

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the March 13, 2013 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 11:40 a.m. Also present: Alan Gordon for State Controller John Chiang; Jennifer Rockwell for the Department of Finance Director Ana Matosantos; California Housing Finance Agency Executive Director Claudia Cappio; Department of Housing and Community Development Representative Laura Whittall-Scherfee; and County Representative Lois Starr.

2. Approval of the minutes of the January 23, 2013 Committee meeting.

MOTION: Mr. Gordon moved to adopt the minutes of the January 23, 2012 meeting. Ms. Rockwell seconded and the motion passed unanimously by a roll call vote.

3. Executive Director's Report.

Mr. Pavão reported that TCAC received applications for the 2013 First Round competitive awards. He stated that staff received 90 applications for 9% credits. He noted that TCAC received 119 applications in the 2012 First Round. Mr. Pavão brought the Committee's attention to a chart given to them at the beginning of the meeting. He explained that the chart showed the changes in the number of applications received and tax credit awards made from 1996 to the present. Mr. Pavao noted that there was a steady rise in application volume from 2005 until 2011 when the volume began to plummet. He stated that the decreased volume may have been caused by uncertainty in the market place with respect to redevelopment agency (RDA) funding availability. He stated that the application volume began to recover in 2012. That year TCAC received a total of 235 applications.

Mr. Pavão predicted that if the volume of applications for the 2013 Second Round was similar to the 2012 Second Round, TCAC would likely have an annual volume of approximately 200 applications. He commented that it was difficult to determine whether the current volume suggested the start of a downward trend or just volatility in the market. Mr. Pavão stated that the tax credit market changed significantly after the dissolution of RDA's.

Mr. Pavão estimated that the volume of awards for the 2013 First Round would be somewhere between 40 and 45. He noted that 55 applicants received awards in the 2012 First Round. He stated that even though fewer applications were received for the 2013 First Round, applicants requested a higher amount of credits. As a result TCAC would make fewer awards.

Mr. Pavão announced that he would share updates regarding credit pricing with the Committee. He explained that 90 days following competitive tax credit awards, TCAC required award recipients to provide staff with a letter of intent from their equity partner, investor, or syndicator. Mr. Pavão announced that staff received letters from the 2012 Second Round award recipients. He stated that 24 of the 46 recipients had credit pricing above \$1.00, 19 had pricing in the range of \$0.90 to

\$0.99, and 3 had pricing below \$0.90. He commented that the robust credit pricing would help attract equity investments for the credits committed to the awarded projects.

Mr. Pavão reported that staff received some telephone requests for another extension to the readiness deadline. He stated that the extension would apply to applicants who received awards in the 2012 Second Round and faced a readiness deadline of April 8th. Mr. Pavão commented that over the last year the Committee has been very accommodating by granting several extensions to applicants affected by RDA related issues. He suggested that it would be prudent for TCAC to enforce the normal deadlines going forward. He stated that the majority of applicants, even those with RDA funding commitments, should be able to close their construction period financing.

Mr. Gordon asked Mr. Pavão if applicants were still experiencing delays due to RDA related issues.

Mr. Pavão stated that RDA issues were still the root cause of delays. He noted one bank was challenged by the sheer volume of projects in its portfolio. He concluded that staff did not recommend any regulation changes or accommodation that would extend the April 8th deadline.

4. Discussion and Consideration of the 2013 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão brought the Committee's attention to a golden rod staff report given to them at the beginning of the meeting. He explained that the staff report was for Eldridge Gonaway Commons and had been revised shortly before the meeting.

TCAC development manager, Anthony Zeto, explained that staff revised the section regarding energy use on page 5 of the report.

Mr. Pavão explained that staff reviewed the operating expenses for Sierra Vista I Apartments and found that one of the line items included a fairly robust budget for ongoing repairs. He reported that staff advised the project sponsor that the budget for repairs made the operating expense budget seem excessive compared to other projects in the same area. He stated that the project sponsor amended the development budget in response to staff comments. As a result the sponsor was doing more work than they originally planned. Mr. Pavão summarized that the additional work increased development costs, but reduce the operating budget to a more reasonable amount.

Mr. Pavão commented that TCAC occasionally received criticism for developing tax credit projects in poverty impacted communities rather than communities of opportunity. Mr. Pavão reported that staff was seeking to develop a project in an area of opportunity; however the anticipated cost was phenomenal. He stated that staff would research ways to put downward pressure on the project costs. He commented that projects tend to be costlier when they were built in communities where families had greater opportunities to succeed by virtue of living those communities.

Ms. Redway stated that comments regarding the high cost project, which were made at the “select” meeting would be carried over to similar issues. She stated that Mr. Gordon made some comments regarding tax credits.

Mr. Pavão confirmed that his staff would consider the comments that were made at the prior meeting. He stated that due to an adjustment made pursuant to TCAC’s conversation with the project sponsor, there was no longer perfect agreement between the budget reviewed by the California Debt Limit Allocation Committee and the one reviewed by TCAC. He stated that TCAC staff would reconcile the 2 budgets.

MOTION: Mr. Gordon moved to adopt staff recommendations regarding only Eldridge Gonaway Commons (CA-2013-816). Ms. Rockwell abstained from the vote. Ms. Redway seconded and the motion passed by a roll call vote.

MOTION: Mr. Gordon moved to adopt staff recommendations, except Eldridge Gonaway Commons (CA-2013-816). Ms. Rockwell seconded and the motion passed unanimously by a vote roll call vote.

5. Discussion of a Proposed Change to Regulations, Title 4 of the California Code of Regulations, Section 10322 (i)(2)(B).

Mr. Pavão reminded the Committee that they adopted the 2013 regulations at the January 23rd meeting. And one of the regulation provisions that staff intended to withdraw was put back into the regulations at the Committee’s request. The provision related to certified public accountants (CPA’s) who performed final cost certifications when projects were completed. Mr. Pavão brought the Committee’s attention to the regulation language in their meeting binders. The language referenced instances when a CPA should not perform a final cost certification for a project because the CPA was previously involved with the project at an advisory or consulting capacity. Mr. Pavão stated that the provision was adopted and scheduled to go into effect on July 1, 2013. He explained that in anticipation of the July 1st date, the Committee asked that staff propose clarifying language to the provision regarding CPA’s if they determined the existing language was overly broad. Mr. Pavão reported that staff drafted language for the provision, which provided clearer guidance to the development community and CPA who perform cost audits. He stated that State Controller’s Office (SCO) staff directed TCAC staff to provisions from the Securities Exchange Commission regulations, which TCAC harkened to in its draft provisions. In addition, TCAC staff added clarifying examples of activities CPA’s should not engage in because such activities may present the appearance that the CPA’s were not independent. Mr. Pavão summarized that staff intension to put language in the CPA provisions that amplified the Committee’s interest in maintaining the true independence of CPA’s who perform final cost audits. He noted that staff utilized existing standards they learned about through questions and answers embedded in other professional websites. As a result staff did not need to provide a lot of additional guidance, but instead referred to existing standards that provided clear guidance. Mr. Pavão stated that he wanted to give the Committee an opportunity to review the proposed CPA provisions before posting it for public comment.

Ms. Redway commented that Pedro Reyes had very strong views about the CPA provisions. She stated that she did not know if he had an opportunity to review staff's current version of the provisions.

Ms. Rockwell stated that she did not know if Mr. Reyes reviewed the updated provisions. She commented that it was great that Mr. Pavão discussed the provisions with SCO auditors. She suggested that Mr. Pavão also contact the "OSA" auditors because SCO did more local auditing. She commented that it made sense for TCAC to include industry standards that CPA's understand into its cost audit provisions.

Ms. Redway asked Mr. Gordon if he had any comments.

Mr. Gordon stated that he associated himself with Ms. Rockwell's comments.

Ms. Redway stated that Mr. Pavão had the Committee's approval to post the CPA provisions for public comment.

Mr. Pavão stated that if time allowed, staff would release the provisions for public comment and draft a final version for the Committee to review at the next TCAC meeting schedule for May.

6. Public Comment.

William Leach stated he represented Assemblyman, Manuel Perez, the Riverside County Delegation of Legislators, the Riverside County Economic Development Agency, the City of Wildomar, and housing developer, Palm Communities. He stated that the agencies he represented were requesting that the Committee consider Wildomar Tres Logos (CA-2013-013 formerly CA-2012-865) for funding at the June 12th meeting. Mr. Leach explained that the project, an 80-unit, senior development in the City of Wildomar, was initially a 4% tax-exempt project. He stated that a development team had been working on the project for 6 years and has submitted a full application for Committee review and action. Mr. Leach stated that the project was a max scoring project, not a tie breaker project due to the fact that it no longer had access to the RDA funding it had in the past. He stated that there was a pressing issue related to the team's request. Mr. Leach explained that legislators passed Senate bill 977 in 2010 to save 3 projects, including Wildomar Tres Logos, from incorporations occurring at that time. He stated that all 3 projects were underway and had funds expended to start them; however they lost their jurisdiction to be completed. Mr. Leach stated that legislative actions saved 2 projects, which were later developed; however Wildomar Tres Logos was caught up in the RDA dissolution. The county determined that the project had an enforceable commitment of \$10.5 million and the Department of Finance (DOF) approved the project through 2 versions of the ROPS. After the project was allocated 4% credits, DOF upon a third review, determined the \$10.5 million commitment was not an enforceable obligation. As a result, the applicant and sponsor withdrew the project and forfeited their 4% allocation. Mr. Leach stated that legislators intended for the project to be completed with the passage of SB 977; however their intent was inadvertently thwarted by the rigid administration of AB 26. He asked that the Committee determine whether the project should be considered a priority at the June 12th meeting and if the project should be funded with supplemental set-aside funds due to its merits, history, and imperiled status.

Ms. Redway asked if one of the Committee members would like to make a motion to include Wildomar Tres Logos on the June meeting agenda.

Mr. Gordon stated that he would make the motion to include the project on the June agenda. He stated that the Committee could discuss the substance of the applicant's request at the meeting.

Ms. Redway noted that no one seconded the motion; therefore the Committee would not take any action.

Mr. Leach stated that he was under the impression that any Committee member could instruct staff regarding an agenda item.

Ms. Redway advised Mr. Leach that a Committee member must make a motion to instruct staff and another member must second that motion. She stated that as a courtesy, she would second Mr. Gordon's motion with the understanding that she may not support the agenda item.

Ms. Redway pointed out that Wildomar Tres Logos was not on that day's agenda; therefore the Committee could not take any action regarding the project. She clarified that the majority of the voting members had directed staff to include the project on the June meeting agenda.

7. Closed Session – Litigation (Government Code Section 11126(e)(2)(c)
Discussion with Legal Counsel Regarding Pending Litigation – UHC 00402 Reseda, L.P. v. CTCAC, Sacramento Superior Court Case No. 34-2012-80001337, Filed 12/17/12.

The closed session took place from 12:11pm to 12:29pm.

8. Adjournment

The meeting adjourned at 12:31pm.