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PROCEEDINGS

(Agenda Item No. 1, Roll Call, was held but not reported by the Certified Shorthand Reporter)

EXECUTIVE DIRECTOR PAVÃO: Thank you, Treasurer.

And for starters, is the sound working okay?

(Audience commotion)

Thank you, Treasurer, committee members, invited speakers, and attendees for joining us today.

Today's meeting really is, as the treasurer described it, a listening session. And most of you know, staff has been out at a variety of forums and entertained public comments, which have been very helpful. So this is the opportunity for the committee members themselves to hear the variety of perspectives and ideas that we've heard at the staff level so far in this process.

Now, as most of you know, in 2010 specially, staff and members of our stakeholder community noted a trend, a seemingly persistent trend in our 9 percent system where it appeared average per unit costs were consistently trending up, and the TCAC was occasionally funding some very expensive projects. And that raised a concern generally about that dynamic and our system and our system's response to that dynamic.

So as you all know, for this year, 2011, we made a few tweaks to our system to try to address what seemed to be some of the more obvious factors that might be contributing to or at least tolerating higher costs and those -- those tweaks we're still evaluating their effectiveness, if you will, for this year.

But by way of context for what the committee is going to hear this morning and this afternoon, we do have a few metrics, the first of which -- and I should be careful, I suppose, as we get into these, because I'm reminded of economist Paul Krugman's warning, which was -- he harkened to known biases and human cognition, like the tendency to extrapolate too readily from very small samples. And we acknowledge that much of the data we're presenting here, really, in the grand scheme of things, these are relatively small numbers and so we're consistently cautioning ourselves and others not to extrapolate too much from this information, but we still think it's informative.

So this slide -- and members, you have these slides in your binders in the event that you are having a hard time seeing these. The first item we noted was just the increased volume of awards that we've been making this year, both on the 9 percent side of the shop, and that's the blue line. You can see, we were hovering around 70 or so -- 70 to 75 applications funded per year. There's been some volatility in how much credit we've had available as a state. But then this year, with somewhat less credit than we've had available to us as a state, for our competition, actually it looks like are going to be awarding quite a few more awards this year than we have in the recent past.

We also are seeing with the red line, finally, an uptick, a recovery of sorts, on the 4 percent side of our business. And as you can see, we've already made reservations, awards, to 76 deals and we actually have over 30 applications currently pending. So our expectation is that that red line is probably going to track more than a hundred deals. And so for the year, in the aggregate, we ought to have something approaching, or perhaps even exceeding, a hundred projects, which gets us back to prerecession numbers. So we view that recovery as a hopeful sign.

The next slide provides some information. And this is looking at units resulting from our awards, or forecasted units resulting from the awards that we're making. And the uppermost orange line is really an aggregation of our 9 percent and 4 percent business over the years, including this year to date.

And the -- it's really the pink line -- let me just make sure I'm getting this right. The pink line is the 4 percent production number in terms of units, and the lowermost blue line is the 9 percent program's production numbers in terms of units that will come on line as a result of these awards.

And you can see, in both instances, there's been an uptick this year, also in the number of units produced. And again, on the 9 percent side, we find that to be very hopeful.

The next slide -- and we admit these are getting increasingly complex as we go through these slides. This is a pretty busy slide. But it really shows ten years' worth of trending data on average costs. And what we've done here is we've broken out new construction and acquisition/rehab deals in our two systems -- the 9 percent system and the 4 percent system.

And so the uppermost blue line shows you what the average per unit cost is of the deals we're doing with 9 percent credits. And the one note I would make is that this year, the right-most number on that upper line has come down from last year's average. So in other words, the average per unit cost for units we're doing this year as opposed to last year has come down relatively significantly. But the same is true on the

4 percent side. That is, both per unit cost numbers are trending down this year.

On the acquisition/rehab numbers -- so those are the lower two lines, the light blue and the green line. As you can see over the years, those have been somewhat more volatile in part because, especially on the 9 percent side, those are usually smaller numbers of deals. And so a very expensive deal or two can really move that average around. And similarly, if we have a modest set of acq/rehab deals in a given year, it really moves that line along. So those lines tend to be much more volatile and they actually are trending up a bit this year.

But the next chart shows, just over the last five years, including some data from this year, what have these numbers been doing? If you try to hold constant the effects of inflation -- and so this chart is really expressed in 2011 dollars. So going back to those earlier projects if we look at the 2011 dollar equivalent, what do these lines begin to look like? And what we just want to highlight is that this year, for example, the uppermost blue line reflects our average per unit cost, adjusted for inflation, in our 9 percent program. And you can see, that's down pretty significantly; I think it's 9.5 percent. It's down

9.5 percent year over year from last year's average. And the same is true on the rehab side; the per unit average costs are both trending down. Again, the rehab numbers are volatile. They are slightly moving up in each instance on the 4 percent and the 9 percent side.

Let's see. Finally, the next slide -- this is an important metric for all of us. How much credit are we putting into each of these units? And this shows, this year, the uppermost line in this case, the dark blue line, reflects how much credit we're putting in per unit with our 9 percent credits. And these are the ten-year representations, so these aren't annual federal credit expressions, but the full ten-year credit expression. And you can see, this year, our credit per unit has really declined dramatically this year. That's about a 24 percent reduction year over year from last year. The lower line, you can see, represents our 4 percent projects and that number has remained a fairly consistent uptick a little bit this year.

So I think that concludes. What that the -- oh, there is one more table just very briefly. This just shows, again, some year-to-year statistics related to our 9 percent competition. In 2010, you can see the average residential cost was about 311,000 a unit. This year, all in new construction, acq/rehab is down to 296.

So again it's down. The average credit per unit is down remarkably, and the average public funds per project is up about -- about 300,000 per project. So not a particularly dramatic uptick. It is a bit of an uptick, and on a per unit basis, you can see it's about 2,000 per unit in additional public funds coming in this year as opposed to last year.

So what do we do with all this information and what does this tell us? And the answer is, in light of these figures and the comments we've taken at our various public forums, it is still not clear to us yet what path to take going forward to get our arms around cost containment and to begin to address it.

So one of the steps we've taken is to work closely with our sister state agencies -- CDLAC, HCD, CalHFA -- and it's our intention to go forward with a study similar to the study that was done back in 1993.

That study will likely once again look at the costs of affordable renting housing development as compared to comparable market rate rental housing developments. But it's likely to also look beyond that and try to answer questions like why do seemingly very similar projects within a given community vary quite widely in cost?

Also, we will likely ask the consultant that we're likely to bring in to help us with this task to look at our scoring factors and what impact are our scoring factors, like energy efficiency and proximity to amenities with the site location and proximity to transit. What are those contributing to project costs?

And then finally, which component development costs have the most variability and seem to be most responsible for cost variation and especially higher cost? All of which is to say, we intend to study this much more carefully, the balance of this year, and likely into next year.

So the question becomes, well, in the interim, what can we do for 2012? And that also remains an open question that we really want to engage the stakeholder community in. And is there something in the interim, while we continue to drill down and make this a fact-based exercise, is there something we want to do for 2012 to continue to put some downward pressure on costs? And that is still also a work in progress.

Which brings us to today's meeting. As most of you know, in July, we held public forums around the state and Los Angeles and Oakland and right here in Sacramento. Received a lot of good feedback about what we should look into, how we should begin to tackle this issue. And this hearing today is really meant to make that set of insights available directly to the committee members.

So as the treasurer mentioned, we've identified seven invited speakers who we think will provide a wide variety of perspectives and thoughts on this issue. They will be in the early portion of the session today. And then there will be a portion of the agenda that is reserved for public comment for relatively brief remarks later in the meeting.

So again, I want to thank all the committee members for making the time and for all of you for coming today. We have received written comments as well, which we'll share with the committee members, and if following this meeting, you want to submit written remarks, we will take those and get those to the committee members.

And that concludes my remarks.

CHAIRPERSON LOCKYER: Let me ask if any of the members of the panel has anything that they wish to say initially or should we just start with -- go ahead. Okay. Pat Sabelhaus.

MR. SABELHAUS: Thank you, Mr. Chairman and members of the committee.

EXECUTIVE DIRECTOR PAVÃO: Pat, there's an on switch on the mike, I think.

MR. SABELHAUS: I don't know if I'm technically qualified to do this. Testing, one two. Sorry.

Let me start again. Mr. Chairman and members of the committee, my name is Pat Sabelaus, and I'm here today on behalf of the California Council for Affordable Housing and my own office.

And I want to begin by saying thanks for convening this important hearing on cost containment or cost efficiency, because I think that we need to take a look at what steps the committee can take to reign in what many in the public view as being -- or perceived, at least, of being uncontrolled costs that need to be reigned in and hopefully made more reasonable given this scarce resource that's available for affordable housing.

We need to make sure, I think, that we gain the trust of the public, of the taxpayers, and certainly of Congress not to take the view, wrongfully or rightfully, that this program across the country and in California, in part due to the articles in San Diego and some in the "Sacramento Bee," that there simply is no cost control built into the program.

I don't think this has to be a debate today of good guys or bad guys, for-profits or nonprofits. I think all of us should be concerned about costs and what we can do to improve some kind of a cost efficiency system, build it into the program, so that the public and the taxpayers and Congress will view this as a program that they should continue to support, as they've done over the last 25 years.

I think one of the difficulties from my point of view, and that of the California Council, is that there has been a tendency to view public funds as somehow being distinguished or different than tax credit subsidies or tax credit funds, and I don't think we can -- you know, IRS's definition of income, as you will recall, is income from whatever source. And I think that you have to -- you have to define public subsidies as being any kind of subsidy, whether it's from the redevelopment agency or from block grant funds or HOME funds from the Feds along with tax credit funds. All of those in the view of the public and the Congress, I think, are deemed to be public subsidies, and we have to use those subsidies carefully so that we are not extravagantly funding projects that will be viewed by Congress and the public as being unreasonable.

Let me shift for a minute, if I may, to tax exempt bonds and the 4 percent credit program that Bill just illustrated on his charts, over the last ten years. In 2005 and 2006, we were producing 12 or 13 thousand units through the tax exempt bond program and about

4,500 units on the 9 percent program. And that means that the tax exempt bond program and 4 percent credits were the major driving force on the production of affordable housing in California. About 70 percent of the units were being financed with bonds and 4 percent credits.

And that blew up in 2008 and 2009, along with other financial institutions. And in 2011, as Bill showed were getting somewhat back on track, but I am concerned that because of the current tiebreakers that are in place, that we have inadvertently caused the costs of the 9 percent program on a per unit basis to increase at an unreasonable rate and amount and that that, in turn, has had an adverse impact on the 4 percent tax exempt bond program because the local jurisdictions were tending to throw more public funds -- whether it be redevelopment agency funds or HOME funds or other federal funds -- at a project in order to assure that they were going to win under the tiebreaker.

And it is my view that the tiebreaker, the way it's set up now, does nothing less than encourage higher costs. And if you want to win from the perspective of the local jurisdiction, the more you increase the costs and the more you covered those costs with public funds, even if it meant less tax credits, that was what was going to assure you, the highest tiebreaker, even though it is the most expensive projects in some cases that results.

There will be many people that will testify, have testified at past hearings, that California has unique factors that tend to drive up costs more so than in other places. And I stipulate, and agree, that there are special factors in California. I mean, you do have land costs; you do have impact fees at the local jurisdiction; you have the sustainability energy conservation measures that the Credit Committee has adopted policies on that are cost drivers; we have prevailing wages in some instances, but not all; and we have -- not just meeting Title 24 energy requirements, but we'd have to exceed those requirements that a market rate builder would not have to, and that tends to be a cost driver.

However, I don't -- and I stipulate to you that the public policies and the public benefits that flow from those requirements are certainly admirable and laudable in that no one would fault them. I think the question, though, that has to be considered is weighing the cost of those items versus the benefits and whether that -- is that what we want to do in every instance if it's going to be a significant role in causing the cost per unit to rise to a point where it's deemed by the public or the taxpayer to be unreasonable. So I make no judgment. I think there's plenty of time, but I would urge the committee to go back and revisit those issues, as Bill mentioned earlier today.

And I would like, with the chair's permission, to submit for the record, Mr. Chairman, a copy of the task force report that a group of us submitted to the committee in December of 2010 because that report deals with a number of the issues that I've just raised and that Bill Pavão raised earlier.

CHAIRPERSON LOCKYER: Okay. Thank you for that.

MR. SABELHAUS: I would also emphasize that even though the outliers that are costing 450 to 650 thousand dollars per unit are certainly items that need to be looked at. The outliers are part of the problem, but I don't think we should conclude that it's the total problem. I think there's deeper problems than that and we need to look at some form of cost efficiency, as has been posed in other states. Washington state has an absolute cap on the amount of credit, and others use credits per unit, credits per bedroom, cost per bedroom, per square foot, and we need to take a look at whether we should adopt something here in the same fashion.

And with that, I've got the stop sign that says no more. So I thank all of you for giving me a few minutes this morning and look forward to working with you in the coming months.

Thank you very much.

CHAIRPERSON LOCKYER: Let me just inquire of questions.

Seeing none, thank you, Pat.

MR. SABELHAUS: Thank you.

CHAIRPERSON LOCKYER: Jeanne Peterson is our next commenter.

MS. PETERSON: Good morning, everyone. I believe the committee members have a copy of my testimony before them.

I would like to thank the TCAC staff for holding a hearing today, and thank you, committee members, for taking time to listen to the thoughts and experiences of various members of California's affordable housing community.

My name is Jeanne Peterson and I came to California to be the executive director of TCAC. My charge when I came was to change the program, which I did, and I stayed at TCAC for five and a half years. In fact, many of the selection criteria in our California program were instituted by me. I have been involved in the tax credit program since its inception and spent almost 25 years in public service in affordable housing, so I'm familiar with and committed to public policies that will enhance the housing choices and the lives of lower income people.

I'm now principal of Reznick, a national accounting firm, where I have consulted with state housing credit agencies as diverse as Mississippi, Montana, and Michigan on their tax credit programs. And having crafted tax credit programs for several states, I realize what a difficult, if not impossible, task Bill and staff have and that it is to maximize public policy goals while understanding and dealing with the sometimes less than unanimous views of the development community.

Everyone in the affordable housing community would agree that an overriding goal is to create and preserve as many decent, safe, affordable apartments in as many communities of need as possible. The current 9 percent competitive program does not encourage this. In fact, in order to win the competition and be awarded credit, developers are often forced to reduce the number of units in their planned developments while keeping their local public funding the same.

The need for local agencies to put so much money into 9 percent deals to win the 9 percent competition means that those funds can't be available to produce more 4 percent tax exempt elements, which, over the years, have become less expensive than the 9 percent deals. The number of tax exempt units has fallen dramatically over the past years from a high of 16 and a half thousand in 2001 to less than 4,500 in 2010.

While it's laudable that a unit production is dramatically up in 2011, one must look into why that's so. Often, it's because of the large amount of public funds, other than tax credits, that have been put into these proposed developments. Frequently, developments in municipalities that have resources to put them into a 9 percent deal will win in the competition while the cities that don't have abundant funds simply can't be competitive, which hardly seems fair.

And although the statistics may look good in terms of tax credits units created, as Pat said, people outside of the affordable housing community don't differentiate between various sources of public funds. Rather, public funds are money whose source is the public, be they called HOME funds, redevelopment funds, or tax credits.

Make no mistake: Not only will the amount of redevelopment agency funds potentially be greatly diminished going forward, so too will public funds from the federal government, including, for example, HOME funds. Just the day before yesterday, the Transportation HUD Committee in Congress voted to slash HOME funds for next year, next fiscal year, by 25 percent. Why waste these precious resources by using them to push up costs in order to be successful in the 9 percent credit program?

According to TCAC's 2010 Annual Report, per unit cost of new construction tax credit developments rose by 60 percent from 2005 to 2010, an astonishing figure for that short a time period. Although some may attempt to paint it this way, this discussion should not be viewed as a nonprofit versus for-profit, urban versus rural, special needs versus conventional housing debate. This happens frequently in California, and I just really don't like it being characterized that way. If, for example, costs could be reduced by 10 percent, we could build up to 10 percent more units and provide both more affordable apartments across the board to those who need them and more jobs to those who also need them.

The California Housing Consortium, to which virtually all speakers here today belong, and is the big tent for the state's affordable housing community, has recognized that costs are a concern of the many and not of the few, as some might believe. Municipal requirements, federal requirements, the price of land all drive up costs in California. Additionally, achieving some of TCAC's public policy goals may drive up costs. As reasonable, understandable, and defensible as they may be to us, our costs are often incomprehensible to people from other parts of the country.

The tax credit program is vulnerable in Washington at this very moment in history, and those who don't believe it are quite simply in denial and need to wake up, recognize it, and do something about it. Congresspeople from other states may not take the time to understand why our costs are so high. Reports of high costs have reached across the country and we need to show those in Washington that California takes cost efficiency seriously and is doing something about it in its tax credit program.

To me, this doesn't mean abandoning policy goals nor does it mean that caps or hard ceilings need to be instituted. I believe that cost efficiencies can be incentivized while keeping public policy goals. In 2002, most of the same public policy goals as today were in the program and with two-thirds of the federal credit amount. That's 60 million as opposed to 80 million. Twenty-three percent more 9 percent units were built.

Even if nothing else is done now, changing the current tiebreaker would be a beginning. Going forward, investigating whether there are additional costs involved in achieving public policy goals that are in the selection criteria, and quantifying those costs -- as Bill mentioned, maybe in the study -- could prove enlightening in terms of providing cost benefit propositions.

TCAC staff believe that the current system has an efficiency measure because one can voluntarily reduce the basis upon which the credit is calculated. Actually, reducing basis in this fashion is not as effective to winning in the current system as increasing costs is. That currently doesn't make sense.

And using prior tax credit costs to determine costs, the cost that can be included in eligible basis, does nothing to measure overall project costs, nor is it an efficiency measure. We need to have a system of cost benchmarks that will examine and include the overall costs of projects and determine whether they are reasonable, not just the costs that can be included in basis.

Cost containment of outliers is not really the issue here. Some may argue that any program change needs to wait until after the study that will be conducted and that it's too late in the process to change the regulations for next year. Let me say that I heard this argument every year that I was at TCAC, and I'm sure Bill has heard it, too, every year that he's been at TCAC. To that, I would argue that recognizing that the development process is lengthy before applications are made, developers are both clever and adaptable and capable of responding to whatever changes may be made in a program.

It's imperative, in my opinion, both from a policy perspective and from a practical perspective, that some change be made for the forthcoming 2012 year. My greatest fear about continuing with the status quo is the very continued existence of the federal tax credit program.

As just one example, in a "Boston Globe" editorial last month, a Harvard professor wrote, and I quote, getting rid of the tax credit program ought to be an easy decision, end quote.

The National Council State Housing Agency boards will soon consider an amendment to its recommended practice that deals with cost. This is a concern across the country and to every state tax credit agency. Two senators have called for the elimination of the program and the Deficit Commission also has mentioned this as a possibility.

And while huge overhaul of the Tax Code will probably not take place until after the 2012 elections, Congress could certainly enact corporate tax reform this year, which could have a devastating impact on the tax credit program. In my opinion, it would be foolhardy to act as though we aren't vulnerable. To take no action is to put the program at greater risk than it already is.

Thank you for the opportunity to speak with you today, and I look forward to working with members in the future.

CHAIRPERSON LOCKYER: Are there any questions at all? Okay.

It might be worth mentioning, while Matt comes up, that the Obama jobs proposal does include permanent constraints on tax exempt financing -- that is, what can a taxpayer deduct. And so I guess there are related issues that are being discussed now in Washington.

For California, we get -- our General Fund budget is about 88 billion. On top of that, we get 79 billion a year in various federal programs for health and social services and university and so on. So it's almost the equivalent of our General Fund budget. And of course, with federal retrenchment, which is anticipated by everybody, there are going to be impacts in a variety of ways, maybe this universe, but who knows.

Matt, your turn.

MR. FRANKLIN: Thank you. Thank you, Chairman Lockyer, members of the committee for this opportunity to talk on this -- speak on this important topic. Thank you also for your service on this committee.

I'm Matt Franklin, president of Mid-Pen Housing. We are a affordable housing developer, owner, and manager based in Silicon Valley.

Prior to assuming leadership of Mid-Pen, I served as housing director of the City of San Francisco and also the HCD director under Governor Davis, until we were all fired.

Today I hope to provide some insight into the question of development costs from the perspective of an active participant in the program. Since our inception in 1970, Mid-Pen has developed over 6500 units of affordable housing throughout the San Francisco and Monterey Bay areas. We partner with over 30 cities and counties in our work. At Mid-Pen, we have a clearly defined development philosophy, based in many ways on the hard lessons learned from public housing.

In the '50s and '60s, when the federal

government built public housing, it too often cut corners with poor design, shoddy construction, and indifferent property and asset management.

In contrast, our philosophy relies on great design, sound construction methods and quality materials, proactive property and asset management, and service enriched housing. We also believe it is in our interest to develop as cost efficiently as possible. Working with experts in the fields of construction and contracting, we have pioneered rigorous preconstruction value engineering process and a state-of-the-art construction contract to hold the general contractor accountable. These efforts have allowed us to realize substantial savings in zero contractor-driven change orders in our recent projects.

We do also believe that we're highly incentivized to contain costs. We built our reputation on the ability to deliver a quality development at an efficient cost. In addition, there are incentives in the TCAC regulations to contain costs. And like all affordable housing developers, we're subject to scrutiny from our local partners.

Before a city or county will invest in one of our developments, we're required to participate in community meetings and public hearings where we must defend all aspects of the project, including cost. Faced with competing demands for their dwindling resources, local governments have become very astute. When I was with the City of San Francisco we had a cost estimator on staff in the mayor's Office of Housing. Other cities rely on consultants to audit costs.

As to the question of what is driving costs -- or what is driving the increase in total development costs over last decade, I'm not sure I have a complete answer. And I do think that a study to look at this question would be beneficial.

I will still, however, offer some thoughts: Surely, a substantial portion of the rise in project costs was driven by the same inflationary factors that impacted all of California. This was a decade where real estate development experience, at least for the first eight years of the decade, where land values were skyrocketing, building materials and labor costs experienced extraordinary growth.

I also believe, though, that there are some signature cost factors unique to affordable housing. For Mid-Pen, we saw a substantial increase in the scope and impact of policy objectives embedded in our developments during this time, imposed both by requirements of state programs such as TCAC and by our local government financing partners.

I think a comparison of two of our current projects may help demonstrate this point. Both are family tax credit developments, but they are very different in type and key characteristics that affect cost.

The first is a 66-unit development that is part of a large master planned community on the former Fort Ord in Monterey County. Land for this site was valued at only 12,000 a unit. The building type is two- and three-story on-grade at a density of 20 units an acre. Parking is a mixture of service carports and tuck-under garages. The cost is approximately 16,000 a unit. The project carries hefty impact fees of 58,000 a unit, primarily due to the military base decommissioning and clean up. We expect total development costs for this development to be between 300 and 350 thousand a unit.

The second development is a first phase of a planned 109-unit project in South San Francisco. It is a first development in this community under their Grand Boulevard Planning Initiative, a collaborative effort among communities in Silicon Valley to encourage high density, smart growth along the El Camino. It's an amenity-rich location with several bus headways immediately out its front door, two BART stations nearby, and schools and shopping all within a short walk. As a result, the land is 41,000 a unit.

The building type is four-story podium at a relatively high density of 62 units an acre with ground floor retail. The parking is located in a subterranean garage, with a cost of approximately 62,000 a unit. The development also has significant green features including photo intake panels and hydrogen fuel cells, which will generate electricity while heating the water. These features add another 20,000 a unit and the total development cost is 465,000 a unit.

The Fort Ord building type and development characteristics are very common in our older portfolio. The South San Francisco development is much more reflective of our recent developments and our current pipeline.

Throughout the Bay Area, local governments are aggressively pursuing smart growth land use policies. When they have the opportunity to require a prime, transit-rich infill site, they encourage us to maximize the density of this site. This, I believe, is entirely the right thing to do. It means we are able to provide access for that many more low income families to some of the best job centers, schools, and communities in the state.

But it often comes with higher costs. The communities we work with also have a much stronger view regarding green building and energy efficiency investments than they did ten years ago. They believe, as do I, that it's a good investment for the environment and for the long-term physical and financial health of the development and its residents. However, this too comes with additional costs up-front. Other policy objectives we often encounter that can contribute to cost include requiring prevailing wage, targeting difficult-to-develop sites in distressed neighborhoods.

I generally am supportive of these policy objectives. I believe that the benefit accrued to our residents and others in the community we serve far outweighs the additional costs. I also know that giving local governments the opportunity to not only invest in affordable housing, but also shape developments to meet other local priorities, is one of the cornerstones of California's success in promoting a fair share requirement throughout the state.

However, I still think it would be useful for a study to isolate specific incremental costs associated with these objectives so that we can all weigh the relative costs and benefits in an informed manner.

Such a study would also help TCAC create a cost database that segments developments by market area, housing type, building type, and other key factors that could facilitate an apples-to-apples review of individual projects going forward.

The right approach, in my view, is to bring extra scrutiny to projects relative -- with outliers relative to similar developments. This fact-based inquiry would continue to enhance our collective understanding of what is driving costs in TCAC developments. And if upon further review, the staff or committee believes the costs are justified, they could continue to fund it; and conversely, if they don't, they could reject it.

Thank you for the opportunity to speak today.

CHAIRPERSON LOCKYER: Matt, to what extent have you seen what seems to be a local decision to shift what could have been a 4 percent project into nine, using local redevelopment or other money to win that competition?

MR. FRANKLIN: You know, we don't really experience that. My view on the 4 percent is that, you know, the incredible drop-off you saw in the 4 percent was in '08. And I think there's no question, when the tax credit investor market took a hit in '08, the 4 percent market took a much more dramatic hit than the

9 percent. A lot of the groups of the investors we work with flat out would not do 4 percent deals.

And you know, there's also just -- with a shallower subsidy -- I think it's no surprise that a shallower subsidy is going to work in low cost parts of the state. So if we're going to look at the 4 percent, it's going to be the Fort Ord example, not the South San Francisco example.

You know, occasionally, we pair a 4 percent in a phased development, but it just -- you know, it's just a shallower subsidy that works with a low cost building type and a low cost market, which I think is why you see, in the aggregate, the costs are quite a bit less on the 4.

There's no question that what's happening for us, Chairman Lockyer, is that we are trading some local money for credits. So in other words, I think part of the incentive in the program is to put more pressure on the locals and less on the TCAC so that, you know, you see the precipitous drop in the credit per unit, and that is being, I think, substituted, although I don't think exceeded by the local.

And again, we've experienced a real ramp up, not just in the last couple years, but I would say more in the last five or six, as far as the locals' level of sophistication and focus on cost. And that's not surprising, if the system is putting more pressure on them than reducing the amount of credit.

So I think that works. When you trade -- when you -- we sort of give back credits in our application and we ask more of the locals and, you know, you can know that comes with a very long discussion and a lot of scrutiny on the part of the locals when that discussion occurs.

CHAIRPERSON LOCKYER: Thanks.

Any other questions at all? Okay. Who's next on our list? Andy Agle is next from Santa Monica.

MR. AGLE: Good morning, honorable Chair and committee members. My name is Andy Agle and I'm the director of Housing and Economic Development for the City of Santa Monica. Thank you for inviting me here today.

As you look at this matter, I ask that you consider that our housing agenda in California is focused not only on providing housing for low income families. It's also focused on creating opportunities for these families to access economic and educational opportunities that allow them to advance towards self-sufficiency. In furtherance of our broader housing agenda, I think it's sound public policy to promote the creation of affordable housing in higher cost communities, that often have outstanding amenities that enrich the lives of all the residents, including the residents of affordable housing.

Santa Monica is known for its first-rate schools, excellent transit, low crime rates, plentiful jobs, and strong social service networks. Santa Monica is also known for its commitment to economic diversity and its support for low income families and individuals, including the homeless. We have an aggressive housing program that over the past ten years has created nearly 1,000 new affordable homes, accounting for more than a third of all new housing built in Santa Monica.

Tax credits have played a major role in our ability to move forward in this program and our partnership with you has allowed us to broaden the depth and the breadth of our program.

70 percent of our nearly 47,000 households are renters who face an average rent of over $2,200 a month for an average two-bedroom apartment. Affordable rents governed by TCAC requirements are a fraction of those market rents, providing a high degree of certainty that for the next 55 years, low income families may not be overburdened by housing costs.

Like you, we're very concerned about the cost of affordable housing. Last year we invested over $37 million in the production and preservation of affordable housing. Cost is a critical consideration in our underwriting. Our loan committee carefully considers and scrutinizes every affordable housing application to be certain that we're not spending one more dollar than necessary, as that dollar could go towards the next affordable development and towards helping more families access safe and affordable housing.

With that cornerstone criterion in our underwriting process, we also recognize that building affordable housing in Santa Monica is going to be more expensive than building it in lower cost communities for a variety of the factors. And the first is the undeniable issue of land costs. Land prices in Santa Monica typically range from 200 to 400 dollars a square foot, which certainly increases the cost of building housing.

Second, virtually all development in Santa Monica, including affordable housing, provides subterranean parking, which increases development costs.

A third factor for us is economies of scale. Our typical affordable development is approximately 30 units on a half-acre site, with three to four stories of housing over subterranean parking. We consciously avoid overconcentrating low income families into one building or into one neighborhood. As a result, we don't enjoy the economies of scale typically associated with larger developments.

A fourth factor is that our developments tend to be located on tight urban sites built close to or at zero lot lines with minimal room for construction staging.

And a final factor is that our architectural review board, our building division, and our environmental sustainability requirements have set standards for high quality, well-designed, sustainable housing that's built to last.

Our underwriting requirements also recognize that all affordable housing is not the same. For example, we consider that the per unit costs of large family housing is necessarily going to be more than the cost for single-resident housing.

We also consider that even within our 8-square-mile city, land prices are going to be higher in some neighborhoods than in others and physical constraints are going to push up costs in the more densely developed parts of town. We also recognize the local funds are the primary funding source that close the gaps caused by higher costs such as land.

In the face of the high cost development of affordable housing, Santa Monica has made a variety of efforts to reduce these costs. First is that we waive all planning, zoning, and impact fees for affordable housing. The majority of affordable housing developments are exempt from the discretionary entitlement process. And if you know Santa Monica, you know that that's typically a lengthy and expensive process.

The majority of our investments in affordable housing are also made administratively, thereby reducing potentially expensive delays associated with opponents' efforts to block funding of affordable housing. We have also adopted density allowances and parking requirements that go beyond those required by the state. And we provide acquisition, predevelopment, and construction financing to minimize carrying costs during predevelopment construction. We also limit developer fees to approximately $16,000 per unit, which is well below the maximums they are allowed by TCAC. And finally, we continually look for ways to reduce those costs associated with affordable housing.

If costs were to become the dominant factor in the allocation of tax credits, it's not going to significantly reduce the cost to build housing in Santa Monica. Still going to face those huge land costs and other costs associated with tight urban sights. I fear that it could have some unintended and undesirable consequences, including, first, that it's going to make it very difficult for us to partner with you in creating affordable housing because we'll likely not be competitive.

Second, it's going to make it difficult for us to do our fair share in meeting affordable housing obligations identified in regional housing needs assessments and housing elements.

Third, it's going to limit our ability to help low income families access plentiful jobs. For example, in Santa Monica, we have over 73,000 jobs relative to 56,000 residents who are employed in the labor force. Our affordable housing programs supports regional job/housing balance efforts, including strategies identified in the regional greenhouse gas reduction plans that are currently being developed.

Fourth, that focus would limit our ability to provide outstanding access to transit and mixed income transit or developments, which is becoming even more important as three regional light rail stations are being developed in Santa Monica.

Fifth, it could limit our ability to combat homelessness, which is a pervasive problem in California, particularly in communities like Santa Monica, where we've made it a cornerstone of our program to get most homeless into housing.

And finally, it could limit our efforts to provide top quality educational opportunities for low income families by integrating them into neighborhoods with schools that consistently rank among the top in California.

As you contemplate this issue, I ask that you carefully consider these policy issues as well as the potential impacts on families that we serve and their efforts to become self-sufficient.

Thank you again for the opportunity to address you.

CHAIRPERSON LOCKYER: Thank you very much.

Questions?

Thanks, Andy.

May I ask Bill to give us a ballpark estimate of developer fees on per unit for us? It may be a hard calculation.

EXECUTIVE DIRECTOR PAVÃO: It is, but just a ballpark average, 60-unit project may be something on the order of 25 to 33K per unit. So you were saying

Santa Monica was 16K?

CHAIRPERSON LOCKYER: Yeah. That's that cap.

MS. ARCHULETA: Good morning. Honorable Chairman and members of the committee, thank you for having me here today. Again, my name is Laura Archuleta and I'm president of Jamboree Housing Corporation.

My remarks today reflect my experience both working in city government for a dozen years or so and now having been with Jamboree Housing Corporation, a statewide community development organization, that's developed, throughout the state, Sacramento on down to San Diego, all types of affordable housing, using pretty much all of the affordable housing type programs that are out there.

I give you this information and my background and on Jamboree because I'm not really a policy person. I have never sat in your shoes. I'm on the grounds, working on projects out in the community, holding neighborhood meetings, trying to get projects approved. And so that's the perspective that I speak to this cost issue from.

So not being a policy person, I did take some time to review the background and the guidelines of the tax credit program and went back to see that it does look like the intent of this program, along with producing affordable housing, really is to help meet some broader public policy goals.

Some of these parameters and preferences include looking at special needs housing and public housing waiting lists and revitalization plan areas. And this is that -- you know, per the IRS code, this is at the national level, and so some of that guidance, to me, tells me that this program is not just about unit production or cost per unit. Again, it's looking at the broader public policy.

What we find is it is in these broader public policy goals -- and you've heard some of them earlier -- some of those goals do add to the cost of building affordable housing. And this may be in selection of a site, that is close to jobs and transit, will be more expensive than another location. And it may be as part of a revitalization plan where you have remediation expenses or relocation expenses. Those will definitely drive up the cost of affordable housing.

Now, not being a market rate builder, I can't do a comparison to tell you what a market rate development would cost in the same area versus an affordable site, but I will tell you that oftentimes the sites that we get are not the same sites that a market rate developer would pick. They may be leftover

Caltrans sites, in one case. And you don't have your market rate developers building on small, 20-unit-type projects. So it's very hard to compare those costs. And the studies that I have seen that have tried to do that haven't really done an apples-to-apples comparison. So I think that that's difficult.

I think it's also important to note -- and I mentioned I do a lot of community outreach -- that even when you are going into a crime-ridden, deteriorated neighborhood and you are removing blight and removing gangs, those community members are very concerned about what it gets replaced with. You would think, well, my gosh, it's going to be better than what's there but it's not -- they don't accept that.

So, for example, in the city of Long Beach, where we did a project as part of the West Gateway Improvement neighborhood, we had 12 community outreach meetings dealing with design, unit mix, unit size, setbacks, everything having to do with that development, before we even made it to city council. So yet, here you got -- again this is an area, one of the few areas that I couldn't even park at and walk to by myself at night because it was so bad. You would think, well, of course, it's going to be something better. But the community is very involved in this process. They want to know what's going to be there.

And this increase -- and this did result in some increase in design features and that increase was paid for by the local jurisdiction, by the city. But it was extremely important to the neighborhood and to that city that that development fit in.

One thing I do know is that our success at Jamboree over the past ten years is a direct result of producing higher quality housing that is woven into these broader community goals and objectives. For years in Orange County, where we're headquartered, affordable housing had not been produced probably for ten years. There had been no large family, very low income units produced.

And we came forward with an inclusionary project in the City of San Clemente, and we worked through neighborhood process there, we worked with the master developer, and the city. We had to meet both levels of design guidelines. Yes, it added to some of the costs of that project, but ultimately, 186 units of large family housing was developed in Orange County -- excuse me, and this was ten years ago. And since then there's been numerous other projects, not only developed by Jamboree, but by other developers, many in the room, because of that first one being built.

It was high quality, you could touch it, you had folks buying the million-dollar home up the street saying in their disclosures, where is the affordable housing? And we could point to our project and they said, oh, that's no worry. That's affordable? They had no idea. That's extremely important in this process.

Again, I do think some of these increase in design standards and amenities and in this case we built some larger units -- again, three- and four-bedroom units, we don't really see the market meeting that demand; it does increase the overall cost of our development. I do know that if we had been solely focused on cost containment alone and not integrating the cost containment into the discussion of the project, that, most likely, our development would not have been approved. That had, for years, been the fear in Orange County, is we don't want those projects built, projects -- typically thinking back to maybe government-owned projects in a high density area wasn't going to fit there. So by building what we did really had a ripple effect far beyond Jamboree's project.

I do believe that by pairing the tax credit program with local investment to meet these broader goals, the impact of the credit increases exponentially. But it's different -- I think it's really difficult to measure the financial benefits with these broader goals. We just heard talks about proximity to jobs, air quality, remediation, blight removal, crime reduction. How do you measure that? So, for example, in the city of Fontana, we've been doing a phase development that includes acquisition/rehab and some new construction, we took a look at the police calls. And since working in that neighborhood, the annual police calls have gone from 195 a year down to 15. That's a dramatic decrease. So then when I call the police chief and I call the city manager and I say, what does that do for your general fund? They say, well, we haven't quantified it.

That's a problem. That's a problem for all of us. If we want to meet these broader objectives and we want to weave this program to support it, we have to know what the benefits are that come along with that. And I do think there might be some cities out there that have done a better job. I've heard that Anaheim did actually do some measurements on a project there on what they saved in police calls and the financial benefit. And again, I think we have to do a better job at defining that.

Most recently, we have seen an increase in local financial support to our projects. So again, going to the tiebreaker discussion. I think that basically leveraging such a scarce resource as 9 percent tax credits with other local funds just seems to make sense to me. But -- I'm getting the one-minute mark so I better hurry.

But one thing I do want to stress is we talked about bonded 4 percent. What we're seeing is we go to a city and we say, here's your gap, here's the additional investment you will need to make to be competitive in the 9 percent program, and here's what a bonded 4 percent program looks like, and you know you will have a deal. We can guarantee you will have a deal if you go this route. They are going that route. And I do think that that has helped increase the bonded 4 percent production just a little bit, along with some other factors. So we are seeing that switch. And I think it's good for the programs to be much closer in demand and give those cities the opportunity to look at that as a potential option.

The responsibility we have to be stewards of public funds is one taken seriously by the majority of affordable housing developers. I think this is true for those that measure their success by a per unit cost and those of us that measure it by the broader impact that we're having. And I don't think that there's any right or wrong. I think it's just important is what is the public policy goal in this issue?

But I would argue that establishing a program that encourages a raise to the bottom -- and for those of us that have been developing, we know the bottom usually is the tiebreaker. And if the raise to the bottom in the tiebreaker is cost containment, then this will ultimately result in less projects because we will not get them approved through our cities once one bad project is built.

Let's see, real quick. So in summary, I would encourage you to evaluate the success of California's tax credit program by the total impact it has on the residents living in and around the developments it helps to create, not just on the cost per unit.

In summary, I would encourage you -- in additional summary, I would encourage you to evaluate the entire program. I think it's really important in the current climate, as redevelopment funds are so scarce, that we really look at how can these two programs, along with CDBG and HOME to work together to have the broadest impact and make the most difference in the communities where we work.

So I thank you for your time and for having me today.

CHAIRPERSON LOCKYER: Thanks, Laura.

Questions?

Bill Witte.

MR. WITTE: Thank you, Mr. Chairman and members of the committee. My name is Bill Witte. I'm president of Related Companies of California, a for-profit developer with offices in Irvine, L.A., and San Francisco.

And I have to tell you that when I told my staff I had been asked to speak today, they say, you know, we're doing pretty well under this system. My advice to you, Bill, is to sit down and shut up and let others have at it. But I actually think this is a very important topic. And I think part of the problem we all face is, I agree with almost everything everybody has said today. I even agree with most of what my friend Pat had to say. It's complicated, it's not simple.

We built 8,000 affordable housing units in 20 cities throughout the state -- Richmond, Oakland, San Francisco, San Jose, L.A., L.A. County, San Diego, San Diego County, Orange County, and San Bernardino County. We built high-rise. We built tax credit projects in Laguna Beach and Newport Beach. We've redeveloped, on the other end of the spectrum, four very large, obsolete public housing project sites in Oakland, L.A., and San Francisco. We built the Iron Triangle in Richmond. So we've seen all shapes and sizes. And it's very difficult to generalize.

I want to take a little different tack and give you a little perspective from someone who's also built 2,000 market rate housing units in L.A. and San Francisco, because we often hear that this is so much more expensive.

First of all, it often is more expensive and you have heard, I think, some of the reasons why. But I want to give you a perspective from a market rate developer's mind set. First of all, Bill, I don't know what the average 9 percent project size is -- let's say 60 units or so. We wouldn't even look at a market rate apartment site that was smaller than 150 units; not efficient, etc., etc. None of these are bad things, but they are just facts and they are not going to change. So they are less efficient both operating and costwise.

No. 2, rightly so, there is a fair amount of requirements, local and state, as you've heard, to include common areas, amenity spaces, so that the percentage of non-revenue generating space in a tax credit deal is typically a lot higher than it is in a market rate deal. That's not a bad thing. You have heard why it's a good thing. It's a fact. It's going to cost more. There's just not -- unless you go back to the public housing days. I don't think anybody wants to do that.

The type of sites. Market rate apartments in the state today, which are kind of hot -- the only sector of real estate that really is -- are being built almost exclusively in job centers, in our urban cores, in the better-off suburban areas with office parks, etc. That's where the jobs are because they can afford to charge and we can afford to charge rents that support new construction. They are not being built in blue collar communities. They are not being built in the central part of the state, and they are not going to be built there and they may not be needed there as much, until the economy picks up.

We're developing in a different -- whereas Laura Archuleta said, we're getting leftover sites. That's what's available. That's what's available for affordable housing. They are smaller, they are more physically challenged. You still have to dig and provide the same type of parking structure onto which you put far fewer units. It's simply inherently inefficient at some level.

And I might add that just sort of a side comment -- Andy Agle alluded to this -- this has nothing to do with cost. But shouldn't a criteria in the tax credit program -- maybe even more than it is today -- be the difference between market rent and the affordable rent? Isn't that really the best indicator of need? Do we really need more tax credit projects in Adelanto or Orange Cove? I mean, not to pick on anybody here. It's going to be more expensive, unfortunately, in those areas that have the highest number of jobs.

And the question is, you know, what do you do about it? You have also heard, of course, there are multiple public policy objectives in these projects. I can tell you -- and I'm not rendering a value judgment -- that outside of San Francisco and maybe Oakland, I don't know that there's two unsubsidized market rate apartment projects in the state that are wood-framed that pay prevailing wages. And they don't have to, because they are not taking any public money. It's not right or wrong. It's just a difference.

Let me give you a perspective on the rise in costs. We built a 40-story high-rise in downtown San Francisco called the Paramount between '99 and '01. We bought that job out, where the towers -- 40 stories is the most expensive construction market in the state in '99 -- was $165 a gross square foot just for the tower. By 2007, that same building would have cost $270 a square foot.

We built another mixed income bond financed market oriented project in downtown L.A. a couple years ago. Wood frame, not high-rise, no prevailing wage requirement, for about the same cost as that 40-story high-rise eight years ago.

I mean, as Matt Franklin, I think, said and I think Bill's chart on inflation shows, everything went way up -- land costs, construction costs. Everything went way up. So we just have to keep some of the things in perspective.

By the way, as a footnote, I would be interested on the 4 percent credit program. In that big surge, how many of those were acquisition/rehab deals versus new construction deals. There was a huge number in the earlier years of acquisition/rehab. Again, not a good or a bad thing. I'm just trying to give you some perspective on that and why things have changed over time.

Question is, what to do about it. I certainly think the idea -- you are going to hear more from the next speaker on this -- of a really focused study is important. And by the way, having just made a case for why things are expensive, I too really am concerned, not just about Washington, D.C., put bluntly, I'm concerned about Sacramento as well. We're in a tough budget climate everywhere. It's just not good enough anymore simply to say, well, these are all good things and we just have to pay. It's not good enough. We've got to do better than that. It's not fun to say our projects are expensive.

There is a -- there was an approach -- Jeanne Peterson alluded to this in the early '90s that the committee utilized of benchmarks, which I actually like, where from this study, updated figures -- benchmarks could be established by region and by type of product, say, you know, structured parking or on-grade parking. That's the benchmark. You could exceed that by a predefined amount. And that -- for that, you are fine. If you exceed that, you have to explain why. You have to come back.

It gives Andy Agle, with whom we're doing a project with right now, the chance to come back and say, yes, this is more than the benchmark. But this is Santa Monica. Let me give you an example. What we're doing in Santa Monica -- interesting project, city-owned site. 160 luxury condominiums, which we just got financing for. And 160 affordable tax credit units. Now, this is a bond deal. It is not a 9 percent deal. It's very dense. It's 65-foot wood frame building, tight site, sharing a podium with another condominium project, prevailing wages, unbelievable sustainability, family-sized units. Market rate people don't build three-bedroom units. That's about 4, 420 thousand a unit without land in total development cost. It is what it is.

But the City is taking the money that we are buying the condominium sites and using some of that to subsidize the affordable [verbatim]. They are not using additional redevelopment funds. You should let the City come back and say, I know we're over the benchmark, but isn't this a creative way to provide a lot of affordable housing to one of the most expensive markets in the state?

So I strongly -- having given all these excuses why it's expensive, I really endorse your doing something. I actually think you could do a benchmark program in 2012.

Thank you.

CHAIRPERSON LOCKYER: Thank you, Bill.

Questions anybody?

Janet Falk.

MS. FALK: Mr. Chairman and members of the committee, thank you for giving me this opportunity. My name is Janet Falk. Until July, when I retired, I worked for Mercy Housing California, a statewide nonprofit developer, where I oversaw all the real estate developments activities throughout California.

Prior to that, I worked as a financial consultant for nearly 25 years. I have been involved in tax credit financing since it began in 1987 and I have worked on approximately 7,500 units of affordable housing.

I believe that most of us here today would agree that it's necessary to control costs in the development of tax credit projects. This has been an issue since the beginning of TCAC. We have progressed, if that's what you would like to call it, from an eight-point system in the early days, to this behemoth of points that we have today. In all of the different QAPs that were used over the years, cost has always been a factor and cost has always been a bone of contention.

My primary point in speaking to you today is to urge you to undertake the study, as Bill is going to do, to determine the various components of cost and to wait for the results before making any decisions.

I feel uniquely qualified to speak to this point because I was involved in the California Affordable Housing Cost Study, a detailed economic study of affordable housing costs that was sponsored by TCAC, along with LISC and NEF in 1993. At the time, there was great concern that the costs of affordable housing were too high and perhaps even excessive when compared to market rate housing. A major article to this effect appeared in the "L.A. Times" and had generated much controversy. Congress, as now, was also looking at the tax credit. As a response, TCAC and the other sponsors hired an economic consultant, an independent economic consultant, to conduct a study to compare costs. They also set up a 25-member task force, of which I was a part, with representatives from throughout the affordable housing industry.

The task force was composed of nonprofit and for-profit developers, city and state agencies, and the lending community. The task force gave assistance to the consultants about what components to study and feedback about how to present the results.

The study looked at three key questions: Did affordable housing projects cost more than market rate projects? What specific factors impacted the costs of developing affordable housing? And how geographic location affected development costs.

The cost study was seminal in many ways: Comparing data from 35 projects, it broke down the cost of rental housing into its component costs -- land, construction, design, financing costs, developer fees.

It looked at the type of developer, the size of the project, number and size of units, location of the housing, and types of finance.

Its conclusions were definitive: First, that affordable housing was not more expensive than market rate housing at that time, and, in many cases, cost less.

Two, that the key factors influencing the cost of affordable housing were the number of three-bedroom units, the multiple financing sources, the lengthy time for predevelopment and prevailing wage. There were no significant differences between affordable and market rate housing nor between for-profit and nonprofit developers.

And the third conclusion was that location was a major determinant due to variation in land costs, local fees, and parking requirements, with urban projects costing more.

One of the reasons I considered the study to be seminal is that it provided a solid basis of facts on which to develop a point system for awarding credits. It was as a result of this study that the QAP for many years used a cost-per-bedroom standard in the point competition, rather than looking at cost per unit or cost per square foot. This was a critical measure, as most of the affordable developers were building projects with large percentages of three- and four-bedroom units, while the market was producing only one- and two-bedroom units. Cost per bedroom was therefore a much more accurate determinant of the relative cost of projects. This would not have happened without the study.

Much of the dialogue around the cost issue, both now and for the past 25 years, has been anecdotal and/or ideological. Everyone has their performances and ideas, but no one really has the facts.

A great deal has changed since 1993 when the study was done. I don't know if the results would be the same.

In addition, there are now several other factors to consider when designing a new study. For example, the current point system requires the developers build using environmentally green standards. Yet, we have no idea other than the anecdotes as to how this contributes to the cost of affordable housing.

Another example is there have been policies which reward building in infill areas, a key public policy goal. However, it may be that infill sites are more expensive by their very nature. While I, and I'm sure many others, have opinions on these tradeoffs, none of us currently have the facts.

Once those facts are available, a thoughtful point system can be based upon them. We will not have to argue ideological positions. We will not be using the most egregious example to prove the point.

I urge you to seek an independent analytical professional to carry out a new study, set up a task force of stakeholders to be a sounding board, and to wait for the results before making decisions. We can learn of which costs are unavoidable and which costs are discretionary. Having the data will be a key factor in facilitating a thoughtful public policy conversation.

CHAIRPERSON LOCKYER: Thank you.

Any questions?

There's a number of people who have indicated -- Bill, you can call them up -- that they might wish to make a comment. I hope you have heard something that makes it redundant and unnecessary, but if not, we hope they will be brief.

Bill, you want to just start calling people?

EXECUTIVE DIRECTOR PAVÃO: Sure. Alice Talcot [phonetical].

CHAIRPERSON LOCKYER: And we hope it will be a couple of minutes max. As one of my professors used to say, you can tell someone everything you learned in life in five minutes, and that may be an exaggeration.

COMMITTEE MEMBER CAPPIO: Call on a few people at a time.

CHAIRPERSON LOCKYER: Yeah. Why don't you read a couple.

EXECUTIVE DIRECTOR PAVÃO: Okay. So after Alice is Lisa Montoya [phonetical]. Lisa. Then Rob Weiner [phonetical]. Evan Becker [phonetical]. Shall we stop there?

MS. TALCOT: Hi. I'm Alice Talcot. I'm with Community Economics. We're a nonprofit technical assistance corporation working with nonprofit developers and public agencies.

And one of the things that we do is work with our clients on tax credit applications. I've probably done well over hundreds of applications in my career. And so I want to -- you have heard a lot of great testimony. There's so much to talk about. I want to give you a very specific, very technical comment. And this is that, you know, filling out these applications, we really know how these applications work, and we know what it is that the application and the competitive process itself is doing to drive -- to drive the way the projects are looking on paper.

And I just want to say, first, that there's some things in the system itself that have happened in the last couple of years that make costs look higher than they did a couple of years ago that they aren't real -- that aren't a really change in costs. And one is that donations of public land now have to be shown at their value. Prior to that, we usually just said it was zero if it was a donated piece of land. Now they are coming out on the applications and saying it's $3 million. That's suddenly a $3 million increase in costs. There really isn't a real increase in costs; it's just the way it's being represented.

And another thing is that the tiebreaker has made it advantageous to show any waived impact fees you have. Before, that wasn't necessarily true. And so if you are getting any waiver of fees, you now want to show it.

So, for example, the Santa Monica example, now their costs look even higher because if they are donating land and waiving impact fees, their project now suddenly looks a lot higher than it did even two years ago, when there wasn't necessarily an incentive to do that.

So I just want to say, there's also been more special needs projects being funded. Those tend to have high capitalized reserves including, say, reserves from the MHSA program or rent subsidy reserves. Those are, again, not capital costs but they make the costs look higher. So I just want to really say, when you are looking at this data, it's really complicated and you need to look at it pretty carefully to be making real comparisons.

I also just want to say that we look at the tiebreaker a lot, obviously, and in 2010, the tiebreaker -- the way the tiebreaker worked, unfortunately, you got a higher tiebreaker often when you had higher costs. There was a change made in 2011 to the way the tiebreaker worked. And on every single project I did, the tiebreaker was better if you had lower costs. There was a real incentive in that tiebreaker to both lower your costs and to increase public funds. And so I just don't agree with the idea that the tiebreaker itself is rewarding higher costs.

Thank you.

CHAIRPERSON LOCKYER: Thank you very much.

Who is next?

EXECUTIVE DIRECTOR PAVÃO: Lisa.

MS. MONTAYAMO: Good morning. My name is Lisa Montayamo [phonetical]. I'm the housing development director of Resources for Community Development, a Berkeley-based nonprofit developer.

I would like to urge the committee to consider all the sort of softer values that we add. I know that that's a very hard request, but we are doing more than just building bricks and mortar homes. There's been a number of studies done that show the connection between stable housing and educational outcomes, green building and healthier indoor air quality and healthier quality of living. Those are all benefits. We are not immune to the criticism of high costs.

I personally have to go in front of community groups, in front of planning commissions, city government, and explain why our costs project what they do. But because of those other intrinsic values of our affordable housing development -- blight abatement, community revitalization, economic development, all of those things add up to make these kinds of projects very, very worthwhile where they are located.

Thank you very much.

CHAIRPERSON LOCKYER: Thank you.

EXECUTIVE DIRECTOR PAVÃO: Rob.

MR. WEINER: Good afternoon. Rob Weiner with California Coalition for Rural Housing. We're a statewide association of community-based nonprofit developers, working primarily in small towns in rural areas. And many of our members work in low-cost areas, and I could say that all the projects should go into those areas, but I won't, because we have many members who also work in very expensive coastal areas as well, and they struggle with cost containment every single day.

There are many contributors to cost and many of which are totally out of the control of our members. And some of those costs are imposed through public policies. So public policy -- well, affordable housing has become a piñata for everyone's favorite public policy goal, whether it be prevailing wage or energy efficiency or transit orientation or even nutrition.

Now, these may be very commendable goals and the right thing to do, but they all add costs and someone has to pay for them. So let's be clear that what we're talking about today is not excessive tax credit costs per unit. Those costs have gone down per unit and the program is leveraging more dollars and more units than before. What we're talking about is creating yet another well-intended public policy goal to restrain total development costs because of a few outliers.

Now, my question is, why should that really matter to TCAC? If developers are able to leverage additional dollars, and local governments are able to provide sufficient subsidy and financing to meet both state and local public policy goals, why should that matter to TCAC? And if localities are piling on costs that make these projects excessively expensive or infeasible, does that really matter to TCAC, or is that really an issue that advocates should take to city councils and, in some cases, to the courts?

We're really concerned about the law of unintended consequences. Do you really want to deny a project that will provide housing for firefighters in Santa Barbara County, or for teachers in Santa Cruz County, or for vineyard workers in Sonoma County?

So we think we need to pause, we need to investigate what are the true determinants of costs, and whether this is really an appropriate area of intervention for TCAC.

TCAC acts rationally and imposes arbitrary cost limits. There will be unintended and negative consequences. Thank you.

CHAIRPERSON LOCKYER: Thank you.

EXECUTIVE DIRECTOR PAVÃO: Evan. And then after Evan is -- thank you -- Michael Lane [phonetical], Mike Alvidrez [phonetical], and -- let's get one more queued up -- Paul Zimmerman [phonetical].

MR. BECKER: Thank you, very much, Mr. Chairman and committee members for the opportunity. I've given Bill some more detailed comments and I apologize for the shortage of copies.

THE COURT REPORTER: Can you state your name, please.

MR. BECKER: Evan Becker.

The best explanations, many of which I agree with, and legitimate defenses of the program and program costs do not change the fact that we have a cost containment issue, if not in our own minds, in the minds of those who are judging the program.

I would have to disagree with some of the other comments made. I think our system -- we do have cost-inefficient projects that are winning credits, and in some cases, if not a lot of cases, are advantaged in the competition by the fact that they have higher costs. Our per unit public funding has gotten to the point where many of our states are producing units that cost less than the public funding that we're putting into our projects. And I think all of these things can jeopardize our program. We could well be fiddling, so to speak, while Rome is burning.

But I think with this step today and the kind of minds that we have in this industry, a lot of which are collective here today, and, you know, with Bill and the staff, industry folks, we can continue to keep this program the best affordable housing program in the country and educate ourselves more about what this issue is and then come up with the potential solutions.

I would add that a study that focuses on cost comparison, that's an important focus, but I would also urge you to add to that an analysis of the mechanics, so to speak, of the QAP itself, in terms of scoring, the tiebreaker, and the mathematics involved there to see exactly how that influences cost and it either incentivizes or disincentivizes folks to bring cost in, in an efficient way.

Thank you very much.

CHAIRPERSON LOCKYER: Thank you.

Michael.

MR. LANE: Chairman Lockyer, committee members, Executive Director Pavão, my name is Michael Lane and I serve as policy director for the nonprofit Housing Association of Northern California, or NPH. I speak to you on behalf of our more than 750 members including over 60 nonprofit, affordable housing developers and well over 75,000 units of affordable housing produced.

We appreciate the opportunity to provide testimony and address this important topic. We take this discussion very seriously and our members are committed to being good stewards of both public and private resources and providing safe, decent, and affordable housing for low income families, housing that the private sector alone is not able to produce.

As has been noted in previous testimony, in February of 1993, TCAC and LISC delivered the California Affordable Housing Cost Task Force Policy Report. We agree that this is an appropriate time to update this study. NPH was involved in the 1993 cost study and we would like to participate in a new study as representatives of the affordable housing development industry.

It is essential to distinguish between total cost and cost efficiency given the dramatic differences between suburban fringe development with stick frame construction versus urban infill high-rise development with a podium and submerged parking, as was mentioned, very often on very small, tight, difficult-to-develop sites.

Though both will be built with equal efficiency, the cost per unit will be very different. It is also the case that lower cost project in a lower cost area of the state may actually be less cost efficient when closely examined.

In addition, our goal is to be good neighbors and to build not just a home for a family to live in, but an attractive and valuable community asset that will last for 55 years or more. Our members maintain ownership very often with on-site management, and we want to be good neighbors.

We do this by constructing quality, durable developments with outstanding design standards and excellent amenities that enrich the quality of life of our residents. These are investments that deliver social goods that revitalize neighborhoods that the private sector alone cannot provide. Affordable workhorse housing is a critical component of our infrastructure investments and is a community asset that becomes cost-effective over time. We all own and benefit from well-designed and maintained housing developments, just as we benefit over time from well-designed and maintained public schools.

And just as an aside, we think it's appropriate that local jurisdictions contribute HOME dollars or CDBG or redevelopment dollars and are active partners in the production of affordable housing. We also see it as a tool to combat NIMBY-ism, where we have a city or a county partner with us at the table as we produce this housing.

Now, a whole panoply of laudable social and public policy goals have been overlaid onto the tax credit program. We believe these objectives have merit.

We also believe undertaking cost benefit analysis of these objectives is appropriate and must be part of the study.

Our developers are committed to smart growth and transit-oriented developments -- urban infill, reuse LEED-certified and solar installation, and free internet access, but these amenities and features have accompanying costs.

Land costs are the greatest variable that is mostly out of our control. Urban infill sites often require ground-fueled remediation. In urban settings San Francisco, construction of high-rise apartments requires staging, scaffolding, and traffic control projects that are very expensive. And as you know, our construction costs include prevailing wages.

The local government entitlement process, impact and permit fees, and design standards all add significant costs to projects. Our developers have seen impact fees as high at $35,000 per unit at infill locations because cities are trying to build expensive parks and transportation improvements with the fees. These issues are all worthy of further review and analysis, and we appreciate the opportunity to provide testimony and to participate in the new cost study.

Thank you.

CHAIRPERSON LOCKYER: Thank you.

Probably come on up, whoever is next.

I don't think we need to be persuaded that doing some discipline study is a good idea. It seems to be that everyone agrees to that, so sort of scope and discipline -- it's contemplated that there will be folks representing all the -- not just the agencies involved but the general public and private sector that's interested in these issues will be assisting in making sure that it's a correctly designed and worthwhile effort. So expect that in terms of some follow-up.

Please, go ahead.

MR. ALVIDREZ: Thank you, Mr. Chairperson, members of the committee. My name is Mike Alvidrez. I'm the executive director of Skid Row Housing Trust. We own, operate, develop, own, and operate 1500 units, all of which have been assisted through the tax credit program, a total of 23 projects.

In my almost -- not almost, more than 20 years of experience, much of which was spent on the operation side, I learned a tremendous lesson and that is the lesson of value. Many years ago, when we started the Skid Row Housing Trust, we intentionally selected durable materials that would last a long time. Case in point, our units are furnished. Rather than select particle board, we selected hardwood. And in those buildings, and including those that have exited the 15-year tax revenue compliance period, which we have about 12 or 13, that is still there. Those furniture pieces and other items of similar choice that were made for durability and value are still in those buildings, serving the population that the tax credit program intends to serve.

So I think what's missing from the conversation -- I think I have lost count about how many times you have heard about cost. We have heard very little about value. Many of the speakers have intimated the value that the housing has on the community, on the beneficiaries of the people who live in the building. And I think that's an important element to include in the conversation, that if we look at cost alone, we're missing the larger issue, which is value. Value is a long-term concept. So the buildings that we operate today are even more valuable than they were when we first developed them. Let me tell you why. I know that's counterintuitive.

As we mentioned by the gentleman from Santa Monica, we are targeting more vulnerable people who live in our community, who are out on the streets, who raise the crisis cost of our other systems of care, primarily through the county, but also through the private sector, in terms of the impact on business and private sector hospitals. We are specifically targeting the most vulnerable people who drive up those crisis costs the highest. Case in point, a study was done a couple of years ago by a group called L.A. Economic Round Table. It was called "Where We Sleep." And it found that the tenth decile, the people with the most disabling conditions, cost the county -- not even the city, not private sector -- $8,500 a month. If we get them into our housing, those crisis costs are reduced.

So the buildings that were built 18, 19, 20 years ago with tax credit assistance are no more -- now, today, more valuable than they were when we first constructed them. Sounds ironic, but it's true. I can give you the citation if you need.

One minute? I can talk a little bit longer.

So my point is that I think we have to assess costs not just in the development phase, but long term. What is the value that this building brings to the community that it serves? And that value can accrue over 5, 10, 15, 20. How long is the regulatory -- Bill? 55 years. Yeah. Hopefully we build to quality and not simply to cost. We build for durability. We take seriously that long-term compact that we have with both

TCAC and our public agency funders and we build a high quality project at the lowest cost that we could afford to build.

Thank you.

EXECUTIVE DIRECTOR PAVÃO: So Paul has elected not to speak, so we will move on to Sara Lets [phonetical]. And after Sara, Rich Gross [phonetical], Erin Montgomery [phonetical], and Jeff Brown [phonetical].

MS. LETS: My name is Sara Lets. I'm the executive director of Community Corporation of Santa Monica. And prior to taking this job about six months ago, I was with Fannie Mae for 11 years, and during the period of time when we were the -- we grew to be the largest investor in the low-income housing tax credit program, so that was the team that I have worked on. So I have some perspective on the investors' perspective on this cost issue.

But I'm going to focus on my new role working for a nonprofit housing developer. We really do need to emphasize the point that Janet made about looking at per bedroom costs and also per square foot costs. I think maybe we have done a better job of containing costs than we've acknowledged so far. There's the housing cost factor data sheet of the 326 projects that have received tax credits over the last five years. And so for the first three years, costs were increasing -- when you look at per square foot costs, costs were increasing at 7, 9, and 10 percent each year, but for the last two years, costs have gone down 3 percent and 4 percent. So we may be doing a better job of containing costs than we acknowledge.

And then also, Alice raised the point that new costs are being reflected in the total development cost. So actually, it could be even better than that.

So I think that as you mentioned, Chairman, we need to -- we are going to do this study, but we really do need to look at per square foot and per bedroom costs as well.

And then a point that Bill Witte made -- I wanted to reinforce that the importance of looking at the differential between tax credit rents and market rents -- when I was on the investors side, this was a very, very important consideration as we were making the decision whether to invest or not invest. And I also think that because we do have this 55-year obligation to provide affordable housing, we want a high degree of certainty that the tax credit rents are going to stay below market rents.

So thank you.

CHAIRPERSON LOCKYER: Thank you.

Rich.

MR. GROSS: Thank you. My name is Rich Gross. I'm the vice president and market leader for Enterprise Community Partners. We are one of the leading providers of capital and expertise in housing, affordable housing, community development in the United States. We spent 30 years developing partnerships with financial institutions, nonprofit and for-profit developers, and local and state government.

We invested -- raised and invested over $11 billion in the tax credit program throughout the country, over $1 billion in California alone and, in fact, over a hundred million dollars this year. We expect to invest over a hundred million dollars this year.

CHAIRPERSON LOCKYER: Thank you, by the way.

MR. GROSS: We are strong supporters of the tax credit program.

Because of our large, large portfolio that we manage, we are very strongly supportive of efficient production of keeping costs in line, and we recognize that the economic crisis today makes that even more important. And we appreciate this hearing as an early step in analyzing those costs. But we also feel strongly that we should not be basing important housing policies on poorly researched anecdotal evidence. We at Enterprise know that affordable housing is not and should not be cheap. We know that various things make it expensive. We know that there are environmental regulations. We know that there are funding of quality human services, energy efficiency, and access to jobs and transportation; all of those make it more expensive to build quality, affordable housing.

We also know at Enterprise that lower development costs does not mean lower public costs over the long term. An example of that is, we have led the nation in sustainable development through our Green Communities Initiative. In Seattle, for instance, we have a program called Breathe Easy, Breathe Easy Homes. And for an up-front cost of $5,000 to reduce -- in order to reduce child asthma and respiratory illnesses, we found a 65 percent increase in symptom-free days for children and a 66 percent reduction in emergency room visits. We think those costs are well worth it.

I think it also shows it's really important that this committee --

CHAIRPERSON LOCKYER: What did you spend? What's the 5,000?

MR. GROSS: 5,000 per unit in -- most of those are small improvements in floors, in paints.

CHAIRPERSON LOCKYER: So it's materials essentially?

MR. GROSS: Mostly materials. A little bit of architectural work. I'm happy to give the details of that program to this committee.

CHAIRPERSON LOCKYER: Thank you.

MR. GROSS: I think it shows that you need to look very carefully at the long-term costs and the public benefits of additional costs and affordable housing. So we applaud your pulse of the study, to study this issue, and we also would like to offer our large portfolio, the information in that portfolio, to the people doing the study.

Thank you.

CHAIRPERSON LOCKYER: Thank you. Erin.

MS. MONTGOMERY: Hi. My name is Erin Audrey Montgomery and I am pleased to be here representing Chelsea Investment Corporation. We're a affordable housing developer based in San Diego.

We developed over 6,300 units in the last 20 years throughout the state: 4,600 were urban; 1,700 were rural, including farm worker; and a thousand special needs community units, including 700 homeless and transitional units and a hundred units for the developmentally disabled. We do projects of all sizes of over 400 and as small as 6, much to Bill's chagrin.

We believe costs have increased by a number of reasons, but they have definitely increased as competition for tax credits increased, especially the effect of the tiebreaker rules. We believe that the simple example of how the tiebreaker works can show this: Your project receives 6 million of local subsidy for a $10 million project. You effectively have about a 60 percent tiebreaker. You increase your subsidy by another $2 million. You increase your costs by another $2 million. You get up to about 67 percent. And I understand there's some cost deficiency factors in that second ratio that bring it down. But overall, if you keep increasing your subsidy and your project costs, you get to higher tiebreakers and you win. Most likely, you have not changed your site, you have not increased your density. So you have the same number of units.

A real world example of one of our 9 percent projects in San Diego. Received $17 million in local money. We built 92 units. That's approximately $180,000 per unit. That's pretty typical of San Diego, 9 percent subsidy level. At the same time, we're building another project in Chula Vista in San Diego

County in an urban area. It's 143 units using the 4 percent program. We have about $7 million of subsidy in that project. It does not meet the 9 percent amenity points requirements. That project is the second phase of a project with over a thousand families on the wait list. There are three-bedroom townhouses with attached garages.

We recognize that it's an imperfect comparison between the two projects because the 9 percent project has deeper rent targeting, a more expensive construction method, and is intended to be a catalyst to a jump-start redevelopment in a certain area.

However, the point does remain that 17 million subsidy could finance 400 units, instead of 92, if TCAC regulations encourage communities to subsidize cost efficient projects rather than piling subsidy into 9 percent projects that have other laudable public policy goals. It is a cost-benefit analysis and it should be looked at between unit production and other public policy goals.

We don't feel a raise to the bottom will happen. We've got investors, we have lenders, we have cities. Most importantly, we have to rent the units to people that pay hard-earned money for that rent. We're not going to build an unmaintainable, unrentable project. We believe that the regulations should include one or two cost efficiency measures. Most important, we think the tiebreaker should encourage cost efficiency. You could recommend a competition eliminating the 5 to 10 percent least cost-efficient in each production category, make them resubmit the next round. You could create a cost-efficient mini set aside [verbatim], which rewards for the most cost-efficient project within certain geographic areas or certain housing types. Maybe family projects should be more cost-efficient than special needs projects.

Each suggestion clearly needs further refinements, but both can be implemented quickly on a trial basis. We believe it should be embraced by all 10 percent cost efficiencies, should be attractive, and should meet the demand, which we all know is in much great access of our ability to produce these units.

And Jim Schmidt [phonetical] really wants me to mention that he really believes the threat to the low income housing tax credit project in Congress is very real. The President and Congress share the goal of deficit reduction. If the tax credit program can not demonstrate producing housing as efficiently as possible, then Congress will kill the tax credit in the interest of deficit reduction.

Thank you very much for your work in this area, and we look forward to seeing your results.

EXECUTIVE DIRECTOR PAVÃO: Next speaker is Jeff Brown. And then following Jeff is Anne Wilson [phonetical] and Seamus Fuller [phonetical].

MR. BROWN: My name is Jeff Brown. I'm president of U.S.A. Properties Fund. We're a for-profit affordable housing developer in California. We have approximately 9,000 units, 64 projects all over the state. That includes new construction, acq/rehab and we also manage projects. And we've done podium projects, two-story walk-up, acq/rehab, so I think we have a fairly good sample of the state.

We have been involved with the tax credit program for -- since almost the very beginning. 1989 was our first project. In the early days of the program, there were some cost containment provisions. And in interest only, I think it was very successful and that was even prior to when we had geographic apportionment. One of the two of the criticisms we've heard over the years on cost containment is, A, Fresno can't compete with San Francisco. Totally a legitimate argument, but now we have geographic apportionment, so that argument pretty much goes away.

The second criticism is -- and we've heard it in earlier testimony today, is we're going to build inferior projects. I just don't buy that. Arguably, because of the requirement that we have to have these projects for 15 years, we're almost held to a higher standard, certainly on an acq/rehab deal, and arguably under new construction, than a market rate deal. And that doesn't go into all the neighborhood requirements that you have already heard today or some of the public policy goals the Tax Credit Committee has.

One of the things that -- and again, it's been said by a prior speaker. At the risk of echoing her -- because I wasn't wanting to do that because you wanted fresh information. But when you get to the tiebreaker, you have accomplished most of your public policy objectives by getting to the tiebreaker.

I think we do need to look at site amenities. I do think we need that. Because we all agree in this room that there's need. I mean, that's one of the silver linings. We're hearing a lot of negative here today, but one of the silver linings is, we're creating jobs in a real estate asset class that are very few jobs being created right now, because if you are building an industrial building, office building, a retail building, there's no need for it. We fortunately have need for what we're doing.

And what we need to really try to do is make sure the programs stay in place so we can continue to meet that need. And what I worry -- Bill showed up in that chart, 780 -- $7.8 million per deal is the average subsidy. Is that sustainable? I question whether it's sustainable. And we need to -- I share the worry that both the state and federal government are just going to chop us on our knees, and nobody in this room wants that. I guarantee you that. None of us want that.

The other thing I want to say is I think there needs to be, as part of solutions -- again, the green energy, we've denied green energy. We believe in it, but I do think that needs to be looked at as a cost in addition to the site amenities. Clearly, the tiebreaker if you award credits per bedroom -- you can do it a bunch of ways, and I would love to participate in that project -- process. I mean, the task force that Pat Sabelhaus gave you the report, he -- I believe we had 15 unit -- 15 points as a cost efficiency category. So there's a lot of different ways you can deal with the issue, but I don't believe you are going to have inferior projects as a result of that.

One thing I think we need to do is more of an equilibrium between bond deals and 9 percent, because for every $4 of bond cost addition, you only get $3.

You have to pay for it. A tax credit is only going to pay for a dollar. And I know we've allocated a lot of state credits now toward the bond deals, which we're very grateful for, but just earmarking them all for the DDAs would be a step in that direction. Excuse me, non-DDA deals, because DDAs get the 130.

Finally, we have an example, too, of a project that we looked at that we applied, did not get 9 percent funding. We looked at applying for HOME funds and the costs would have gone up $3 million -- similar to an example Erin showed on one of her deals -- and the subsidy would have gone up $5 million. So our tiebreaker was going to go from, like, 20 to 50 percent in a deal that we didn't really need the money.

So I think that's not the best use of public money and that's the kind of thing I think we really need to address. And if we don't, I think we do have a worry on the sustainability of the program.

Thank you for your time.

CHAIRPERSON LOCKYER: Thank you.

EXECUTIVE DIRECTOR PAVÃO: Anne?

MS. WILSON: Thank you, members of the committee.

My name is Anne Wilson and I'm a senior vice president of Real Estate Development and Community

Housing Works, and this doesn't go up very high, for Seamus and I.

We are a nonprofit developer based in San Diego County. We provide both home ownership services, loans, and education and getting people into single-family as well as we develop new and rehab multifamily housing. We've done about 1,600 units throughout San Diego County.

I believe costs are a problem, but I think they are just not a problem for affordable housing developers. They are a problem for all developers in California. And I think if we really put out there what it costs regular developers to develop housing in California in the newspaper, it would shock a lot of people.

And I don't have an answer for why between 2003 and today the cost of developing a complex wood over structured parking project for me has increased about 75 percent. But I can give you a little example of why. I want to make some things real. I've kind of abandoned repeating things. I did a project in 2003 that was 56 units, new construction, and my erosion control budget was $25,000. We started construction and many people remember when SWIPP, the storm water prevention program, control program, came into effect in the middle of construction, in the middle of grading, and changed the rules on me. My budget went up to $125,000. This is for merely erosion control. That was 25 percent of my entire contingency for the project. If you were to do that same budget today, it would at least be double that amount, and that's for affordable or market rate.

Californians like our environment clean, but there is a very, very big price to pay for some of the things that we make. And we make those choices in many, many places, in code, and in various agencies. So the things that drive costs up are real and they are real across the board.

As Bill Witte said, costs are high -- it's high to build and higher for affordable housing but for good reasons. But I think Pat Sabelhaus pointed out that the public looks at all the public money that goes into a project, and we can't keep parsing that I only put in $10 and they put in $10 and they put in $10 so it only costs $10. I think we have a real communication problem and a real public perception problem that is going to threaten the tax credit.

I think measures need to be done to continue to change the QAP so that it encourages cost containment. So I'm going to give you one more story to make it real. Had the path from going from a 9 percent to a 4 percent on a recent project. Florida Street is an 83-unit rental home, a new construction project. It's dense at 83 unit, dwelling units, an acre. It's transit-oriented development, fulfills all of our goals. And we were able to get 1.3 parking spaces per unit to get very efficient parking on one floor, so our costs are really contained and very efficient. In fact, a recent KMA study said our costs are very equivalent to market rate costs.

We applied three times for the 9 percent. Each time, projects that were much more costly and had much more public money won out over us. We were lucky that we received support from the public sector to increase their contribution by approximately $30,000 a unit -- that was not a nice public hearing -- in order to compete and go to the 4 percent. We started construction on August 1st with a 4 percent. We put a $16 million GC contract out that is jobs and stimulus into the economy. A million dollars in architecture and engineering probably kept our architecture firm alive in the last two years, because we actually paid our bills in advance.

But what we had to do is we had to give up a lot of affordability. All of our units, many units, are at 60 percent as possible. We gave up all of our 30 and

40 percent units. We really regret that and we think that is a loss of public policy.

We also waited around for two years to compete in the 9 percent and do this. So I think some changes in the QAP recently have begun to reward more efficient and more cost containment. I think we need to keep going in that direction.

And I also think that I would encourage the committee to set up a task force to both look at costs and to look at how SB 375 is going to impact those costs, because our move towards transit-oriented, urban development, which we've decided is good for the climate, has huge cost implications. And our costs are probably not going to get lower. They are probably going to get higher.

Rental market is coming back. Institutional investors are picking up land in San Diego. The BIA meeting of apartment owners recently announced an 8 to 20 percent increase in rents are anticipated this year. I think we're going to only benefit from these lower costs that we've been really happy with if we put out our construction contracts for a very short period of time before the market also is not friendly to us. So I encourage you to move forward and to really look at that nexus of SB 375 goals as well.

Thank you.

MR. FULLER: Good afternoon. My name is Seamus Fuller. I'm the executive director of Housing California. We're a statewide coalition of affordable housing developers, homeless service providers.

I'm going to be very brief. One thing in particular, I want to make sure that you get your measurement right about what cost efficiency is. For me, it's the public benefit they receive for every public dollar invested. And that's the real indicator of efficiency for me. But there's a real difference between building a hundred units at 60 percent of AMI in an area where you are competing with the market, and building 100 units at 30 percent of AMI, where the market rates are $2,000, on average per unit.

It's a real difference in what the public benefit is and what we see it. And the real importance of providing housing to those people in our communities that are the most vulnerable.

I also think that there have been a number of speakers who have conflated the discussion about efficiencies with a discussion about who gets tax credits and where those tax credits go. And I really encourage you to split those discussions out. Both of those things are your responsibility, but they shouldn't be conflated in any way. You should pay attention to what efficiency is versus what's about -- who wins out in the tax credit process, and those things are connected but they are not the same thing.

And that I think you all need -- what everybody else has said, you need the data. It's out there. It can be produced. And I have real, you know, faith that your staff will provide you good data to make a good decision.

CHAIRPERSON LOCKYER: Thank you.

EXECUTIVE DIRECTOR PAVÃO: After Arjun will be Susan Tinsky [phonetical], Andrea Papostacio [phonetical], and Nea Mia [phonetical].

MR. NAGARKATTI: Mr. Chairman, members of the committee, my name is Arjun Nagarkatti, president of AMCAL. By way of introduction, AMCAL has been participating in the 9 percent program since '97. That's when we received our very first allocation.

Most recently, AMCAL has been the recipient of three awards in the first round -- one in L.A. County, Orange County, and one in Alameda County. And so we've done work in several parts of the state and we do product, both two-story garden walk-up, infill, and, you know, various construction types.

TCAC is -- what we are here for is, the program really works very well for us today, but in spite of that, I think that there needs to be a change and there need to be a change in the tiebreaker because the way we have it right now, I understand the intent of the tiebreaker is really to leverage tiebreakers with soft funding. But inadvertently, what has happened is, we are in a situation where we are favoring projects, having more soft funding, and less to cost efficiency, and there should be some balance between the two.

Just -- I mean, looking at the three projects that we have, two of them are actually 32-unit projects, inefficient from the standpoint of cost while the one in L.A. County is 99 units. And the 99-unit project brings a lot more value to the program. It's the 32-unit that really fared high up in that category because the tiebreakers were, you know, a lot higher. And I don't think that should be. We should try to produce as many units as possible for the least amount of, you know, tax credits used.

So basically, in closing, I just want to add that something that we look at as a tiebreaker, any type of tiebreaker that possibly looks at a combination of maybe credits per unit, credits per square footage or, you know, credits for bedroom, maybe a combination, so it doesn't benefit one, you know, housing type or the other. And so it's fair from that standpoint.

This will allow more projects, more units, to be funded, and it will also allow -- I mean, if you look at it from that standpoint, let's look at what TCAC's goal is to kind of get the maximum bank for the tax credit. Let's not create a system of either curbing costs, you know, naturally across the board or by encouraging costs -- encouraging self-funds, but let's look at the goal of seeing, you know, how far a tax credit goes. And I think that's what we need to really look at and maybe that basically gets done.

This can also help cities that basically are expensive cities because in expensive cities, they could basically fund, you know, more expensive architectural standards or, because of the geographic location, they could be more expensive. They could be funding that through their own soft funds because they are typically rich in soft funds, having pretty healthy redevelopment agencies.

Well, thank you for the opportunity to talk.

CHAIRPERSON LOCKYER: Thank you.

MS. TINSKY: Good afternoon. I'm Susan Tinsky. I'm the executive director of the San Diego Housing Federation.

In the interest of time, I will not read all my chicken scratch to you, but I will say that we absolutely applaud the efforts of the various housing agencies to undertake a new cost study of affordable housing -- whether real or perceived, the assertion that affordable housing is unnecessarily expensive, undermines public and political support for these critical programs. This is particularly true in today's dire economic times and divisive partisan politics.

Our hope is that the cost study will assist the industry in better understanding and better communicating the differences between market rate housing by attempting to compare apples to apples, and to articulate the benefits of any associated -- any cost associated with achieving the ancillary public policy goals as balanced with the goal of producing as many units for those in need as possible.

We believe that the 1993 study, cost study, serves as a strong foundation, a good starting point for integrating and updating for today's costs and adding -- I think one of the speakers, Janet Falk, mentioned some new costs that should be factored in. We hope that there will be some sort of task force with representatives, stakeholders, from around the state. Certainly the federation would like to have some of our members participate. And really, to provide input on what those new factors are.

So I appreciate your time. And thank you.

CHAIRPERSON LOCKYER: Thank you.

MS. POMPOSTACIO: Good afternoon. I'm Andrea Pompostacio, [phonetical] director of real estate development for Eden Housing. Eden Housing is an employee-integrated nonprofit development company. We have been building, managing, and providing services to affordable housing communities in the greater Bay Area, in some of the highest cost environments in the state for the past 43 years.

Our goal: We develop and manage high quality, well-managed service-enhanced housing and that in a way that also maximizes cost efficiency to the greatest extent possible. There are a number of factors that lead to higher development costs, and while many of these features may be unavoidable, it boosts to continually evaluate our system in the model in which we operate, in order to keep those costs down as much as possible, in order to protect scarce public resources.

As we evaluate construction costs and development costs across the area, there's a few things that are pretty obvious: Location matters. Land costs are higher in high cost areas. When we look at transit-oriented design, infill, mid-rise and high-rise construction, they do cost more. But there are enough benefits that accrue from these developments that make a difference. Getting school-aged kids, low-income kids, into some of the best school districts in the state, there's a benefit there. It's almost incalculable to measure what it means to get -- to provide that level of advantage across our portfolio and for these individual families.

I actually don't want to repeat everything that everybody else has said in this. I think what we all know is that we have to study these costs. We have to look at where things are, and I think the biggest thing that I want to say is that we want to look at an approach that isn't just a one-size-fits-all. We have to look at location, by region, by what the product type is. If you are looking at higher density, structure parking, what have you, next to garden-style apartments, there is a difference there, and you want to make sure that you are looking at apples and apples. And so the costs are comparable within the region, within historical features, and within the product type.

Because it might well be possible, if you took a hard cap and said, okay, well, nothing over $450,000 a unit. You could build something in Fresno at $350,000 a unit that would be just as inefficient relative to its peers as it would be if you were taking a high density project in San Francisco or, you know, somewhere on a transit corridor that costs the same might actually be extraordinarily more efficient relative to what it should be.

And so when you are looking at the cost study -- and I really do think -- it's been, you know, almost 20 years -- it's time to really take a hard look at this. Get all the data in there. We're all happy to help. A number of the nonprofits' developers, actually, do pool our construction cost information now. We might be able to share some of that as well, along with what the committee is doing. But really come up with a system that looks at comparing apples and apples when you are looking at a system that measures cost efficiency, against region, against product type, and where that should be, so that all of the projects are sort of measured relative to each other; the lower cost projects are measured in the same way that the higher cost projects are.

And then there's probably also a way of reducing that as well and just making everybody justify themselves, in a similar way to what HCD does now with Loan and Grant Committee, but perhaps a more refined approach.

So thank you very much.

CHAIRPERSON LOCKYER: Thank you.

EXECUTIVE DIRECTOR PAVÃO: Nea Mia. And then after Nea Mia will be Matt Steinly [phonetical], Doug Schumaker [phonetical], and Doug Pingle [phonetical].

MR. MIA: Thank you for the opportunity. I'm Nea Mia. I'm principal of the Betting Field Group [phonetical]. By way of introduction, I advise the multifamily and, particularly, afford housing community on energy efficiency, and I've worked with virtually every firm in the room here in one way or another.

Further introduction: I developed the first multifamily new construction utility program back in 1999. I developed an energy efficiency-based utility allowance structure that over 2,000 housing authorities adopted. I designed and led the team that developed the California Utility Allowance Calculator and I developed -- I developed the idea for the virtual net metering for solar and multifamily. Worked with the Public Utilities Commission on that.

The primary thing that I want to say is when you are -- in the study that you are going to do, when you look at the cost of energy efficiency -- and I don't think you are going to find anybody that will deny that there are increased costs for energy efficiency in green measures -- please look at it very critically. When I take a look at other studies that have been done by PG&E, by Enterprise, by Sensory Construction, by the HERCC, the Home Energy Retrofit Coordinating Committee, the cost within each of those studies on the incremental cost for energy efficiency varies dramatically and varies dramatically across the states.

And I can tell you from having helped people for a long time and approaching this, if you get started early and you look at the costs early, it is quite possible there is zero cost. In fact, there may be a negative cost to adopting energy efficiency that will get you 15, 20, 25 percent better than the standards.

The other issue that I wanted to hit on is that the costs are less than half of the equation. The benefits and the value is much, much greater than the costs. And we tend to think of the cost as just the upfront piece, but when you look at the benefits, please understand that people that are in affordable housing, on average, pay 20 to 25 percent of their monthly income for utilities. And by and large, most of us pay less than 4 percent of our monthly income.

So when there's a spike, whether it's from weather or whether it's from rate increases from the utilities, it hits those people a lot harder. And energy efficiency is much more important in that -- in that arena.

Some other people touched on health issues. There are studies showing that there are fewer sick days. There's greater comfort. There are benefits to the property owners in terms of being able to have greater rent security. Energy utility costs are the second highest costs to maintaining the home. It's also the second leading reason for homelessness, people not being able to pay their utility bills.

So I have reams of data. I have about two hours' worth of stuff. I could stand up here and say it. I know you don't have the time for it. I don't have the time for it. I'm happy to participate in the advisory committee if you want or to give you whatever information that I have.

Thank you.

CHAIRPERSON LOCKYER: Before you start, I just need to excuse myself, but I wanted to express my appreciation to everyone who's had a chance to talk. I have a 1:30 meeting with folks in the Attorney General's Office to talk about whether or not they should litigate foreclosure and loan servicing issues, somewhat related, but it's one I can't be late for. So I apologize for leaving. And thank you, everyone, for your participation.

MR. STEINLY: Good afternoon. Matt Steinly, vice president of EH Housing. I had a wonderful three-minute presentation, most of which has been already said by others, so I'm going to spare you hearing all of this stuff said a second time. Many of the points were made by Bill Witte, interestingly to me, Matt Franklin, Janet, and others.

But there is one central point that I think needs to be focused in on right now, that hasn't maybe gotten quite enough attention that's at the heart of your concerns. Within the context of the public focuses that you award in your scoring system, is there some artificial incentive for developers who are going through the entitlement and the design process now to have higher construction costs and are not wiser in the case. I'm going to tell you, it ain't there. Forget about it.

There was a period in the history of this program -- and I have been developing housing since its very inception -- where people could be relatively relaxed and injudicious with respect to their deployment of resources. Those days are gone. I, as a developer, have never felt myself be under more pressure to limit design, excess, any costs and construction costs. There is a brutal way in which this business now has to be conducted if you feel you are going to be able to get to the end zone, if you feel you have any chance of having a project after you put in all of those years of effort. That's the new normal. And so in part, what I think you are doing is, respectfully, tilting at windmills. This was yesterday's battle.

And I do believe that everything that people are talking about, about the need to control costs still exists. And I do believe, as we said in our letter, it should take the form of limits on credit per unit, not costs per unit. Because I think you need to be judicious stewards of more resources and not seek to make it impossible for people to develop affordable housing in those communities where they have a fair share obligation to do so.

That said, however, if you are interested in influencing developer behavior, don't worry about it. We are under incredible pressure right now to keep our costs as low as we possibly can, to contest design requirements that are being imposed on us by local government, etc. It's just not the way it was ten years ago. And I just want to assure you of that fact.

If I'm wrong about this, we're missing everything at EH, because that's how we're behaving these days.

Thank you for your time.

EXECUTIVE DIRECTOR PAVÃO: Thanks, Matt.

Doug Schumaker.

MR. SCHUMAKER: Good afternoon. Thanks for the opportunity to speak. I'm going to try to be as redundant as I possibly can. (Laughter)

I'm here as president of Mercy Housing California. You know, I think, like others, I just want to state that the QAP and the tax credit program has been unbelievably effective. I think we've solved crop diversity, world peace, and an untold number of other world programs with our program. So I want to thank the committee for that.

I just -- I just want to say a couple of things. One is, I think it really is important that you are stepping in to control costs. I think the notion that it is not your role is wrong. I think it's incredibly important that you play the role, both for the policy reasons that we all understand, which is, we need to create a lot more housing than we're creating, and for the political reasons that have been described.

I don't want to belabor the cost study thing, but I do want to just say a couple things about the way our programs interact that I think maybe are not unbelievably obvious to everyone, which is that as you look at the tax credit program, you really need to be looking at the way it interacts with every other form of finance and development decision that we make. That means HCD HOME program allocations, the way in which the MHP program is funded, the roles of redevelopment agencies, and the interaction between those things, because I think if you were to really poll the room, you would really -- what we would all agree on is that we are creating smaller projects and less efficient projects in the market for some reasons that are policy-driven and some reasons that are not particularly well-thought out. They relate to credit availability, credit limits, developer fees, per project subsidy limits, in all sorts of different programs. And they drive us to certain outcomes and whether those outcomes are great, like we probably don't want 150-unit in a really small town, in a rural community. But we might want that development in San Francisco. And I don't think our program really leads us to those outcomes.

And I think we are not acknowledging the interaction between these programs if we just do a tax credit allocation-focused study. So I think we need to bring in all the groups, all the different funders involved.

I think the other thing that's clear, and I think Alice probably said it best, but I think it's a good point, which is that the tax credit policy system probably better reflects our need to address negative externalities on the environment than anything else that we've got. And so if you have got a program that is loading up for energy efficiency or you have got, in the case of the Bay Area, RNPO, the Metropolitan Transportation Commission, is subsidizing land costs because it matters for vehicle miles traveled. That shows up as a more expensive project. But you know what? It's actually accomplishing three or four different outcomes. We call that all housing costs, and it creates a huge political problem for us.

Now, whether that's a framing issue or a policy issue, I don't know. But it is a reality of the system, that we are trying to accomplish lots of different things, the state has a lot of different goals, and, you know, there may be other ways to frame it or fund it that are more appropriate.

And as an example, I think for years, we have had a totally disconnected energy efficiency funding program and a housing program. Why aren't the CPUC and other programs literally just handing the money over to the Tax Credit Allocation Committee at the time of the allocation and saying, throw $10,000 in tax -- in energy efficiency products at this, because that's actually a more efficient distribution system than the crazy utility-driven project that we have.

And then the last thing I want to say, I spend a lot of time going back and forth to D.C. I was previously the director of the mayor's office of housing in San Francisco. I was asked two questions when I was back there. One is absolutely about cost and that's the reason we should do it. And the other is about need, and I think that's incredibly important that we not forget this in this time period. They want to know, when they can see 40 percent REO in Stockton, why we would build a tax credit project in Stockton. And they want to know why you would build a tax credit project that is 10 percent below market rate rent when you could build something that's 50 percent below market rate rent in a different environment. And that is the public policy that we should be driving at just as much as cost.

So thank you.

EXECUTIVE DIRECTOR PAVÃO: And after the next speaker is Dan Calamuchi [phonetical], Joan Macnamara [phonetical], and Kate Hartley [phonetical].

MR. PINGLE: My name is Doug Pingle. I work for Self-Help Enterprises. We're a nonprofit housing development in the San Joaquin Valley. We partner with every city and county in that area.

I'm only going to make one point, and that is that we are an organization that has been in the valley for 46 years. We're long-term. We're going to stay there a long time. We are concerned with long-term sustainability and rents that are very affordable. We have very limited amount of soft money, usually through the HOME program. It is absolutely critical. Cost is important. We want to be involved in every element of reducing costs, but I've been involved in housing development in multifamily rural America for a long time. And cost, when it is only a factor, results in product that is not sustainable, either in production, quality or operation, and there always has to be that balance. Thank you.

EXECUTIVE DIRECTOR PAVÃO: Dan?

MR. CALAMUCHI: Thank you. Good afternoon. My name is Dan Calamuchi. I'm a researcher with the Northern California Carpenters Regional Council.

On behalf of our membership, the Carpenters Union of Northern California, we really appreciate the opportunity to comment on this important issue of cost associated with developing affordable housing.

Let me first make clear that the carpenters wish to work as collaborative partners with developers, with local and state agencies and governments, with advocates and any who seek to construct high quality responsibly constructed affordable housing projects. We know that many communities face pressing needs to construct housing that will serve the entire community, and we will support efforts that fill that need and put our membership to work.

With all that said, I want to just briefly talk about prevailing wage. It's come up a lot. It's kind of been put out there and almost accepted as a driver of higher costs. And we would disagree with that. The overwhelming body of research conducted regarding prevailing wage shows that prevailing wage has no -- little to no impact on overall project costs, and, in fact, can lower the costs of projects by contributing to increased productivity, a higher quality workforce, and a safer job site. In addition, prevailing wage language includes support for apprenticeship training funds, helping to build and support middle class jobs for future generations.

Prevailing wage requirements on affordable housing projects allows for construction of high quality, much needed developments, while at the same time, it offers construction workers and their families a pathway out of the need for that very affordable subsidized housing. We see this as a win-win for the entire state.

So thank you again for the chance to address this issue. As you go forward with this study, you know, we realize there are a lot of myths and misunderstandings about prevailing wage that float around. It's been around for a long time. And we would be happy to work with you all and, you know, to clear up any of those.

And the Carpenters Union desire to be partners with all the stakeholders here as we move forward, and how to best develop housing for all of California and really embrace a high road development strategy that rejects a race to the bottom. Thank you.

EXECUTIVE DIRECTOR PAVÃO: Joan?

MS. MACNAMARA: Hello. Good afternoon, committee members and staff.

My name is Joan Macnamara, and I'm a senior project manager at the mayor's Office of Housing in San Francisco.

Our office, among other things, provide financing for the development, rehabilitation, and purchase of affordable homes in San Francisco. We also guide and coordinate the city's housing policy. We currently have a pipeline of over -- I'm sorry, a portfolio of over 9,000 units that have been developed with city, state, federal, and other resources, including tax credits.

Almost all of our projects are as a direct result of city-identified objectives and goals, whether it's building units for disabled folks, homeless families, homeless individuals, veterans, or general low income folks, the city's objectives address these populations specifically, which would not be served otherwise in the market.

We believe that the value and benefit of providing these affordable units is extremely important, especially when you consider that in the San Francisco city, a two-bedroom unit would run you anywhere from 2,500 to 4,000 dollars a unit per month. An affordable rent for a family at 50 percent AMI, which is approximately $50,000, would be $1,100 a month.

Of course, from these rents, you can see, all of our affordable units are oversubscribed. This is a dramatic difference in what could be provided to affordable households.

We are not interested in spending extra money on projects. However, we happen to live and work in a high cost area. This is a fact. There are many reasons for higher costs, including all of the reasons that have been previously stated, and I won't go into them again.

But in addition to that, there are additional public benefits that are derived from these units that we bring on. For instance, we have units that are supportive units that are attached to clinics that we have created. So that's a project in itself. We also have affordable units that are -- where we have created libraries that benefit the community. So these are additional benefits that we believe have a cost, as well as another unit, which is an adaptive reuse of a building that has been vacant for many years, which we are now adaptively rehabbing into housing, specifically for homeless veterans.

We believe that the public benefit and value derived from these type projects benefits everyone in our community. So for this reason, we are asking you to continue your study and to allow us to input any information that we can provide to you.

Thank you.

EXECUTIVE DIRECTOR PAVÃO: Kate. And then after Kate, the last three speakers are Joel Rubensal [phonetical], Eve Stewart [phonetical], and Stacy Allman [phonetical].

MS. HARTLEY: Good afternoon. I'm Kate Hartley. I'm a development specialist with the San Francisco Redevelopment Agency.

And I do fear that some of the infamous outliers that have been talked about today may be located in San Francisco. It is true that San Francisco is a very expensive place to build, but those reasons have been articulated. They are not mysterious, they are not arbitrary, and they are not going anywhere. The hot soil, the degree of difficulty on infill, at very, very expensive land costs. The fill conditions that often require complex and expensive structural systems are things that we have to deal with in all of our developments, and they are -- they must be paid for. They are expensive.

We are building housing that addresses an affordability crisis in San Francisco, as my colleague Joan mentioned. We address a real need. We are below market rents by at least 50 percent on every deal. We also have policies that do have additional costs but that address the needs in San Francisco even more thoroughly. For example, most every affordable rental development that we build requires 20 percent of the units to be reserved for chronically homeless individuals and families. We have to build auxiliary service space in those developments so that services can be provided so that these households achieve stabilized housing. Well, that costs money.

So when you consider costs, you must consider that in developments like these, there is a public benefit that serves the desires of the San Francisco constituency or the metropolitan constituency. San Franciscans have demanded from their public servants that we address the homeless problem. We are doing so. It may be more expensive to do that in our affordable housing developments, but there is a great value that we gain in other areas. For just one example, the reduced use of emergency services in our city, and that needs to be part of the calculus.

Thank you very much.

EXECUTIVE DIRECTOR PAVÃO: Joel.

MR. RUBENSAL: Good afternoon. Joel Rubensal, Community Economics. We've been involved in about 500 tax credit projects. We have pretty deep knowledge of how the program works and what it does.

I want to clarify and correct some -- a couple of statements that have been made, one about the tiebreaker and competition. The way the tiebreaker works, it encourages lower cost. The person who stood up here and said, if I've got $6 million and if I go to

$8 million and add costs, they have a higher tiebreaker. That's true. But if they had $8 million and reduced their credits, they would get an 80 percent tiebreaker, not a 67 percent tiebreaker.

So the program, the way that it's currently set up, encourages lower cost with the same amount of public funds. And if you get more public funds, you should keep your cost the same. You will get an even higher tiebreaker.

The second thing I want to talk about is what's going on at the federal level, which I follow very, very carefully. The tax credit program may be on the block, but it's not because of what the tax credit program does. It's because of the ideological position that some people have that they have -- that we have to cut the cost to federal government. And it really has nothing to do with what we do as an industry and who we serve. It's an ideological position and we may be on the chopping block, but I doubt very much that the program will go away over the next several years, because I don't think that's where the Republicans and the Democrats will agree to make cuts.

The second part of that political calculus is, the program is successful nationally because it is supported by every state. Every state makes decisions about how to use their money, and every state has terrific political support.

The same thing needs to be true in California. If we make cost a major component of our decision making, you are going to abandon the coastal region in favor of the inland region, and that will eliminate the political support for the program at the state.

So the way the program has been, you know, put together over the years is that everybody has a chance. Whether you are in Stockton or in Fresno or in San Francisco, you have a chance, because there's a geographic distribution. And within those geographic distributions, everybody has an opportunity. We need to keep that opportunity alive. We can't say to Santa Monica or San Francisco or Palo Alto, sorry, you're gone, we don't want you. That will undermine the political support that we have within the state.

I certainly support the idea of the cost study. I think it's a great idea, and I look forward to seeing what the cost study comes up with. But don't think of that as we're just going to go after cost.

The last thing I want to talk about is, I've been involved in about a hundred buyouts of tax credit projects of limited partners by sponsors, and I see what those sponsors have done with the program and how those rents are compared to the maximum rents that are allowed. Those sponsors who are mission driven and are keeping their projects and not selling them tend to have rents that are significantly below the tax credit maximum rents that are allowed. That's a great outcome.

And in addition, those projects are in good shape. I would say about 90 percent of them don't need to be refinanced, don't need to be resyndicated. They are doing just fine the way they are. That's a tribute to the quality that the developers brought to the table at the beginning -- when those projects were first built.

Don't do something that will lead us down the road the way rural development or HUD has, over history, limited the cost and limited the quality of the projects. We're going to pay for that in the long run. And I think we've done really well and I want to continue to do well in that regard.

So I look forward to the study and I appreciate your time.

EXECUTIVE DIRECTOR PAVÃO: Thank you.

Eve.

MS. STEWART: Hi. Thank you. I'm Eve Stewart. I'm the housing director with Affordable Housing Associates. We're a nonprofit provider and housing manager active in the Bay Area. We've created approximately a thousand units over our 20-year history.

I wanted to give a little context for the cost of providing SRO housing, and especially SRO housing for people with special needs and homeless families. In the Bay Area, SRO housing that comes through the tax credit program for funding typically involves the conversion of market rate rooming houses and low budget, no-star hotels, into permanent affordable housing. These buildings are located in our city centers. They are typically approaching a hundred years old and have often experienced decades of physical decline.

For example, my organization is currently in the process of rehabbing two hotels in downtown Oakland. When we took over the property, there was -- neither building had a functioning fire alarm or fire suppression system. These buildings were occupied with both monthly and transient guests. So if there had been a fire, most likely, dozens of people would have died. So these are some of the things that we're doing as part of our rehab scope, in addition to bringing up seismic standards and other mechanical systems in the building.

We are also adding in modern amenities. These buildings were created at a time when it was acceptable to share bathrooms and kitchen facilities. That no longer meets our modern housing standard and it would not be able to attract investment from the tax credit investment community. So we're adding in private kitchen and bath facilities. So I wanted to point that out. These are not simple renovations or cosmetic; they are quite substantial.

And I also look forward to the cost study, and I hope, as you are looking at special needs housing, if you have any questions about what's involved in that, you'll reach out to the community that provides it.

Thank you.

EXECUTIVE DIRECTOR PAVÃO: Thanks, Eve. And let's see. The final speaker is Stacy Allman. She was going to wrap it up.

MR. SABELHAUS: Bill, I know I don't look like Stacy, but Stacy said she had to catch a plane and asked me to, for the record, say that she wants to submit a letter with her comments to you directly.

Thank you.

EXECUTIVE DIRECTOR PAVÃO: Okay. I'm not sure who's wielding the gavel at this point. But that concludes the hearing.

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Thank you, everybody, for coming. This has been really, really helpful, and we captured it on the record. So thanks a million for coming.

(Proceedings adjourned at 1:41 p.m.)

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CERTIFICATE OF REPORTER

I, KATHRYN S. SWANK, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing public hearing was reported in shorthand by me, Kathryn S. Swank, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of September 2011.

Kathryn Swank

KATHRYN S. SWANK, CSR, RPR
Certified Shorthand Reporter
License No. 13061