California Debt Limit Allocation Committee

915 Capitol Mall, Conf Rm 587
Sacramento, CA 95814

December 6, 2021

Committee Meeting Minutes

1. Agenda Item: **Call to Order and Roll Call 9:00 am**

Voting Members:	Fiona Ma, CPA, State Treasurer Tony Sertich for Betty T. Yee, California State Controller Gayle Miller for Governor Gavin Newsom
Advisory Members:	Gustavo Velasquez for the Department of Housing and Community Development Tiena Johnson-Hall for the California Housing Finance Agency

This is a continuation of the November 29, 2021 committee meeting.

2. *This agenda item was discussed at the November 29, 2021 Committee Meeting*.

3. *Agenda Item: **Committee Discussion Regarding Tiebreaker** – Presented by Nancee Robles*
The committee had gone through a majority of the 2022 policy framework at the first portion of this meeting, which included the State Treasurer Office's, Administrations, and the State Controller Office's recommendations.
The Treasurer asked Caleb Roope from Pacific Companies and the Working Group to share some calculations the group had done. He stated they did some analysis of the rent savings. At a high level, as it is at 15 years is significant in the overall weight of the public benefit category. It creates two issues. The first is a strong incentive to deeply target all units as much as possible, which means getting soft money from a different source which creates higher cost projects, leading to lower production. The second is there are certain parts of the state that have a meaningful difference between fair market rents (FMR) and tax credit rents, as a result those areas will have an advantage, leading to those areas being targeted. It is not just the Bay area with high FMR, but also the Inland Empire. As a developer of the area, those areas will have an advantage in a system where rent savings are measured. Mr. Roope acknowledged it is a complicated formula with many "push and pull" opportunities. There are some issues that need to be worked out, with these two being the main ones identified.
The Treasurer specified the recalculation has been a discussion topic for about six months with the potential of unforeseen consequences. The last three years have been spent trying to put CDLAC and CTCAC under one ownership and there have been issues with emergency regulations, and may not be available for use since they will be complicated to write, and come with staff training and IT implementation, etc. The Treasurer would prefer the current formula be tweaked since the developers have repeatedly asked for consistency. Changing everything may cause confusion not only for staff, but developers as they manage their pipeline for next year. The Treasurer stated there

are talks about whether or not to have two or three application rounds in 2022, and if it would be possible for the first round to be under the current regulations with the second two under the new regulations. It may not go toward building in high-cost areas, ELI/VLI, new constructions, with the new rent savings category. She asked if it may be easier to tweak the system to accommodate parts of the state that are more costly to build.
Mr. Sertich stressed the need to get the regulations right, that this was put in to the 2020 regulations so there has been ample time to prepare for it. The priorities that were outlined were consistent with affordability and equity, developing high/highest opportunity areas, with transit being the driving force. He reiterated what Ms. Miller had been saying over the last several months about when there are 3-4 time more applications than bonds available, the committee needs to ensure those decisions are driving the policy and priorities of the committee. Additionally, the measurement needs to be as efficient as possible to drive the most public benefit as possible, since resources are limited. Mr. Sertich pointed out they are working to make bonds and tax credits more efficient, not taking into consideration outside funding sources. In an ideal world, all of those would be taken into consideration and be made more efficient. He believes it is important to make a decision soon before it is too late.
Ms. Miller agreed with Mr. Sertich. She reiterated the Administration remains committed to ELI/VLI, though understand all kinds of housing are important. She pointed out three levers. One is the equation and stated no one piece by itself does not make sense since there are ways to correct it. She expressed concern that not everyone has all the information. She urged the committee to not just look at rent savings, but also the other pieces to correct for it. She stressed the importance of a tiebreaker. The second lever is the pools, which is how to correct for the tiebreaker. She said there isn’t enough ELI/VLI and are trying to encourage it while maintaining a cost benefit. Lastly, the scoring system will be reviewed for overcorrections in a year, to make sure it is working the way the committee wants it to. The equation works together, and there needs to be a pool discussion to correct those issues, and all of the information needs to be posted on the website with the most current information.
Mr. Velasquez agreed with Ms. Miller, and stated he believes his purpose with the committee is to provide real-time data from what the housing market is experiencing, as well as emphasizing the Administration’s priorities. There was a report last week looking at incomes and levels of affordable units stating families earning 50% or less of the area median income (AMI) can only afford housing in 3/58 counties. If a family earns 30% of the AMI, no counties in California offer affordable housing. He encouraged the committee to look at the priories. There is a concern about the different costs of the regions. The issue is underproduction of deeply affordable units in the market. To prevent and control this issue, there has been a historic allocation from the governor and the president of $2.2 Billion for affordable housing. He urged the committee to look for ways to close the gap.
Ms. Johnson-Hall stated she wanted to spend more time going over the spreadsheet provided by Mr. Roope. She agreed with Mr. Velasquez and the need to focus on how many units can be provided each year. The total number of units produced each year, which has reduced significantly over the last few years. This may go down more depending upon what regulations are decided upon by the committee. All units across affordable housing need to be looked at, on all levels. If they can get people at the 50% range, there would be some added value. The committee needs to maintain balance and look at units across units of the affordable housing community. It’s important to not

have some parts of the state have a significant advantage so the needs of Californians throughout the state can be addressed.

Public Comment:
Doug Shoemaker with Mercy Housing and the working group wanted to clarify the working group has not had enough time to discuss the potential changes. He believes keeping the current system does not make sense. He pointed out everyone has a different definition of balance. He would treat units at $1000/month savings different than units at $300/month savings. The unit that is closer to transit is more important than one farther away. The ones that serve homeless is more important. Therefore, not all things are equal, so there needs to be a range. If the committee is concerned about an overcorrection, pools are the best bet to safeguard against it. When talking about cost and production, the committee is talking more about the prevailing wage around the state. He wanted to acknowledge the urban higher cost areas around the state put money in to deals driving the prevailing wage. It is nearly impossible to create homeless, ELI/VLI, 40% AMI, etc units without additional soft costs. As a developer who mostly deals in prevailing wage environments, Mr. Shoemaker expressed the state determined if developers use public funds, it triggers prevailing wage. The production number is driven by prevailing wage. If ELI and homeless populations are going to be served, soft money needs to be used. He said it was difficult to hear the committee wants to keep production levels as high as possible yet serve those populations since they are at odds. Prevailing wage tends to be the difference of the cost in those regions, making it difficult to achieve the income goals. He stated the committee wanted to talk about the fundamental drivers and pretend they can have it both ways but does not believe it works that way. He believes the pools should be used more profoundly.
Caleb Roope wanted to echo Mr. Shoemaker and add he values a rent savings of $1000/month over $300/month, however the question is how many units that’s worth. If that is the only comparison, that’s an easy choice. If the committee wants to continue down the path, the working group will continue doing what has been asked of them. He stated when he’s speaking, it’s more as a proprietor than a member of the working group. The working group was not going to take other agency’s funding into the equation. The initial equation the Controller’s Office came up with counted all the public benefit and the resources it took to create that benefit. Taking one thing away makes it start crumbling. There is still the local issue, where the state may become disadvantaged when they step in. If it is the committee’s goal to get projects through the HCD shoot, then it may be beneficial to create a pool for that. It could be similar to the homeless set aside where it wins first. Stakeholders tend to support systems that have balance across them. The committee wants to keep production high, create balance, address ELI/VLI which is critical, and not just create a system to drive down rents so the projects win no matter what category they’re in. There are different developers who don’t use this model but will be forced to in order to compete. He encouraged the committee to focus on the pools and set asides. If there is going to be a tiebreaker, he encouraged the committee not to remove the pillar of public benefit and what produces it. There are some adjustments that can be made with the denominator, cap rent savings, etc, but believes it is becoming a ship continuously sprouting leaks.
Mr. Sertich stated rent savings was one way to assess the value of a 50% AMI unit is and the value of a 30% AMI unit. What the state is putting in, should produce that much benefit, for example if the

states puts in a million dollars, there should be a million dollars' worth of public benefit. The committee has been discussing the length of rent savings, and stated he was pondering on the life span of those buildings. In some cases, it may be 30, some it may be 15, and depends on the building itself, and the financial resources of it. This is why 15-20 years of rent savings is reasonable, comparing it to the costs.

The Treasurer touched on deeper rent savings, where building owners may not be willing to put money into improvements, so asked if bonds would be allocated for rehabilitation projects. Without those rehabilitation funds, buildings quickly fall into disrepair.

Mr. Sertich acknowledged it is up to CTCAC and HCD staff to do asset management on these sites to make sure they are being kept up, and they have been doing a good job of it. He discussed placing requirements on these projects as a way to extend the life on the projects. Mr. Sertich stated there are at least 15 years [of public benefit] in these projects, and if it fails in that time period, there is something else wrong with the project.

The Treasurer reiterated there have not been many allocations to rehabilitation projects over the last several years, which may cause an issue further down the line.

Ms. Miller suggested the conversation move toward concluding some of these issues. She specified the equation, and timing are decisions that should be made now since developers will adapt and then the committee can come back to revisit to see if there was an overcorrection. She suggested discussing the "how and when" the tiebreaker will go in to affect.

Ms. Robles stated it would take effect when the regulations are drafted and go to the committee for approval. At that time, Staff can file an emergency regulation package with the Office of Administrative Law (OAL) and it would be approved in 5 days. The timing of this is dependent upon the January 19, 2022 meeting. Staff will propose to take all of the emergency regulation packets to OAL and turning them in to permanent regulations. These need to be put in place before the next emergency regulations can be put in place. Permanent packages can take up to 6 months to be approved by the OAL, which puts the timing at mid-year at best. Ms. Robles had proposed if the committee wanted three rounds next year, to make one small change to regulations. The regulations currently state before funds can be allocated; a tiebreaker needs to be altered. If that regulation is changed in the way of an emergency package, it would state the tiebreaker needs to be put in place by June 30, 2022. At that point, the first round would be under the old regulations and the last two rounds under the new regulations. Alternatively, the committee could decide to have only two rounds. One would be midyear, and one in the fourth quarter.

Ms. Miller stated Ms. Robles' proposal makes sense, given the time constraints. Having one round with the current system and two with the new system could ease the transition since there is much concern about the transition. She sees it as a compromise from where the committee was, and it is a sign of good faith that the old system is important but are also committed to a new system to prioritize ELI/VLI. It indicates the committee is committed to the system at large, while allowing more time to review the tiebreaker. She urged the committee members to make a decision on the tiebreaker and favors this to be the timeline for the next 6 months.

Mr. Sertich agreed with moving in this direction but expressed concern about staff workload.

Ms. Robles stated it would be easier for staff to do three rounds, and the Treasurer agreed this would be easier for stakeholders so they won't have to wait until mid-year to submit applications.

Ms. Johnson-Hall shared Staff may want to consider how this may affect the pools since the last two rounds would be under different rules than the first round.
Ms. Robles indicated Staff are aware of this and are looking into it.
Doug Shoemaker with Mercy Housing and the working group shared they are in support of Staff's proposal.
Mr. Sertich pointed out the second-round applications may be due before July 1st, 2022.
Ms. Robles clarified this decision will change the calendar being proposed at the following scheduled and agendized meeting.
William Leach with Kingdom Development appreciated the committee's hard work. He asked how state credits would be handled in light of the proposed changes, if they would be split evenly between rounds, or use the same practice of first-come-first-served. He believes splitting it up may make more state credits available when the new rules are in place, otherwise more than half may be used in the first round.
Ms. Miller pointed out that is something that would need to be taken up in the CTCAC committee meeting.
Melissa Fox stated she has done a lot of work for affordable housing. She stated they are concerned the tiebreaker is not taking Coachella Valley into consideration and giving them a fair playing field based upon the regulations out there. Ms. Fox stated there is currently no improvement of positions based upon the regulations as they stand. She went on to say they will continue to work to see if it can be done to show what is needed in the Imperial Valley and Coachella Valley.
Heather (indiscernible) from the Inland Empire and Coachella Valley wanted to echo Ms. Fox's comments. They are concerned with the tiebreaker and the scoring in general since it disadvantages their area with the proposed regulations, specifically regarding TOD and transit. She stated it has not been a level playing field for the Inland Region and recommended increasing the rural set aside.
(indiscernible) from Coachella Valley and the Inland Empire wanted to echo was previously said. They are requesting funding be distributed in an equitable manner. The Speaker stated in the Inland Empire jobs are limited and the housing costs are high based upon the wages and encouraged the committee to distribute funds in an equitable way.

MOTION: Ms. Miller motioned adopt 3 rounds in 2022, the first round with existing regulations, and the last two rounds with the tiebreaker, and amend the regulations to require a tiebreaker be in place by June 30, 2022. Mr. Sertich seconded the motion.
Motion passed unanimously via roll call vote.

Ms. Miller moved for the rent savings benefit of 15 years, stating it should not be considered in isolation.
Mr. Sertich expressed concern about getting away from comparing the counties and wanted to balance the bonds across the geography. Within the counties, using FMR is going to drive production to the lower cost areas. He mentioned they are driving toward the high resource areas, but also to the lower cost areas with this outcome. Originally the committee had used small area FMR but is looking for how to drive the development into the areas within the counties where they want it, specifically the larger counties of the state that have more geographic diversity, and also significant cost differences.

Ms. Miller pointed out there are some ways to do that, if they were to agree on 15 years of rent savings, it would drive some of those decisions.

Mr. Sertich clarified he was supportive of 15 years.

With how to deal with the denominator, Ms. Miller stated the committee seems to agree with bonds and state tax credits. There were two other issues on the threshold basis limit delta, and the points for prevailing wages in types 1 and 3 developments. Those things in the denominator can act as a correction. The basis limit delta can act as a correction for some of the intra-county discrepancies. The other way to correct is to keep the location benefits in the numerator, with the TOD and proximity to transit.

Mr. Sertich added there is no good way to measure job-rich areas or where people want to live. He encouraged the committee to consider a zip code level instead of a county level regarding costs and decide from there how to determine FMR. Given that the regulations won't be in effect until July, there is time to figure that out. Mr. Sertich pointed out they want to get it as right as possible, but it will never be perfect, and does not want development to be focused in only one area of the counties.

Ms. Miller clarified 15 years with FMR at the county or smaller level than county.

Mr. Velasquez added his team has done small area FMRs precisely for reasons such as the committee's decision. He stated smaller areas make sense.

William Leach of Kingdom Development stated the small area FMR is helpful in accuracy for these decisions. He mentioned have the regulations smooth out outliers, such as saying a certain small area FMR cannot be more than 150% of the FMR. There can also be caps implemented to further smooth those out. Mr. Leach said his team did an analysis all the projects in the tax credit program trying to find intercounty differences. The census looked at population density within a certain distance and found a strong significance in the cost to build and the population density within a mile of the site.

Ann Silverberg of the working group, wanted to make a counter point that the small area does balance out the difference of costs, but exacerbates the differences in income levels. She used Northern California as an example, stating Oakland would be disadvantaged to Fremont, but there might be proximity to transit and other amenities driving the importance of housing in that area, so the numerator may be how to balance it.

Mr. Sertich mentioned one concern is this would disadvantage areas that are historically underinvested and believes revitalization benefits can help ensure they are building in all areas of California.

Darren Bobrowsky with USA Properties Fund and the working group wanted to comment on rent savings and consider a floor otherwise there will be a race to the bottom which would impact housing as well as a long-term financial feasibility. Mr. Bobrowsky went on to say at a certain point in the future that the project has declined and turned negative. He suggests setting a floor for rent savings of a certain AMI or average AMI to increase production and preserve the financial feasibility.

Mr. Sertich added that was in the proposals, to have a floor of 40% AMI average, and is comfortable with that.

Ms. Miller agreed with the floor as well.

Caleb Roope of the Pacific Company and the working group stated the working group discussed the issue. They agreed against small area market rents because there are massive disparities within the

counties, which the feared would drive development to those areas. If there was a project in a low small area FMR, there would be no path forward, being beat out by projects with higher small area FMRs. Mr. Roope stated measuring 15 years of rent savings when evaluating differences of thousands of dollars, it compounds quickly. There would not be a major cost difference in those areas. The example he gave was Oakland in low-income census tract with low FMR will not be that much different than building in Walnut Creek where small area market rents are very high, where the cost to build are about the same, but the FMR in Walnut Creek is much higher, which is why the working group agreed on using just the FMR.
Mr. Sertich stated getting the public benefit rather than the cost equity, and some of the issue is double counting some of the benefits. FMR are higher closer to transit, and smaller FMR are higher closer to higher resource areas, and the places people want to live have higher small area market rent. He believes it should be balanced by averaging it out and the other categories should be properly accounted for so we don't over-credit the high transit or high resource areas.
William Leach expressed it may be a good idea to blend the two ideas by taking 75% of the numbers from the FMR and 25% from the small area market rent. This would look more toward the county wide but take in to account the specific areas.
Analisa Valdez from Indio in Coachella Valley wanted to reiterate what other callers have said. She stated Riverside County has one of the highest shortages of rental units in the United States, with much of it being in Coachella Valley. Ms. Valdez shared much of the housing are single family homes, and many families are being displaced, forced to move to other parts of Coachella Valley, sometimes to the unincorporated communities. Those communities sometimes lack infrastructure like potable water, sidewalks, sewage, etc. They are hoping for more equitable housing there.
[indiscernible] wanted to reiterate the importance of student housing in the Bay Area since the cost of living is high. As for the rent savings benefit, she encouraged the committee to be consistent across the board and agreed with the working group on FMR.
Mr. Roope pointed out the committee has funded approximately 400 units in Indio over the last couple rounds so wanted to encourage the caller that rental housing is coming.
Ms. Miller motioned for 15 years FMR with a 40% AMI.
Mr. Sertich seconded the motioned, with the understanding they will watch that the projects are being put in to place in the counties they want them to be placed.
The Treasurer agreed they want balance across the state.
Mr. Sertich clarified this means, not building primarily in one area.

MOTION: Ms. Miller motioned for 15 years FMR with a 40% AMI. Mr. Sertich seconded the motioned.
Motion passed unanimously via roll call vote.

Ms. Miller pointed out there is population, location and public benefit to review.
Mr. Sertich specified unit production was also needing to be reviewed and reminded the committee they had agreed on $50,000 per adjusted unit at 80% AMI or below.

Public Comment
[indiscernible] heard about the rent savings benefit and the floor being capped at 40% AMI. She

wanted to bring to the committee the implement of supportive housing and looking at population benefit. She is concerned the production will go mostly to large family and not so much go to permanent supporting housing units as is currently in the tiebreaker.

MOTION: Mr. Sertich motioned for $50,000 per adjusted unit at 80% AMI or below. Ms. Miller seconded the motion.
Motion passed unanimously via roll call vote.

Regarding public benefit, Mr. Velasquez agreed with the values on the table which state ELI $50,000, VLI $30,000, veterans $10,000, homeless $20,000, and special needs $10,000.
Mr. Sertich stated ELI and VLI already get credit with rent savings, especially in comparison with homeless which comes with additional costs and services, so those number may need to be evaluated. He asked if there was a need for VLI benefit since there is rent savings. There could be some value in having a VLI benefit with the rent savings at 40% AMI.
Mr. Sertich agreed the homeless benefit could be increased.
Ms. Miller agreed the homeless benefit should be increased.
Mr. Sertich clarified he believes the ELI benefit should stay but eliminate the VLI benefit since it is getting full credit in the rent savings and increase the homeless benefit to between $30,000 and $50,000.
Ms. Miller asked what Mr. Sertich's ideas were on the homeless benefits since there are five categories.
Mr. Sertich reiterated he would zero out the VLI benefit since that is getting full credit in rent savings, keep the ELI but put a limit on rent savings at an average of 40% AMI, but believes it should be less than $50,000.
Ms. Miller pointed out eliminating VLI gives $30,000.
Mr. Velasquez suggested putting ELI at $40,000 and homeless at $30,000, but keeping the rest the same, eliminating VLI.
Caleb Roope with Pacific Companies and the working group asked if ELI and VLI was under a 5-year scenario in an attempt to stabilize the variances. If it is 15 years of rent savings, it wouldn't need to be calculated in.
Ms. Miller specified there is a floor, and in some ways acts as a substitute for the lower number in the rent savings. If eliminating VLI, there is a need to keep ELI. She asked for Mr. Sertich's opinion on Mr. Velasquez's suggestion.
Mr. Sertich specified a need for these concepts to work together.
Mark Stivers of the California Housing Partnership asked for clarification on the rental assistance. He suggested if there is to be an ELI rent benefit, to include units with rental assistance or have the floor for rent savings benefit be 40% for non-rental assisted units and all rental assistant benefits be 30% AMI.
Doug Shoemaker with Mercy Housing and the working group referred to HCD regulations, pointing out the importance of serving extremely low-income families who are at risk for homelessness. It is difficult to get to those families if there is too much emphasis on permanent supportive housing (PSH), without taking into consideration families who are not considered chronically homeless, so don't show up in the PSH system. He agreed with Mr. Sertich that the committee needs to review if

these things are mutually exclusive of each other, or cumulative to each other. His concern is a point system that does not have an incentive to serve extremely low-income families, unless they are homeless. Those definitions are clear. Mr. Shoemaker pointed out 90% of the counties they work in, which is about 85% of the state, don't have families in their No Place Like Home lists, only single adults. If there are population benefits, he believes ELI should have its own value, without giving too much incentive for homelessness. If giving a value to homelessness or ELI, he recommended giving a modest amount to both so developers don't have to choose one or the other based upon values, which would allow at risk families to be better served. He clarified giving around $10,000-$20,000 for each, instead of each being a higher amount, to level them out.

William Leach of Kingdom Development recommended population benefits have a maximum. He gave the example of having 50% of the units achieving the population benefits, that would honor the Olmstead decision to not concentrate people of certain populations. It would also slow down the behavior of trying to maximize the system to get the best score possible, and still have integrated living situations.

Mr. Sertich agreed with Mr. Leach that one of the pieces in the pools is the priority for 100% homeless and encouraging more mixed developments.

Mr. Velasquez said they had considered that.

Mr. Sertich stated it may be a good idea to cap it at 50% of units for homeless or ELI to promote more mixed communities.

Ms. Miller stated she does not like the idea of a cap.

Mr. Sertich clarified this was specifically regarding PSH and being cautious to not concentrate those populations in projects. He believes they need to be more thoughtful in creating more living opportunities for different populations and integrating various communities. It is not limiting the projects to being 100% PSH but is also not incentivizing them to be at 100%. He clarified it would be a cap at 50% for population benefit.

Ms. Miller agreed with the 50% idea.

Mr. Sertich believes it should be $20,000 for homeless $10,000 for veterans, $20,000 for ELI, $0 for VLI, and $10,000 for special needs.

Ms. Miller brought up the issue of homeless vs VLI, and the possibility of it being an "or".

Doug Shoemaker with Mercy Housing and the working group said that is what he was trying to convey, if a homeless person is being served and getting a rent subsidy, it gets a homeless and ELI designation.

Ms. Miller requested clarification on what Mr. Sertich was recommending.

Mr. Sertich recounted Mr. Stiver's past comment on having projects with rental subsidies to go beneath the floor of $40,000. The goal is to have financially feasible projects and would like to think through some of the other pieces in terms of equity, and not layer on multiple resources in order to make a project feasible.

Mark Stivers of the California Housing Partnership wanted to elaborate on veterans, special needs, and homeless. He urged the committee to consider veterans and homeless as an "or" so not all homeless units are also considered veteran units. There are many other people who are homeless, so making this an "or" would solve that problem.

Ms. Miller circled back to ELI, saying with the 50% test, there needs to be $40,000 for ELI, and is okay with $10,000 for homeless.

Mr. Velasquez wanted clarification on $0 for VLI and $40,000 for ELI, getting the credit down to 40% AMI as an average.

Mr. Sertich explained ELI gets a large portion of the rent savings benefit, and they are giving additional benefit at the end of the calculation, so need to be careful to not over-value it. The average rent savings would be in the $100,000 range, depending on all the factors.

Ms. Miller pointed out creating the cap in rent savings is like decreasing the number of years, necessitating a need to offset with the population benefit. It is still driving toward ELI, and the way to offset that is to have ELI be $40,000.

Mr. Sertich said his point was $30,000 is fairly small compared to rent savings.

Caleb Roope of the Pacific Companies and the working group said as values are discussed on what to assign to ELI and VLI units, the value eliminates the floor the committee wanted to put in place. $40,000, as an example, a good chunk of the counties have less than that as rent savings, thereby eliminating the floor. The higher income counties would have higher than $40,000 but not by much. He reiterated there is not a floor anymore if they give credits for ELI units, making it irrelevant.

Ms. Miller asked at what point do you keep the value of the floor while understanding the desire to drive toward ELI.

Mr. Roope said that was the idea before the 15 year rent decision. Whether it is in rent savings or production, wherever, it still adds to the numerator. He went on to state since there is 15 years of rent savings, additional credit for ELI is not needed. The purpose of that portion of the scoring was to reward projects that serve additional public benefit beyond rent savings such as homeless units, veterans units, etc. The idea of ELI/VLI credit was to deal with a shorter rent horizon timelines. The committee is trying to give ELI rent savings and work on a compromise of the 40% floor. Mr. Roope agreed with Mr. Stivers regarding making sure there isn't an artificial incentive to cater only to homeless veterans. He stated there is no need to double up on this category by providing the additional incentive.

Ms. Miller stated it is not fully accurate to say that a population benefit and rent savings with a cap are the same. They are pushing the benefit still, they are not trying to eliminate the floor, only moderate it.

Mr. Roope insisted the more that is added to the floor, the more it becomes eroded. If the floor is to moderate the amount of rent savings, everything added erodes it.

Mr. Sertich asserted if there is a 40% AMI floor of the rent savings there is a benefit for ELI units and limit the benefit to 50% of the units, it incentivizes the project to do 50% of the units at 30% AMI, 50% at 50% AMI to maximize the rent savings to get the full benefit from the ELI.

Mr. Velasquez reminded the committee there has not yet been conversation about location. He encouraged the committee to not have a location benefit that outweighs the population benefit.

Ms. Miller agreed. Ms. Miller asked Mr. Stivers what $30,000 does instead of $40,000 for ELI. Mr. Stivers stated he doesn't have a specific answer to the question but mentioned one way to solve this problem is to have all rental assisted units at 30% AMI in the rent savings since they are serving people making as little as $0 income and it's not affecting the cash flow of the other properties at FMR, since most units have rental assistance. Instead of having an ELI benefit, treat units with rental assistance a little differently with the rent savings benefit.

Mr. Sertich summarized on the rent savings is based off of restrictive rents as restricted by CTCAC. Right now, there is expected rent and restricted rent, and he wanted to make sure the committee

was making a decision based on restricted rents. The current CDLAC definition is based on expected rents but wants to hold them to the restricted rents and nothing lower than that. If credit is given at 30% AMI for projects with rental assistance so long as they are restricted to that 30% AMI.

Caleb Roope with Pacific Companies and the working group stated the working group had discussed this previously and was generally supportive of giving additional value to rental assistance units to recognize the public benefit. 30% for those units makes sense based on that. If it is limited to 50% of the total units, it seems to be a moderated approach to balance it out.

The Treasurer called for Public Comment, and there was none. The Treasurer summarized: limit the floor to 40%, all rental assistance units at 30% AMI, cap at 50% of the total units.

Ms. Miller stated there is still a need for the other designations, but the committee needs to decide at what value. There is no longer VLI, need to moderate ELI. Does rent savings get changed for rental assistance and then you can mitigate the impact of the population benefit.

Mr. Roope gave an example of using Alameda County in the Bay Area, a drop to 30-40% AMI, that is about $52,000 rent savings value. Going to lower cost counties such as the Central Valley, that is only about a $26,000 change. The more the system becomes stabilized and not have the rent savings balloon, it becomes a better outcome. If there is a way to give ELI units the lower fixed value, that is a better approach. It can also be moderated by being capped at 50% of the total units.

Ms. Miller said they agree on the 50%, and asked Mr. Roope if it would fix the FMR benefit to do the 30% for rent savings and 40% for everything else.

Mr. Roope agreed that would support that but would change dramatically by county if the 30% is left in there. Just counting rental assistance, it would give homeless projects advantages since they typically have rental assistance, as well as Section 8 projects. Reduce the public benefit to the ELI units in that scenario otherwise it goes the other way.

Ms. Miller clarified - 30% for project-based vouchers in the FMR population then reduce the ELI population benefit to $30,000, keep homeless at $10,000.

Mr. Sertich asked if they wanted the veteran and special needs units to be the same, reiterating that special needs and homeless tend to incur additional costs, and one of the earlier comments was to do “either/or” for non-homeless, non-special needs veterans. He went on to say special needs and homeless should be incentivized, but not to the same level as ELI and veterans.

Darren Bobrowsky of USA Properties Fund pointed out financial feasibility of the projects is important, and the scoring system impacts people’s behavior, saying people will do crazy things to get funded. If project-based vouchers are recognized at the 30% level, there should not be additional benefit since they are already at that level. Mr. Bobrowsky stated he does not believe any benefit should be given to the ELI level because a project without vouchers at that level is not financially feasible because operating expenses are greater than the rents collected. He went on to say he does not think developers should be pushed to the ELI level if there is not some sort of subsidy contract for 15-20 years since there needs to be a rental subsidy to make it feasible.

Ms. Miller reiterated they are trying to change behavior and moderate the system. On one side is the 30% reduction in AMI for the rent savings category, on the other side when lowering the benefit, it is negated unless there is a population benefit of some type.

Mr. Bobrowsky stated operating expenses tends to be about 40% AMI, so if developers are being driven below that level, it wipes out a permanent debt, creating a need for increased public subsidies for the projects, thereby driving down production. He stated operating expenses will be

reduced as much as possible creating issues later down the road such as projects being undercapitalized and not being able to be maintained.
Mr. Sertich stated the one mitigating factor to that is the ELI value of 50% of the units, there is a place where it is averaged at 40% AMI, which is between 30-50% AMI units.
Mr. Bobrowsky said 40% AMI is feasible only with a very efficient operator.
Ms. Miller agreed there needs to be subsidies and there is a reward for having those in place, and Mr. Bobrowsky stated including the rental subsidies for 15 years of rent savings at the 30% AMI is the right thing to do, but to have 50% AMI without those for the long term is going to be a big challenge.
Ms. Miller agreed that is the challenge and it is up to the developers to figure out how to make it work.
Mr. Bobrowsky stated he believes developers will do what they need to in order to get their projects funded even if it does not serve the population well or maintain quality housing for a long period of time, otherwise the projects will come back in 15 or so years underwater and in disrepair. He went on to say he does not believe ELI should be in the population benefit since it is already recognized in rent savings with project-based vouchers.
The Treasurer asked Mr. Bobrowsky for his opinion on the homeless, veterans, and other. He replied the initial intent is to drive developers to serve those populations, and agrees projects should not be 100% one type, and they will follow whatever the scoring system indicates. Mr. Bobrowsky echoed Mr. Roope, that the ELI and VLI were included in population benefit when the rent savings was at 5 years but is no longer appropriate since they are being recognized in the rent savings and it is down to 30% AMI with project-based vouchers.
Ms. Miller believes there should still be ELI in the population benefit, go to 30% AMI for subsidized units and 40% for regular AMI. The population benefit has the ability to eliminate all that without any benefit at all. This is where the balance comes in so there is a focus on ELI, those who are at risk of homelessness, and is a specific type of production. She suggested going to $20,000 to acknowledge the need to financial feasibility but anything less than that eliminates the benefit.
Mr. Velasquez pointed out the committee has not yet discussed the numerator benefits, such as location benefits.
Mr. Sertich stated the affordability is already in the rent savings, so there is a big adjustment there, and is a supplement to the rent savings.
Ms. Miller recommended to amend the rent savings category to have 30% floor, and under population benefit to have no less than $20,000 for ELI, eliminate VLI, then $10,000 each for the rest.
Caleb Roope with Pacific Companies and the working group wanted to provide some examples of public benefit. He pointed out Alameda County FMR to rent savings at 40% AMI is $181,000, which is a large number, making the other benefits seem small. A lower cost county such as Sacramento County 40% AMI is worth about $135,000 of rent savings. This number increases $40,000-50,000 for rental assisted units at the 30% AMI level. Mr. Roope reiterated his point was to show how large the rent savings are compared the other benefit sections. Homeless, special needs, and veterans will be units deeply targeted already, in order to serve the population properly. Therefore, it wont eliminate rent savings, but will add to it. Going to location, there is a relevant discussion on

mitigating the rent savings, but it is sufficient to leave these low since they are so high in the rent savings category.
The Treasurer recommended $0 for ELI and VLI, $10,000 for homeless, $10,000 for veterans, and $10,000 for special needs.
Mr. Sertich stated he believes the $10,000 benefits are marginal so is okay with them. Looking at the rent savings being over $100,000 per unit, adding additional items would be marginal, which has rent savings as the main driver.
Ms. Miller said the examples do not seem to be fully accurate, though agrees rent savings is the biggest benefit, and if there is no floor on rent savings, everything can be eliminated. But with a floor, there is a need for population benefit which is where the moderation comes in. She went on to state this is why we must have an ELI category in order to have a floor on rent savings.
Mr. Sertich agreed to having a $20,000 ELI benefit and $10,000 each for homeless, veterans, and special needs.
Ms. Miller clarified they would also change the floor to 30% for project-based vouchers, and 40% AMI, with 50% of the units, specifying it could be "or" regarding veterans, homeless, or special needs.
Ms. Robles clarified projects can get the benefit for one of the three categories.
Mike Walsh with Riverside County Housing sees the priority of keeping the population benefit to a higher amount. However, he also appreciates how it reduces the amount of permanent loans but that is where local public subsidies are used to incentivize at a local level. Eliminating or reducing leveraging points is another way to incentivize what is happening at the local level. Regardless of the amount, keeping an ELI benefit is a high priority. In terms of keeping the floor at 30% [AMI] on rent savings makes sense as well as using "or" for the other categories.
(indiscernible) wanted to reiterate the importance of ELI and homeless housing. There is a need for deeper targeting so it should be incentivized, especially if the floor is capped at 40% [AMI], even with project-based vouchers.
The Treasurer summarized this is for restricted rent, $20,000 for ELI, $0 for VLI, $10,000 for homeless, $10,000 for veterans, and $10,000 for special needs, and 50% of the units at 40% AMI and 30% AMI for project-based vouchers.

MOTION: Mr. Sertich motioned to allow for a 30% floor on rent savings for projects with project-based rental assistance, population benefits at $20,000 per unit for extremely low-income units, $10,000 per unit for homeless units, $10,000 per unit for units serving veterans, and $10,000 per unit for special needs units, with the last three ($10,000) benefits being "or" so only one benefit total is given. The total population benefits will be capped at 50% of the units. Ms. Miller seconded the motion.
Motion passed with a 2/3 majority vote, with the Treasurer voting no.

The Treasurer brought up location benefits and specified it would need to be adjusted since the original calculations were based upon 5 years of rent savings.
Mr. Sertich wanted to evaluate if the resource area benefit in the tiebreaker would go away at the 50% soft cap, and reiterated he believes that should be taken away after the 50% soft cap is met. One suggestion was to remove it from the tiebreaker, however, with the inclusion of a differential

between high and highest resource, he does not believe it should be taken away, though believes added benefits would not be added after the 50% soft cap is met. He believes it would benefit the high/highest resource areas before meeting the 50% cap so wants to leave it in there.
Ms. Miller stated it makes sense to take it out after the soft cap is met. Both agreed only the values need to be determined leading up to the soft cap.
Mr. Sertich believes the first three are mutually exclusive the way they are written regarding resource areas. Make the community revitalization areas an “or” versus resource areas, since the committee is focusing on where the resource areas would be. Transit would be additive to those location areas.
Mr. Velasquez mentioned the committee had agreed there needs to be more walkability. There were three tiebreakers that the committee believed were transit-based. Then there was another aligning with CTCAC amenity points, which mostly regarded walkability. He urged the committee to consider combining the ½ mile walkability score to every-15-minute transit, or ¼ mile to every 30 minute transit, or AHSC TOD emphasis, and have this as a TOD category with a certain value. Then the CTCAC transit score, which is 2,000, for a maximum of 14,000.
Mr. Sertich pointed out the original draft was for 10,000, which would be a maximum of 70,000, which he believes is too high. Mr. Sertich believes high-quality would be a bump up, which Mr. Velasquez does not recommend since it would only be 10,000, and it was 30,000 before.
Ms. Miller believes all of the recommended numbers need to be reduced.
Mark Stivers with the California Housing Partnership wanted to simplify the primary transit benefits based upon the CDLAC transit points and the walkable items. He said it was about giving some credit for each site amenity award up to a maximum of 10. The point could be awarded for being close to transit, a grocery store, to a school, park, etc. The way to simplify it is to have x-dollars per CDLAC site amenity points up to a cap of 10, so if it was $2,000 it would be a cap of $20,000. If they wanted the high-quality transit, that would be separate. The easiest way is to give site amenity points. Mr. Stivers believes high quality transit is separate, and combine the walkability with the site amenity points, but have high-quality be above and beyond that. Mr. Sertich believes the idea is to be a little more nuanced than that in the sense of only giving credit for the most walkable amenities CTCAC amenities to tie it to transit.
Caleb Roope of the Pacific Companies and the working group offered a couple ideas. It is hard on staff when the system is more complex. As far as turning off public benefit, it is one more thing to track, in addition to the soft cap, and now asking them to track turning off public benefit in high resource areas. He recommends there not turn off the public benefits. Giving homeless credit and high resource credit is to recognize something of value is being produced and the cost to produce it. For the sake of keeping it simple and valuing the cost associated with that, he recommends not turning it off after the 50% soft cap. Circling back to rent savings category as a whole, it is a large number. Whittling away at the smaller numbers makes the rent savings much larger in comparison. The committee needs to reward other policy goals, such as walkability, which are climate-based changes. The working group supported giving value to high quality transit, for example, and the administration talking about awarding the TOD program. Mr. Roope urged the committee to not diminish the values any further, and possibly increase them, and continue to reward what makes residents lives better. He highlighted being within short walking distance to a grocery and schools. He urged the committee to reward other benefits to add value to the lives of the people who will

live there and keep it easier for staff. Mr. Sertich agreed with most of what Mr. Roope said and wants to make sure that as public funds are awarded, the public benefit efficiency matrix they come up with needs to be greater than 0. As the numbers are narrowed down, the committee needs to avoid putting out, for example, $10 million for $7 million in public benefit, while not inflating the numbers to give the most benefit possible.

Mr. Sertich stated if they are trying to incentivize the high and highest resource areas, the numbers are too low, and don't represent the costs of building in those areas so won't get the desired outcome. The revitalization points should be equivalent to the high resource area and need to be defined properly. One definition offered was a redevelopment of a public housing project, then designate certain areas for it. The TOD emphasis should be around $5,000 x 7 and high-quality transit also around $5,000 with the multiplier on top of that, which would give up to $65,000 for transit.

Mr. Roope stated the list of walkable amenities includes schools, parks, grocery, library, pharmacy, senior center, giving about 6 categories. To keep it easy on staff, keep the definitions the same across CTCAC and CDLAC. It's the closest of the 6 categories. To add that in would be about $60,000. Many projects that get rent savings would get points for their areas since they will be close to amenities. For example, a homeless project builds near transit, so it also gets transit points. It does not erode the rent savings by adding these things.

Mr. Sertich agreed he likes the walkability, since those tend to be the places people want to live and having these at $5,000-10,000 would encourage walkable destinations and transit.

Ms. Miller agreed and expressed why these benefits would still be considered rather than being turned off after the 50% soft cap is met.

Mr. Roope said these numbers are not significant when discussing rent savings and does regard the areas being higher cost. He stated the committee may agree they want homeless projects in great locations and large family projects in highest resource areas. Those high resource projects likely won't be able to deep target like the homeless projects can, so will be behind on the rent savings. Many high resource areas don't have the soft money to contribute to drive rents down. Since high resource projects are less likely to deep target, giving them additional public benefit without it turning off would give it more opportunity to win. He believes the policy is balanced with this in place without turning it off.

William Leach with Kingdom Development supports not having the benefit turn off after the 50% soft cap. There's a benefit in differentiating between high/highest and moderate resource areas, turning off that benefit stops the differentiation.

Darren Bobrowsky of USA Properties Fund suggested high quality schools. He stated part of ending the cycle of poverty is education. Maybe adding a point for a school with a higher rating near a large family project should be incentivized since it will provide future benefit. Mr. Sertich pointed out that is part of being in a high/highest resource area. Mr. Bobrowsky stated not all high/highest opportunity areas have schools with 9-10 ratings.

Mike Walsh with Riverside County Housing Authority is okay with keeping it in the score with location benefit for $30,000. They are encourage doubling the benefit for TOD, high quality transit, and walkability. During COVID, many transit agencies scaled back services, and that is just now starting to ramp up again. They see a benefit in being close to transit, but that means different things. Being near the Metro Link in Riverside, that is not deemed high quality transit because it

does not meet the defined headways. They would like to see transit minimized or equal as those in proximity to a grocery or school, high quality schools, parks, etc. They recommended keeping a cap on walkable amenities.
Rick Wallace in the North Bay, in regard to high quality transit, they have been looking for definitions of what that means. They have found many communities are an hour from downtown, and they have high quality transit but in a larger window, from 6-9a until 4-7p, and suggest there be an opportunity to quality by looking within those hours. That would take care of early departures and arriving well before or leaving after the main rush.
Alice Talcott with Midpen Housing, in regard to tiebreaker benefits for high/highest resource areas, take into account giving an extra point and setting the cap at 50% of half the total bonds. Projects in other resource areas need to have a path forward, so argues tiebreaker benefits should be cut off after the 50% soft cap is met. There are projects in other areas with high costs with infrastructure costs, with land that has been contaminated which incurs additional costs.
(indiscernible) wanted to add about removing the tiebreaker benefits after the 50% soft cap for high/highest resource areas, for the same reasons the previous speaker said. It is an opportunity to prioritize climate goals and emphasis high quality transit and walkability.
Mr. Sertich believes this is a large piece that drives where the committee wants to go and they need to define where that is, such as deeper targeted housing. The relative values matter a lot.
Ms. Miller pointed out there needs to be a discussion about when or if the points in the numerator turn off only after the soft cap is met, and how to heavily prioritize (indiscernible).
Mr. Velasquez specified there is a need for balance as well.
Mr. Sertich believes there is a middle ground. Highest, high, and moderate resource areas are starting from a 30,000, 20,000, 10,000. If there was the extra point for the highest and high resource projects, there is the benefit there, but are less likely to win in a tiebreaker scenario, so need to incentivize in those areas since it does cost more to build there. There could be other factors. He proposed an increase in those to 40,000, 20,000, 10,000, respectively, and leaving it on after the point, and leaving it on for the whole calculation. The highest scoring projects that don’t get the extra point won’t be able to compete against any projects left over since those would be the lowest and not be at the 50% point.
Mr. Velasquez asked why not turn it on after the 50%, and Mr. Sertich clarified to not turn it off at all.
Ms. Miller stated she would not want to increase those values if it is left on the whole time. Mr. Sertich said if it is on during the first 50%, the extra point still being applicable, they are benefiting the highest resource over the high resource a little. If it is left out then put back in later, then it is saying the high and highest are equal.
Ms. Miller asked to leave the values as they were.
Mr. Sertich said that is possible and balances out favoring highest opportunity areas in the end, and affordability is having a large impact on the scores.
Caleb Roope of Pacific Companies and the working group stated as it stands right now, high resource projects are losing. Because there are so many projects coming in, being able to distinguish between high and highest resource areas will be of value, in order to identify the very best high resource projects moving through the system. Developers have adjusted their approach to finding properties and land, so more of those high resource projects are upcoming. Mr. Roope said at that point, he

believes developers will start competing on rent savings, even in high resource areas as a result of deeper targeting.
Mr. Sertich verified if the committee is in agreement to keep the values as they are.

Mr. Sertich motioned to keep the highest resource gets $30,000 credit times adjusted units or high resource area or community revitalization areas gets $20,000 credit times adjusted units, or moderate resource areas $10,000 credit times adjusted units.

Regarding TOD, Mr. Velasquez specified the benefit of walkability was important, so placed a $2,000 value on each.
Mr. Sertich added these are based on an amenity type situation, to include amenities not related to walkability for a maximum of 10 points. The idea is to get the maximum of points allowed from a plethora of options since there are more than 10 types, 6 or 7 of them based on transportation and walkability.
Mr. Velasquez recommended $10,000 for TOD, and Mr. Sertich stated he believes it should go higher, since rent savings would be between $100,000-200,000 per unit according to county. If they want to make transit and walkability be able to get up to $50,000 in total, with each being at $5,000, then have high quality transit at $20,000-30,000.
Ms. Miller clarified TOD would be $5,000 times the number of amenities, up to $35,000, and $4,000 for walkable amenities (park, library, grocery, school or senior center, pharmacy, and medical clinic) for a total of $24,000, if all of these were within walking distance, total of $25,000.
Mr. Roope specified the site amenities distinguish between rural and urban communities and give more latitude in the distance. He clarified urban areas compete with themselves and rural areas compete with themselves. Mr. Roope reiterated the importance of not devaluing the location factor since it is so valuable to residents. The category won't overwhelm the rent savings, based upon the math, so encouraged the committee to not under value them, and projects that benefit from high rent savings would also touch on these amenities.
Ms. Miller stated the total location benefit would be $30,000 for the first four, plus $25,000 for amenities.
William Leach of Kingdom Development highlighted most locations in a city will score 7-12 site amenity points regardless. In the urban core, they would score 15-20 points. There's a big differential in what is scored. He agreed with Mr. Roope that those who do well on rent savings naturally get some of the transit points. It is the differential they should worry about outweighing the rent savings. The differential between a well-located project and a poorly located site may be perhaps 2 walkability points, slightly better headways on transit, and perhaps not high-quality transit. Therefore, the proposed $4,000 each or $25,000 for all of them, the differential between these projects would be about $45,000. He stated he teaches his new staff to review the differentials, instead of the total points. Those points would not outweigh the rent savings at all.
Doug Shoemaker with Mercy Housing and the working group agreed with Mr. Leach. He stated the relative balance of amenities against the rent savings won't overwhelm the category. He appreciated they were not perfectly equal but appreciated the committee valuing what would benefit the residents. Mr. Shoemaker pointed out not having a car saves a household up to $13,000

a year for each car they do not own. The more high-quality transit and walkability is pushed, the more likely people are to not need a car. He stated this could also be seen as a sort of rent savings.

Ms. Miller asked if the location benefit is for all units, but rent savings is for only some of the units, how do the benefits accrue?

Mr. Shoemaker stated he thinks rent savings is only accruing on the average for the entire projects. He believes both should accrue to all units. Mr. Sertich pointed out in most parts of the state, an 80% AMI unit would give $700 rent savings, with some being more or less significant. But at 40% AMI, this would apply to the entire state regardless of location. Therefore, the rent savings, while it is large, every project is getting it, so there is a need to look at the differential and would not outweigh the benefit of deeper targeting. Mr. Shoemaker stated the State Controller's Office originally pointed out was if there is a TOD project, in almost every case, there are some additional costs to being in the dense urban environment such as parking, having open space on the roof, or other building costs associated with a very dense site. Encouraging people to build in those areas would require the right message in the tiebreaker.

Ms. Miller asked for additional information regarding adjusted units, and Mr. Sertich clarified the benefit is based upon adjusted units and population benefit, incentivizing larger units.

Mark Stivers with the California Housing Partnership stated it seems the committee is discussing tax credit units to the extent they are talking about market rate units or above 80%, who may not be able to apply to any of the benefits. Then he asked if it is regarding regular units or adjusted units. The idea of accounting for adjusted units costs more, but if it is in the production benefit and all the benefits, it tends to multiple the cost adjustment.

Mr. Sertich indicated the average unit is 1-2 bedrooms.

Ms. Miller clarified the TOD emphasis would be $4,000 each, it would be a total of $28,000, since there are 7 points.

Mr. Sertich added high quality transit is either yes or no, at $25,000. For CTCAC amenities, there are 6 at $4,000 each for a maximum of $24,000.

Mr. Velasquez specified it is proximity to transit *or* an AHSC, and Mr. Sertich reiterated yes, it is the definition of high-quality transit.

Mr. Velasquez stated they are redefining what high quality transit means at HCD outside of AHSC.

Mr. Sertich stated revitalization and high-quality transit have not clearly been defined to staff and will need to be done in the near future.

Ms. Miller summarized the total location benefits at $30,000 for (indiscernible) or community revitalization, $28,000 for TOD, and $25,000 for proximity to high quality transit, and $24,000 for walkability benefits, for a total of $107,000 location benefits. Mr. Sertich agreed and reiterated many have stated many highest resource locations have opportunities near for high quality transit, but a project getting all of those is a very low possibility.

Mr. Leach stated the barrier to getting a perfect score is often finding land in those areas.

Ms. Miller appreciated the fact that it is difficult to find land to fit those criteria.

Mr. Velasquez brought up that they are going through a comprehensive review of definitions and asked to work with the staff to get the definition correct. Mr. Sertich agreed it would be beneficial in order to maintain consistency and to target the intended beneficiaries.

Public Comment:

There was no public comment.

MOTION: Mr. Sertich motioned for location benefits to be highest resource areas will get $30,000 times adjusted unit, high resource areas will get $20,000 times adjusted unit, moderate resource areas will get $10,000 times adjusted unit, for large family and permanent supportive housing projects, community revitalization projects that are not in those areas would get $20,000 times adjusted unit; TOD emphasis for CTCAC transit score would be $4,000 each times adjusted unit, high quality transit or AHSC would be $25,000 times adjusted unit, and walkable maximized CTCAC amenities would get $4,000 each times adjusted unit. Ms. Miller seconded the motion.
Motion passed unanimously via roll call vote.

The Treasurer stated the denominator needs to be addressed.
Mr. Sertich specified his concerns are about the adjustments, and possibly double counting several items. One is the basis limit delta percentage, geographic costs, and rent savings to some extent. The adjustments for prevailing wage and density adjustments are being double counted for the high-cost areas because those extra costs are already in the threshold basis limits. There needs to be some adjustments to make it geographically balanced, and Mr. Sertich recommended limiting these to 25% of the threshold basis limit delta to make it geographically equitable as opposed to the 100% it is now.
Ms. Miller clarified if he would keep the prevailing wages, and he stated to reduce them by a similar measure. He said reducing it by the 25% gets it to the measure of where neither high nor low-cost areas are benefiting in the tiebreaker score, creating a balance.
The Treasurer called for public comment.
Mark Stivers of the California Housing Partnership wanted to comment on prevailing wages and construction type. He stated the way threshold basis limits are calculated, all projects in a region from the last 5 years are evaluated, and with the exception of San Francisco, there are no counties where the prevailing wage jobs are all the jobs or necessarily more than half of them. With type 1 and type 3 construction, it’s likely very few counties with those types are the majority of projects. He does not believe the basis limits account for prevailing wage or type 1 and 3 construction. CTCAC has long established percentages of how to adjust the threshold limit to account for prevailing wage for types 1 and 3 construction. He stated he was not sure how to change that to fit with CDLAC, so recommends using the CTCAC numbers for prevailing wage and types 1 and 3 construction adjustments. For prevailing wage, it’s 20%, for type 1 it is 15%, and for type 3 it is 10%.
Caleb Roope with Pacific Companies and the working group said they have 18 projects in the Bay Area between entitlements and constructions. All are type 3 construction. He stated in their experience, the vast majority of projects in those areas are at a higher cost and not all prevailing wage, which is funding dependent. They are getting the boost already. Based on the basis limit, they do a good job representing the density issue, so does not feel there is an additional boost needed for the higher cost. The boosts were all moderated with 10% prevailing wage and 10% for density, the reason being that CTCAC does include many projects of this type across the state. Thinking of the HCD projects and how many go through the 9% and 4% side with CTCAC. The basis limits include all the projects, in both areas. The 9% tend to have more, with the prevailing wage as an example. In

terms of what is needed to have projects work, the data set is good, so there is no additional boost needed.
Ms. Miller asked for more information regarding the basis delta.
Mr. Roope stated previously decisions were made based on the public benefit section. Given that, looking at what the Controller's Office proposed, he believes 25% is the maximum of the adjustment and may need to be zero, given the cost of projects in the high rent areas tend to be where the rent savings are meaningful. The exceptions being places such as Riverside and San Bernardino Counties, where what has already been decided, rent savings favors their markets because it's not only, that, it's a relatively low-cost place to build if not paying prevailing wages. If they are paying prevailing wages, it changes the equation. There are baked in decisions to incentivize these places and that will happen. Therefore, those areas will benefit. Since the committee has decided on a large rent savings number, some of the boosts will need to be reduced on the cost side in order to moderate it.
Ms. Miller restated that Mr. Roope suggested reducing the basis delta to 25%.
Mr. Roope said it is a matter of the value of cost in production against public benefit and deeper targeting. He said the committee has basically decided to favor and incentivize public benefit and deeper targeting with the previous vote, so the question is if there will be a maintaining of balance. How they can do that is to give value to projects requesting lower amounts of resources. By not factoring the discount in the statewide basis delta discount, it goes the other direction, by giving to those who produce at lower costs, or deeper target with lower costs. Mr. Roope advocates for balance and believes if the system is balanced now there is a need to take away from some of the deductions happening below. Prevailing wages add costs, which can be a lot depending on the area. The committee probably does not want to eliminate prevailing wage by making projects uncompetitive. It should not go the other way, either. The committee has already incentivized using other public funds, with the goal of deep targeting. This general means prevailing wages will show up more frequently as developers deep target. Additionally, with the decision to deep target, the meaning becomes, if bonds and tax credits are being sought, there will be a gap if they deep target. If there is no public funds and the project applies for bonds and tax credits, the applicants will value deeper targeting because of the heavy incentive. All the tax credits going to larger, more efficient units, will all be competing for projects grabbing state credits and dropping rents. Looking at the equation of dropping rents from 50 or 60% AMI to 40% AMI then look for bonds to fill the gap, it scores better. There should be some incentive to limit the amount of state credits a project can get. Specific, the basis delta could be removed entirely, or reduced to 25%, to balance it out. We have not run the numbers on that as of yet.
William Leach of Kingdom Development agreed with Mr. Roope. He wanted to highlight much of is the information found in the basis delta is also found in the FMR. The benefit and decision to use 15 years of rent benefit makes the use of the statewide basis delta less important, so advocated for removing it. He supported the boost being 10% for prevailing wage and lessened, because the resources should be an impactful part of the calculation. The more deductions removed, the more discounts, the less impactful asking for state credits will be. He expressed he appreciates when developers choose to ask for less state credits. The more weight it is given, the more precious it becomes.
Ms. Miller asked if Mr. Leach recommends the 10, 10, and 5, and he agreed, further stating he would remove the basis limit delta or cut it in half.

Ann Silverberg wanted to provide a counter point. Regarding the basis adjustment - the working group looked at previous results and costs made a difference in where the costs go. Certain counties, even with the basis adjustment, still are over the 30% cap. This would still be true. The rent differential will steer more so the denominator needs to be adjusted. There are still projects that are worthy, or locations worthy of more expensive projects. There will be more of that seen since more type 1 and type 3, more wage requirements as lower rents are pursued whether that is due to Section 8, HCD financing, and SB35, there are a number of cost drivers that are lining up with the other priorities. Ms. Silverberg cautioned in taking too much of a step to reduce the modifications in the basis as part of the denominator fix to compensate for fixing the numerator. There are some projects in locations in big cities, such as San Francisco, Oakland, San Jose, etc, that have had a hard time competing, which will still be the case if they wipe out the modification in the basis, whether it the basis limit or the wage or construction type. She believes they are all needed, saying the need to raise the 30%, she agreed with Mr. Stivers there could be slightly larger adjustments to wages and construction types to be consistent with CTCAC. Mr. Sertich stated he agrees with removing the 30% cap if we can get the multiplier down. For example, right now San Francisco has a 90% adjustment, if the cap was removed, there would be no cost for San Francisco projects. He believes the cap can be removed if the multiplier goes down to 25%. If they get rid of the county threshold basis limit delta, he would be more okay copying the CTCAC prevailing wage or density.

Ms. Miller clarified that Mr. Sertich would keep it at 25% and remove the cap. Ms. Miller stated the idea is to reduce the benefit to balance the numerator. She mentioned they could reduce the adjustment, so the basis delta is 25% and remove the cap.

The Treasurer asked for additional public comment on that topic.

Mike Walsh of Riverside County Housing Authority wanted to emphasis to not give Riverside County a 13% deduction. If they're going to be doing prevailing wage projects, the wage rates are not consistent with LA County. Many of the projects the Housing Authority is providing property vouchers on. If the CTCAC basis delta goes away altogether, they are supportive of that. If it remains in some form, it should not be a negative to counties, but should give an additive to higher cost cities.

Alice Talcott of Midpen stated the basis delta is to adjust for regional cost differences. Prevailing wage and building types are to adjust for specific building characteristics. They are not double counting the same thing because the basis limit delta is capped so there are a number of high-cost counties that their true costs are not getting taken into account. The right weighting of both is tricky, but the basis limit delta cannot go away since it is what adjusts for regional costs. Ms. Talcott stated she is in favor of adjusting the cap to better measure, especially if the weights are going to change.

William Leach of Kingdom Development wanted to add clarification to Mr. Walsh's comment about the Inland Empire having a negative 13% penalty and wanted to remind the committee of how the statewide basis delta works. Counties are measured against the median county, so some are less expensive than the median. Currently, there will be some 20 counties below the average so get assessed a negative. In the math equation, it is like saying they are asking for more of the resources instead of less. Mr. Leach stated he believes the statewide basis delta should be removed.

Ms. Miller asked for clarification on removing the cap.

Mr. Sertich made a motion (see below) and the Ms. Miller requested additional public comment.
Mr. Leach of Kingdom Development stated the statewide basis delta is potentially a discount in the denominator. He asked if the idea is to give it a maximum value, and if some counties would receive a zero to that maximum value, or if they would get negatives and positives.
Mr. Sertich specified right now there are negatives and positives. When calculating the threshold basis delta, multiply it by 25.
Mr. Leach stated hypothetically if a county is 10% more than the median, what would they get?
Mr. Sertich said they would get a 2.5% reduction.
Mr. Leach asked if they were 10% under the median, they would get a 2.5% increase. He gave the example of San Francisco County which is 95% cost higher than the median. The means they would need more resources. In this system, they would get a 23-24% advantage. If there was a county right at the median, requiring about $380,000 per unit to build. They would get a 0% differential. The most costly counties, as proposed, would have a 25% advantage, which could be $5-8 million in resources not counted against them in the denominator. Since even the lowest counties are at 13% below the median, there would only be negatives in small amounts. It essentially takes the current system and makes them smaller but not making the higher counties with high costs not get a differential. The Treasurer stated with the rent savings and other motions that have passed thus far, she asked if higher cost projects would lose. Mr. Sertich stated there are two pieces in the calculation. One is the FMR with rent savings. Higher cost counties have higher rent savings. The second is the threshold basis limit. He tried to determine how counties could compete on a level playing field, in terms of cost, and the best number his team could determine was 25%. Every county is not adjusted equally, since some have higher FMR than the median such as the Inland Empire and have lower cost differentials. The counties that will benefit the most are the ones with a higher need. There has been a lack of supply in building in the last few years, such as Santa Barbara, Santa Cruz, Monterey, which are smaller counties. The bigger counties have mostly evened out. The Treasurer pointed out the smaller counties don't have the amenities like the larger counties so won't get those points, so asked how they will win. Mr. Sertich stated they would be able to compete based upon rent savings and project type.
Caleb Roope with Pacific Companies and the working group stated he was experimenting with a spreadsheet with the newest calculations proposed, and added 15% for prevailing wages, counting 25% of the basis delta and no cap. He stated the cap in general is an artificial suppression of true cost differences, so removing the cap is good policy when measuring. Parity is roughly produced at the 25% counting of the delta. The quick math agreed with the Controller's Office. An example is Riverside County, which has a unique environment where costs tend to be much lower, yet FMR are higher. So Riverside and San Bernardino County wins every time. Generally, across the state it creates more parity but there are pockets of exceptions. Another example is Santa Cruz County, which will win over any Bay Area or Coastal project, depending on where the county ends out in the regions. As far as he could tell, he does not believe it is more than 25% to create [equality]. He went on to state he did not run the numbers with real projects, only sample projects by using basis limits or taking land cost into consideration. As a Bay Area developer, he supports it.
Ms. Miller asked about 10% versus 15% prevailing wage.
Mr. Roope stated when adding the cost of prevailing wages varies greatly. But when in areas not paying prevailing wages such as San Francisco, adding in the 15% versus actual prevailing wage

costs, it tends to true up, so it is a reasonable adjustment. Policy wise, more prevailing wage projects means less production, higher costs, fewer bonds going out doing things. Absent federal changes, the outcomes of this meeting would reduce production in exchange for deeper targeted units due to higher costs. In conclusion, the 25% adjustment and 15, 10, and 5% on density, type 1 and 3, respectively, works with some exceptions.

Ann Silverberg of the working group clarified, what seems to make sense when put in practice. She stated 25% seems to be a modest adjustment versus 50%, but it is a greater adjustment by adjusting the denominated more by blunting the affect of the adjustor. It is currently at 100%, with some limitations of the 30% basis. This is saying they are going to adjust the denominator by a smaller amount of 25%. Some believe it is too much and may want to go back to 50%, as a more moderate position until the full affects are known.

Doug Shoemaker from Mercy Housing and the working group agreed with Ms. Silverberg.

MOTION Mr. Sertich motioned to reduce the threshold basis limit delta is multiplied by25% and remove the cap. Prevailing wages adjusted to 15%, density to 10%, type 1 density at 10%, and type 3 density at 5%. Ms. Miller seconded the motion.

Motion passed by 2/3 vote with Treasurer Ma voting no.

4. *Agenda Item:* ***Committee Discussion and Recommendations to Staff Regarding 2022 Regulations*** *– Presented by Nancee Robles*

This agenda item was carried forward to a future meeting.

5. *Agenda Item:* ***Recommendation for 2022 CDLAC Calendar of Meetings and Acceptance of Application -*** *Presented by Nancee Robles*

This agenda item was carried forward to a future meeting.

6. *Agenda Item:* ***Public Comment***

A discussion ensued to re-address adding HCD and CalHFA cost of projects to the denominator and ended with the conclusion that the decisions made so far, and voted on, have been thoroughly vetted by the committee already. Over the last three years the Committee focused on lowering costs and producing more units which disadvantaged certain parts of the state. Now the Committee is trying to correct those disadvantages which may create new issues of disadvantage in other areas of the state. The new focus is on ELI, homelessness and near homelessness. Ms. Miller stated it could be something we discuss again next year.

7. *Agenda Item:* ***Adjournment approx. 1:45 pm***