

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the February 17, 2010 Meeting

1. Roll Call.

Bettina Redway for State Treasurer Bill Lockyer chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Redway called the meeting to order at 1:35 p.m. Also present: Cindy Aronberg for State Controller John Chiang; Cynthia Bryant for the Department of Finance Director Ana Matosantos; Elliott Mandell for the Department of Housing and Community Development Director Lynn Jacobs; and County Representative David Rutledge. Acting Executive Director of the California Housing Finance Agency Steven Spears and City Representative Christopher Armenta were absent.

2. Approval of the minutes of the January 27, 2010 Committee meeting.

Mr. Pavão notified the Committee that there was a typo in the January meeting minutes. He explained that a commentor's name was misspelled. Each Committee member received a revised golden rod copy of the January minutes.

MOTION: Ms. Aronberg moved to adopt the minutes of the January 27, 2010 meeting. Ms. Bryant seconded and the motion passed unanimously.

3. Executive Director's Report.

Mr. Pavão stated that the Section 1602 tax credit exchange program could be in effect for another year according to President Obama's proposed budget. He reminded the Committee that the remaining balance of TCAC's American Recovery and Reinvestment Act (ARRA) funds were awarded at the January meeting. He stated that TCAC awarded approximately \$803 million to 145 projects. Mr. Pavão stated that 84 of the funded projects received cash in lieu of credit awards and 57 received gap fillers. Additionally, 26 projects received Department of California Housing and Community Development (HCD) backfill awards.

Mr. Pavão reported that staff was seeking one additional ARRA award at that day's meeting.

Mr. Rutledge asked Mr. Pavão how many ARRA projects received funding to date.

Mr. Pavão stated that 13 ARRA loans have closed to date.

Mr. Rutledge asked Mr. Pavão if the TCAC staff would be able to handle the work volume associated with ARRA loans and the 2010 first round. He asked if staff had considered pushing back the funding round deadline.

Mr. Pavão summarized that TCAC staff was managing the high work volume and should be able to close the remaining 130 ARRA loans and process the 2010 first and second round applications. He asked Lisa Vergolini to comment on the ARRA loan closing process.

Ms. Vergolini estimated that 18 ARRA loans would close in the next weeks. She explained that the California Housing Finance Agency (CalHFA) prepared the initial drafts of the loan forms then sent them to TCAC for a final review. She stated that it takes 10 to 45 days to close the loan from the time TCAC sends the finalized forms to escrow. She explained that projects were given priority if they were near a deadline from another funding source.

Mr. Pavão noted that TCAC recently procured the services of a retired annuitant attorney to help staff review ARRA loan documents. He stated that the attorney had specific experience closing loans on affordable housing projects.

4. Discussion and Consideration of a Resolution to Adopt Proposed Emergency Regulations, Title 4 of the California Code of Regulations, Sections 10300 through 10337, Revising Allocation and Other Procedures.

Mr. Pavão reported that TCAC published a set of proposed regulations on November 23rd and a subsequent set on January 25th. He stated that the January draft summarized public comments submitted in response to the November draft. Mr. Pavão also reported that staff released a summary of proposed regulation changes to the public on February 12th. He brought the Committee's attention to the January 25th TCAC memorandum which described the 18 proposed changes.

Mr. Pavão stated that staff proposed a total of 18 regulation changes. He described a change affecting TCAC's housing type goals. He explained staff's recommendation that the Committee adjust the tax credit allocation goals for Special Needs and Single-Room Occupancy (SRO) housing types. He explained that TCAC's current goals were to allocate 10% of the available credits to SRO projects and 5% to Special Needs projects. If the Committee approved staff's recommendations, the allocation goals would change to 15% for both SRO and Special Needs projects.

Mr. Pavão reminded the Committee members that last September they heard testimony from 2009 9% applicants with SRO and Special Needs projects that lost on the first tiebreaker. He stated that the proposed adjustments were based largely on stakeholder comments.

Mr. Pavão highlighted another proposed change that would take effect in the 2010 second round 9% competition. If adopted the regulation change would limit the number of tax credit awards to 4 per sponsor per funding round.

Mr. Pavão described a proposed regulation change that would adjust the standards for awarding points to sponsors for grocery stores. He explained that staff clarified its definition of "whole scale grocery store/supermarket" and added the

term “neighborhood market” to the proposed regulations. He stated that the average size of newly constructed supermarkets was 41,000 square feet. Staff proposed that TCAC define supermarkets as being at least 25,000 square feet. Mr. Pavão explained that staff recommended the smaller building size standard to account for older full-scale grocery stores. Additionally, projects would receive 5 points for being near a full-scale grocery store.

Mr. Pavão stated that the new term “neighborhood market” included smaller grocery stores ranging from 5,000 up to 25,000 square feet in size. The proposed regulations would allow projects near neighborhood markets to garner 4 points.

Mr. Pavão explained that in 2008 staff awarded points to a project for being near a grocery store that was approximately 1,800 square feet or about half the size of the average convenience store. He stated that the recommend changes address staff’s growing concern about the way they evaluated grocery stores in prior funding competitions.

Mr. Pavão noted that staff also recommended awarding points to sponsors who selected project sites near a farmers market operating at least five out of the year and certified by the California Federation of Certified Farmer’s Markets.

Mr. Pavão reported that staff revised the service amenity scoring as part of the proposed regulations. He stated that the proposed changes were designed enrich the living environment for residents of Special Needs, SRO, large family, and senior housing types.

Mr. Pavão stated that TCAC recommended adjustments to the tiebreakers for 2010 funding year. He explained that the revised tiebreaker system would reward project sponsors who secured funding from sources other than TCAC.

Mr. Pavão reported that on February 12th staff revised a scoring item, which allowed sponsors to garner service amenity points for providing high-speed Internet access to project residents. He explained that staff partnered with associates from One Economy, a company that specialized in providing Internet services to low-income populations, in order to clarify TCAC’s definition of high-speed Internet in the regulations. Mr. Pavão noted that the proposed regulations would allow rural area projects with high-speed Internet access to garner 1 additional service amenity point above projects in other areas.

Mr. Pavão stated that in the January 25th response to public comments, staff proposed to adjust the tiebreaker system to account for public funds that did not defray the cost of developing a project. He reported that the proposal was removed from the proposed regulations, but noted that staff might bring another recommendation to the Committee at a later meeting.

Mr. Rutledge asked Mr. Pavão if providing a high-speed Internet service in a community room setting was more beneficial than providing it in each residential unit. He suggested that providing high-speed Internet access in a community

room setting would provide greater public benefit because many low-income residents do not have computers and software necessary to use the Internet.

Mr. Pavão commented that the proposed standards for Internet access could be improved. He noted that the standards were better than TCAC had offered in previous years.

Ms. Aronberg reported that she and State Controller Chiang met with representatives of the stakeholder community to discuss potential changes to the regulations. She commented that she would like to discuss the representatives' ideas with Mr. Pavão during the course of the year. She also commented that the Controller's office was supportive of staff's proposal to strengthen TCAC underwriting standards. Ms. Aronberg asked Mr. Pavão what he thought about opening up self scores and the Committee's disclaimers for public review.

Mr. Pavão commented on an underwriting standard issue that included a 1.15 to 1 debt service coverage ratio. He stated that TCAC received public comments in favor of staff's recommendations. He stated that stakeholders had asked why TCAC could not publish applicants' self scores as soon as the information was available. He stated that the self scores were not necessarily the final scores. Mr. Pavão expressed concern that applicants would make decisions based the self scores and hold TCAC responsible for any negative outcomes. He stated that applicants typically inform each other of the tie-breaker self they received.

Mr. Bryant commented that it was important for TCAC to be accountable and transparent in its processes. She stated that TCAC applicants were a sophisticated group and understood that the self scores were subject to adjustment.

Will Leach commended the TCAC staff for their efforts to incorporate more conservative underwriting standards into the regulations. He also commended the staff for their efforts to improve the tie-breaker system. He urged the staff to continue seeking reliable methods for documenting other funding sources. Mr. Leach stated that he did not agree with staff's proposal to increase the maximum points available to SRO and Special Needs projects. He stated that he would have liked TCAC to publish data showing there was a need for the increases. Mr. Leach stated that he did not believe SRO and Specials needs accounted for 30% of the affordable housing population.

Mr. Leach stated the amount of credits available to each geographic region was apportioned by percentages. He stated that the geographic apportionments, published in 2004 were calculated using population data from 2002. Mr. Leach suggested that staff calculate apportionments using the current census data.

Mr. Leach commented that he liked the idea of publishing applicants self scores for public view. He stated that the data, while crude, would be helpful in his decision making process. Mr. Leach stated that he understood the risks associated with relying upon self scores.

Rob Weiner, from California Commission for Rural Housing, commended Mr. Pavão for his responsiveness to stakeholder comments and suggestions. Mr. Weiner commented that he did not agree with staff's recommendation to the change grocery store standards. He stated that his company has sponsored several rural area projects over the years that could not have been funded under the proposed scoring criteria. Mr. Weiner explained that rural areas had small, family-owned grocery stores that offered high quality staples and produce. He commented that rural area projects would be disadvantaged under the proposed scoring system.

Mr. Weiner stated that he was concerned about staff's recommendation to limit the number of awards that could be made to a geographic set aside per funding round. He predicted that applicants would submit multiple applications in an effort to obtain four awards. Mr. Weiner commented that it was not good public policy for one or two developers to monopolize the funds of any geographic set aside.

Ms. Redway thanked Mr. Pavão and his staff for their efforts on the regulations.

MOTION: Ms. Aronberg moved to adopt staff recommendations. Ms. Bryant seconded and the motion passed unanimously.

5. Discussion and Consideration of setting a minimum point requirement for competitive first round applications.

Mr. Pavão reported that the proposed minimum point requirements were the same as those adopted last year. He commented that the point minimums were important in reducing the applicant volume and assuring a standard of quality among tax credit applicants.

Ms. Aronberg moved to adopt staff recommendations. Ms. Bryant seconded and the motion passed unanimously.

6. Discussion of and Action on 2010 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.

Note: At the time this agenda was published it was not known which applicants, if any, would file appeals of staff recommendations.

Mr. Pavão reported that staff recommended one project, Garvey Court (CA-2010-804), for a reservation of 4% tax credits.

MOTION: Ms. Aronberg moved to adopt staff recommendations. Ms. Bryant seconded and the motion passed unanimously.

7. Discussion of and Action to adopt a Resolution for a 2009 4% Financing Application for HCD Backfill using TCAP funds.

Mr. Pavão stated that 220 Golden Gate Avenue (CA-2009-849) received an ARRA award at a prior meeting, which included a partial HCD backfill award. He explained that staff was able to recommended additional backfill assistance for the project after receiving approximately \$6.3 million in returned TCAP funds. Mr. Pavão noted that the additional award would not completely backfill the sponsor's HCD take out financing. He stated that the sponsor was confident that they could secure the outstanding balance from other funding sources.

MOTION: Ms. Aronberg moved to adopt staff recommendations. Ms. Bryant seconded and the motion passed unanimously.

8. Public Comments.

There were no public comments.

9. Adjournment.

The meeting adjourned at 2:25 p.m.