%	4.51%	$28,234,040
San Francisco County	3.7%	7.94%	$49,700,850
TOTAL	**100.0%**	**100.00%**	**$625,986,483**

Table 4 shows 2017 9% federal and state tax credit distribution by TCAC geographic region and includes project funded with set-aside allocations.

Table 4
2017 Total Federal and State Allocations by Geographic Area

Geographic Area	Number of Projects	Total Low Income Units	Total Federal Allocation	% of Total	Total State Allocation	% of Total
City of Los Angeles	9	476	$144,100,370	14.8%	$18,613,830	21.4%
Balance of Los Angeles County	7	433	$125,874,390	13.0%	$10,999,214	12.6%
North and East Bay Region	6	323	$90,571,430	9.3%	$0	0%
Central Valley Region	9	624	$121,608,980	12.5%	$8,242,152	9.5%
San Diego County	8	543	$107,540,380	11.1%	$7,380,573	8.5%
Inland Empire Region	3	285	$65,227,870	6.7%	$11,051,348	12.7%
Orange County	3	134	$31,178,810	3.2%	$2,019,477	2.3%
Capital and Northern Region	3	185	$34,676,650	3.6%	$2,689,968	3.1%
South and West Bay Region	3	155	$45,975,430	4.7%	$4,635,936	5.3%
Central Coast Region	8	397	$102,893,000	10,6%	$20,708,960	23.8%
San Francisco County	2	132	$49,700,850	5.1%	$0	0%
Rural	3	157	$51,708,850	5.3%	$744,016	0.9%
TOTAL	**64**	**3,844**	**$971,057,010**	**100.0%**	**$87,085,474**	**100.0%**

4%

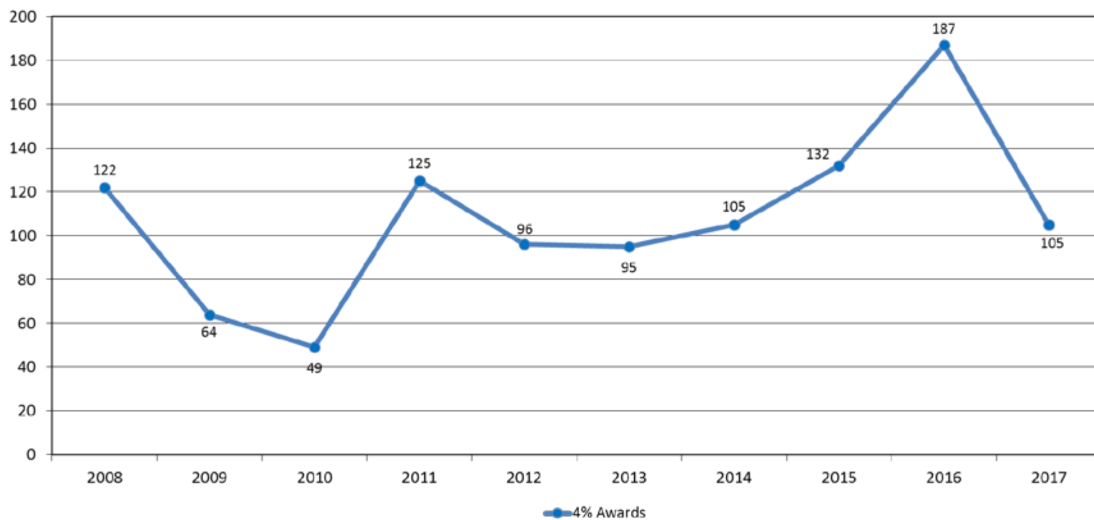
Low Income Housing Tax Credits

II. Accomplishments & Results – 4% Tax Credits

In 2017 the Committee received 123 applications for projects financed with tax-exempt bond proceeds and reserved 4% federal tax credits for 105 projects. The number of 4% applications and awards has varied in recent years with the national economic environment (see Chart 2 below), increasing from 132 awards totaling $137.6 million in 2015 to 187 awards totaling $229.6 million in 2016 before decreasing to 105 awards totaling $124.9 million in 2017. In 2017, the 105 projects received $124,868,779 in annual federal tax credit and will produce 9,492 low-income units. Of the 105 projects awarded 4% federal tax credits in 2017, 6 also received allocations of state credits totaling $15,078,810.

In 2017, the average annual federal credit awarded to a 4% project was $1,189,226. The average project size was 90 affordable units, a decrease from the previous year, which averaged 106 affordable units per project. The annual federal credit award per unit in 2017 was $13,155, or $131,550 in total federal credit per unit.

Chart 2
4% Awards 2008 – 2017



STATE
LOW INCOME
HOUSING TAX CREDITS

III. Accomplishments & Results - State Tax Credits

Recognizing the high cost of developing housing in California, the state legislature authorized a state low income housing tax credit program to augment the federal tax credit program. Authorized by Chapter 1138, Statutes of 1987, the state credit is only available to a project which has previously received, or is concurrently receiving, an allocation of federal credits.[5] Thus the state program does not stand alone, but instead, supplements the federal tax credit program. Since the 9% geographic regional apportionments are calculated based on the available federal and state tax credits, state credits increase the geographic apportionments to all regions. State tax credits are particularly important to projects outside federally-designated high cost areas or qualified census tracts. For these projects, state tax credits generate additional equity funds which fill a financing gap remaining after federal tax credits have been allocated.

In 2017, the total state credit available was $76,285,716, plus $5,547,118 in farmworker state credit available for agricultural worker housing. The 2017 state credit ceiling (excluding farmworker state credit) was $96,517,647, however, $20.2 million from the state credit ceiling had been forward committed to fund projects awarded in 2016. In 2017 the Committee awarded $102.2 million in state tax credits and farmworker state tax credits to 24 projects: $87.1 million to eighteen 9% projects (including one farmworker state credit award of $2,689,968) and $15.1 million to six 4% projects (including one farmworker state credit award of $668,087). Approximately $21.4 million was forward committed from 2018 state credit ceiling to fund these 22 projects. These 2017 state credit and farmworker state credit awards will facilitate developing a total of 1,579 affordable housing units.

[5] Projects applying for the state farmworker housing tax credit may legally receive these state credits without a federal credit award, but it is very unlikely that an applicant would forego available 4% federal tax credits.

Applicants requested approximately $151 million in state credits in 2017, a 5% decrease compared to the amount requested in 2016. Forty-five percent of 9% percent applicants requested state credit in 2017, higher than 2016 when 35% of applicants requested state credit. The average state credit award for 9% projects increased in 2017 to $4.9 million, from an average award of $2.7 million in 2016.

Of the 105 projects financed with tax-exempt bonds, 5 received allocations of both federal and state tax credits (excluding farmworker state credit). Four percent applications for state credit increased slightly from the demand of the previous year. Eight applications were received in 2016, ten applications were received in 2017. The average state credit award per project has varied over the past five years, ranging from $1.3 million in 2013 to $2.9 million in 2017. From 2015-2017, state credit awards to 4% projects averaged $2.3 million per project.

State tax credit awards (excluding farmworker state credit) totaling $84.4 million were made to 17 of the competitive 9% projects, and $14.4 million in state credit was awarded to 5 projects receiving 4% federal tax credits with tax-exempt bonds.

Table 5
9% Historical State Credit Ceiling Data

	2013	2014	2015	2016	2017
Total State Award	$77,737,478	$97,523,148	$111,069,513	$73,548,126	$84,395,506
Total Number of Projects	29	29	39	27	17
Total Units	1,738	1,734	1,978	1,465	1,192
Total Low Income Units	1,707	1,705	1,938	1,421	1,174
Average Award	$2,680,603	$3,362,867	$2,847,936	$2,724,005	$4,964,442
Credit per Low Income Unit	$45,540	$57,198	$57,311	$51,758	$71,887
Avg. Tax Credit Factor at App.	$0.65	$0.66	$0.67	$0.68	$0.74

State Tax Credits for Special Needs Housing

Changes to state law in 2013 enabled special needs housing projects to receive state credit awards with larger federal credit awards. The volume of competitive applications for 9% credits

for special needs projects increased significantly beginning in 2014, and continued in 2017. In both 2012 and 2013, one 9% special needs project requested state credit; seventeen special needs housing applicants requested state credit in 2014. In 2017, twelve 9% special needs housing applicants requesting state credit. Nine 9% and 4% projects for special needs housing were awarded nearly $35.2 million in state credit awards, or 34% of the total state credit awarded, which will develop 557 housing units. In 2016, fifteen 9% and 4% special needs projects were awarded nearly $38.8 million in state credit awards, 44% of the total state credit awarded that year.

Certificated State Credit

"Certificated" state credits allow the state tax credit investor takes no ownership interest in the project partnership but rather buys the credits outright. Breaking the ownership link changes the federal tax treatment of the state credit, which increases the value of the state tax credits. In 2017, 11 of 22 projects receiving state tax credits elected to certificate their credits. See page 22 for more information.

Federal and State Credit Exchanges

Beginning in 2017, TCAC began exchanging state credit awarded for additional federal credit due to a trend of allocating significantly more state credit than available. Since 2015, TCAC has allocated more state credit than is available (see Table 8, page 40). In 2017, 5 projects exchanged awarded state credit for federal credit, reducing the initial forward commitment from the 2018 state credit ceiling by $15.2 million.

Farmworker State Tax Credits

In 2009, the California legislature established an annual set-aside of state tax credits for farmworker housing developments, eliminating a separate, stand-alone farmworker tax credit program established in 1997. TCAC receives a $500,000 allocation each year, available for projects dedicating 100% of their affordable units to agricultural workers and their families. Beginning in 2016, TCAC regulations permitted applicants to request farmworker state credits through a non-competitive "over the counter" process. In 2017, $5.5 million dollars in

farmworker state tax credits were available, and two awards for farmworker housing were made totaling nearly $3.4 million in awarded farmworker state tax credits.

Recently enacted legislation make the farmworker housing credits more attractive. Projects now need reserve only 50% of units for farmworker families, projects will be allowed to receive both the 130% federal basis boost and state credits, and the state credit percentage is higher. TCAC envisions that it will award the remaining balance of farmworker credits in 2017.

2017

Key Events

IV. Key Events During 2017

Innovations

In December 2016 the Committee adopted two significant program innovations as part of the overall regulation change package.

First, the Committee approved incentives to locate new construction projects for families in areas of "high opportunity." Historically, TCAC's new construction family projects have been located disproportionately in areas that academics consider to have low "opportunity" – census tracts with high segregation and poverty. TCAC would like to improve this record in order to give low-income families more choice in where they may live. In other words, TCAC wants to be part of the solution to overcoming economic and racial segregation in California. TCAC's goal is also to improve life outcomes for our residents, as numerous studies have shown that "zip code matters."

The regulation changes created three incentives for new construction projects for families in areas of "high opportunity."

- 8 site amenity points for a new construction large family project located in a high or highest opportunity census tract.
- A 10% increase to the project's threshold basis limit for any development located in a high or highest opportunity census tract. An increase in a project's threshold basis limit allows more credits and a higher developer fee and makes it easier to pass TCAC's high cost test.
- Beginning in 2019, a significant tiebreaker increase for a new construction large family project located in a high or highest opportunity census tract.

Feedback from our stakeholders indicates that these incentives will indeed change behavior. To prevent the pendulum from swinging too far in favor of high opportunity area projects (our goal is parity across all economic areas, not that all new family projects be located in high opportunity areas), TCAC will also institute a "housing type goal" for high opportunity, new construction,

family projects. This goal works like a soft cap. Once the cap is hit, TCAC skips additional high opportunity projects unless there are no others available to fund.

The maps were developed by a task force of academics, led by the Haas Institute at UC Berkeley. The maps received significant feedback and revision before final adoption, and TCAC will continue to refine the maps for future years. For the methodology and maps, see http://www.treasurer.ca.gov/ctcac/opportunity.asp.

Second, the Committee approved incentives for "hybrid" projects. Most of the competitive 9% tax credit applicants request fewer credits than they are eligible for. In other words, they have excess "basis" that they do not use. If they split the project into two components, one a 9% tax credit component and one a 4% tax credit component, this excess basis can be used to generate additional non-competitive 4% tax credits and equity, thereby reducing the 9% credit request even further. In other words, TCAC can stretch out the scarce 9% credits and fund more units overall if these applicants generate 4% credits with their unused basis. Virginia has done this with success for a few years. TCAC's new incentives are factored into the 9% credit application as follows:

- New construction projects currently receive a tiebreaker increase for having more units (based on the theory that economy of scale lowers costs). For a hybrid, TCAC will count the 4% tax credit units in the 9% project's size factor.
- Public funds are a big factor in TCAC's current tiebreaker. For a hybrid project, TCAC will also count the 4% project's public funds when calculating the 9% project's tiebreaker.
- The current tiebreaker gives a higher score for requesting fewer credits as a percentage of total project cost. For a hybrid project, TCAC will add the 4% component's costs to the formula, improving its score.

TCAC received two hybrid applications in the first 2018 competitive round out of a total of 61 applications. TCAC has heard that if some of the traditional applications do not receive an award in the first round, they will return in the second round with a hybrid structure.

Decrease in Credit Pricing and Production

The mere discussion during 2017 of lowering the federal corporate tax rate last year caused tax credit pricing to drop by 15%, reducing tax credit investor equity. In the 9% tax credit program, this meant that projects needed more credit to be feasible, and TCAC therefore funded fewer units. In the 4% tax credit program where applicants already request all the credits they are eligible for, this drop in pricing could not be made up with additional credits and therefore made many projects infeasible. The number of 4% total units funded dropped from 20,847 in 2016 (an all-time record) to 10,179 in 2017. While rising interest rates and cost also had some effect, the tax cut effect had by far the biggest impact. The final tax cut bill dropped pricing an additional 3-4 cents for 2018 and effectively locked in this lower investor equity pricing. More public subsidy will now be needed to make projects work. TCAC believes it will be lucky to maintain 2017 production levels in 2018 with this further reduction in tax credit pricing.

State Credit Certification

Sponsored by State Treasurer John Chiang and the California Housing Partnership Corporation and championed by Senator Jim Beall, the Legislature in 2016 provided authority for TCAC to "certificate" state low-income housing tax credits for reservations made between 2017 and 2019.

With "certificated" state credits, the investor takes no ownership interest in the project partnership but rather buys the credits outright. Breaking the ownership link changes the federal tax treatment of the state credit. Because traditional credits reduce an investor's federal deductions and therefor increase the investor's federal tax liability, traditional credits had been worth only $0.65 to the investor (based on the old 35% federal corporate tax rate) and now are worth only $0.79 to the investor (based on the new 21% federal corporate tax rate. Certificated credits do not reduce an investor's federal deductions. As a result, certificated credits are worth much closer to $1 to the investor. The net effect is that investors will pay more for certificated state credits and that the state realizes more private investment into affordable housing for the same tax expenditure.

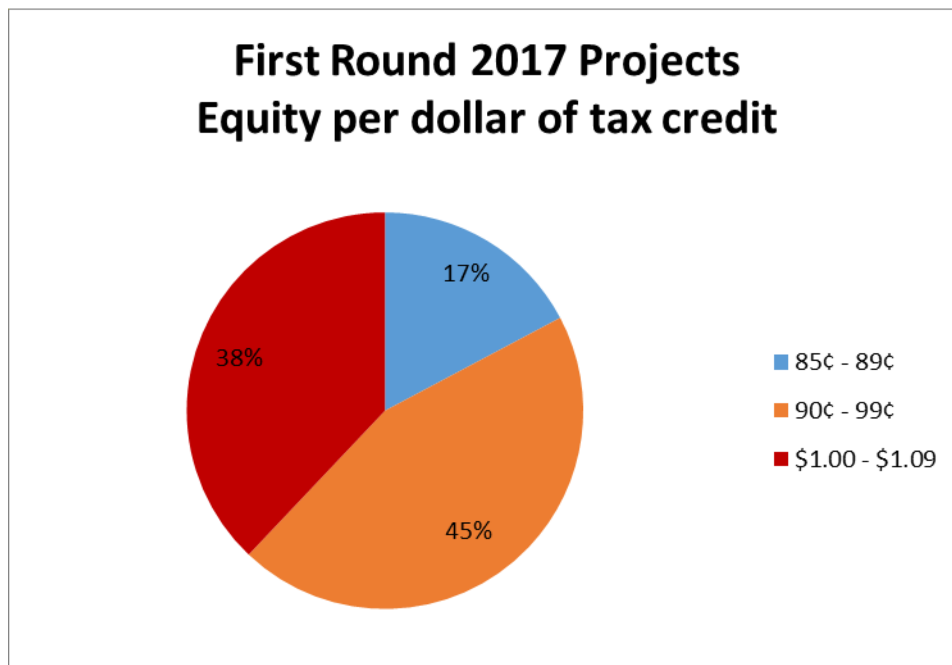
In 2017, eleven of 22 projects (50%) receiving state tax credits elected to certificate their credits. Based on interviews after the first round, market turbulence and uncertainty related to the federal tax reform discussion discouraged use of this new tool. Transactions were complicated enough already to introduce a new variable. Those projects that did certificate, however, received significantly better pricing for their state tax credits. The average certificated state credit price was $0.877 per dollar of credit. The range was $0.80 to $0.94. The average traditional state credit price was $0.736. The range was $0.80 to $0.94. Ultimately, certificated credits raised an additional $7 million in equity in 2017. Had all projects chosen this option, certificated credits would have raised an additional $7 million in equity.

For 2018, TCAC originally expected a greater percentage of projects to certificate state credits, but this too may be affected by the federal tax cuts. The reduction in the federal corporate tax rate reduces the marginal price benefit of certificated credits over traditional credits. Nonetheless, certificated credits remain more valuable.

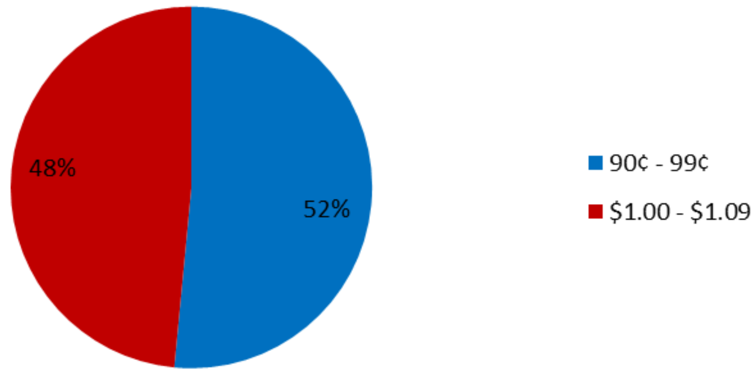
V. Other Program Trends

Credit Pricing

Tax credits are generally offered through partnerships to investors, and their value is the price investors judge the tax credits to be worth in terms of dollars. As a result of the federal tax reform and decrease in corporate tax rates cited above, tax credit pricing declined in 2017 as described above in Section IV (page 22). Investor Letters of Intent (LOIs) are due to the Committee 90 days after competitive awards are made. Projects awarded in June submitted LOIs in September, and projects awarded in September submitted LOIs in December. The following charts depict pricing reflected in 9% Letters of Intent executed with prospective limited partners.



Second Round 2017 Projects
Equity per dollar of tax credit



Federal credit pricing continued to vary by region and project type, with the highest pricing occurring in bank CRA investment areas and some of the lower pricing occurring in rural areas.

At the time of application, the estimated federal and state tax credit equity for 9% projects in 2017 was approximately $961.5 million. This amount provided on average approximately 60% of the financing necessary to fund the 64 projects awarded in 2017. Other financing sources for these projects included local, state, and federal funds, and private loans.

Sustainable Building Commitments

In 2011, the Committee adopted regulations significantly strengthening TCAC's competitive scoring, threshold construction standards, and verification procedures regarding sustainable building techniques. In response to scoring changes, project developers committed to a variety of sustainable building and energy-efficiency features. Effective in 2016, TCAC modified the sustainable building scoring, reducing maximum point thresholds.

California's building codes continue to increase in stringency, with a new cycle of standards released every three years. The changes to TCAC sustainable building scoring in 2016 were made to balance the benefit of high levels of sustainability with the costs of exceeding ever greater building code standards.

Of the 52 new construction projects, 42 (81%) committed to green building programs and 10 projects committed to additional energy efficiencies of at least 15% beyond California's Building Energy Efficiency Standards (Title 24). Twelve successful applicants proposed rehabilitation projects. Among the 12 awardees, two of the projects committed to green building programs. Among the remaining 10 rehabilitation projects, all proposed improving the existing property's energy efficiency by 20%.

The applicant commitments to greater resource- and energy-efficiency will provide significant cost savings both to the projects' operations and to the residents. In addition, these projects will generate significantly less demand on energy resources during their long operational phase.

Native American Set-aside

In 2012, TCAC staff began meeting with California Native American tribal representatives and discussing Native American affordable housing needs. California is home to 109 federally recognized Native American tribes. Many tribal reservations are located in California's rural areas, and some reside in remote rural areas. Prior to 2014, no affordable housing projects had been built on reservation land in California using low income housing tax credits. To reverse this trend, TCAC staff began meeting with tribal representatives in 2013 to formulate regulation changes enabling Native American tribes to utilize the tax credit program and compete more effectively for 9% credit awards. In 2014, the Committee established a two-year pilot program, a Native American annual apportionment of $1 million from the existing 9% Rural set-aside. In 2016, TCAC established an ongoing Native American annual apportionment of $1 million from the existing 9% Rural set-aside and to disregard site amenity points within this apportionment given the often remote location of tribal lands. In 2017, TCAC awarded $1,815,642 in annual federal credit to the Coyote Valley Band of Pomo Indians for the construction of Coyote Valley Homes I, a 49-unit family housing project located in Redwood Valley, Mendocino County.

MONITORING PROGRAM COMPLIANCE

VI. Monitoring – Project Performance & Program Compliance

As required by federal law, TCAC monitors a tax credit project for progress in meeting milestones and reservation requirements up until it is completed and placed in service. Additionally, Internal Revenue Code Section 42 and state statutes require TCAC to monitor compliance throughout the entire term of the project's regulatory period. The Internal Revenue Service (IRS) requires TCAC to monitor projects when "placed-in-service" and then every three years during the 15 years of the federal credit compliance period and notify the IRS of any owner non-compliance or reporting failures. For the remaining term of the regulatory agreement, ranging from 30 for older projects to 55 years for new projects, TCAC is solely responsible for enforcement and monitors projects on a five-year schedule. 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, TCAC staff must conduct physical inspections of units and buildings in each development.

TCAC's compliance monitoring program requires project owners to submit annual tax credit unit information. The information is reported on a number of TCAC forms: the Annual Owner Certification, the Project Ownership Profile and the Annual Owner Expense report. Committee staff analyzes the information for completeness, accuracy and compliance. In most instances, TCAC allows a grace period to correct non-compliance, although the IRS requires that all non-compliance during the credit compliance period be reported to the IRS, even where the violation is corrected.

Investors are at great risk if non-compliance is discovered because the IRS could recapture credits claimed during any years of non-compliance. 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.

Monitoring Activities

In 2017, Committee staff conducted monitoring activities at 825 tax credit projects to fulfill the IRS requirements that all completed tax credit developments be inspected at least once every three years. Staff inspected at least 20 percent of the files and units at each development. Of the 825 developments inspected, 772 or 94% had some incident of non-compliance. However, a large majority of the non-compliance issues were corrected. The most common non-compliance incidents were over-charging rents, inadequately documenting files, or violating the uniform physical conditions standards. Of such violations, 157 of 825 or 19% of the developments were reported to the IRS as required. In cases where excessive rent was charged, the property owner provided refunds to all residents who were able to be located.

Of the 14,697 units monitored for compliance, 53 were found to have households that were not income eligible at move-in. Project owners were required to bring projects into compliance or risk losing credits against their federal tax liability.

Compliance Report for Projects Placed in Service

In addition to the monitoring activities for the 825 projects cited above, 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.

Compliance Report for Projects in Extended Use Portfolio

In addition to performing compliance monitoring functions during the 15-year federal compliance period, Committee staff continue to monitor tax credit projects during the extended use periods stipulated in the recorded regulatory agreement (up to an additional 40 years). The extended use monitoring is performed on a 5-year monitoring rotation and 10% of files and units were randomly selected. The Committee’s compliance monitoring procedures for extended use projects ensure new households are income qualified, rents remain restricted, and the units and project are physically maintained during the extended use period.

In 2017, compliance staff conducted file inspections and unit inspections for approximately 15% of projects in the extended use portfolio. Committee staff inspected 1,164 units in 178 projects. Following the inspection, staff reported the noncompliance incidents to the project owners and established a 30-day correction period for owners to correct noncompliance findings. The owners responded with documentation evidencing corrections to the noncompliance issues and a large majority of the inspections have been closed out. Approximately 81 of 178 extended use projects inspected remain in the correction period.

Compliance Report for Projects Receiving American Recovery and Reinvestment Act Funds

The Committee is also responsible for performing asset management functions for projects awarded American Recovery and Reinvestment Act (ARRA) funds to ensure the long term viability of those projects. The Committee portfolio contains 138 ARRA projects, and Committee staff performs annual financial reviews. In addition, staff conducts the standard IRS Section 42 compliance monitoring inspections initially within the first 2 years of a project being placed in service and then on a 3-year rotation during the initial 15-year federal compliance period.

During 2017, TCAC compliance staff performed financial reviews of 138 ARRA projects and physically inspected 6 ARRA projects. Committee staff determined the projects to be financially feasible, physically maintained, and in compliance with IRS Section 42 regulations.

Tenant Demographic Data Collection

In July 2008 Congress passed the Housing and Economic Recovery Act (HERA), requiring all tax credit allocating agencies to annually collect and submit to the U.S. Department of Housing and Urban Development (HUD) specific demographic and economic information on tenants residing in Low-Income Housing Tax Credit (LIHTC) financed properties. In 2016, TCAC staff, along with its contractor Spectrum Enterprises, collected and submitted to HUD data on approximately 3,680 projects or approximately 99.9% of the Committee's portfolio. The data

submitted to HUD included 27,167 buildings, 290,520 units and 645,087 tenants. At the time of this report, tenant demographic data for 2016 is in the process of being compiled.

Chart M-1

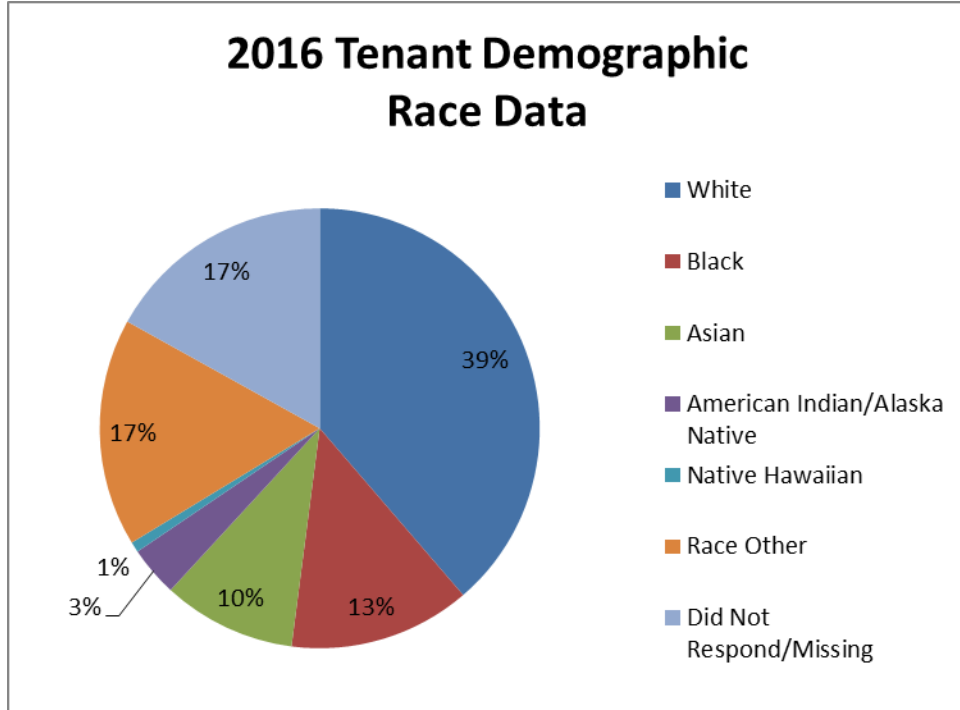
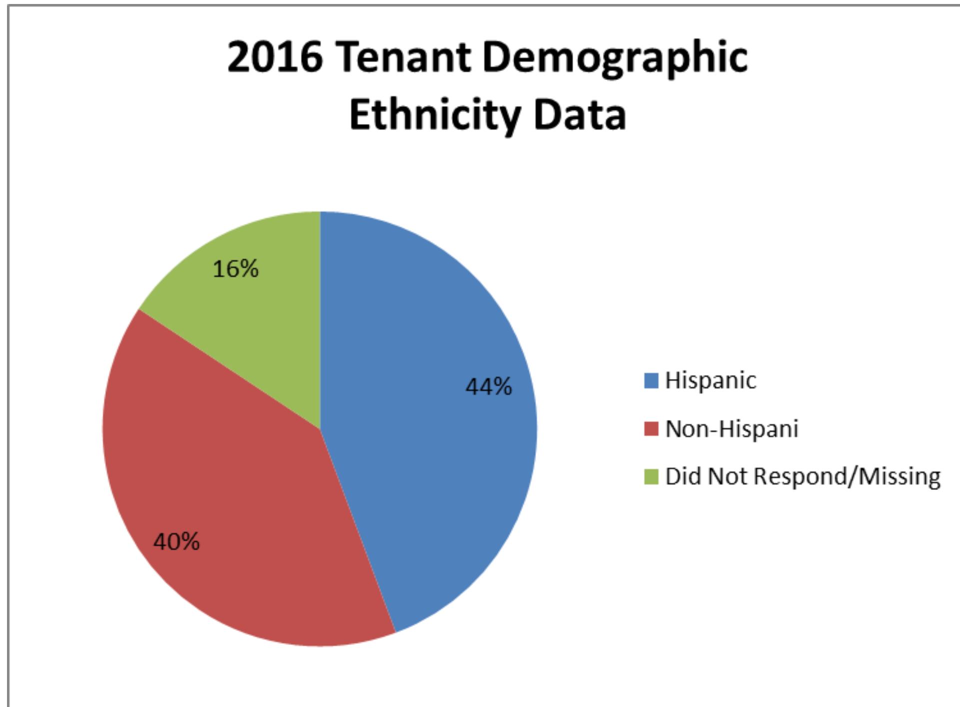


Chart M-2



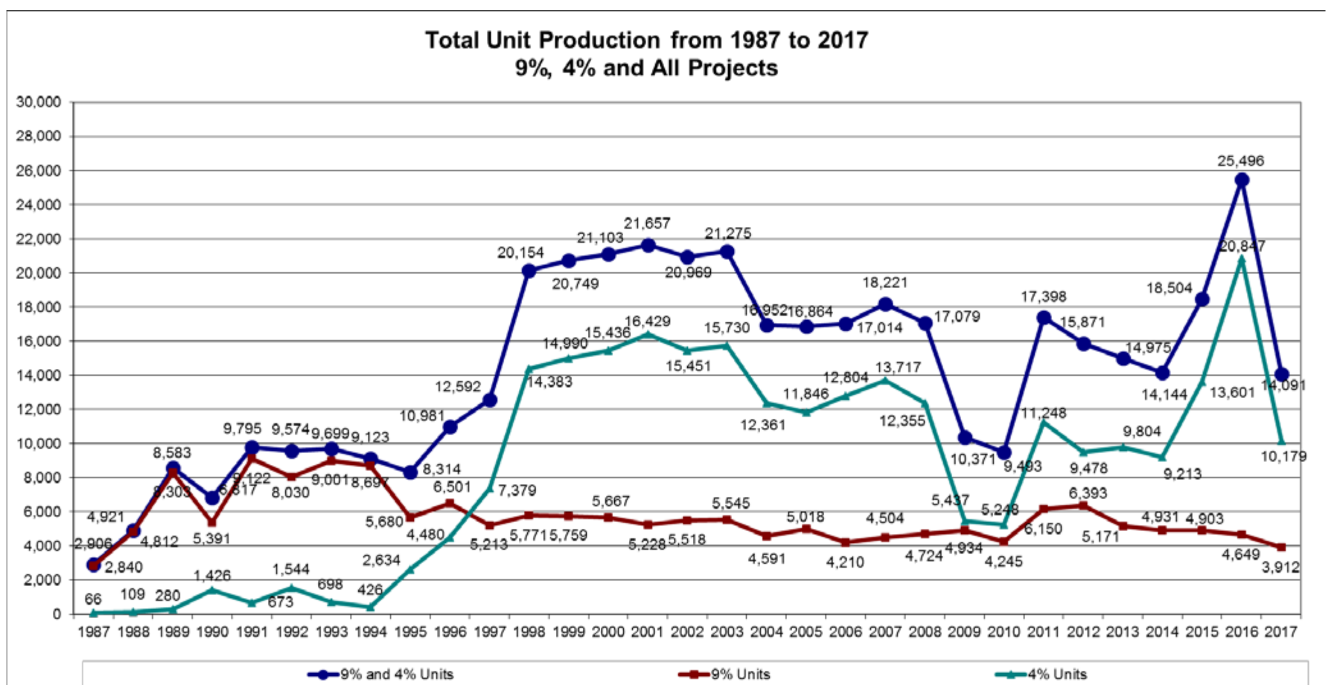
HISTORY
DATA & TRENDS

VII. Historical Data & Trends

Including 2017 awards, California has awarded $20 billion in annual 9% credits since the program's inception in 1987. These awards will result in more than 2,780 housing projects with more than 170,000 units. Including tax-exempt bond financed projects receiving 4% credits, TCAC has assisted more than 400,000 affordable units with tax credit awards since the program's inception. Nearly 1,000 projects have also utilized state tax credits totaling over $2 billion.

Chart 3[6] below displays historical data of the total units awarded each year for 9% and 4% projects from 1987 to 2017:

Chart 3



[6] These figures include projects whose original compliance period has expired and that have returned to TCAC for a second award of tax credits for rehabilitation. The award and affordable unit totals are based on TCAC's annual reports, and also include some projects with two separate awards counted in each year of awarding.

LIHTC Investment

TCAC estimates that in the past decade alone, approximately $8.8 billion in investor equity has been, or will be, funded from the allocations of federal and state tax credits of 9% projects. TCAC estimates the total equity invested in both 9% and 4% projects over the past 5 years is estimated to be more than $11.7 billion.[7] Tax credits are generally offered through partnerships to investors, and their value is the price investors judge the tax credits to be worth in terms of the immediate and future tax benefits received from the credits, along with other benefits received by owning a project. Table 6 below provides some summary information on various measurement factors of the 9% program.

Table 6
9% Historical Federal Credit Data

	2013	2014	2015	2016	2017
Annual Federal Award	$86,760,169	$91,789,133	$91,101,325	$94,897,880	$97,105,701
Total Number of Projects	84	83	89	82	64
Total Units	5,171	4,931	4,903	4,649	3,912
Total Low Income Units	5,080	4,846	4,794	4,513	3,844
Average Award	$1,032,859	$1,105,893	$1,023,610	$1,157,291	$1,517,277
Credit per Low Income Unit	$17,079	$18,941	$19,003	$20,413	$25,262
Average Project Cost	$18,532,685	$19,985,334	$18,482,596	$21,620,599	$25,045,910
Average Cost per Unit	$301,248	$336,407	$335,499	$381,348	$409,749
Avg. Tax Credit Factor at App.	$0.98	$0.99	$1.01	$1.04	$.92
Average LI Units per Project	60	58	54	55	60

Charts 4 and 5 below provide historical annual federal credit per unit.

[7] Calculated using TCAC historical investor equity data from awarded 9% applications, and from 4% applications.

Chart 4

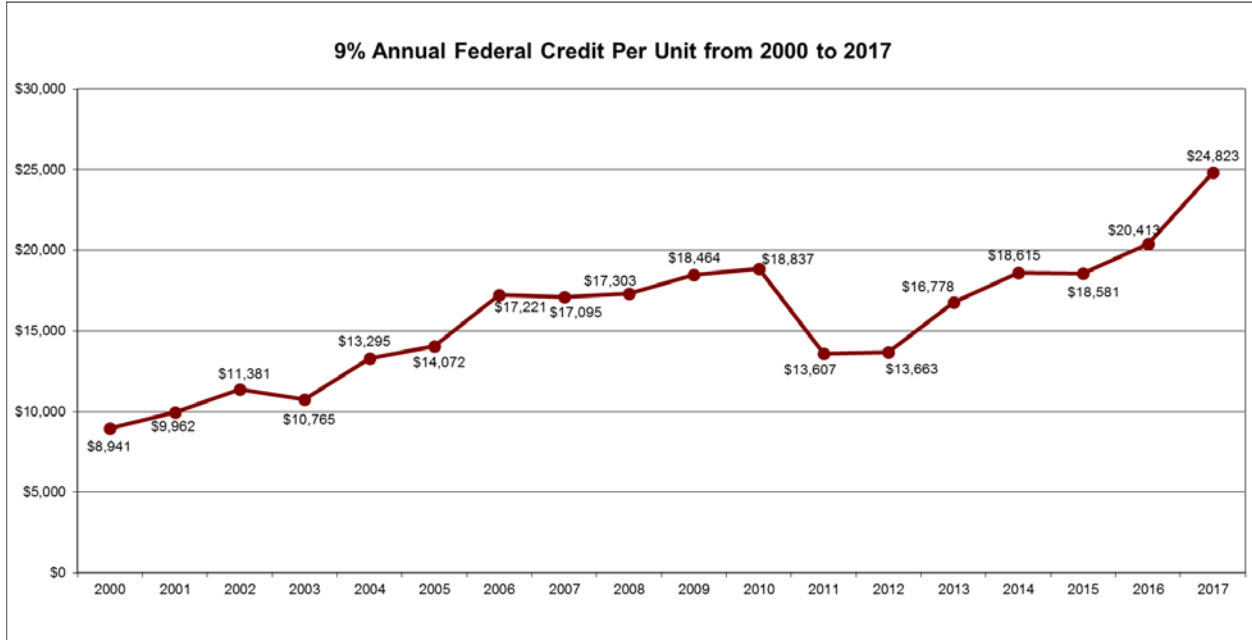
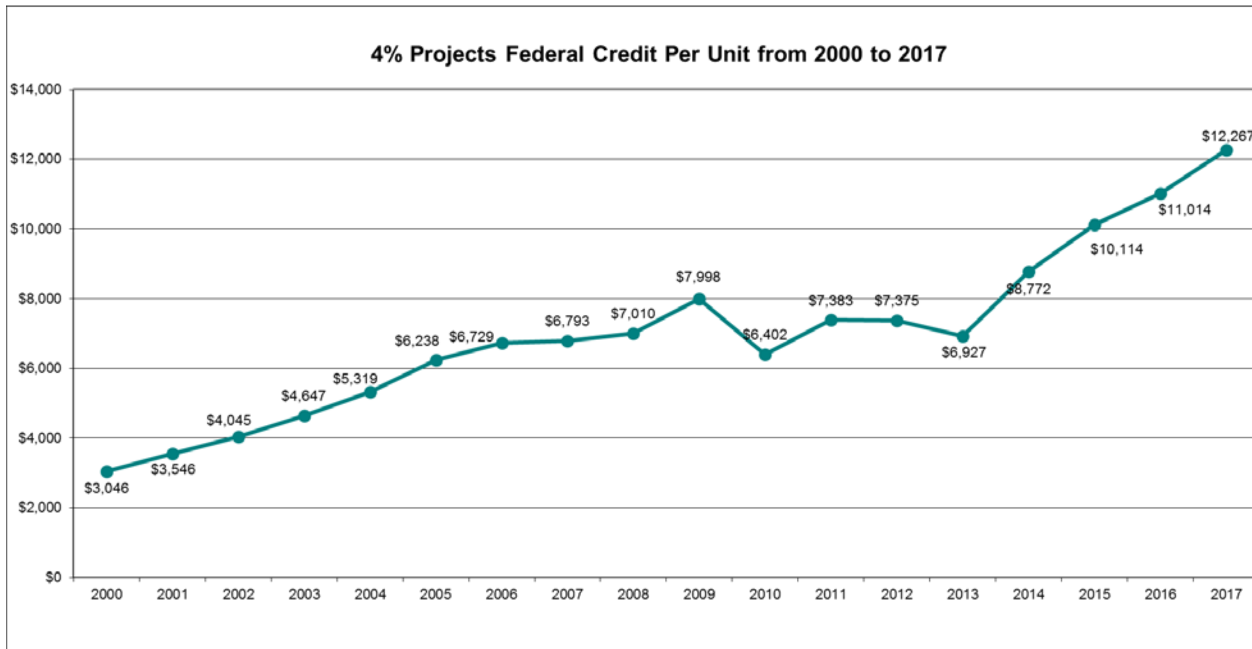


Chart 5



Historical Data for the 4% Program

Table 7 below provide selected summary data for historical 4% federal awards.

Table 7
4% Historical Federal Credit Data

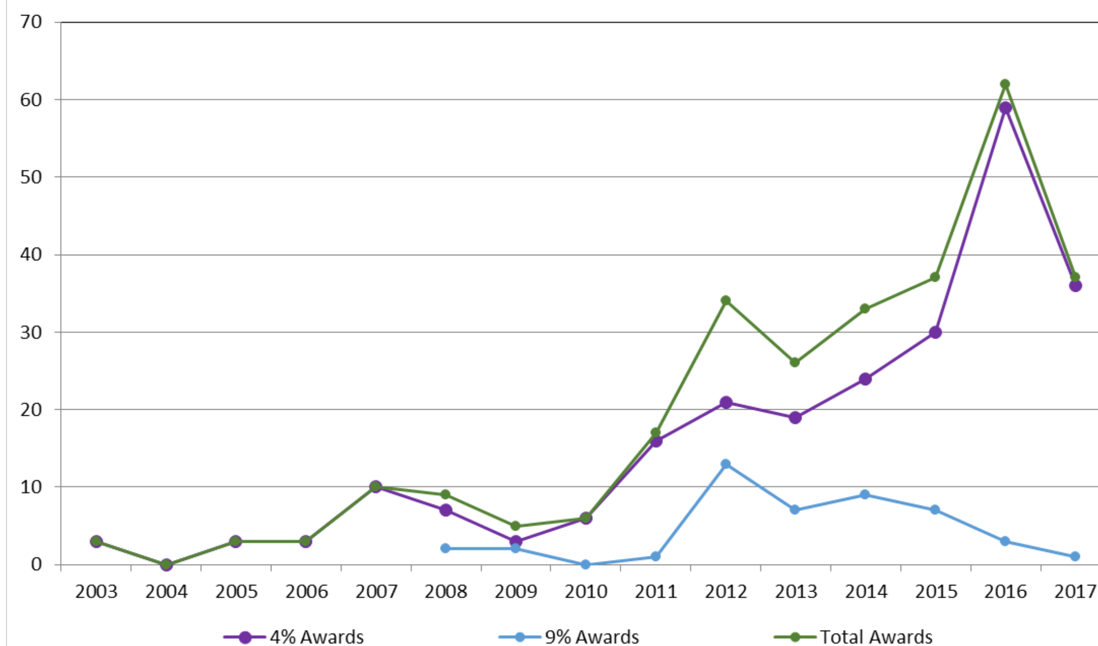
	2013	2014	2015	2016	2017
Annual Federal Award	$67,917,076	$80,820,170	$137,554,828	$229,615,414	$124,868,779
Total Number of Projects	95	105	132	187	105
Total Units	9,804	9,213	13,601	20,847	10,179
Total Low Income Units	9,292	9,004	13,317	19,804	9,492
Average Award	$714,917	$769,716	$1,042,082	$1,227,890	$1,189,226
Credit per Low Income Unit	$7,309	$8,976	$10,329	$11,594	$13,155
Average Project Cost	$23,552,065	$24,002,247	$31,897,512	$38,485,244	$36,861,993
Average Cost per Unit	$228,218	$273,552	$309,571	$345,217	$407,765
Average LI Units per Project	98	86	101	106	90

Re-syndications of Existing & Former Tax Credit Projects

Starting in 2003, the Committee began receiving applications for existing tax credit projects requesting a new award to rehabilitate and upgrade the property. In addition, TCAC has received applications from former tax credit projects no longer under a regulatory agreement. Applications for existing tax credit projects currently under a regulatory agreement are known as "re-syndications."[8] Since 2003, TCAC has received 285 applications for re-syndication (see Chart 6 below). In 2017, TCAC awarded 37 re-syndication projects, a significant decrease from the 62 awards in 2016. In 2017, 1 of the 37 re-syndications received 9% credit awards. In 2016, 3 of the 62 awards were 9% credit awards. The 2017 re-syndication awards will help rehabilitate 3,898 existing affordable housing units.

[8] Data in this section includes project applications with either existing or expired regulatory agreements.

Chart 6
Re-syndication Awards 2003 – 2017



Rehabilitation and New Construction Trends

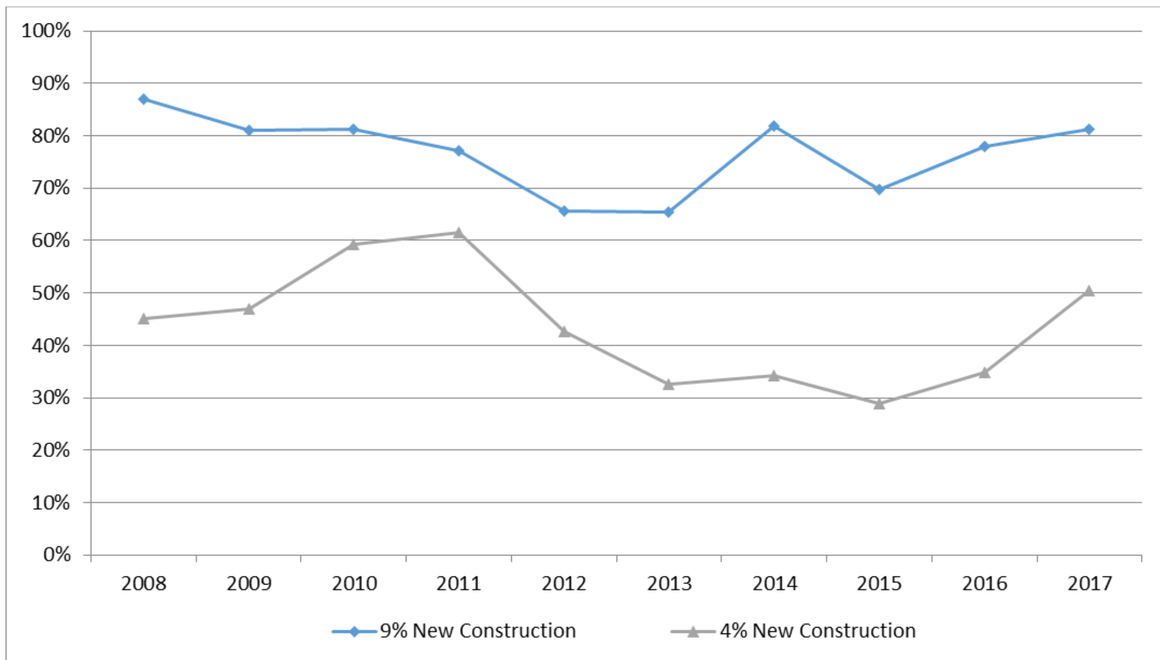
In 2017, 52 of the 64 credit ceiling (9%) awards were new construction projects. Historically, acquisition/rehabilitation applicants have been a distinct minority of 9% projects. Over the past five years, 18% to 35% of the credit ceiling projects awarded have been rehabilitation projects. In 2017, 19%, or 12 projects, were rehabilitation projects, a decrease from 2016 when 18 awards were to rehabilitation projects (22%). New construction 9% annual federal tax credit awards totaled $82.9 million (85%) in 2017.

For 4% projects, new construction and rehabilitation awards have historically been more equitable. Between 2001 and 2006, new construction awards accounted for over half of 4% projects. This trend reversed in 2007, and from 2007-2009, more than 50% of 4% awards were made to rehabilitation projects. In both 2010 and 2011 new constructions projects again accounted for higher percentages of the awarded 4% projects. From 2012-2016, 4% rehabilitation awards increased, accounting for over half of the total number of 4% awards. In 2017 the construction types were evenly split. However, new construction annual federal tax

credit awards to 4% projects totaled $71.7 million (57%). Rehabilitation projects were awarded $53.1 million.

Chart 7 below shows recent historical construction trends. The percentage of new construction 9% projects exceeds that of rehabilitation projects, ranging from 65% to 87%. These percentages for 4% projects have varied, but have been consistently more balanced between the two construction types. Between 2008 and 2017, the percentage of 4% new construction projects ranged from 29% to 62%.

Chart 7
New Construction Trends 2008-2017
Number of Projects



Geographic Distribution

In 2012 TCAC staff proposed updating the geographic apportionments (created in 1997 and last updated in 2004) to align the distribution of tax credits with statewide housing needs. The updated percentages were adopted into TCAC regulations in 2013 and made effective in 2014. Included in the update was a newly established geographic apportionment for the City of Los

Angeles, with a separate apportionment for the balance of Los Angeles County. This addition was made effective in 2013 by prorating the existing Los Angeles County apportionment.

Since the inception of the program in 1987, federal 9%, federal 4%, and state tax credits have been allocated for affordable housing developments in all 58 counties in California. County data for active tax credit projects awarded 1987 to 2017 can be viewed using the link at the bottom of page 41. This table compares tax credit project data to county population as a percentage of total state population, and includes each county's number of projects, number of rental units in service, and tax credit allocation dollars. These tables reflect data as of December 31, 2017.

Annual Historical Data

Table 8 below summarizes the amount of federal and state tax credits awarded to 9% projects from 1987 through 2017. Table 9 below summarizes the amount of federal and state tax credits awarded to 4% projects from 1995 through 2017. These tables provide data representing award activities as of December 31 of the year in which the awards were made. The data contained in these tables are the results of actions taken that year, and reflect only a snapshot of the program at that point in time.

Table 8
9% Credits Awarded as of December 31 of the Allocation Year, 1987-2017

Year	Federal Credits Available	Federal Credits Awarded*	Number of Projects and Units		State Credits Available**	State Credits Awarded*	Number of Projects and Units	
1987	$33,730,000	$5,090,439	66	2,497	$34,578,625	$6,818,086	17	755
1988	$34,578,750	$18,889,759	169	4,812	$34,578,625	$35,461,086	67	2,545
1989	$35,060,129	$35,060,129	155	7,960	$35,000,000	$61,433,913	74	3,792
1990	$34,717,032	$34,717,032	84	5,391	$35,000,000	$28,976,550	26	1,490
1991	$68,885,066	$68,885,066	78	9,122	$35,000,000	$34,855,113	28	1,547
1992	$64,261,202	$64,017,031	133	8,030	$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	$68,944,489	$67,113,568	121	8,612	$35,000,000	$47,220,796	29	2,085
1995	$49,716,643	$48,616,533	83	5,680	$47,133,862	$48,469,566	28	2,006
1996	$48,286,953	$48,992,572	107	6,482	$33,599,382	$38,894,819	31	1,878
1997	$42,851,707	$41,911,674	77	5,213	$35,038,813	$33,913,707	17	1,384
1998	$43,688,538	$44,093,456	86	5,757	$51,453,018	$45,658,584	30	2,061
1999	$43,800,383	$44,267,928	83	5,347	$51,784,811	$50,311,562	30	2,141
2000	$50,672,338	$50,667,206	81	5,057	$56,684,151	$56,040,292	32	2,218
2001	$51,574,882	$52,078,900	67	5,119	$71,207,244	$35,918,710	23	1,581
2002	$60,302,560	$62,802,560	68	5,392	$105,652,910	$91,928,018	24	2,492
2003	$62,732,155	$59,694,578	86	5,450	$83,835,104	$74,152,009	29	2,164
2004	$69,253,801	$61,038,716	65	4,508	$74,528,807	$67,423,784	22	1,526
2005	$71,582,089	$70,613,062	71	4,916	$78,593,303	$54,900,296	19	1,192
2006	$72,776,635	$72,500,934	70	4,098	$80,613,481	$67,913,607	18	1,146
2007	$75,897,915	$76,997,954	70	4,424	$92,450,265	$71,062,246	19	1,352
2008	$82,594,947	$81,738,210	72	4,640	$88,761,840	$67,371,340	19	1,195
2009	$88,399,735	$91,099,781	79	4,840	$107,996,565	$72,515,252	19	1,370
2010	$79,886,455	$79,964,641	75	4,170	$91,242,275	$31,372,828	14	742
2011	$80,902,713	$83,682,515	105	6,026	$129,463,639	$86,979,826	34	2,114
2012	$86,676,609	$87,345,016	102	6,246	$109,510,155	$85,508,947	28	1,822
2013	$89,963,084	$86,760,169	84	5,080	$93,102,456	$77,737,478	29	1,707
2014	$92,229,552	$91,789,133	83	4,846	$103,894,360	$97,523,148	29	1,705
2015	$92,309,204	$91,101,325	89	4,794	$89,452,736	$111,069,513	39	1,938
2016	$95,461,381	$94,897,880	82	4,513	$67,118,373	$73,548,126	27	1,421
2017	$97,699,609	$97,105,701	64	3,844	$61,808,069	$84,395,506	18	1,213
TOTAL	**$2,039,871,125**	**$1,983,968,037**	**2,783**	**171,867**	**$2,084,082,729**	**$1,837,117,881**	**880**	**54,950**

*Federal Credits Awarded reports on current year awarded and includes any forward commitment made. Projects receiving awards in multiple years or returning credits awarded in one year and reapplying in a subsequent year are counted for each award received. Staff has been unable to verify the complete accuracy of data from the early years of the program. State Credit Awarded from 1987-1993 is estimated based on available data.

**State Credit Available is estimated in some years based on available data. Beginning in 2003, 15% of the State Credits Available was set aside for tax-exempt bond financed projects.

Table 9
4% Credits Awarded as of December 31 of the Allocation Year, 1995-2017*

Year	Federal Credits Awarded*	Number of Projects and Units		State Credits Available**	State Credits Awarded	Number of Projects and Units	
1995	$5,593,972	15	2,431		$0	0	0
1996	$7,064,992	26	3,976		$0	0	0
1997	$15,573,917	71	6,076		$0	0	0
1998	$32,565,503	116	12,743		$4,575,223	7	628
1999	$38,151,075	110	13,905		$3,246,160	2	293
2000	$47,010,344	109	14,759		$0	0	0
2001	$58,249,828	123	14,864		$0	0	0
2002	$62,496,934	130	12,627		$0	0	0
2003	$73,099,179	138	13,329	$12,575,266	$9,683,098	8	713
2004	$65,748,903	112	11,066	$11,179,321	$3,248,707	3	140
2005	$73,893,061	120	11,279	$11,788,995	$19,092,357	10	963
2006	$86,164,472	115	12,356	$12,092,022	$13,597,161	9	583
2007	$93,173,118	119	12,795	$13,867,540	$23,395,641	9	1,003
2008	$86,604,695	122	11,433	$13,314,276	$27,512,886	10	759
2009	$43,486,921	64	5,236	$16,199,485	$6,718,223	3	183
2010	$33,596,704	49	4,481	$13,686,341	$22,964,367	9	789
2011	$83,046,843	125	10,473	$19,419,546	$23,833,168	16	1,134
2012	$69,902,808	96	9,021	$16,426,502	$26,322,456	13	1,212
2013	$67,917,076	95	9,292	$13,965,368	$9,004,034	7	451
2014	$80,820,170	105	9,004	$15,584,154	$14,553,964	8	533
2015	$137,554,828	132	13,317	$13,417,910	$12,978,507	8	578
2016	$229,615,414	187	19,804	$14,183,335	$13,802,178	5	386
2017	$124,868,779	105	9,492	$14,477,647	$14,410,723	5	351
TOTAL	**$1,616,199,536**	**2,384**	**243,759**	**$212,177,708**	**$248,938,853**	**132**	**10,699**

*Federal Credits Awarded totals the awards made in each year. Projects receiving awards in multiple years or returning credits awarded in one year and reapplying in a subsequent year are counted for each award received. Although 4% credit awards were made from 1987-1994, staff has been unable to accurately verify the tax-exempt bond financed projects receiving tax credit awards in the early years of the program. Data presented is based on TCAC annual reports.

**Beginning in 2003, 15% of the State Credits Available was set aside for tax-exempt bond financed projects.

Additional Data

Please use the link below to access additional data, including historical and mapping information.
http://www.treasurer.ca.gov/ctcac/2017/annualreport.asp