CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
2014 Annual Report

Affordable Housing for California

April 2015

John Chiang
Treasurer
State of California

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

2014 Annual Report

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

Section 50199.15(a) of the California Health and Safety Code requires the Committee to submit an annual report of the prior year's activities to the Legislature. The statute specifically requires the Committee to report the following information:

- the total amount of housing credit allocated;
- the total number of low-income units that are, or will be, assisted by the credit;
- the amount of credit allocated to each project, other financing available to the project, and the number of units that are, or will be, assisted by the credit; and
- sufficient information to identify the projects.

The report must also describe the status of units reserved for low-income occupancy from projects receiving allocations in previous years. The bottom of page 44 of this report contains a link to additional data for 2014 and earlier program years.

This entire report can also be viewed at: http://www.treasurer.ca.gov/ctcac/2014/annualreport.asp

**cover photos of current portfolio projects, top to bottom: Tobias Terrace, Lorenz Senior Apartments, Tule Vista*

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Voting Committee Members:

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State Treasurer

Michael Cohen, Director of Finance

Betty Yee, State Controller

Advisory Committee Members:

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California Housing Finance Agency

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Executive Summary
2014 Program Year

In 2014, the California Tax Credit Allocation Committee ("TCAC" or "the Committee") awarded $91.8 million in competitive nine percent (9%) annual federal Low Income Housing Tax Credits (LIHTCs) to 83 proposed housing projects. These awards will induce $992 million in private equity investment into the projects, allowing recipients to develop a total of 4,846 affordable rental housing units using. The majority of projects awarded 9% tax credits result in new housing units built (new construction). In 2014, 3,917 (81%) of the affordable units receiving 9% tax credit awards will be new construction.

The Committee's non-competitive four percent (4%) program awarded $80.8 million in annual federal tax credit to 105 proposed housing projects. Recipients will develop 9,004 affordable rental housing units, funded with $829 million in tax credit equity investments. The 4% program produces a more equitable balance of new construction and rehabilitated housing compared to 9% awards. In 2014, awards were made for development of 2,790 new construction affordable housing units (31%) using 4% tax credits.

Included with the 9% and 4% federal tax credit awards listed above, the Committee provided 37 of these projects with competitive state tax credit awards totaling $112.1 million. State credits are instrumental in providing additional equity to projects when federal tax credits fall short of a project's needed financing, and state tax credit awards permit federal credits to be stretched across more projects, resulting in more housing built. State tax credit awards totaling $97.5 million were made to 29 of the competitive 9% projects, and $14.5 million in state credit was awarded to 8 projects receiving 4% federal tax credits with tax-exempt bonds.

TCAC has assisted approximately 345,000 affordable units with tax credit awards since the program's inception.

The 2014 federal tax credits assisted projects in 36 Counties, 64 State Assembly Districts, 40 State Senate Districts and 50 Federal Congressional Districts. Of those projects, state tax credits assisted 29 projects in 18 Counties, 22 State Assembly Districts, 18 State Senate Districts and 22

Federal Congressional Districts. The link at the bottom of page 44 can be used to obtain a listing of the projects by district.

In 2014, the Committee staff physically monitored 880 tax credit projects and over 15,000 units. Monitoring visits included reviewing files and physically inspecting the units and common areas. IRC Section 42 and state statutes require state allocating agencies to monitor occupancy compliance at least once every three years throughout the initial 15-year credit period. Thereafter, TCAC staff monitors on a five year cycle. To fulfill the initial compliance period federal requirements, Committee staff annually inspects and reviews at least 20% of the files and residential units at each development.

Monitoring visits can result in findings of non-compliance. In most cases the non-compliance is due to over-charging rents, inadequately documenting resident files, or violating uniform physical conditions standards. Of the 771 initial credit period developments inspected in 2014, 707 or 92% had some incident of non-compliance, but a large majority of the non-compliance issues were promptly corrected. Of such violations, TCAC reported 85 of the 771 developments (11%) to the Internal Revenue Service as required for physical conditions standards or over-income violations. TCAC found 39 units to have income-ineligible households at move-in. In cases where too much rent was charged, property owners provided refunds to all residents who were able to be located. The Committee required project owners to bring developments into compliance or risk losing credits against their federal (and in some cases state) tax liability.

2015 ushers in new leadership for TCAC. After 8 and 9 years of service to the program, respectively, Treasurer Bill Lockyer and Executive Director William J. Pavão have retired. We would like to take this opportunity to thank them sincerely for their true dedication and excellent leadership. They left a program to be proud of. In addition to a new chair of the Committee, Treasurer John Chiang, we welcome a new member in Controller Betty Yee. On January 21, 2015, the Committee appointed Mark Stivers as the new executive director.

9%

Low Income

Housing Tax Credits

I. 2014 Accomplishments & Results - 9% Tax Credits

Overview

In 2014, the per capita annual federal tax credit ceiling was $88,164,798. In addition, $3,699,998 in net annual federal tax credit was returned to the Committee during the year, and the $364,756 in annual credit was awarded by the Internal Revenue Service to California from the "national pool."[1] This brought the annual federal credit ceiling available to California in 2014 to $92,229,552. TCAC pre-committed $365,173 in 2013 from the 2014 credit ceiling, leaving $91,864,379 in annual federal credit available. California allocated $91,789,133, with $75,246 in annual credits remaining at year end. While low income housing tax credits are referred to in annual terms ($91,789,133), each award earns investors 10 years of annual federal tax credits. The real value of the $91,789,133 in annual federal credits allocated in 2014 was $917,891,330.

Mather Veterans Village (CA-14-031)

[1] National pool credits are unused tax credits from other states that are divided among states that have allocated all their credit in the preceding year.

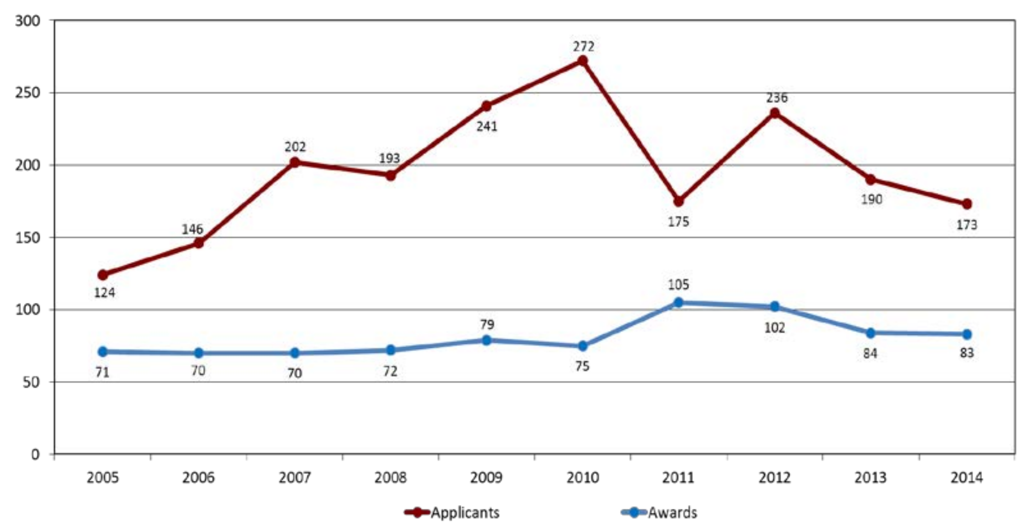
2014 Demand for 9% Tax Credits

Applicants submitted a total of 173 applications for competitive 9% tax credits in 2014 with 83 projects, or 48%, receiving a tax credit allocation. The success rate in 2014 was similar to the previous year. Over the past five years application success rates have ranged from 28% (in 2010) to 60% (in 2011).

Applications

In 2014, 173 9% applicants requested approximately $187.1 million in annual federal tax credit, exceeding the $92 million available.[2] Sixty-three of the 173 applicants also requested approximately $216.3 million in total state tax credit. Chart 1 below provides additional historical data on federal credit ceiling applicants.

Chart 1
9% Application Submissions 2005 – 2014



[2] This amount includes second round reapplications.

Geographic Apportionments and Credit Distribution

In 2012 TCAC updated and revised the regional apportionment formula within its adopted regulations. The updated percentages became effective in 2014. Table 1 below shows federal and state tax credit distribution in the geographic apportionments in effect in 2014. This data includes only those projects receiving funding from the geographic apportionments, and does not include projects funded in these geographic regions under the set-asides; for set-asides, please refer to page 9. The Target Apportionment of Table 1 does not account for prior years' results and their effect on available tax credit in 2014. That is, those areas receiving more credits than they were apportioned in 2013 had their 2014 apportionments discounted by the overage amount. The Allocation Percentages shown below, however, do reflect these discounts.

Table 1
2014 Federal and State Apportionments versus Allocations

Geographic Area	Target Apportionment	Allocation Percentage	Allocation Amount
City of Los Angeles	17.6%	18.15%	$113,189,300
Balance of Los Angeles County	17.2%	12.57%	$78,383,270
North and East Bay Region	10.8%	10.07%	$62,830,647
Central Valley Region	8.6%	7.76%	$48,407,498
San Diego County	8.6%	9.04%	$56,409,390
Inland Empire Region	8.3%	9.05%	$56,458,150
Orange County	7.3%	8.12%	$50,671,400
Capital and Northern Region	6.7%	7.38%	$46,038,581
South and West Bay Region	6.0%	5.36%	$33,407,730
Central Coast Region	5.2%	4.49%	$28,005,308
San Francisco County	3.7%	8.00%	$49,889,000
TOTAL	**100%**	**100.00%**	**$623,690,274**

Housing Types

State regulations require all 9% tax credit applicants to compete as one of five housing types. These include: Large Family (3-bedroom or larger units accounting for at least 30% of total project units); Senior; Single Room Occupancy (SRO) units; Special Needs (e.g. persons with developmental, physical, or mental health disabilities, physical abuse survivors, homeless persons, or persons with chronic illness); and affordable projects "At-Risk" of conversion to market rate. Table 2 outlines the distribution of low-income units and tax credits among housing types for 9% federal and state tax credits awarded in 2014.

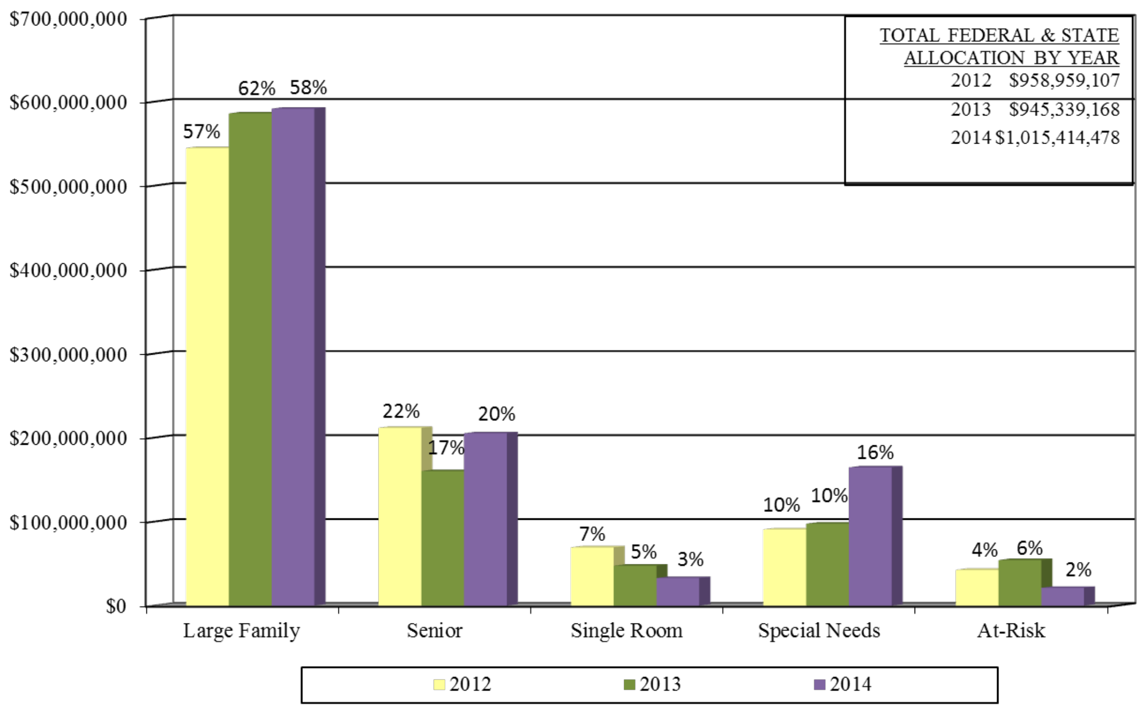
Table 2

2014 9% Housing Type Units and Credits

Housing Type	Projects Awarded Credit	Low Income Units	Total Federal Credits Awarded*	Total State Credits Awarded	Percentage of Total Credit	Current Goals
Large Family	44	2,827	$548,953,870	$42,697,500	58.27%	65%
Senior	20	1,067	$190,765,250	$14,407,142	20.20%	15%
SRO	3	191	$29,032,010	$3,791,844	3.23%	15%
Special Needs	12	533	$130,930,760	$33,631,857	16.21%	15%
At-Risk	4	228	$18,209,440	$2,994,805	2.09%	15%

The housing types are listed in order of priority. The listed "goal" refers to the distribution of federal tax credits, not units. Chart 2 below displays 9% federal and state allocations by housing type for the last 3 years.

Chart 2
2012-2014 9% Federal and State Allocations by Housing Type



Tax Credit Set-Asides

Consistent with federal and state law, TCAC sets aside ten percent (10%) of the available 9% tax credits for nonprofit entities. State law also provides that 20% of federal credits be set aside for allocation to rural projects. TCAC regulations provide for a 4% set-aside for special needs and SRO developments and a 5% set-aside for affordable housing at risk of converting to market rate developments. While Table 3 below outlines the 2014 allocation of 9% federal tax credit among the various set-asides and apportionments, projects initially applying under certain set-asides may have been awarded under a different set-aside or apportionment. This is due to the nature of the 9% competitive system, which allows nonprofit, special needs/SRO, and at-risk set-aside applicants to compete in the geographic apportionment if unsuccessful in their set-aside.[3] Table 3 below provides information on the federal and state allocations for each set-aside. Table 11 below (page 41) provides additional historical set-aside data.

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

Table 3
2014 9% Allocations by Set-Aside

Set-Aside		Projects	Low Income Units	Total Federal Allocation	% of Total	Total State Allocation	% of Total
Nonprofit	Homeless Assistance	7	387	$97,141,360	10.58%	$29,177,906	29.92%
	Nonprofit	0	0	$0		$0	
Rural	RHS/Tribal/HOME	5	237	$36,867,280	20.91%	$12,958,053	25.56%
	Rural	21	1,150	$155,045,420		$11,968,966	
At-Risk		1	37	$3,449,090	0.37%	$0	0.00%
Special Needs/SRO		4	227	$38,981,550	4.25%	$6,134,579	6.29%
Geographic Apportionment		45	2,808	$586,406,630	63.89%	$37,283,644	38.23%
TOTAL		**83**	**4,846**	**$917,891,330**	**100.00%**	**$97,523,148**	**100.00%**

Qualifying nonprofit awards were not limited to those funded within the Nonprofit set-aside. Project applications submitted to the Nonprofit set-aside may have been awarded in the above Geographic Apportionment if unsuccessful in the set-aside. Of the $91.8 million in annual federal credit awarded, 33% was awarded to Nonprofit set-aside applicants.

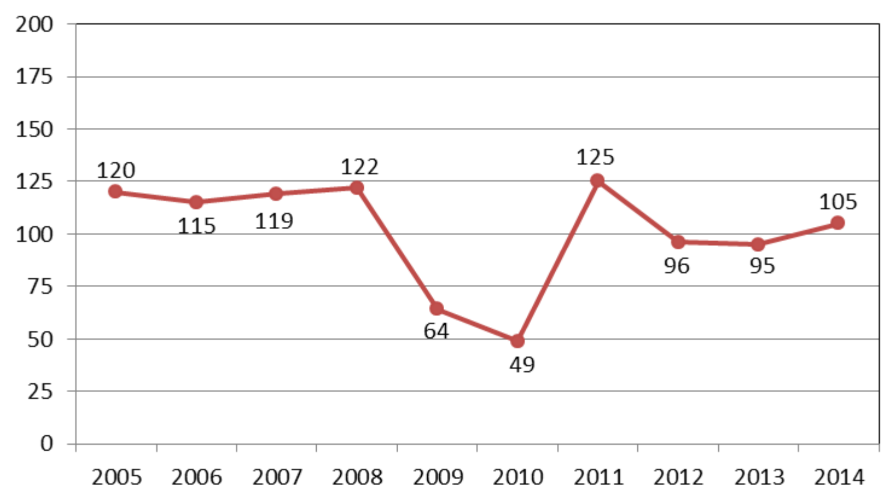
4%
LOW INCOME
HOUSING TAX CREDITS

II. Accomplishments & Results – 4% Tax Credits

In 2014 the Committee received 121 applications for projects financed with tax-exempt bond proceeds and reserved 4% federal tax credits for 105 projects. The number of 4% applications and awards has varied in recent years with the national economic environment (see Chart 3 below). The 105 projects received $80,820,170 in annual federal tax credit and will produce 9,004 low-income units. Of the 105 projects awarded 4% federal tax credits in 2014, 8 also received allocations of state credits totaling $14,553,964.[4]

In 2014, the average annual federal credit awarded to a 4% project was $769,716. The average project size was 86 affordable units, a decrease from the previous two years, which averaged over 90 affordable units per project. The annual federal credit award per unit in 2014 was $8,772, or $87,720 in total federal credit per unit.

Chart 3
4% Awards 2005 - 2014



[4] Tax-exempt bond applicants requesting both federal and state tax credit for a project must apply for state credit through the credit ceiling competition. The federal tax credit awards for these projects are not made from the federal credit ceiling.

STATE
LOW INCOME
HOUSING TAX CREDITS

III. Accomplishments & Results - State Tax Credits

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

In 2014, the total state credit available was $104,612,545. The Committee awarded approximately $112.1 million in state tax credits to 37 projects: eight 4% projects and twenty-nine 9% projects. Approximately $7.5 million was forward committed from 2015 state credit. These 2014 state credit awards will facilitate developing a total of 2,238 affordable housing units.

Applicants requested approximately $246 million in state credits in 2014, a 30% increase over the amount requested in 2013. Thirty-six percent of 9% percent applicants requested state credit in 2014, similar to 2013 when 35% of applicants requested state credit. The average state credit award for 9% projects increased by 25% in 2014, from $2.7 million in 2013 to $3.4 million. Demand for state credit from 9% special needs housing projects increased significantly in 2014, with 17 special needs housing applicants requesting state credit as a result of Assembly Bill 952 (see below). In both 2012 and 2013, one 9% special needs project requested state credit. In

2014, 9 special needs projects received $33.6 million in state credit awards, or 34% of the total state credit awarded to 9% projects. This was a significant increase from 2013, with one award of state credits to a special needs housing project. These 9 projects will develop 482 housing units.

Four percent applications for state credit also increased significantly, with 8 applications in 2013 and 21 in 2014. The number of 4% projects receiving state credit awards was similar (7 in 2013 and 8 in 2014), while the amount awarded to 4% projects increased from $9.0 million in 2013 to $14.5 million in 2014.

Assembly Bill 952

Assembly Bill 952 (Atkins), approved by the Legislature and Governor Brown in October 2013, increased state credit allocations to special needs housing projects by expanding the use of state credit with federal credit awards. The Committee's 2014 regulations designated special needs housing as Difficult Development Area (DDA) projects, eligible for a 30% federal basis boost (a larger amount of federal tax credit). AB 952 permitted TCAC to allocate state credits to special needs projects in addition to allocating a larger federal credit award. Historically this has not been permitted. These changes enabled special needs housing projects to receive state credit awards with larger federal credit awards, and were broadly supported by supportive housing developers. The volume of competitive applications for 9% credits for special needs projects increased significantly in 2014.

State Credit Exchange – 9% Credit Ceiling Only

By regulation, TCAC may place state low income housing tax credits into competitively awarded projects in exchange for federal credits. As a result of the demand for state credits, TCAC did not exchange state credit for federal credit in 2014.

Projects Financed with Tax-exempt Bonds & State Tax Credits

Of the 105 projects financed with tax-exempt bonds, 8 received allocations of both federal and state tax credits. These 8 projects received a total of $4,538,475 in annual federal tax credit ($45,384,750 as a ten year total) and $14,553,964 in total state tax credit. The average state credit award per project has varied over the past five years, ranging from $1.29 million in 2013 to $2.87 million in 2010. From 2012-2014, state credit awards to 4% projects averaged $1.7 million per project.

2014
Key Events

IV. Key Events During 2014

Regulation Changes in 2014

Early in 2014, the Committee adopted regulatory changes designed to improve the program and strengthen the competitive allocation process. Substantive changes included:

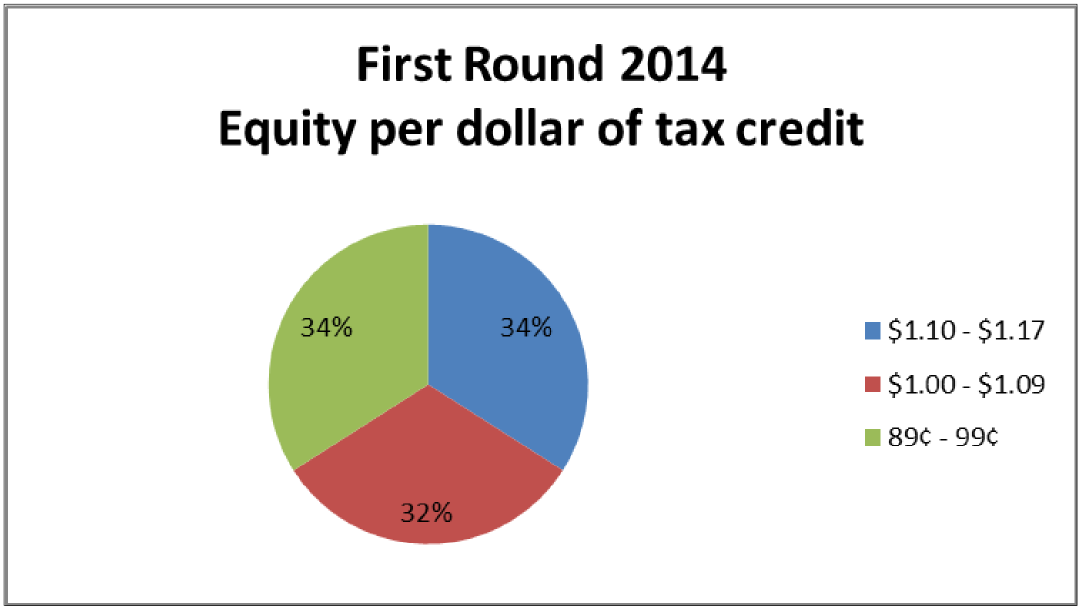
- For 9% and 4% special needs housing developments, TCAC created an exception to the prohibition of state credit availability to projects with a 130% federal tax credit basis adjustment. The change was made due to enactment of Assembly Bill 952. This enabled special needs housing projects to receive state credit awards in addition to a larger federal credit award (this option is not available to any other type of project).
- The definition of projects eligible to compete under the Nonprofit set-aside was updated.
- The Committee added a Native American tribal apportionment of $1 million to the Rural set-aside, and made changes to several regulation sections relevant to tribal housing.
- Federal HOME funding was added to the RHS apportionment within the Rural set-aside.
- TCAC required projects eligible to compete in a set-aside (e.g., special needs, at-risk) to apply for set-aside funding rather than apply directly to their geographic apportionments. These projects remained eligible to complete within the geographic regions if unsuccessful in the set-aside. The Committee also eliminated the option for Rural set-aside projects to compete in the At-Risk set-aside.
- Updated geographic regional apportionments (the percentage of federal and state credit available to each geographic region) were implemented, having been adopted in 2013 with an effective date of 2014.
- Beginning in 2015, 9% project senior housing will be restricted to residents who are at least 62 years of age. Also effective in 2015, TCAC increased accessibility requirements to senior housing.

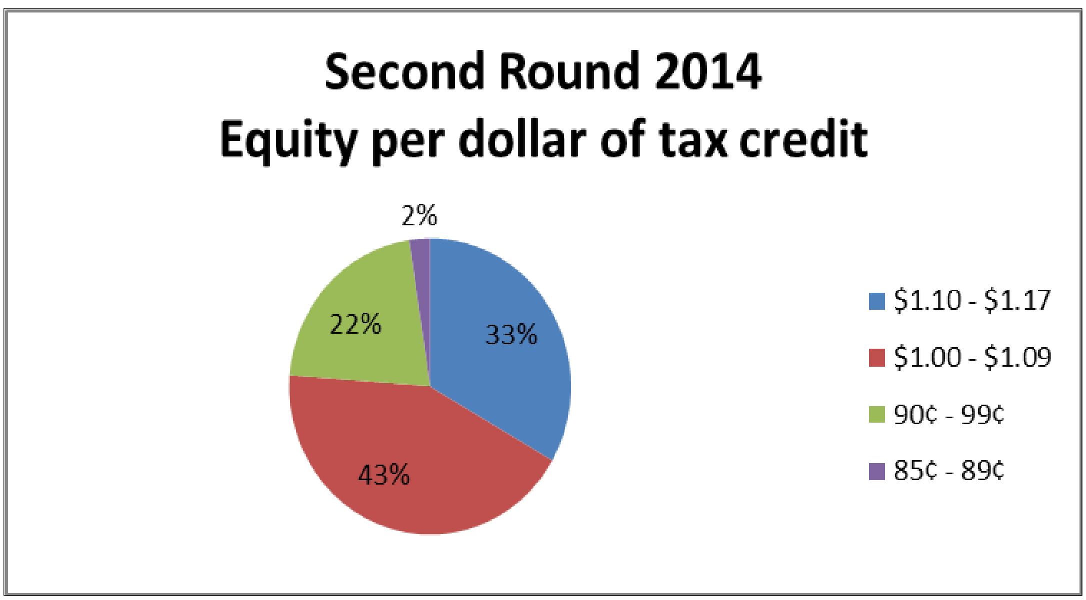
- A minimum construction standard for accessibility was added, invoking California Building Code Chapter 11B accessibility requirements, with increased requirements effective in 2015.
- TCAC added a requirement that 9% rehabilitation projects complete at least $40,000 per unit in construction expenditures.
- TCAC modified sustainable building method and energy efficiency requirements. For projects building to LEED or GreenPoint Rated standards, documentation requirements for the TCAC minimum energy efficiency standard were eliminated. Also, TCAC established separate first and second round sustainable building method points based on changes to the California Building Code (Title 24) Standards taking effect July 1, 2014.
- The regulations expanded the Executive Director's ability to waive unit size minimums for rehabilitation projects. Also, the Executive Director was provided the ability to obtain clarifying information from third party sources as part of the competitive application review process.
- The Final Reservation submission requirement was eliminated, and instead, the Committee enabled TCAC staff to review all awarded 9% projects 180 days after the date of the tax credit award, not only those opting for a "readiness" submission.

Credit Pricing

Tax credits are generally offered through partnerships to investors, and their value is the price investors judge the tax credits to be worth in terms of dollars. California projects continued to receive the robust credit pricing that began in 2011. In contrast to 2009 and 2010 depressed equity contributions, tax credit project developers were able to attract sizeable commitments from equity partners. The following charts[5] depict pricing reflected in competitive awardees' Letters of Intent (LOI) executed with prospective limited partners.

[5] These 2 charts include 4% + State credit awards with letters of intent and exclude waiting list projects funded in November and December 2014.



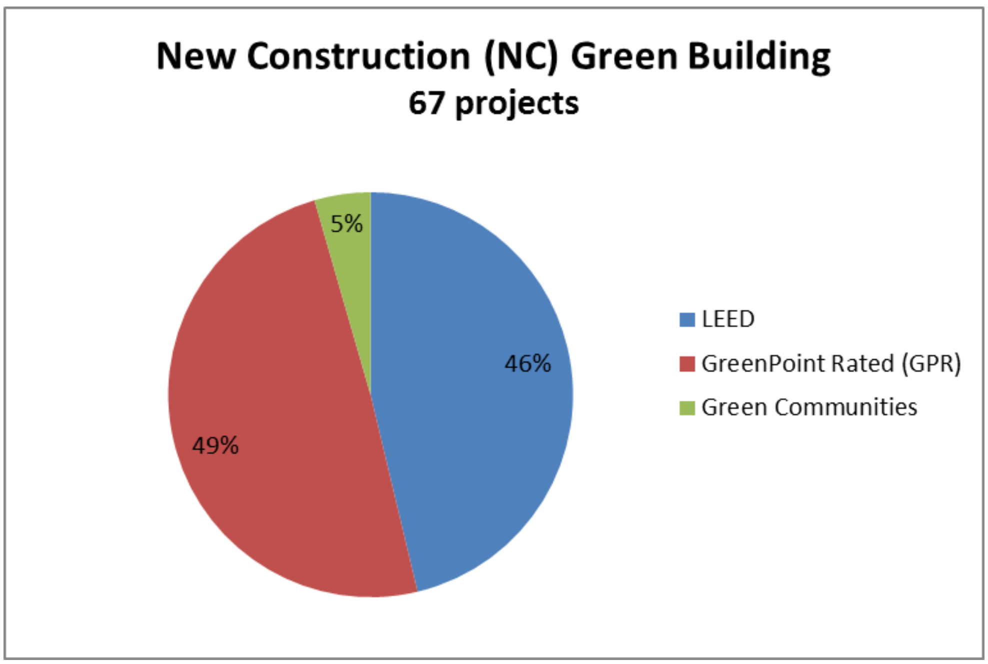


Letters of Intent are due to the Committee 90 days after competitive awards are made. For 2014, first round projects awarded in June submitted LOIs in September. Second round projects awarded in September submitted LOIs in December. Credit pricing continued to vary by region and project type, with the very highest pricing occurring in bank CRA investment areas, while some of the lower pricing occurred in rural areas.

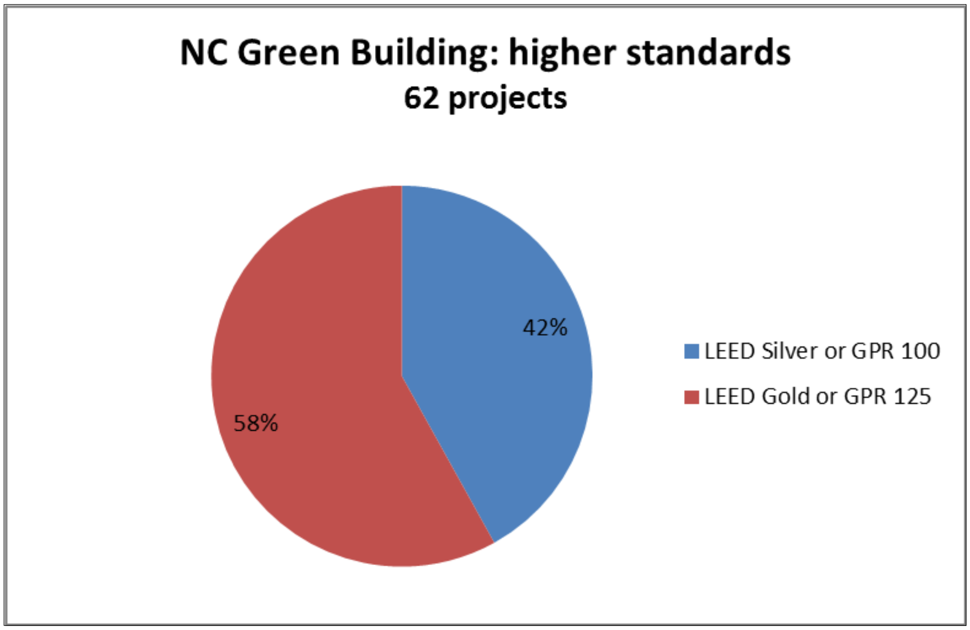
Sustainable Building Commitments

In 2011, the Committee adopted regulations significantly strengthening TCAC's competitive scoring, threshold construction standards, and verification procedures regarding sustainable building techniques. In response to scoring changes, project developers committed to a variety of sustainable building and energy-efficiency features. The following summarizes the 2014 9% credit application results related to sustainable building scoring:

Sixty-eight successful 9% applicants proposed <u>new construction</u> projects; 67 of the 68 applicants committed to sustainable building beyond TCAC's minimum standard. Among the 67 awardees, competitive points were earned by committing to the following sustainable standards:

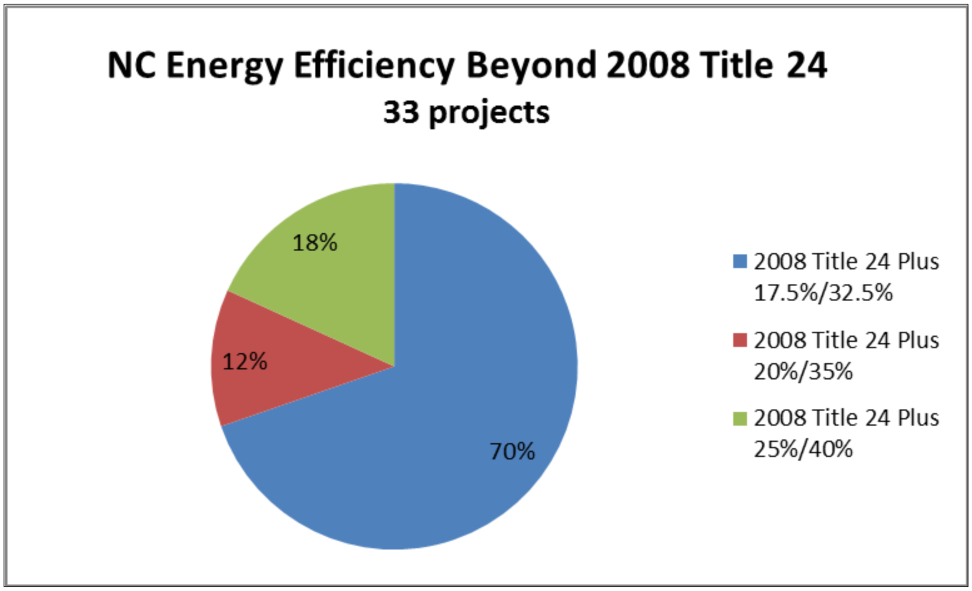


Of these 67 projects, 62 (93%) elected to develop to a higher level of these recognized standards as follows:



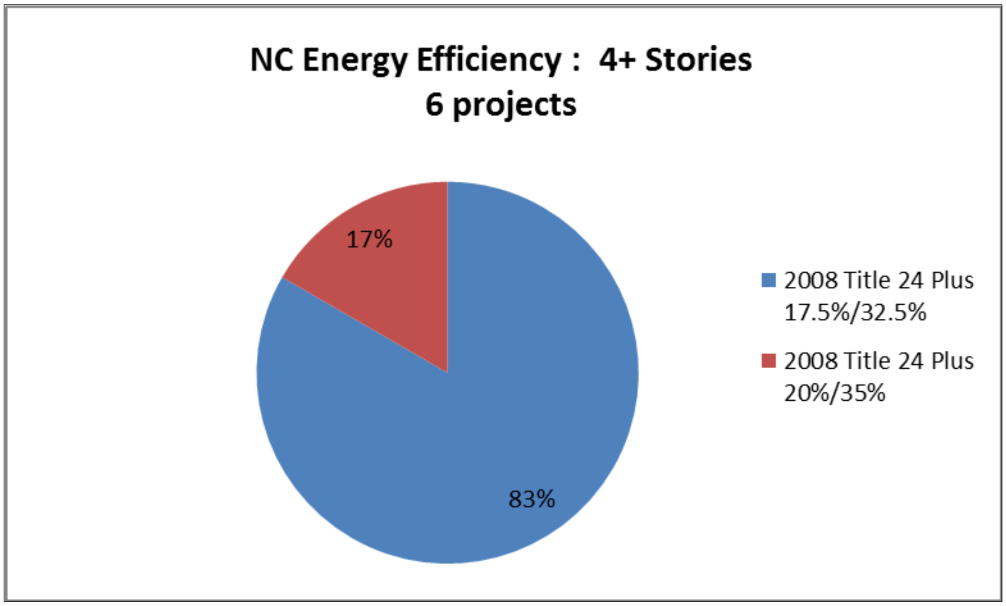
Note: Green Communities does not have a higher standard

Of the 67 new construction projects, 33 (49%) committed to additional energy efficiencies beyond California's Building Energy Efficiency Standards (Title 24) as follows:

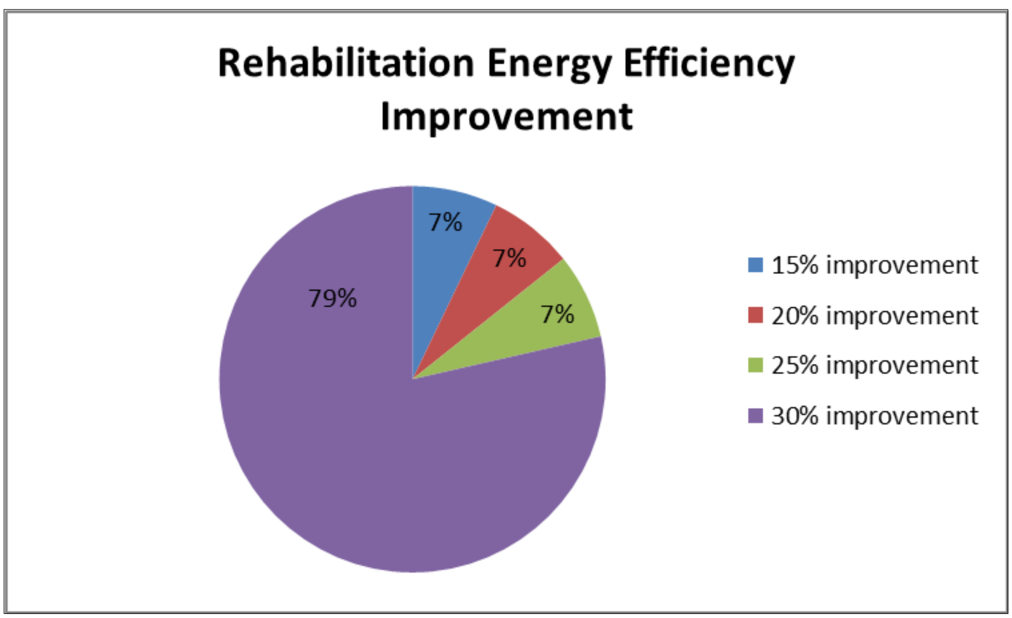


Note: Since new, more stringent Title 24 standards were effective July 1, 2014, TCAC's energy efficiency requirements increased as well, resulting in different percentages for first and second round applications.

Of the 67 new construction projects, 6 (9%) garnered points using four-plus story standards:



In addition to the projects above, 15 successful applicants proposed rehabilitation projects. In 2014, TCAC introduced green building scoring options for rehabilitation projects. Among the 15 awardees, competitive points were earned by 3 projects committing to GreenPoint Rated building standards. Among the 15 rehabilitation projects, 14 (93%) proposed improving the existing property's energy efficiency as follows:



Among the 15 rehabilitation projects, 1 project (7%) elected additional rehabilitation measures, photovoltaic generation offsetting tenant loads (solar panels).

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

Redevelopment Agency Funding

Like all affordable housing stakeholders in California, TCAC closely monitored the events in 2011 regarding redevelopment agency funding. California redevelopment agencies were officially dissolved February 1, 2012, which eliminated a valuable gap financing source for projects that had not already obtained an enforceable commitment. From 2009 to 2011, over half of TCAC's competitive projects included redevelopment funding. In 2012 this percentage fell to 30%. In 2013, TCAC reserved credits for 18 (20%) with committed redevelopment funding. Of 91 competitively awarded projects in 2014, TCAC reserved credits for 14 (15%) with committed redevelopment funding. These figures show that while redevelopment agency financing was once a major source of funding for affordable housing, it has drastically declined in recent years and will likely disappear completely in the next year or two. This decline is likely a major factor in the decline in overall applications over the last few years, as there are few sources of funding to replace redevelopment.

Native American Set-aside

In 2012, TCAC staff began meeting with California Native American tribal representatives and discussing Native American affordable housing needs. California is home to 109 federally recognized Native American tribes. Many tribal reservations are located in California's rural areas, and some reside in remote rural areas. Prior to 2014, no affordable housing projects had been built on reservation land in California using low income housing tax credits. To reverse this trend, TCAC staff began meeting with tribal representatives in 2013 to formulate regulation changes enabling Native American tribes to utilize the tax credit program and compete more effectively for 9% credit awards.

In October 2013, TCAC staff proposed a two-year pilot program establishing a Native American annual apportionment of $1 million from the existing 9% Rural set-aside. The Committee adopted this regulation change in January 2014. The Committee also adopted regulation changes including equivalent references relevant to tribal sovereignty in TCAC program requirements, such as project site control and land use approvals. In addition to a Tribal set-aside, tribal representatives recommended proposals for an alternative competitive system for tribal applicants given the unique cultural and historical elements of tribal reservation land. Going forward, TCAC staff will review the pilot apportionment results when formulating future regulatory changes to improve Native American access to low income housing tax credit resources.

In 2014, TCAC received applications for three tribal housing projects for the 9% Native American pilot apportionment. The Committee made two awards under the Native American apportionment. Ultimately, one tribe returned the tax credit reservation. The 2014 tribal apportionment award was made to the Yurok Indian Housing Authority for Trinity River Elder's Village, located in Hoopa, CA.

MONITORING PROGRAM COMPLIANCE

V. Monitoring – Project Performance & Program Compliance

As required by federal law, TCAC monitors a tax credit project for progress in meeting milestones and reservation requirements up until it is completed and placed in service. Additionally, Internal Revenue Code Section 42 and state statutes require TCAC to monitor occupancy compliance throughout the project's regulated operation period, or extended-use period. The Internal Revenue Service (IRS) requires notification from allocating agencies of any owner non-compliance or reporting failures during the initial 15 years of operation, or credit compliance period. The monitoring requirement begins at occupancy and continues under the project regulatory agreement for periods, ranging from 30 to 55 years. Federal law requires that each project be monitored when "placed-in-service" and then every three years during the credit compliance period. The Committee must determine, among other requirements, whether the income of families residing in low-income units and the rents they are charged are within agreed upon limits stated in the regulatory agreement. Additionally, TCAC staff must conduct physical inspections of units and buildings in each development.

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

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

Monitoring Activities

In 2014, Committee staff conducted monitoring activities at 771 tax credit projects to fulfill the IRS requirements that all completed tax credit developments be inspected at least once every three years. Staff inspected at least 20 percent of the files and units at each development. Of the 771 developments inspected, 707 or 92% had some incident of non-compliance. However, a large majority of the non-compliance issues were corrected. The most common non-compliance incidents were over-charging rents, inadequately documenting files, or violating the uniform physical conditions standards. Of such violations, 85 of 771 or 11% of the developments were reported to the IRS as required. In cases where excessive rent was charged, the property owner provided refunds to all residents who were able to be located.

Of the 14,393 units monitored for compliance, 39 were found to have households that were not income eligible at move-in. Project owners were required to bring projects into compliance or risk losing credits against their federal (and in some cases state) tax liability.

Compliance Report for Projects Placed in Service

In addition to the monitoring activities for the 771 projects cited above, Committee staff also asked project owners to report the occupancy of required tax credit units. The information may be used for determining file inspection selections for projects in which owners have either not reported occupancy information or have not successfully rented units to qualifying tenants.

Compliance Report for Projects in Extended Use Portfolio

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

In 2014, compliance staff conducted file inspections and unit inspections for approximately 5% of projects in the extended use portfolio. Committee staff inspected 299 units in 45 projects. Following the inspection, staff reported the noncompliance incidents to the project owners and established a 30-day correction period for owners to correct noncompliance findings. The owners responded with documentation evidencing corrections to the noncompliance issues and the inspections were closed out. Due to staffing issues in 2014, TCAC performed fewer inspections than in previous years.

Compliance Report for Projects Receiving American Recovery and Reinvestment Act Funds

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

During 2014, TCAC compliance staff performed financial reviews of 134 ARRA projects and physically inspected 64 ARRA projects. Committee staff determined the projects to be financially feasible, physically maintained, and in compliance with IRS Section 42 regulations.

Tenant Demographic Data Collection

In July 2008 Congress passed the Housing and Economic Recovery Act (HERA), requiring all tax credit allocating agencies to annually collect and submit to the U.S. Department of Housing and Urban Development (HUD) specific demographic and economic information on tenants residing in Low-Income Housing Tax Credit (LIHTC) financed properties. In 2013 TCAC staff, along with its contractor Spectrum Enterprises, collected and submitted to HUD data on approximately 2,912 projects or approximately 92% of the Committee's portfolio. The data submitted to HUD included 22,983 buildings, 240,033 units and 512,904 tenants. At the time of this report, tenant demographic data for 2014 is in the process of being compiled.

Table M-1

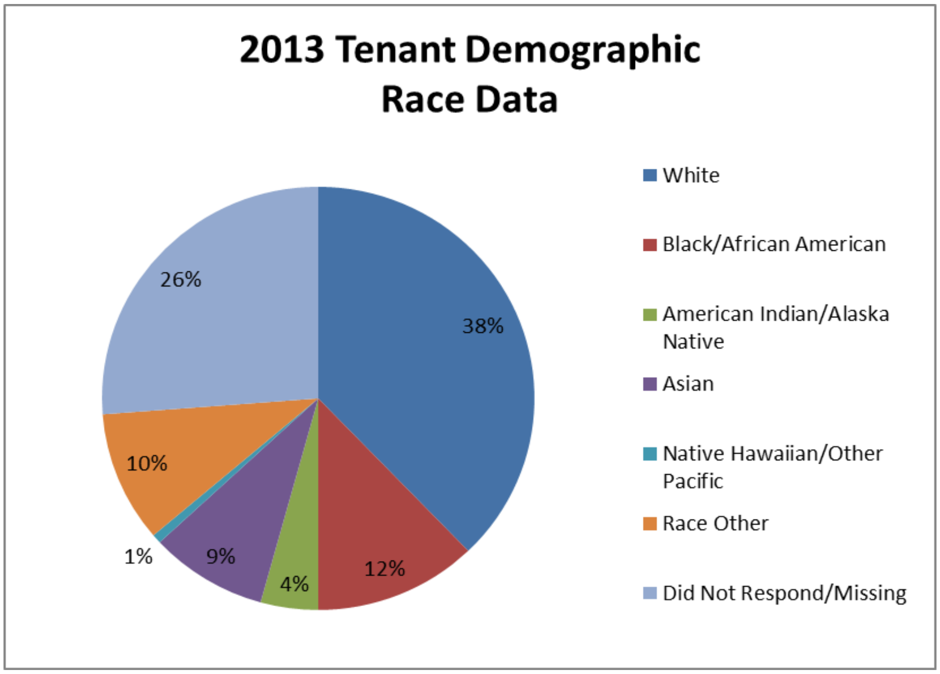
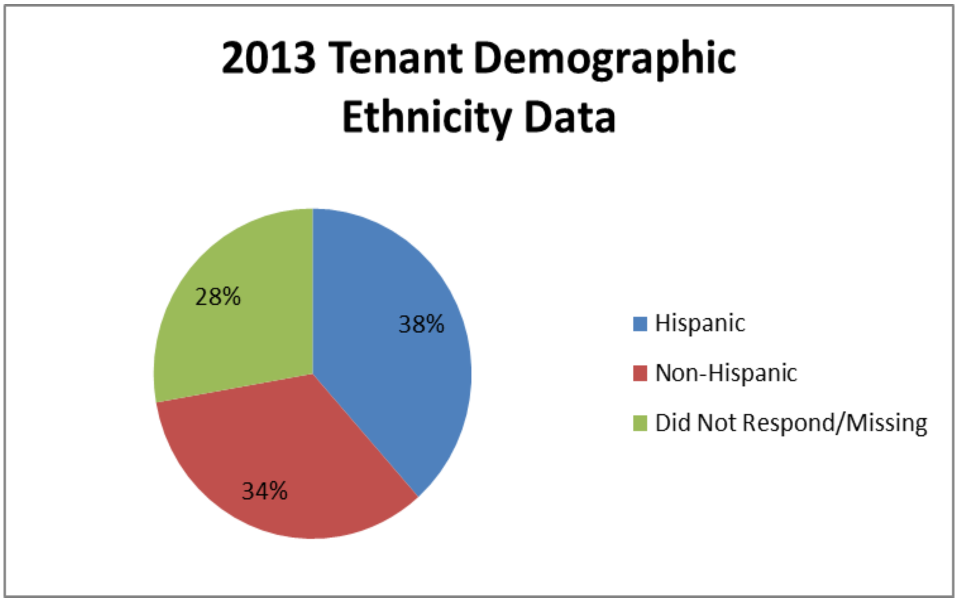


Table M-2



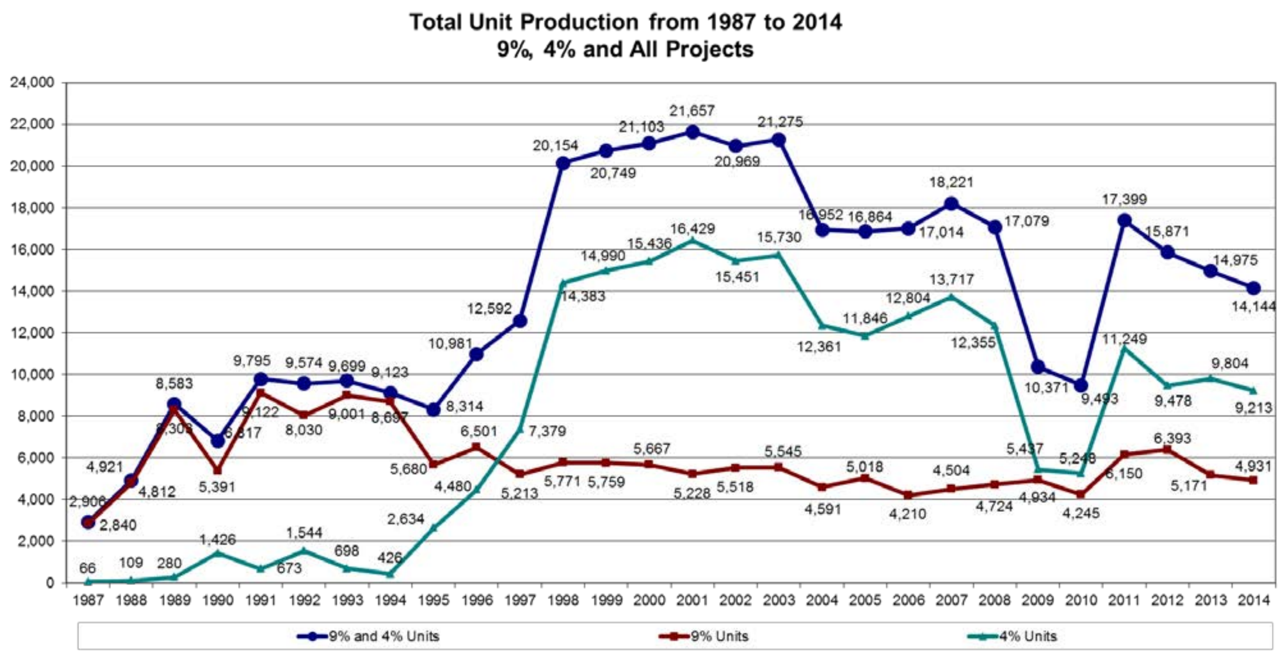
HISTORY
DATA & TRENDS

VI. Historical Data & Trends:

Including 2014 awards, California's has awarded approximately $17 billion in 9% credits since the program's inception in 1987. These awards will result in more than 2,500 housing projects with more over 145,000 units. Including tax-exempt bond financed projects receiving 4% credits, TCAC has assisted approximately 345,000 affordable units with tax credit awards since the program's inception. More than 900 projects have also utilized state tax credits totaling over $1.7 billion.

Chart 4[6] below displays historical data of the total units awarded each year for 9% and 4% projects from 1987 to 2014:

Chart 4



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

LIHTC Investment

TCAC estimates that in the past decade alone, approximately $8 billion in investor equity has been, or will be, funded from the allocations of federal and state tax credits of 9% projects. TCAC estimates the total equity invested in both 9% and 4% projects over the past 5 years is estimated to be more than $7 billion.[7] Tax credits are generally offered through partnerships to investors, and their value is the price investors judge the tax credits to be worth in terms of the immediate and future tax benefits received from the credits, along with other benefits received by owning a project. Table 4 below provides some summary information on various measurement factors of the 9% program.

Table 4
9% Historical Federal Credit Data

	2010	2011	2012	2013	2014
Annual Federal Award	$79,964,641	$83,682,515	$87,345,016	$86,760,169	$91,789,133
Total Number of Projects	75	105	102	84	83
Total Units	4,245	6,150	6,393	5,171	4,931
Total Low Income Units	4,170	6,026	6,246	5,080	4,846
Average Award	$1,066,195	$796,976	$856,324	$1,032,859	$1,105,893
Credit per Low Income Unit	$19,176	$13,887	$13,984	$17,079	$18,941
Average Project Cost	$18,093,465	$17,279,046	$16,293,561	$18,532,685	$19,985,798
Average Cost per Unit	$319,673	$295,008	$259,963	$301,248	$336,407
Avg. Tax Credit Factor at App.	$0.76	$0.90	$0.99	$0.98	$0.99
Average LI Units per Project	56	57	61	60	58

Federal and State Credits Per Low Income Unit from 2005-2014

Table 5 below summarizes data on credits per low income unit for projects awarded 9% credit from 2005 to 2014. Charts 5 and 6 below provide additional historical data on awarded credit per unit.

[7] Estimate calculated using TCAC historical investor equity data from 9% applications and for 4% projects, assuming $0.85 in investor equity generated per dollar of total federal credit awarded and $0.60 per dollar of state credit awarded.

Table 5

9% Federal and State Credit per Low Income Unit: 2005-2014

Year	Total # of Projects	Total Federal Credit	Total State Credit*	Total Low Income Units	Total Federal and State Credit per Low Income Unit
2005	71	$706,130,620	$54,900,296	4,916	$154,807
2006	70	$725,009,340	$67,913,607	4,098	$193,490
2007	70	$769,979,540	$71,062,246	4,424	$190,109
2008	72	$817,382,100	$67,371,340	4,640	$190,680
2009	79	$910,997,810	$72,515,252	4,840	$203,205
2010	75	$799,646,410	$31,372,828	4,170	$199,285
2011	105	$836,825,150	$86,979,826	6,026	$153,303
2012	102	$873,450,160	$85,508,947	6,246	$153,532
2013	84	$867,601,690	$77,737,478	5,080	$186,090
2014	83	$917,891,330	$97,523,148	4,846	$209,537

**Additional state credit was awarded to tax-exempt bond projects; refer to Table 7 below. Data for 2008 excludes $1.2 million in state tax credits awarded under the Farmworker Housing Assistance Program.*

One hundred thirty-eight of the projects shown in Table 5 above (and Table 7 below) would have failed but for the American Recovery and Reinvestment Act of 2009 (ARRA) assistance provided by the federal government.

Chart 5

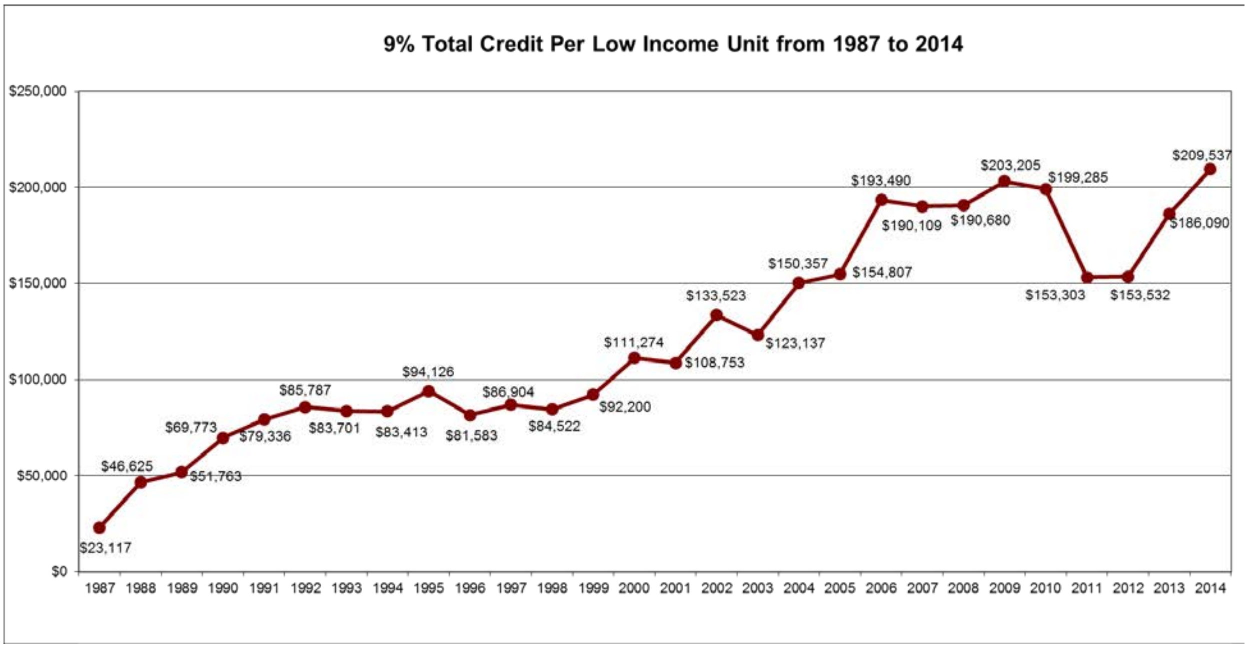
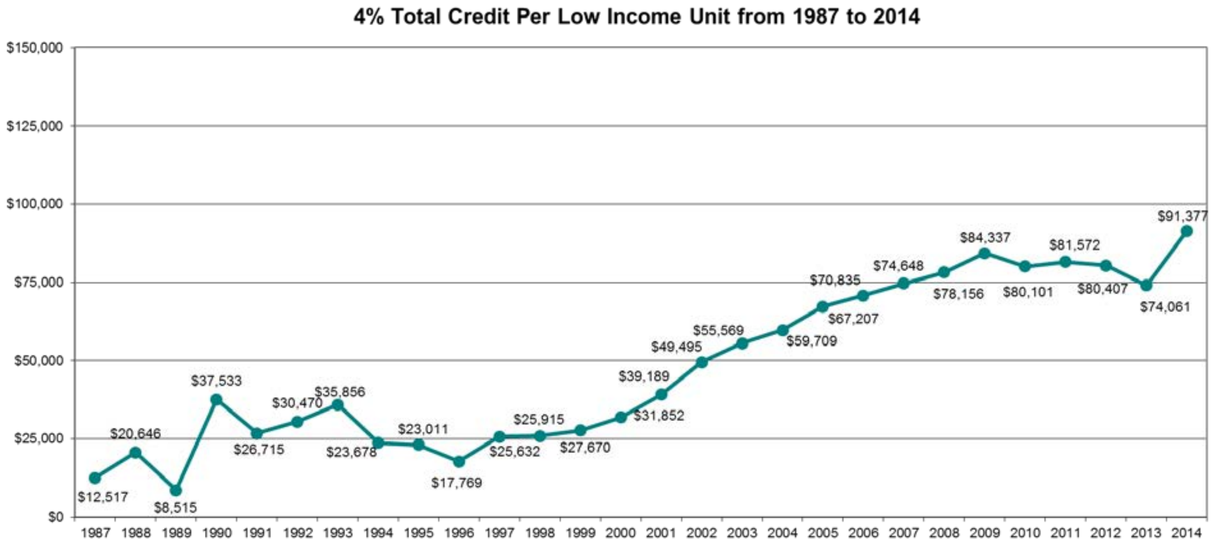


Chart 6



Historical Data for the 4% Program

Tables 6 and 7 below provide selected summary data for historical 4% federal awards.

Table 6
4% Historical Federal Credit Data

	2010	2011	2012	2013	2014
Annual Federal Award	$33,596,704	$83,046,843	$69,902,808	$67,917,076	$80,820,170
Total Number of Projects	49	125	96	95	105
Total Units	5,248	11,243	9,478	9,804	9,213
Total Low Income Units	4,481	10,473	9,021	9,292	9,004
Average Award	$685,647	$664,375	$728,154	$714,917	$769,716
Credit per Low Income Unit	$7,498	$7,929	$7,749	$7,309	$8,976
Average Project Cost	$26,104,867	$21,287,207	$23,416,843	$23,552,065	$24,002,247
Average Cost per Unit	$243,738	$236,567	$237,183	$228,218	$273,552
Average LI Units per Project	91	84	94	98	86

Table 7
4% Federal and State Credits per Low Income Unit: 2005-2014

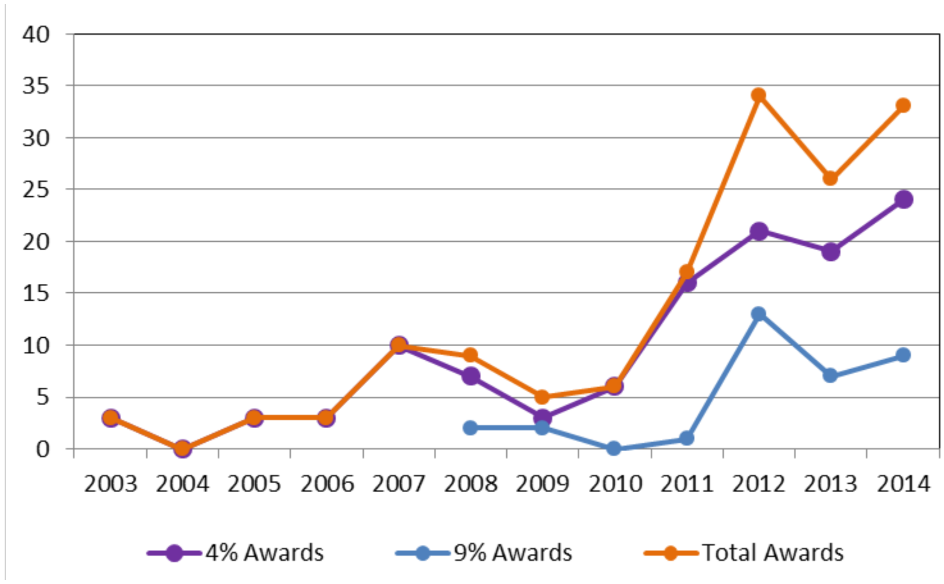
Year	Total # of Projects	Total Federal Credit	Total State Credit	Total Low Income Units	Total Federal and State Credit per Low Income Unit
2005	120	$738,930,610	$19,092,357	11,279	$67,207
2006	115	$861,644,720	$13,597,161	12,356	$70,835
2007	119	$931,731,180	$23,395,641	12,795	$74,648
2008	122	$866,046,950	$27,512,886	11,433	$78,156
2009	64	$434,869,210	$6,718,223	5,236	$84,337
2010	49	$335,967,040	$22,964,367	4,481	$80,101
2011	125	$830,468,430	$23,833,168	10,473	$81,564
2012	96	$699,028,080	$26,322,456	9,021	$80,407
2013	95	$679,170,760	$9,004,034	9,292	$74,061
2014	105	$808,201,700	$14,553,964	9,004	$91,377

Re-syndications of Existing & Former Tax Credit Projects

Starting in 2003, the Committee began receiving applications for existing tax credit projects requesting a new award to rehabilitate and upgrade the property. In addition, TCAC has received applications from former tax credit projects no longer under a regulatory agreement. Applications for existing tax credit projects currently under a regulatory agreement are known as "re-syndications."[8] Since 2003, TCAC has received more than 145 applications for re-syndication (see Chart 7 below). In 2014, TCAC awarded 33 re-syndication projects, up from 26 awards in 2013. In 2013, 7 of the 26 re-syndications received 9% credit awards. Similarly, in 2014, 9 of the 33 awards were 9% credit awards. The 2014 re-syndication awards will help rehabilitate 2,590 existing affordable housing units.

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

Chart 7
Re-syndication Awards 2003 – 2014



Rehabilitation and New Construction Trends

In 2014, 68 of the 83 credit ceiling (9%) awards were new construction projects. Historically, acquisition/rehabilitation applicants have been a distinct minority of 9% projects. However, the number of 9% rehabilitation project awards increased from 2011-2013. Over the past five years, 18% to 35% of the credit ceiling projects awarded have been rehabilitation projects (see Chart 8 below). In 2014, 18%, or 15 projects, were rehabilitation projects, a decrease from 2013, when 29 awards were to rehabilitation projects (35%). New construction 9% annual federal tax credit awards totaled nearly $82.2 million in 2014.

For 4% projects, new construction and rehabilitation awards have historically been more equitable. Between 2001 and 2006, new construction awards accounted for over half of 4% projects. This trend reversed in 2007, and from 2007-2009, over 50% of 4% awards were made to rehabilitation projects. In both 2010 and 2011 new constructions projects again accounted for higher percentages of the awarded 4% projects. Since 2012, 4% rehabilitation awards increased, accounting for over half of the total number of 4% awards. New construction annual federal tax credit awards to 4% projects in 2014 totaled nearly $36.7 million; rehabilitation projects were awarded $44.1 million.

Chart 8 below shows recent historical construction trends. The percentage of new construction 9% projects exceeds that of rehabilitation projects, ranging from 65% to 82%. These percentages for 4% projects have varied, but have been consistently more balanced between the two construction types. Between 2010 and 2014, the percentage of 4% rehabilitation projects ranged from 38% to 67%.

Chart 8
New Construction and Rehabilitation Trends 2005-2014
Number of Projects

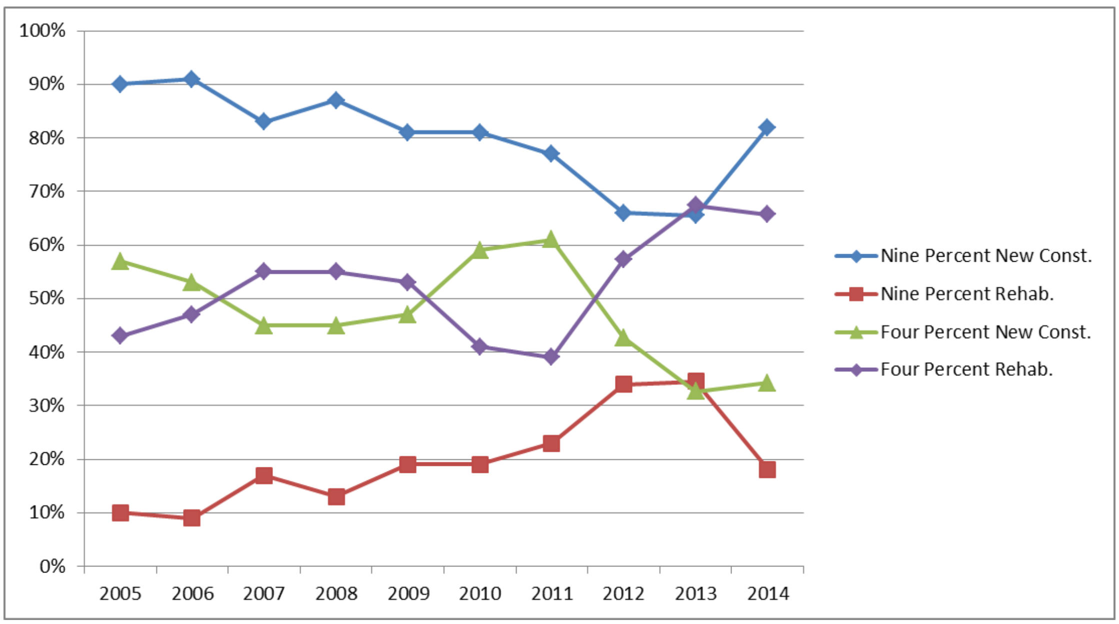


Table 8
Distribution of 9% Projects by Construction Type
2010-2014

Year	New Construction Projects	Rehabilitation Projects	Total
2010	61	14	75
2011	81	24	105
2012	67	35	102
2013	55	29	84
2014	68	15	83
TOTAL	**332**	**117**	**449**

Table 9
Distribution of 4% Projects by Construction Type
2010-2014

Year	New Construction Projects	Rehabilitation Projects	Total
2010	29	20	49
2011	77	48	125
2012	41	55	96
2013	31	64	95
2014	36	69	105
TOTAL	**214**	**256**	**470**

Housing Types

Table 10 presents the total ten-year federal tax credits and four-year state tax credits of all 9% projects awarded tax credits from 2010-2014. The 2014 regulatory goals for 9% tax credits by housing type are exhibited as well. To be eligible for 9% federal tax credits, all applicants must select and compete in one of the categories listed below and must meet the applicable threshold requirements. The Committee employs a tiebreaker in an effort to assure that no single housing type will exceed the following current percentage goals where other housing type maximums have not yet been reached:

Table 10
9% Total Credits by Housing Type, 2010-2014

Project Housing Type	Total Credits Awarded	% of Total	Current Goals
Large Family	$2,789,779,416	59.68%	65%
Senior	$815,824,698	17.45%	15%
SRO	$282,780,136	6.05%	15%
Special Needs	$568,928,539	12.17%	15%
At-Risk	$217,224,178	4.65%	5%
TOTAL	**$4,674,536,967**	**100.00%**	

Note: At-Risk goal was changed to 15% in 2013

The Committee has readily met its current housing type goals for the distribution of tax credits to Senior projects. However, the housing type goals for Large Family, SRO, Special Needs, and At-Risk and are not being met in the aggregate, in part because of changes to the housing type goals in 2010. See Table 2 (page 8) for the 2014 9% tax credits by housing type.

Set-Asides

Eligible projects that apply under the Non-profit, At-Risk, and Special Needs / SRO set-asides automatically compete with all other projects in their geographic region if insufficient credits are available in the set-asides. The At-Risk set-aside was established in 2000, and the Special Needs / SRO set-aside was established in 2003. Table 11 below summarizes projects receiving tax credits from 2005-2014.

Table 11
9% Total Projects, Total Credits, and Total Low-Income Units Produced, 2005-2014

Set-Aside		Number of Projects	Total Credits Awarded	% of Total Credit	Low-Income Units	% of Low-Income Units	Set-Aside %
Nonprofit		100	$1,163,070,800	13.01%	5,933	12.04%	10%
Rural	RHS/Tribal/HOME*	34	$392,956,819	4.40%	1,770	3.59%	20%
	Rural	155	$1,466,980,241	16.41%	9,086	18.44%	
Small Development*		25	$106,690,219	1.19%	447	0.91%	2%
At-Risk		42	$344,681,997	3.86%	3,229	6.55%	5%
Special Needs/SRO*		29	$302,154,672	3.38%	1,942	3.94%	4%
Geographic Apportionment		426	$5,161,264,370	57.75%	26,879	54.54%	
TOTAL		**811**	**$8,937,799,118**	**100.00%**	**49,286**	**100.00%**	

*The Small Development set-aside was removed in 2011 and includes data from 2003-2010. The Special Needs/SRO set-aside was increased from 2% to 4% in 2011. The RHS Rural set-aside apportionment was expanded in 2014 to include a federal HOME funding apportionment. An apportionment within the Rural set-aside for Native American Tribes was also added in 2014.

Geographic Distribution

In 2012 TCAC staff proposed updating the geographic apportionments (created in 1997 and last updated in 2004) to align the distribution of tax credits with statewide housing needs. [9] The updated percentages were adopted into TCAC regulations in 2013 and made effective in 2014. Included in the update was a newly established geographic apportionment for the City of Los Angeles, with a separate apportionment for the balance of Los Angeles County. This addition was made effective in 2013 by prorating the existing Los Angeles County apportionment.

Since the inception of the program in 1987, federal 9%, federal 4%, and state tax credits have been allocated for affordable housing developments in 57 of the 58 counties in California. County data for active tax credit projects awarded 1987 to 2014 can be viewed using the link at the bottom of page 44. This table compares tax credit project data to county population as a percentage of total state population, and includes each county's number of projects, number of

[9] The TCAC website currently contains the materials published in 2011 and 2012: http://www.treasurer.ca.gov/ctcac/apportionment/index.asp

rental units in service, and tax credit allocation dollars. These tables reflect data as of December 31, 2014.

Annual Historical Data

Table 12 below summarizes the amount of federal and state tax credits awarded to 9% projects from 1987 through 2014. Table 13 below summarizes the amount of federal and state tax credits awarded to 4% projects from 1995 through 2014. These tables provide data representing award activities as of December 31 of the year in which the awards were made. The data contained in these tables are the results of actions taken that year, and reflect only a snapshot of the program at that point in time.

Table 12
9% Credits Awarded as of December 31 of the Allocation Year, 1987-2014

Year	Federal Credits Available	Federal Credits Awarded*	Number of Projects and Units		State Credits Available**	State Credits Awarded*	Number of Projects and Units	
1987	$33,730,000	$5,090,439	66	2,497	$34,578,625	$6,818,086	17	755
1988	$34,578,750	$18,889,759	169	4,812	$34,578,625	$35,461,086	67	2,545
1989	$35,060,129	$35,060,129	155	7,960	$35,000,000	$61,433,913	74	3,792
1990	$34,717,032	$34,717,032	84	5,391	$35,000,000	$28,976,550	26	1,490
1991	$68,885,066	$68,885,066	78	9,122	$35,000,000	$34,855,113	28	1,547
1992	$64,261,202	$64,017,031	133	8,030	$35,000,000	$48,699,970	29	2,183
1993	$70,434,569	$70,434,569	128	9,001	$35,000,000	$49,043,203	32	2,185
1994	$68,944,489	$67,113,568	121	8,612	$35,000,000	$47,220,796	29	2,085
1995	$49,716,643	$48,616,533	83	5,680	$47,133,862	$48,469,566	28	2,006
1996	$48,286,953	$48,992,572	107	6,482	$33,599,382	$38,894,819	31	1,878
1997	$42,851,707	$41,911,674	77	5,213	$35,038,813	$33,913,707	17	1,384
1998	$43,688,538	$44,093,456	86	5,757	$51,453,018	$45,658,584	30	2,061
1999	$43,800,383	$44,267,928	83	5,347	$51,784,811	$50,311,562	30	2,141
2000	$50,672,338	$50,667,206	81	5,057	$56,684,151	$56,040,292	32	2,218
2001	$51,574,882	$52,078,900	67	5,119	$71,207,244	$35,918,710	23	1,581
2002	$60,302,560	$62,802,560	68	5,392	$105,652,910	$91,928,018	24	2,492
2003	$62,732,155	$59,694,578	86	5,450	$83,835,104	$74,152,009	29	2,164
2004	$69,253,801	$61,038,716	65	4,508	$74,528,807	$67,423,784	22	1,526
2005	$71,582,089	$70,613,062	71	4,916	$78,593,303	$54,900,296	19	1,192
2006	$72,776,635	$72,500,934	70	4,098	$80,613,481	$67,913,607	18	1,146
2007	$75,897,915	$76,997,954	70	4,424	$92,450,265	$71,062,246	19	1,352
2008	$82,594,947	$81,738,210	72	4,640	$88,761,840	$67,371,340	19	1,195
2009	$88,399,735	$91,099,781	79	4,840	$107,996,565	$72,515,252	19	1,370
2010	$79,886,455	$79,964,641	75	4,170	$91,242,275	$31,372,828	14	742
2011	$80,902,713	$83,682,515	105	6,026	$129,463,639	$86,979,826	34	2,114
2012	$86,676,609	$87,345,016	102	6,246	$109,510,155	$85,508,947	28	1,822
2013	$89,963,084	$86,760,169	84	5,080	$93,102,456	$77,737,478	29	1,707
2014	$92,229,552	$91,789,133	83	4,846	$103,894,360	$97,523,148	29	1,705
TOTAL	**$1,754,400,931**	**$1,700,863,131**	**2,548**	**158,716**	**$1,865,703,551**	**$1,568,104,736**	**796**	**50,378**

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

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

Table 13
4% Credits Awarded as of December 31 of the Allocation Year, 1995-2014*

Year	Federal Credits Awarded*	Number of Projects and Units		State Credits Available**	State Credits Awarded	Number of Projects and Units	
1995	$5,593,972	15	2,431		$0	0	0
1996	$7,064,992	26	3,976		$0	0	0
1997	$15,573,917	71	6,076		$0	0	0
1998	$32,565,503	116	12,743		$4,575,223	7	628
1999	$38,151,075	110	13,905		$3,246,160	2	293
2000	$47,010,344	109	14,759		$0	0	0
2001	$58,249,828	123	14,864		$0	0	0
2002	$62,496,934	130	12,627		$0	0	0
2003	$73,099,179	138	13,329	$12,575,266	$9,683,098	8	713
2004	$65,748,903	112	11,066	$11,179,321	$3,248,707	3	140
2005	$73,893,061	120	11,279	$11,788,995	$19,092,357	10	963
2006	$86,164,472	115	12,356	$12,092,022	$13,597,161	9	583
2007	$93,173,118	119	12,795	$13,867,540	$23,395,641	9	1,003
2008	$86,604,695	122	11,433	$13,314,276	$27,512,886	10	759
2009	$43,486,921	64	5,236	$16,199,485	$6,718,223	3	183
2010	$33,596,704	49	4,481	$13,686,341	$22,964,367	9	789
2011	$83,046,843	125	10,473	$19,419,546	$23,833,168	16	1,134
2012	$69,902,808	96	9,021	$16,426,502	$26,322,456	13	1,212
2013	$67,917,076	95	9,292	$13,965,368	$9,004,034	7	451
2014	$80,820,170	105	9,004	$15,584,154	$14,553,964	8	533
TOTAL	**$1,124,160,515**	**1,960**	**201,146**	**$170,098,816**	**$207,747,445**	**114**	**9,384**

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

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

Additional Data

Please use the link below to access additional data, including historical and mapping information.
http://www.treasurer.ca.gov/ctcac/2014/annualreport.asp