

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the June 11, 2014 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 11:00 a.m. Also present: Alan Gordon for State Controller John Chiang; Eraina Ortega for the Department of Finance Director Michael Cohen; and Tim Hsu for California Housing Finance Agency Executive Director Claudia Cappio.

Department of Housing and Community Development Representative (HCD) Laura Whittall-Scherfee and City Representative Lucas Frerichs were absent.

2. Approval of the minutes of the May 21, 2014 Committee meeting.

MOTION: Mr. Gordon moved to adopt the minutes of the May 21, 2014 meeting. Ms. Ortega seconded and the motion passed unanimously.

3. Executive Director's Report.

Executive Director, William Pavão announced that recommendations for the 2014 First Round competitive awards would be made that day.

Mr. Pavão reported that the State agencies involved in the affordable housing cost study released a final draft report to a 22-person advisory committee that was formed to give TCAC advice and feedback. He stated that he was scheduled to meet with the committee in Los Angeles on June 19th to take comments before finalizing the report.

Mr. Pavão advised the Committee of his intention to retire from State service effective January 2015. He stated that he would continue to work diligently until his departure.

4. Discussion and consideration of the 2014 First Round Applications for Reservation of Federal and State Low Income Housing Tax Credits (LIHTCs) and pending appeals, if any, filed to staff recommendations.

Mr. Pavão reported that staff published a preliminary list of 42 projects recommended for 9% credit awards. He brought the Committee members' attention to an updated list printed on golden rod paper. He noted that the first page showed one project, Suterview Apartments CA-14-010, stricken from the list. Mr. Pavão explained that the project was withdrawn that morning. He stated that it was the only recommended applicant in the Capital/Northern region. Mr. Pavão stated that staff would review the next highest scoring application and bring it to the July meeting for recommendation.

Mr. Pavão summarized that 41 projects were being recommended for funding. He noted that Bishop Paiute Tribe CA-14-032 was the first Native American pilot apportionment award and the first award to a California tribal community in TCAC's history. Mr. Pavão stated that he was pleased TCAC received two good applications from tribal communities including the Yurok tribe in northern California. He thanked those who helped staff learn more about tribal circumstances in California and successfully entertain the applications received.

Mr. Pavão reported that six of the 41 recommended projects were Special Needs housing type. He explained that the projects would provide housing to special needs populations including homeless persons and persons with disabilities. He stated that the Special Needs awards would comprise about 15.7% of the credits available for the First Round. Mr. Pavão explained that a few years ago TCAC raised its funding goal to 15% for Special Needs housing types and for the first time the program had reached that goal. He suggested that the goal was met because TCAC made state credits available to virtually all of the Special Needs projects. The credits provided financial assistance, which helped the projects to compete successfully.

Mr. Pavão reported that 17 of the 41 recommended projects requested state credits; a large increase from the 11 successful applicants who requested state credits last year. First Round applicants requested an aggregate amount of \$47.8 million from the \$88 million in state credits available for the full year for the 9% competition. Mr. Pavão concluded that TCAC was dramatically over subscribed for state credits in the First Round and there may not be enough credits available to fund successful projects in the Second Round 9% competition. He stated that staff would likely confer with the Committee at future meetings regarding their assessment of the Second Round application pool. Mr. Pavão predicted that staff may recommend forward committing state credits from next year to make whole the applicants who would compete successfully but for the exhaustion of the state credits. He stated that a forward commitment would likely engender public discussion in part because fewer credits would be available for the next year. He stated that staff would take into consideration a trend toward over subscription.

Mr. Pavão stated that the 41 recommended projects represented about 49% of the applications submitted. He commented that the success rate was fairly high. Mr. Pavão stated that four of the recommended projects did not score the full 148 points, which was a bit unusual. Two of those projects were in the Rural set aside, one was an At-Risk set aside recommendation, and 1 was the lone application from the City of San Francisco region.

Mr. Pavão stated that other public funding sources represented about 30% of the projects' total development costs on average; a slightly higher percentage than last year. In addition, 35 of the recommended projects were new construction. Mr. Pavão stated that new construction deals represented about 85% of total recommendations; a much higher percentage than last year when about 65% of 9% awards went to new construction deals.

Mr. Pavão thanked all of his staff for their efforts in reviewing the First Round applications and responding to appeals.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Ortega seconded and the motion unanimously.

5. Discussion and consideration of the 2014 First Round for Reservation of Federal and State Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão summarized that staff received 12 applications for 4% plus state credits and recommended five for awards. He reported that the five recommended scored above the posted minimum of 112 points out of a 126-point system. Mr. Pavão stated that the recommendations, if approved, would leave about \$5.3 million in state credits available for a second competitive round. He predicted there would be enough credits to fund two to three 4% plus state credit projects in the next round.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Ortega seconded and the motion unanimously.

6. Discussion and consideration of the 2014 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão stated that four projects were recommended for 4% tax credits. He noted that staff did not usually bring tax-exempt 4% projects to the non-competitive meetings; however these four were somewhat urgent. Mr. Pavão stated that the projects were reviewed for compliance with state and federal rules and he recommended them for funding.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Ortega seconded and the motion unanimously.

7. Discussion and consideration of a Resolution to adopt proposed Regulations, Title 4 of the California Code of Regulations, Sections 10325(c)(1)(C), 10325(c)(5)(A), 10325(f)(7), revising allocation and other procedures.

Mr. Pavão reported that staff posted the proposed Regulation changes to the TCAC website for public comment on April 28th. In addition, they held a public hearing to gather feedback. No one attended the public hearing; however, staff received written comments on one of the proposed changes. Mr. Pavão stated that the change was modified pursuant to the comments.

Mr. Pavão summarized three changes to the regulations. The first change would accommodate projects being developed with an amenity on the project site. For example, a project that was building a public library as part of the project. Mr. Pavão explained that under current regulations such a project could not get competitive points for the publically operated amenity because it was not in place

at the time of the application. He stated that the recommended change would consider an amenity to be in place if it was an integral part of the development and it was to be publically operated, and the associated public entity had committed funding to both the development and operation of the amenity.

Mr. Pavão stated that the second proposed regulation change provided some needed clarification to applicants. He explained that a section of the regulations stated that a project being developed to Leadership in Energy & Environmental Design (LEED) or GreenPoint Rated standards need not submit a sustainable building method workbook; however, if the same applicant was garnering points in ways other than the LEED or GreenPoint Rated method, they would need to submit the workbook. Mr. Pavão stated that the two provisions caused some confusion, so staff modified the provision in the threshold portion of the regulations so that applicants were not required to submit the workbook for threshold purposes; however if they were garnering points through other methods, applicants would be required to submit the workbook.

Mr. Pavão explained that the third proposed change related to soft public financing. He explained that the term “soft” as it appeared in the regulations, was a generally understood term. It typically referred to residual receipts loans or perhaps fully deferred loans. Mr. Pavão reported that TCAC was challenged on its notion of what “soft” loan meant. The assertion was that there was no common understanding of the term “soft” and perhaps it did not mean what TCAC staff thought. Mr. Pavão reported that staff modified the regulations to clarify that when TCAC staff referred to “soft” loans counted for competitive purposes, they meant either fully deferred or residual receipts structured loans.

Mr. Pavão reported that TCAC received comments regarding the proposed change related to soft loans because staff had built in provisions to accommodate public lenders who charged an annual asset management fee or a monitoring fee. Staff wanted to make it clear that these fees would not disqualify the loan as being a “soft” loan. Mr. Pavão explained that staff received comments indicating some of the provisions they suggested to describe the fee type was inconsistent with the policies of other agencies such as HCD. He stated that TCAC provisions were modified to accommodate HCD and other public lenders’ practices.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Ortega seconded and the motion unanimously.

8. Public Comments.

No public comments.

9. Adjournment

The meeting adjourned at 11:15 a.m.