CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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# CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
## Program Overview

The California Tax Credit Allocation Committee ("Committee" or "CTCAC") administers the low-income housing tax credit program to encourage private investment in affordable rental housing for households meeting certain income requirements. Credits are available for new construction projects or existing properties undergoing rehabilitation.

Two types of federal tax credits are available and are generally referred to as nine percent (9%) and four percent (4%) credits. Each number refers to the approximate percentage that is multiplied against a project's requested "qualified basis" to determine the amount of annual federal credits CTCAC will award the project.

The amount of 9% federal credits is limited and calculated at $2.70 per person (returning to $2.35 per person in 2022), making California's limit for 2018 $106.7 million in annual credits. Because project owners can take the annual credit each year for ten years, CTCAC effectively can award $1.067 billion in 9% tax credits. Because 9% credits are so desirable and in limited supply, CTCAC awards them through a competitive process twice per year. Projects compete on point scoring, but because most projects receive the maximum point score, CTCAC's tiebreaker formula generally decides the outcomes.

4% tax credits derive from a project's use of tax-exempt bond authority allocated by the California Debt Limit Allocation Committee (CDLAC) and are limited only by the amount of bond cap available to California. In 2017, CTCAC awarded $124.9 million in annual 4% tax credits, which again equates to $1.249 billion in total credits over ten years. CTCAC awards 4% tax credits non-competitively (i.e., over-the-counter) to all projects that meet threshold criteria.

Recognizing the extremely high cost of developing housing in California, the state legislature authorized a state low income housing tax credit program to augment the federal tax credit program. Authorized by Chapter 1138, Statutes of 1987, the state credit is only available to a project which has

previously received, or is concurrently receiving, an allocation of federal credits. Thus the state program does not stand alone, but instead, supplements the federal tax credit program. In 2018, state law authorized $98.6 million in state low-income housing tax credits. These are one-time credits taken over four years, so there is no tenfold multiplier. Because state credits are also in limited supply, CTCAC awards them competitively as well. 85% of the state credits are integrated into 9% tax credit projects and awarded through the same competition. 15% of the state credits are reserved for 4% tax credit projects, and applicants compete for these state credits in a separate competition.

**Federal Preference and Selection Criteria**

Each state agency is responsible for designing and implementing its housing tax credit program in accordance with requirements of the Internal Revenue Code and its own particular state housing needs. The Internal Revenue Code sets broad parameters that must be considered by each state in its Qualified Allocation Plan ("QAP"), adopted after public hearings and input that sets forth the state's program. CTCAC's regulations serve as California's QAP.

**Rent and Income Restrictions**

The program has both income and restrictions. Federal law requires that the initial incomes of households in tax credit units not exceed either 80% of the area median income, adjusted for household size. When a project developer or sponsor applies for tax credits, he or she irrevocably elects one of the following minimum federal set-aside requirements:

- a minimum of 40% of the units must be both rent-restricted and occupied by households whose incomes are 60% or less of the area median gross income, adjusted for family size;
- a minimum of 20% of the units must be both rent-restricted and occupied by households whose incomes are 50% or less of the area median gross income, adjusted for family size; or
- a minimum of 40% of the units must both rent-restricted and occupied by households whose incomes are 80% or less of the area median gross income, adjusted for family size, and the average income and rent limitation must not exceed 60% of the area median income.

Despite this minimum set-aside election, most project sponsors designate all of the units in a project for occupancy by low-income households, since credits are allocated only for restricted units. In addition, CTCAC requires slightly deeper affordability for 4% tax credit projects and encourages 9% applicants to include significantly deeper targeting through its point scoring system.

Rents on tax credit units cannot exceed 30% of the unit's income limit based on 1.5 persons per bedroom. Unlike Section 8 vouchers, rents are not tied to an actual tenant's income.

## Raising Equity Investment

While CTCAC awards tax credits to the project developer, in most cases corporate or individual investors buy in to the property (i.e., contribute equity and take an ownership position in a limited partnership) to obtain the tax credits. Investor equity contributed to the project in exchange for the credits typically finances 30-60% of the capital costs of the project.

## Long Term Affordability

Under federal law, credit projects must remain affordable for at least 30 years. However, California generally requires a 55-year extended use period for 9% tax credit projects. Also, 4% tax credit recipients frequently access significant boosts to their basis limits by agreeing to 55-year extended use restrictions. Regulatory agreements are recorded against each tax credit project to ensure compliance.

## Compliance Monitoring

CTCAC administers a compliance monitoring program involving all projects with an allocation of federal or state housing tax credits. Projects are monitored according to the requirements of federal law, IRS regulations, and the terms of the regulatory agreement entered into between the owner and the Committee. Each project will have a site visit from CTCAC staff every three years. During this visit, tenant files and rent rolls will be examined to assure that the incomes and rents are properly restricted. Other items to be inspected include promised amenities as well as the physical conditions of the development and its units.