CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the August 5, 2009 Meeting

1. Roll Call.

   Bettina Redway for Bill Lockyer, State Treasurer, chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Redway called the meeting to order at 1:35 p.m. Also present: David O'Toole for John Chiang, State Controller; Thomas Sheehy for Michael Genest, Director of the Department of Finance; Bruce Gilbertson for Steven Spears, Acting Executive Director of the California Housing Finance Agency; Lynn Jacobs, Director of the Department Housing and Community Development; and County Representative, David Rutledge.

2. Approval of the minutes of the July 8, 2009 Committee meeting.

   No public comment.

   MOTION: Mr. Sheehy moved to adopt the minutes of the July 8, 2009 meeting. Mr. O'Toole seconded and the motion passed unanimously.

3. Executive Director's Report.

   Mr. Pavão reported that several agenda items had been stricken since staff posted the agenda on the TCAC website. He stated that on July 1st staff received two sets of applications for American Recovery and Reinvestment Act (ARRA) funds. The applicants were 2007 and 2008 9% credit reservation holders who also had state credits reserved and were unable to find equity investors. He explained that the applicants were requesting cash in lieu of credit awards.

   Mr. Pavão stated that on July 1st staff also received a set of applications from 2007 and 2008 9% reservation holders who had equity partners but needed additional funding. The applicants were seeking gap filler loans.

   Mr. Pavão stated that on July 9th staff received a third set of applications from holders of 2007, 2008, and early 2009 4% credit reservations. The applicants were seeking ARRA funds either because they could not secure an equity partner at all or because they had an insufficient amount of investments. These recommendations listed under agenda item 8 were pulled from that day's agenda and would be brought back for Committee consideration on August 26th.

   Mr. Pavão explained that staff had also intended to bring recommendations to award Department of Housing and Community Development (HCD) back-fill loans to today's meeting (agenda item 7). The applicants were projects that may or may not have a problem securing equity for their 4% tax credits. These projects had also received HCD funding, but were unable to persuade their construction lender to participate in the deal without additional assurance that HCD funds would be available. Mr. Pavão stated that TCAC would provide the applicants with a loan guarantee or other assistance to facilitate project construction.

Mr. Sheehy asked Mr. Pavão if HCD's inability to sell bonds was the reason projects were having trouble securing their construction loans.

Mr. Pavão confirmed that lenders were withdrawing from the projects because HCD did not have committed General Obligation Bond proceeds to meet permanent financing obligations in a timely fashion.

Mr. Sheehy suggested that TCAC should be careful about providing construction financing in place of HCD. He stated that banks had contacted him to express their concern about state's ability to meet its obligations.

Mr. Pavão clarified that staff intended to use ARRA funds to guarantee the construction loans when HCD funding was not available. He explained that TCAC would receive reimbursement from HCD when sufficient bond proceeds became available.

Mr. Pavão reported that staff intended to bring recommendations for HCD back-fill and loan guarantees to the Committee today. He noted that many of the projects stricken from today's agenda were involved in the 4% competition for HCD back fill and loan guarantees. He explained that staff ran out of time as they reviewed and scored the applications. He announced that staff would bring the 4% recommendations to the Committee at the August 26th meeting.

Mr. Pavão summarized that Budget Inn was the only project under Agenda Item 7 recommended for ARRA funding.

Mr. Pavão reported that staff was in the process of reviewing 9% applications. He explained that the scoring part of the process was finished and applicants were given their preliminary scores. He stated that staff were currently working on the final feasibility reviews and entertaining appeals of the preliminary application and tie breaker scores. He announced that the 9% credit recommendations would be brought to the Committee at the September 10th meeting.

Ms. Redway asked Mr. Pavão to explain the golden rod Staff Report she received for the Budget Inn.

Mr. Pavão explained that the Budget Inn recommended for funding under Agenda Item 5. The project was recommended for both TCAP funds and an HCD loan guarantee for the Budget Inn. He reported the Staff Report was revised due to a typing error on page 2. He explained that the HCD loan guarantee amount shown on page 2 was changed from $7.2 million to $7.8 million.

Mr. Pavão summarized three resolutions related to the funding action items on the Agenda. He explained that the first resolution was related to Agenda Item 5, 9% projects with state credits that were requesting cash in lieu of their state tax credits. Mr. Pavão explained that the second resolution was related to Agenda

Item 6, projects requesting Gap Fillers. The third resolution was related to Agenda Item 7, a request for HCD back fill funds for the Budget Inn.

4. Informational update regarding the American Recovery and Reinvestment Act (ARRA) of 2009.

   Ms. Vergolini summarized a resolution that gave the Executive Director of TCAC authority to enter into contracts. She explained that contracts exceeding $50,000 must be disclosed to the Committee. She reported that the Executive Director executed a contract in the amount of $80,000 with Spectrum Enterprises, for assistance with compliance monitoring. Ms. Vergolini stated that TCAC would be fully staffed this year and probably would not need to contract again for monitoring assistance.

5. Discussion of and Action on 2008 9% Financing Applications with Federal and State Tax Credits for ARRA Funds for cash in lieu of tax credits.

   Mr. Pavão stated that the projects recommended under this Agenda Item were applicants that received 2008 reservations of 9% credits. The applicants were seeking cash in lieu of the credits. He explained that the source of the ARRA awards for these applicants was based on whether they were already paying prevailing wages. He stated that applicants could access Section 1602 funds by exchanging 9% credits for cash at the federal level. Mr. Pavão stated that all of the applicants demonstrated that they made a good faith effort to try to secure an equity partner and had been unsuccessful. He pointed out that many of the projects were rural, Special Needs, or At-Risk rehabilitation projects. He summarized that projects in these categories were finding it difficult to find an effect partner in the current market. Mr. Pavão concluded that staff determined the applicants have met the federal requirements for awards of cash in lieu of credits.

   MOTION: Mr. Sheehy moved to adopt staff recommendations. Mr. O'Toole seconded and the motion passed unanimously.

6. Discussion of and Action on 2007 and 2008 Applications for ARRA Funds for Gap Financing.

Project #	Project Name	ARRA #	Funding Type
CA-2008-176	Riverbank Family Apts.	CA-2009-531	TCAP
CA-2008-103	Carson City Center Senior	CA-2009-539	Section 1602
CA-2008-180	Parkside at City Center	CA-2009-540	TCAP
CA-2008-004	McCoy Plaza A	CA-2009-541	TCAP
CA-2008-147	Vassar City Lights	CA-2009-542	Section 1602
CA-2007-153	The Mediterranean	CA-2009-543	TCAP
CA-2008-088	Menlo Park	CA-2009-544	TCAP

   Mr. Pavão stated that the projects under this Agenda Item received 9% credit reservations in 2007 or 2008. The projects did secure an equity partner and were seeking ARRA funds to fill a gap in their development funding sources. Mr. Pavão reported that staff reviewed the applications and determined that the proposed gap financing awards were within the program parameters and were adequate to make the deal whole. He noted that staff intended for applicants to compete for these ARRA funds. Initially staff made $25 million available for gap financing. He explained that TCAC received 7 applications requesting approximately $5.8 million in total. He summarized that staff did not need to employ the competitive scoring system on these projects but instead reviewed them for reasonableness and feasibility.

Mr. Sheehy asked Mr. Pavão why the applicants in Yolo County, Stanislaus, and Riverbank were able to secure equity partners when other applicants in the central valley could not.

Mr. Pavão asked project sponsors in the audience to describe for the Committee how they were able to secure an equity partner.

Caleb Roope approached the Committee. Mr. Roope stated that his firm partnered with U.S.A. Properties on two projects. He explained that U.S.A. Properties they had a close relationship with U.S. Bank, a company very interested in Yolo County projects. Mr. Roope stated that his firm's West Sacramento project attracted capital for that reason. He stated that the project was a CRA driven investment and the bank wanted to invest in the community. Mr. Roope stated that Verizon was interested in the Riverbank project, which was also located in a rural central valley community. He stated that U.S.A. had a good relationship with WNC, a syndicator who was assembling a $50 million fund for Verizon. Mr. Roope stated that WNC added the Riverbank project to the fund along with urban projects in Oakland and Los Angeles. He commented that the most important aspect of securing equity was to be in partnership with people and conduct a thorough and extensive search for investors.

MOTION: Mr. Sheehy moved to adopt staff recommendations. Mr. O'Toole seconded and the motion passed unanimously.

7. Discussion of and Action on an Application for HCD Loan Guarantees using TCAP Funds.

Mr. Pavão stated that staff recommended HCD back fill financing for Budget Inn. He explained that the ARRA funds would be used to fill in the missing equity and facilitate project construction by guaranteeing HCD loans.

Mr. Sheehy asked Mr. Pavão if ARRA funds would be available as back fill in the event that HCD did not have sufficient bond proceeds to fulfill construction loan obligations. He asked how much cash per dollar the 9% credits.

Mr. Pavão stated that the ARRA funds would be available to TCAC. He explained that the 9% credits could be returned to the U.S. Treasury and applicants would receive cash at a rate of $0.85 per dollar of credit.

MOTION: Mr. Sheehy moved to adopt staff recommendations. Mr. O'Toole seconded and the motion passed unanimously.

8. Discussion of and Action on 2009 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects, and appeals filed under TCAC Regulation Section 10330.

   Mr. Pavão stated that two tax-exempt bond projects requested 4% credit reservations. He stated that one of projects was in Richmond in Contra Costa County and the other was in Coronado in San Diego County.

   Mr. Sheehy asked if the two applicants secured equity investors.

   Mr. Pavão asked the audience if the project sponsors were present today. He stated to the Committee that the sponsors were not present but he suspected they would conduct an aggressive search for equity partners.

   Mr. Sheehy asked Mr. Pavão how applicants demonstrated they conducted an aggressive search.

   Mr. Pavão explained that the applicants must submit documentation describing all of the parties they solicited. He stated that applicants provided the contact names and phone numbers of the parties then staff confirms the information presented is accurate.

   MOTION: Mr. Sheehy moved to adopt staff recommendations. Mr. O'Toole seconded and the motion passed unanimously.

9. Discussion and Consideration of a Resolution Authorizing the Executive Director of the California Tax Credit Allocation Committee to Sign Contracts and Interagency Agreements.

   Mr. Pavão stated that the resolution under Agenda Item 9 would give the Executive Director of TCAC authorization to enter into contracts with the State Treasurer's Office for leased space and administrative services provided to TCAC by the Treasurer's Office. He explained that the resolution would grant the Executive Director authority to enter into the agreements up to the amount of $630,000.

   Mr. Sheehy asked Mr. Pavão how $630,000 compared with the figure TCAC received last year.

   Ms. Vergolini estimated the figure from last to be $580,000.

   Mr. Pavão agreed with the Ms. Vergolini's estimate.

   Mr. Sheehy asked Mr. Pavão if he had information about the rent for TCAC office space.

   Mr. Pavão reported that he was not able to get a definitive answer as to why the rent had increased from the previous year. He stated that he would contact the Treasurer's Office regarding Mr. Sheehy's inquiry.

Ms. Redway asked if TCAC acquired additional offices.

Ms. Vergolini confirmed that TCAC did acquire additional offices in 2009.

Mr. Sheehy stated that he would support the resolution. He requested that Mr. Pavão provide an explanation of the rent increase at the next Committee meeting.

Mr. Pavão stated that he would be glad to discuss the rent increase at the next meeting.

MOTION: Mr. Sheehy moved to adopt the resolution. Mr. O'Toole seconded and the motion passed unanimously.

10. Discussion and Consideration of a Resolution Authorizing the Executive Director of the California Tax Credit Allocation Committee to execute a Contract with an environmental consultant(s) not to exceed $325,000.

Mr. Pavão stated that the resolution under Agenda Item 10 would give the Executive Director of TCAC authority to enter into contracts for services related to the administering of ARRA funds. He explained that federal rules require TCAC to perform environmental reviews of ARRA funded projects. Mr. Pavão stated that TCAC has solicited bids for a contract to perform environmental reviews.

Mr. Sheehy asked Mr. Pavão why TCAC was contracting the environmental review work rather than seeking assistance from state employees.

Mr. Pavão explained that staff did inquire with some state agencies to see if they could assist with the environmental reviews. He noted that the reviews would create a significant workload which had to be completed very quickly. Mr. Pavão reported that the state agencies contacted were unable to provide the resources needed process the workload in a timely manner.

Mr. Pavão advised the Committee that staff received some federal training related to the environmental reviews, but quickly determined they did not have enough time to develop the expertise necessary to carry out federal requirements. He concluded that TCAC would require professional assistance from a contracted consultant in order complete the reviews quickly and efficiently.

Ms. Vergolini confirmed that the state agencies contacted by the staff did not have the capacity to handle the work volume associated with the environmental reviews.

Ms. Redway commented that furloughs may be have interfered with our sister agency's ability to handle the workload.

Mr. Sheehy asked which sister agencies TCAC contacted.

Mr. Pavão stated that TCAC contacted HCD and the California Department of Transportation (Caltrans), but neither agency had sufficient resources available to carry out the work volume. He noted that Caltrans performs environmental reviews as part its regular business.

Mr. Sheehy commented that he was glad TCAC had the flexibility to contract work in order to get tasks done more efficiently and in some cases more effectively.

MOTION: Mr. Sheehy moved to adopt the resolution. Mr. O'Toole seconded and the motion passed unanimously.

11. Public Comment.

Ryan Chao, Executive Director of Satellite Housing, approached the Committee. He stated that his agency was the non-profit sponsor of the acquisition and rehab project, Amistad House. Mr. Chao explained that Satellite Housing submitted a proposal in this TCAP round for 4% support. He stated that the project met very closely the goals of the ARRA program providing fully subsidized housing for each of the 60 units in the development. He stated that the project had an investor that withdrew at the end of last year. Mr. Chao reported that despite those challenges the project ready to restart, in part due to the success of securing a $300,000 ARRA award from the City of Berkeley.

Mr. Chao stated that the project needed continued assistance from TCAP to overcome a challenge created by unintended consequences of his agency following previous direction from TCAC. He explained that in January after the project investor withdrew, his agency informed TCAC that the project was stalled and was waiting for stimulus funding in order to restart. Mr. Chao stated that TCAC asked Satellite Housing to return the existing 4% credit reservation. He reported that his agency complied with TCAC instructions under the assumption that Amistad House would not later be precluded from being eligible for the TCAP support. He noted that the stimulus bill had been passed at the time his agency returned the 4% credits. Mr. Chao stated that Amistad House was not being considered for TCAP funds in the current round as a result of TCAC direction.

Mr. Chao commented that his agency was very grateful for the rapid and progressive action TCAC had taken to incorporate ARRA funds into the program. He stated that it was understandable that some projects experienced unintended consequences during rapidly evolving process. He requested the Committee and staff use their creativity to develop a solution for the situation that Amistad House encountered.

Mr. Chao stated that the project was still stalled and at a point where the viability of the project was in question. He asked that the Committee try to develop a solution to remedy the current situation his agency experienced as a result of following TCAC's request to return the credits. He thanked the TCAC staff and asked that they recommend Amistad House for ARRA funds. Mr. Chao concluded that the stimulus funds were intended for projects like Amistad House.

Ms. Redway stated that she understood Amistad House was reapplying for 4% credits. She stated that the project would be eligible for funding in the last round, but may not receive an aware if sufficient funds were not available at that time. Ms. Redway stated that Amistad House seemed to be a meritorious project and assured Mr. Chao that staff would try to assist in finding a solution to the project funding issues.

Mr. Pavão reported that during the period from late 2008 to January 2009 staff was trying to determine the status of the existing TCAC portfolio. He clarified that staff was trying to figure out how many of the 4% and 9% credit projects in the portfolio were still active. Mr. Pavão explained that staff conducted a systematic review of the portfolio to determine which projects were unlikely to move forward. He stated that the instructions Mr. Chao received from TCAC were based on the portfolio review. Mr. Pavão stated that he could only rely upon the E-mail correspondence related to the project. He stated that there was no instruction to return the credits but rather a query asking if the sponsor intended to return the reserved credits. Mr. Pavão reported that the Satellite Housing sent TCAC an E-mail response back indicating that the sponsor did intend to return the credits.

Mr. Pavão commented that the situation was very regrettable. He stated that TCAC staff advised Satellite Housing to reapply for federal credits and ultimately try to access ARRA funds this fall. He reported that sponsor did submit an application, which being reviewed by staff. Mr. Pavão announced that staff planned to bring the project to the Committee at the September 26th meeting. He concluded that Satellite Housing still had the option to apply for ARRA funds, however, the project have to competing for those funds.

Mr. Sheehy asked Mr. Pavão if any other firms experienced a situation like that of Satellite Housing. He asked if the sponsor’s situation was unique.

Mr. Pavão stated that Mr. Sheehy may have been referring to a similar matter staff encountered with a 9% reservation recipient. He explained that the recipient returned the 9% credits then after learning about the availability of ARRA funds petitioned TCAC to reconsider the return. Mr. Pavão reported that the facts in this situation were slightly different from the situation with Amistad House. He explained that 9% credits were a fixed resource. He stated that once 9% credits were recaptured they were delivered to another sponsor.

Mr. Pavão reported that five applicants, including Amistad House, received 4% reservations in 2007 and 2008 that ultimately returned their reservations. He stated that the projects could argue that they should be considered for ARRA funding because they once had 4% reservations. Mr. Pavão pointed out that TCAC Regulations state applicants for ARRA funds must have a current reservation of federal low-income housing tax credits to be eligible for an award.

Mr. Sheehy stated that he hoped Satellite Housing would be able successful with their application and that the sponsor could secure additional credits. He commented that during the last 12 months the Committee had seen unprecedented chaos and turbulence in the capital markets. Mr. Sheehy stated that the Committee could not have foreseen everything that was going to happen.

Mr. O'Toole asked Mr. Chao if Amistad Housing would be able move forward if the project secured funding in September.

Mr. Chao stated that if the project was recommended for funding in the current round the sponsor could start construction within weeks after the funds were made available to us. He stated that further delays would make it difficult to move the project forward. He stated that if the project was not considered in the current TCAP round his agency would continue to seek investors. Mr. Chao commented that securing equity would be very changing because recently investors did not seem interested in funding acquisition At-Risk rehabilitation projects like Amistad House. He stated that there was no guarantee the project would go forward if the sponsor received a new reservation in September. Mr. Chao commented that the project may not be as competitive in the November round due to some different emphasis on special needs in other projects. He stated that if the project does not receive funding consideration in this round or the November round the project might not be able to move forward.

Mr. Sheehy asked Mr. Chao why projects like Amistad House found it difficult to get equity investors.

Mr. Chao stated that it was difficult to persuade investors to fund rehabilitation projects. He stated that Amistad House was a relatively small project in terms equity. Mr. Chao stated that his agency requested a moderate amount of $2.6 million in ARRA. He explained that investors may not be interested in Amistad House because it was a rehabilitation deal and contained a small amount of equity that required all the same level of underwriting as other projects.

Mr. Sheehy asked if the investors derive value from the credits they purchase.

Mr. Chao stated that investors did receive value through the credits.

Mr. Sheehy asked Mr. Chao to confirm that credits purchased in a city such as Stockton were worth the same amount as credits purchased in any other city.

Mr. Chao stated that the value of credits purchased from projects in different cities may not be worth the same amount.

Mr. Rutledge stated that his agency was involved with an acquisition rehabilitation project in West Sacramento and another located in different part of town. He reported that his agency solicited several tax credit syndicator, but none would agree to participate in the projects. Mr. Rutledge explained that syndication firms were primarily interested in newer projects in preferable locations.

Mr. Sheehy asked Mr. Rutledge why the physical condition and location of the project matters to the investor if they were not buying the project, but the credits.

Mr. Rutledge stated that investors perceive potential problems with rehabilitation projects.

Mr. Redway stated that investors perceived the risk that the projects would not be completed or living out its life.

Mr. Sheehy asked if the project had to have a certain successful lifetime in order for the full value of the credits to be realized by the investors.

Mr. Pavão stated that investors were interested in the least complex deals. He explained that newer developments were unlikely to encounter the challenges associated with an acquisition and rehabilitation of an existing property. Mr. Pavão stated that investors viewed the projects as real estate investments. He stated that in the current real estate market investors were unlikely to fund deals in the central valley and rural areas.

Mr. Sheehy asked Mr. Pavão if 4% and 9% credits became worthless to the investor if the project falls apart.

Mr. Pavão stated credits could be recaptured if the project was not maintained in accordance with TCAC compliance standards. Additionally, investors would consider whether if the project was likely to lease units regularly.

Mr. Pavão asked the audience if there was a syndicator or a consultant present who could describe how investors decide which project to fund.

Joel Rubenzahl, from Community Economics, approached the Committee. He stated that everything Mr. Pavão and Mr. Rutledge said was accurate, however, they did not discuss how the ratio of losses to credits on a 4% deals differed from 9% deals. Mr. Rubenzahl stated that the losses were the same for 4% and 9% credits; however, 9% projects contained much higher equity investments. He stated that 9% deals were. He commented that investors had made a mistake in rejecting rehabilitation projects. Mr. Rubenzahl stated that the banks and insurance companies may be deciding to reject rehabilitation projects. He stated that investors were likely to invest in gut rehabilitation projects because they viewed the projects as new construction deals.

12. Adjournment.

The meeting adjourned at 2:25 p.m.