CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the December 16, 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 1:45 p.m. Also present: Richard Chivaro for John Chiang, State Controller; Thomas Sheehy for Michael Genest, Director of the Department of Finance; Elliott Mandell for Lynn Jacobs, Director of the Department of Housing and Community Development; and Steven Spears, Acting Executive Director of the California Housing Finance Agency. County Representative, David Rutledge and City Representative, Christopher Armenta were absent.

2. Approval of the minutes of the October 22, 2009 Committee meeting.

   MOTION: Mr. Sheehy moved to adopt the minutes of the October 22, 2009 meeting. Mr. Chivaro seconded and the motion passed unanimously.

3. Executive Director's Report.

   Mr. Pavão reported that the 4% tax credit project, Landings 2 Family Apartments (CA-2009-872) was crossed off of today's agenda due to a delay in their tax exempt bond financing with the California Debt Limit Allocation Committee (CDLAC).

   Mr. Pavão stated that some of the award amounts shown on Agenda Item 6 were incorrect. He announced that the corrected amounts were shown in Tab 6 of the Committee meeting binders.

   Mr. Pavão reported that 124 projects were scheduled to receive American Recovery and Reinvestment Act (ARRA) awards. 78 of the projects would receive ARRA funds under the Section 1602 tax credit exchange program and 51 would receive funding under the Tax Credit Assistance Program (TCAP). He noted that 4 of the ARRA projects would receive funding under Section 1602 and TCAP. Mr. Pavão explained that 46 projects would receive Gap Filler assistance. 28 of the Gap Filler projects were awarded 2009 9% tax credits. He stated that 74 ARRA projects would receive Cash in Lieu assistance and 4 would receive only Housing and Community Development (HCD) Backfill assistance. Mr. Pavão announced that TCAC has awarded approximately $428 million in Section 1602 funds and $281 million in TCAP funds bringing the total commitment of ARRA funds to $409 million.

   Mr. Pavão reported that there was approximately $47 million in Section 1602 and $44 million in TCAP funds available. He stated that staff would consider awarding ARRA funds to pending 2009 4% projects in January. He explained that staff would consider projects that could not secure an equity investor or experience a gap in equity. Mr. Pavão reported that pending 2009 4% applicants requested $71 million in ARRA funds. He also reported that 3 preciously awarded 9% projects needed about $10.7 in HCD Backfill assistance in order to secure a commitment from their construction lender. He noted that several 2009 4% applicants also had HCD take out financing. Mr. Pavão stated that the Committee would need to decide if ARRA funds should be used to provide 2009 4% projects with equity assistance and HCD back fill assistance. He stated that staff would bring suggestions to the Committee at the January 27th meeting.

Mr. Sheehy asked Mr. Pavão if the TCAC Regulations were published for consideration in February.

Mr. Pavão stated that the proposed TCAC Regulations were posted on the TCAC website for public consideration and comments. He announced that the public comment period would end on December 31st.

Mr. Sheehy stated that if he could not be at the February meeting he would like the Committee to consider converting the geographic apportionment to the Decennial Census process. He explained that every 10 years the federal government takes a census, which provides the basis for the states to determine their population apportionments. He stated that California is a growing state with a lot of immigration and out migration. Mr. Sheehy suggested that staff update the Regulations to state that TCAC geographic apportionments would be updated after every national census.

4. 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 four projects were recommended for a reservation of 4% tax credits to be used with tax-exempt bond financing.

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

5. Report on augmentations to approved ARRA Section 1602 Projects. This augmentation is due to the requirement to now pay state prevailing wages per TCAC Regulation Section 10323(c)(3).

   Mr. Pavão reminded the Committee that project sponsors who received ARRA funds in the form of Section 1602 grants were obligated to pay state prevailing wages. He reported that staff augmented 29 previous Section 1602 awards by up to 15% of the Structures and Site Work lines items in their development budgets in order to off set the cost of paying state prevailing wages. He explained that augmentations were calculated based on a formula in the TCAC Regulations. He reported that TCAC awarded an additional $28.6 million in Section 1602 funds as a result of the augmentations.

Ms. Vergolini reported that Vassar City Lights (CA-2009-542) was scheduled to receive a $3.5 million augmentation, but the sponsor recently determined they did not need it. She stated that the new augmentation total was approximately $23 million.

Mr. Sheehy asked Mr. Pavão if he thought 9% credit recipients would have less difficulty securing equity partners in 2010 in areas such as the coastal regions.

Mr. Pavão stated that it was difficult to forecast whether developers would have less difficulty securing investors in 2010. He explained that fewer sponsors requested to exchange their credits for cash in 2009 than staff initially predicted. Mr. Pavão noted that while equity seemed to be more available during the previous six months, investors were still reluctant to participate in tax credit deals that seemed unlikely to compete successfully for cash awards. He predicted that regions like San Joaquin Valley, Inland Empire, and rural areas would continue to experience difficulty securing equity investors. He stated that housing types such as Special Needs, SRO's, and acquisition and rehabilitation were also likely to experience difficulty in the coming year.

6. Discussion of and Action to Adopt a Resolution for 2009 9% Financing Applications with Federal and State Tax Credits for ARRA Funds for cash in lieu tax credits.

   Mr. Pavão explained that the funding source for Vintage Plaza (CA-2009-602) was changed from Tax Credit Assistance Program (TCAP) to Section 1602. After becoming more familiar with federal compliance standards staff determined that awarding Section 1602 funds would be more helpful to the project. He stated that the award amount increased slightly as a result of the change in funding source.

   Mr. Pavão noted that TCAC was able to recommend all 19 of the 2009 9% projects that requested cash in lieu assistance. He advised the Committee that the project sponsors provided thorough documentation of their efforts to secure equity investors.

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

7. Public Comment.

   Eve Stewart, with Affordable Housing Associates, stated that she worked with a project called Harmon Gardens, which received a 9% credit allocation. Ms. Stewart stated that the project received a loan commitment from MHP prior to December of 2008. She reported that her company experienced a lot of difficulty securing a construction commitment even though the MHP loan amount was fairly small. Ms. Stewart commented that the project would serve homeless youths in Alameda County. She reported that there were about 1,000 youths between the ages of 12 and 24 in the county. Ms. Stewart encouraged the Committee to utilize surplus ARRA funds to assist 9% projects in jeopardy due to the MHP situation.

Mr. Sheehy commented that Ms. Stewart's project had difficulty securing the construction commitment because banks are unsure of the state's ability to take out the construction financing. He explained that due to California's budget financial crisis the state experienced tremendous uncertainty in its ability to sell general obligation bonds. Mr. Sheehy suggested that Ms. Stewart advise her clients and colleagues to encourage their lawmakers to develop permanent solutions to the state's financial crisis.

An associate from Mid-Peninsula Housing Coalition approached the Committee. She suggested that the Committee return to its policy of restricting rents at the targeted rent amount rather than at the lower goal rent labeled in the Project Staff Report. She estimated that the difference in rents over the long term would be 15% to 30% of area median income. She stated that the long term flexibility in rents was important to sustaining projects operating on a very slim margin even at the targeted rents. She also requested that TCAC, HCD, and the Department of Finance (DOF) try to find a way to move projects ready to develop as soon as possible by leveraging ARRA dollars and private tax credit equity. She stated that construction was delayed on some 2009 projects only because they had infill grants. She requested that projects be given extensions to accommodate TCAC, HCD, and DOF financing timelines.

Mr. Sheehy exited the meeting.

8. Adjournment.

The meeting adjourned at 2:20 p.m.