CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the December 10, 2014 Meeting

1. Roll Call.

   Michael Paparian for State Treasurer Bill Lockyer chaired the meeting of the Tax Credit Allocation Committee (TCAC). Mr. Paparian called the meeting to order at 2:23 p.m. Also present: Alan Gordon for State Controller John Chiang; Eraina Ortega for the Department of Finance Director Michael Cohen; and California Housing Finance Agency (CalHFA) Executive Director Tia Boatman-Patterson.

   Department of Housing and Community Development (HCD) Director Claudia Cappio and City Representative Lucas Frerichs were absent.

2. Approval of the minutes of the November 12, 2014 Committee meeting.

   MOTION: Mr. Gordon moved to adopt the minutes of the November 12, 2014 meeting. Ms. Ortega seconded and the motion passed unanimously.

3. Executive Director's Report.

   Executive Director, William Pavão reported that staff concluded the year-end carryover allocation processing. He reminded the Committee that sponsors who received 2014 9% credit reservations were required to submit carryover packages in order for TCAC to allocate the awarded credits. Mr. Pavão stated that staff concluded the carryover process, with one exception. He explained that the current meeting's agenda included a Waiting List amendment. If approved, the amendment would result in one more project receiving an award of 9% credits. The awarded project would be the last to receive a tax credit reservation and carryover allocation for 2014.

   Mr. Pavão reported that in 2012 the Committee adopted a regulation that included a cost containment provision for the 9% competition. The regulation specified that TCAC staff was prohibited from recommending a project for Committee approval if the basis portion of the estimated costs exceeded TCAC limits by more than 30%. Mr. Pavão explained that the project sponsor could come before the Committee and petition for consideration in spite of the project's high costs. If the Committee were persuaded that the costs were explainable and the project was still a good public investment in spite of its costs, then the Committee could direct staff to reevaluate the project and consider it for recommendation.

   Mr. Pavão reported that no project had competed for credits while exceeding the 30% limit since the regulation was adopted. He explained that sponsors did everything they could to avoid exceeding the limit and having to go through the exercise of coming before the Committee and being treated as an exception to the rule for consideration for 9% credits. He concluded that the regulation seemed to be working. Mr. Pavão stated that staff currently had at least five projects that were under the 30% limit when they initially applied for credits, but were now over the limit after receiving bids and settling on their final project costs.

Mr. Pavão reported that regulations were silent regarding the consequences to sponsors when their costs ultimately exceeded the 30% limit. He noted that TCAC regulations contain a long list of provisions in the negative points section describing actions that could lead a project to receive negative points in future competitions. Mr. Pavão reported that the closest provision applicable to the five projects stated that if an applicant knowingly falsified information in their application, the applicant may receive negative points in the future.

Mr. Pavão stated that he was unable to definitively determine that there was willful misrepresentation regarding the five projects. He explained that the project developers had asserted that costs were increasing; bids were coming in higher, materials costs were increasing, etc. Mr. Pavão stated that it was troublesome that costs for the projects were initially just under the 30% limit, but were now expected to exceed the limit. He reported that sponsors were notified that TCAC staff would not recommend pulling back the tax credit reservations. In addition, staff would not likely apply negative points; however they may ask sponsors to come before the Committee to explain why their costs exceeded the limit. Mr. Pavão suggested the sponsors' feedback might inform the Committee regarding future regulation provisions. He suggested the Committee may want to include more explicit language specifying that there would be cause for negative points if a project came in with costs under the 30% limit and then later exceeded that limit.

Ms. Boatman-Patterson asked Mr. Pavão how long the 30% limit had been in place.

Mr. Pavão stated that the provision was adopted in 2012. He stated that in 2012, 2013, and 2014 project sponsors had done their best to design their projects and provide cost estimates under the 30% limit. He commented that staff was concerned about the extent to which the estimates were intentionally lowered so the projects could pass the 30% test only to exceed the threshold later.

Ms. Boatman-Patterson noted that it was the first time staff had seen projects exceed the 30% limit. She reported that the California Debt Limit Allocation Committee (CDLAC) also had a recent project that reported increased costs. She stated that she would like to have further discussions about the issue. Ms. Boatman-Patterson commented that there should be some dialogue in light of the recent cost study by TCAC. She suggested there may be trends forming and she would like to hear feedback from developers. The Committee generally expressed an interest in hearing from the involved developers about the cost overruns beyond the application estimates.

Mr. Pavão thanked the Committee and wished them good luck in the future as that day was his last meeting as executive director. He commented that everyone in the organization was well equipped to continue the excellence of the program well into the future.

Mr. Gordon stated that the staff had done amazing work under Mr. Pavão's leadership.

4. Discussion and consideration of the 2014 Applications for Reservation of Federal Four Percent (4%) Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

   Mr. Pavão reported that there were originally 13 projects recommended for 4% tax credits; however one of the applicants asked to be removed from that day's agenda. He explained that the sponsor for CA-14-917 John Burton Foundation Housing Complex asked to pull their application because their costs had increased and they needed to retool their financing to cover the additional costs. Mr. Pavão stated that the remaining 12 projects on the agenda were reviewed for compliance with state and federal requirements and staff ascertained their feasibility as proposed.

   Mr. Pavão reported that one project, CA-14-909 Stanford/Palo Alto Affordable Apartments, had noteworthy costs. He explained that the estimated cost of the project, when one considered the value of the land donated by Stanford University, was $747,000 per unit. He stated that the estimated value of the donated land alone was $264,000 per unit. He noted that the land was very expensive; however total development costs without considering land cost was still about $483,000 per unit.

   Mr. Pavão stated that the units were fairly large. Two-thirds of the units were 2- and 3-bedroom units. He noted that the 3-bedroom units probably had a second bathroom and so they were expected to have higher per unit cost. He concluded that the project costs were noteworthy and so he wanted to bring the project to the Committee's attention. He stated that a representative from the project was present to explain more about why the cost of the project was nearly $480,000 per unit not including land value.

   Mr. Paparian invited Colby Northridge from The Related Companies, the project developer, to comment.

   Mr. Northridge stated that construction costs in the bay area were definitely rising. He estimated that costs had increased 15%-20% during the past year. A major reason for the increase was the current level of demand. Mr. Northridge explained that contractors were used to receiving multiple bids from subcontractors, but more recently they were receiving one to two bids, which has resulted in significantly higher construction costs.

   Mr. Gordon asked Mr. Northridge why Stanford University donated the land.

   Mr. Northridge stated that the donation was made as part of an inclusionary housing requirement. The university made an agreement with the city in 2005 to build below market rate housing in addition to a market rate housing development down the street.

Mr. Gordon asked where the project was located in Palo Alto.

Mr. Northridge stated that the project was located at 2500 El Camino Real, which was southeast of California Avenue.

Mr. Pavão noted that the project was located on a big commercial boulevard. He reported that the estimated value of the land was $18.5 million.

Mr. Northridge commented that the land was worth a lot of money.

Ms. Boatman-Patterson asked Mr. Pavão if the handful of projects that had high costs were all from the bay area, and Mr. Pavão referred the question to Development Chief, Anthony Zeto. Mr. Zeto stated that one of the projects may have been located in Los Angeles (later confirmed as being in East Los Angeles).

Mr. Pavão stated that one of the projects might be in Los Angeles, but he thought the others were in the Bay Area. He stated that there was an article in the *San Francisco Business Journal* about rising residential development costs particularly in affordable multifamily developments; though not exclusively affordable. Mr. Pavão noted that the article sited the cost study as a data source. The article also mentioned that San Francisco developers were more frequently coming to Sacramento to explain to the Committee why their costs were so high. Mr. Pavão stated that some of TCAC's affordable housing developers and market rate developers were interviewed and reported that materials, labor and other construction related costs in the bay area had increased significantly.

Ms. Boatman-Patterson asked Mr. Northridge if a shortage of labor had caused the shortage in bids from firms.

Mr. Northridge stated that firms were extremely busy and it was hard to get them to bid on projects.

Mr. Pavão brought the Committee's attention to a revised Staff Report on golden rod paper. Mr. Zeto stated that the revised report was for CA-14-916 Gilroy Apartments. He explained that staff amended a typo in the unit mix shown on page 2. As a result the number of 4-bedroom units was changed from 35 to 25.

MOTION: Mr. Gordon moved to adopt staff recommendations regarding all the projects, except CA-14-917. Ms. Ortega seconded and the motion passed unanimously.

5. Discussion and consideration of a resolution to amend the Waiting List for Federal Nine Percent (9%) and State Low Income Housing Tax Credits (LIHTCs), provided that credits remain available and such applications are complete, eligible and financially feasible.

   Mr. Pavão reminded the Committee that they adopted the waiting list at the previous meeting. The list contained a total of seven projects, three of which were projects that competed in the Second Round rural set aside. Mr. Pavão explained that TCAC was required by regulation to offer credits to the three rural set aside projects. He reported that all three projects requested both federal and State credits.

Mr. Pavão explained that because there were no State credits left, the regulations required staff to offer federal credits to the projects with the condition that they find a substitute for the missing equity resulting from the absence of State credits. He reported that all three project sponsors declined the offer of federal credits stating that the projects were not feasible without the anticipated equity from the State credits. As a result staff recommended the next highest ranking rural applicant for an award. Mr. Pavão stated that the project sponsor requested federal credits only and already notified staff that they would accept a reservation of federal credits.

Mr. Pavão stated that staff recommended the Committee adopt an amended waiting list with the fourth rural project included. Upon approval staff would send the applicant a reservation letter thus concluding the 2014 9% allocation process.

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

6. Discussion and consideration of a Resolution authorizing the Executive Director of the California Tax Credit Allocation Committee to enter into a contract with Boston Capital, not to exceed $400,000, per year for a period of two years to provide professional asset management services related to compliance with TCAP and Section 1602 program requirements for projects awarded funds made available by the American Recovery and Reinvestment Act of 2009.

   Mr. Pavão requested the Committee postpone discussion of Item 6 until the next meeting in January. He explained that he planned to request approval for TCAC to enter into a contract for asset management services for a subset of projects that received American Recovery and Reinvestment Act (ARRA) funds in the form of a loan or grant. Mr. Pavão stated that TCAC accepted the asset management responsibilities when it administered the ARRA program. He reported that TCAC contracted out for part of asset management services and had prepared to enter into a new two-year contract for those services. Mr. Pavão stated that there were still a couple of outstanding issues to resolve and requested the Committee postpone the item until the January meeting.

   The Committee members made no objection.

7. Public Comments.

   Ms. Boatman-Patterson commented that Mr. Pavão did a phenomenal job as director of TCAC and he would be sorely missed.

   Mr. Pavão thanked Ms. Boatman-Patterson for her kind words.

8. Adjournment

The meeting adjourned at 2:43 p.m.