

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the August 29, 2012 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 10:30 a.m. Also present: Alan Gordon for State Controller John Chiang; Jennifer Rockwell for the Department of Finance Director Ana Matosantos; Tim Hsu for California Housing Finance Agency Executive Director Claudia Cappio; Russ Schmunk for Department of Housing and Community Development Director Linn Warren; and County Representative Lois Starr.

2. Approval of the minutes of the July 11, 2012 Committee meetings.

MOTION: Mr. Gordon moved to adopt the minutes of the July 11, 2012 meeting. Ms. Redway seconded and the motion passed by roll call vote.

3. Executive Director's Report.

Mr. Pavão summarized that staff recommended a total of 4 projects for tax credit funding as shown on Agenda Item 4.

Mr. Pavão stated that TCAC received 117 applications for Second Round 2012 9% credits. He predicted that staff would recommend 45 applications for funding. He reminded the Committee that 55 projects were awarded in the First Round of 2012. Mr. Pavão noted that fewer credits were available for the second round awards in part because TCAC over reserved credits in the first round.

Mr. Pavão reported that TCAC received a letter from the State Controller's Office (SCO) explaining the results of their review of TCAC's internal systems. He explained that staff reviewed SCO's findings and had already responded to some of the issues.

Ms. Redway asked Mr. Pavão to confirm that SCO's audit was prompted by issues related to the developer, ADI and the need to strengthen TCAC oversight.

Mr. Pavão confirmed that the SCO audit was prompted by matters related to ADI. He reported that TCAC renewed an interagency agreement with SCO to receive additional help reviewing cost certifications for projects that were originally sponsored by ADI.

Mr. Pavão reported that TCAC was contacted by the City of Los Angeles regarding a number of issues related to the TCAC regulations. He stated that TCAC was asked to adjust its regulations to accommodate the city's strategies for transit oriented development. He explained that sometimes new transit stations

were built in areas where TCAC applicants could not garner full points for having certain amenities nearby. Mr. Pavão suggested TCAC may want to show forbearance to these applicants so that affordable housing could be built before transit stations and other amenities were built. He explained that it may be too late to establish affordable housing after transit and other economic revitalization projects have occurred. He concluded that his staff was carefully considering the city's suggestions.

Mr. Gordon referred back to the discussion about the SCO audit. He explained that the auditors process for reviewing the ADI projects' expenses for the basis was much like the situation where Standard and Poor's reviewed bond offerings because the company's future business was directly related to the ratings they gave. Mr. Gordon asked Mr. Pavão if anything was being done to separate the auditors from the projects so TCAC could get an arm's length analysis of whether or not the expenses were legitimate.

Mr. Pavão stated that he envisioned proposing regulation changes that would address the relationship between the developer and auditor. He explained that the developer procures the services of the auditor who reviews the construction cost records and confirms that the costs are accurate. Mr. Pavão explained that SCO was concerned that relationships between the developer and auditor were becoming too close over time. He stated that TCAC was trying to figure out a system that would separate the two parties. He suggested that TCAC procure the auditing services by establishing a group of authorized auditors. And when the developer has completed a project, TCAC would then assign an auditor of its choice to review the project costs. Mr. Pavão predicted that the system he proposed would likely generate a lot of comments from developers.

Mr. Gordon asked Mr. Pavão what negative comments had been expressed regarding his suggestion to give TCAC authority to assign auditors. He stated that since the incentive for the developer was to get the basis as high as possible because that is what the credits were based on, the relationship between the developer and auditor should be absolutely severed.

Mr. Pavão stated that informal comments indicated there was some variation among auditors as to how they expect records to be organized. He explained that a benefit of the developer and auditor having a close relationship over time was that the auditor knows how the developer wants files set up for expeditious reviews. He stated that assigning an auditor who uses different record keeping practices might cause disruption to the developer.

Mr. Gordon asked Mr. Pavão if TCAC could choose one standardized system for auditors to follow so that developers would know how to organize their records.

Mr. Pavão stated that he did not know if TCAC could establish one standardized system. He stated that he intended to confer with SCO before going forward with any proposed strategy. He stated that TCAC would seek SCO's advice on items such as creating a scope of work for perspective bidders who want to be on the list of auditors and what kind of work products staff should be looking for.

4. Discussion and consideration of the 2012 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão stated that all 4 projects on the agenda were acquisition rehabilitation projects. He explained that the August meeting was called because the projects were under a deadline to receive a reservation of tax credits. He recommended them for Committee approval.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Rockwell seconded and the motion passed unanimously by roll call vote.

5. Discussion and consideration of petitions for 2012 Second Round Applications identified as “high cost” consistent with TCAC Regulation Section 10325(d).

Mr. Pavão stated that Agenda Item 5 was included because program regulations required that if exceedingly high cost projects apply for 9% credits or 4% plus state credits, the applicants must appear before the Committee to plead their case prior to the October 10, 2012 meeting. Mr. Pavão stated that Item 5 was no longer an action item due to TCAC receiving no high cost applications for Second Round competitive awards.

6. 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 explained that Agenda Item 6 was an annual exercise where the Executive Director of TCAC requests Committee approval to enter into an interagency agreement (IA) with the State Treasurer’s Office (STO) for administrative services and rent for office space. He directed the Committee’s attention to the Resolution in their meeting binders. He explained that the Resolution gave the Executive Director authority to enter into the IA with STO and also contracts for miscellaneous services as need provided the Director reports back to the Committee after doing so. Mr. Pavão reported that the authorized amount for the FY 12/13 IA with STO was for \$642,000. In FY 11/12 the authorized amount was \$630,000. Mr. Pavão explained that the IA amount increased because TCAC acquired additional offices during the year and the Department of General Services increased the rent amount per square foot. In addition, the cost for building security had increased.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Rockwell seconded and the motion passed unanimously by roll call vote.

7. Public Comment.

Andrew Nelson from Wasatch Advantage Group thanked the Committee for their consideration and approval of his firm’s project.

8. Adjournment.

The meeting adjourned at 10:46 a.m.