California Tax Credit Allocation Committee

CTCAC Committee Meeting

Monday, February 12, 2024

11:15 AM or Upon Adjournment of the CDLAC Meeting

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

901 P Street, Suite 213A
Sacramento, CA 95814
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MEETING NOTICE

AGENDA

MEETING DATE:
February 12, 2024

TIME:
11:15 a.m. or upon Adjournment of the California Debt Limit Allocation Committee Meeting

LOCATION:
901 P Street, Room 102
Sacramento, CA 95814

Members of the public are invited to participate in person, remotely via TEAMS, or by telephone.*

Click here to Join TEAMS Meeting (full link below)

Public Participation Call-In Number
(888) 557-8511
Participant Code:
5651115

The California Tax Credit Allocation Committee (CTCAC) may take action on any item.
Items may be taken out of order.
There will be an opportunity for public comment at the end of each item, prior to any action.

	1.	**Call to Order and Roll Call**
Action Item:	**2.**	**Approval of the Minutes of the January 17, 2024, Meeting**
Informational:	**3.**	**Executive Director's Report** *Presented by: Marina Wiant*
Action Item:	**4.**	**Discussion of future State Tax Credit allocations and Adoption of the approximate amount of State Tax Credits available in each reservation cycle for the 2024 calendar year (Cal. Code Regs., tit. 4, §§ 10305, 10310, 10317)** *Presented by: Anthony Zeto*
	5.	**Public Comment**
	6.	**Adjournment**

FOR ADDITIONAL INFORMATION

CTCAC
901 P Street, Suite 213A, Sacramento, CA 95814
(916) 654-6340

This notice may also be found on the following Internet site:
www.treasurer.ca.gov/ctcac

*Interested members of the public may use the call-in number or TEAMS to listen to and/or comment on items before CTCAC. Additional instructions will be provided to participants once they call the indicated number or join via TEAMS. The call-in number and TEAMS information are provided as an option for public participation.

CTCAC complies with the Americans with Disabilities Act (ADA) by ensuring that the facilities are accessible to persons with disabilities, and providing this notice and information given to the members of CTCAC in appropriate alternative formats when requested. If you need further assistance, including disability-related modifications or accommodations, please contact CTCAC staff no later than five calendar days before the meeting at (916) 654-6340. From a California Relay (telephone) Service for the Deaf or Hearing Impaired TDD Device, please call (800) 735-2929 or from a voice phone, (800) 735-2922.

Full TEAMS Link

https://teams.microsoft.com/l/meetup-join/19%3ameeting_YmU1NWE4NjYtMzIzMi00MmVjLTk3YjctZWIyZDBhMWY0NDcy%40thread.v2/0?context=%7b%22Tid%22%3a%223bee5c8a-6cb4-4c10-a77b-cd2eaeb7534e%22%2c%22Oid%22%3a%22838e980b-c8bc-472b-bce3-9ef042b5569b%22%7d

AGENDA ITEM 2

Approval of the Minutes of the January 17, 2024 Meeting

901 P Street, Room 102
Sacramento, CA 95814

January 17, 2024

CTCAC Committee Meeting Minutes

1. *Agenda Item:* **Call to Order and Roll Call**

The California Tax Credit Allocation Committee (CTCAC) meeting was called to order at 3:09 p.m. with the following Committee members present:

Voting Members:	Fiona Ma, CPA, California State Treasurer, Chairperson Evan Johnson for California State Controller Malia M. Cohen Gayle Miller for Department of Finance (DOF) Director Joe Stephenshaw Department of Housing and Community Development (HCD) Director Gustavo Velasquez Kate Ferguson for Tiena Johnson Hall, Executive Director for the California Housing Finance Agency (CalHFA)
Advisory Members:	County Representative – VACANT City Representative Brian Tabatabai

2. *Agenda Item:* **Approval of the Minutes of the December 6, 2023, Meeting** – *(Action Item)*

Chairperson Ma called for public comments:
None.

MOTION: Ms. Miller motioned to approve the minutes of the December 6, 2023, meeting, and Mr. Johnson seconded the motion.

The motion passed unanimously via roll call vote.

3. *Agenda Item:* **Program Updates**
Presented by: Anthony Zeto

Anthony Zeto, Deputy Executive Director, discussed the following topics:

New Staff: Mr. Zeto welcomed Marina Wiant, the new CTCAC Executive Director and CDLAC Interim Executive Director. Ms. Wiant was selected and appointed by the Treasurer, and her first day was January 10, 2024. She comes from the California Housing Consortium (CHC), where she has worked for the past 11 years, most recently as Vice President of Government Affairs. CTCAC and CDLAC staff are excited to have Marina's leadership.

Ms. Wiant thanked the Treasurer for the appointment and the Committee for the confirmation. She looks forward to working with everyone.

Mr. Zeto also welcomed two other new staff members, both of whom started on December 12, 2023. Bahareh Haft Shayjani is a new Program Analyst working with CTCAC's administrative staff. She comes to CTCAC from the Franchise Tax Board. Jacob Couch is a new Program Analyst in CTCAC's Development section. He is a recent graduate from UC Berkeley and is excited to be part of the CTCAC team.

2023 Program Highlights: CTCAC awarded 9% tax credits to 57 projects, totaling approximately $110.6 million in annual federal credits and $160.3 million in state credits during two competitive rounds, including four projects from the waiting list. The awarded projects provided a total of 2,936 units of low-income housing.

For the 4% tax credit program, 127 projects were awarded approximately $387 million in annual federal credits and $529.3 million in state credits during three rounds. The awarded projects provided a total of 14,798 total units of low-income housing.

In total, CTCAC awarded nearly $500 million in annual federal credits and nearly $690 million in total state credits to help finance the creation or rehabilitation of nearly 18,000 units of housing throughout California.

On January 2, 2024, CTAC received CalHFA's formal request for $200 million in 2024 state tax credits for projects financed by CalHFA's Mixed Income Program (MIP). AB 101 authorizes CTCAC's Executive Director to award up to $200 million in state tax credits for projects financed by CalHFA under its MIP. Based on the MIP pipeline, the Executive Director has determined that the request is reasonable and will approve the award of state tax credits.

Chairperson Ma called for public comments:
None.

4. *Agenda Item:* **Resolution No. 23/24-04, Adoption of a Resolution Confirming the Executive Director of the California Tax Credit Allocation Committee** – *(Action Item)*
   Presented by: Anthony Zeto

Mr. Zeto explained that this resolution would confirm the appointment of Marina Wiant as the Executive Director of CTCAC.

Chairperson Ma called for public comments:
None.

MOTION: Ms. Miller motioned to adopt Resolution No. 23/24-04, and Mr. Velasquez seconded the motion.

The motion passed unanimously via roll call vote.

5. **Resolution No. 23/24-05, Adoption of a Regular Rulemaking for Amendments to the Federal and State Low-Income Housing Tax Credit Programs (Cal. Code of Regs., tit. 4, §§ 10302-10337) (Health and Saf. Code, § 50199.17)** – *(Action Item)*
   Presented by: Anthony Zeto

Mr. Zeto explained that on December 1, 2023, CTCAC released proposed regulations changes and held a public comment period through December 22, 2023. One public hearing was held within that timeframe. Staff received a total of 22 written comments and suggestions, most of which were supportive of the changes. Following a review of all the comment letters, staff is recommending the regulations package to the Committee for approval.

Chairperson Ma called for public comments:

Alice Talcott from MidPen Housing said that she was pleased to see the increase to the developer fees in the regulations package. The developer fees have not kept pace with inflation, increased development costs, or the complexity of projects. However, Ms. Talcott is concerned that while the increases are helpful for larger projects, there will be no increase for many of the most difficult and time-consuming projects that are serving the homeless and special needs populations. MidPen Housing has proposed that projects serving these high priority populations receive an additional per-unit increase in the developer fee limits. These projects are very staff intensive, have longer development timelines, and pose an additional financial risk for developers. Therefore, these are projects that deserve extra compensation. They take longer and demand more staff time because of the need to assemble multiple capital subsidies in addition to rental subsidies and services funding. Services planning takes a lot of staff time throughout the organization and requires working with local public agencies and service providers, including working through the Coordinated Entry System (CES). MidPen Housing works in 11 different counties, all of which have different systems, processes, and rules; there is little efficiency in this work. In addition to taking more time to develop, these projects typically produce little to no cash flow over time, so they pose a risk of expiring services and operating funding while not producing any cash either. For those reasons, MidPen Housing believes these projects should benefit from developer fee increases.

Ms. Talcott expressed appreciation for staff's response to comments indicating that they intended to address this issue later in the year, but Ms. Talcott asked the Committee to consider adding this increase today so projects could start to get higher limits now. MidPen Housing is proposing a $15,000 per-unit increase in the developer fee for every homeless or special needs unit in a project. Ms. Talcott believes that this proposal is reasonable and modest, and she hopes it can be approved today. If not, she encourages staff to address this issue and bring forward a proposal later in the year.

Chairperson Ma asked Mr. Zeto to explain the current proposal for the developer fees in the regulations package.

Mr. Zeto explained that staff proposed an increase to the developer fee for 4% tax credit projects exceeding 75 units and 9% tax credit projects exceeding 50 units. The proposal is unit-based and allows a higher developer fee limit with increased units, whereas Ms. Talcott is suggesting that projects with Permanent Supportive Housing (PSH) or special needs units should also receive an added benefit on top of the increase already proposed.

Chairperson Ma said it sounds like there is uniform support for the rest of the proposed regulations package, and only the developer fee is still in contention. She asked Ms. Wiant for her opinion.

Ms. Wiant said stakeholders were previously asking for a developer fee increase both for large projects and special needs projects due to the complexity of both types of projects. Staff's recommendation only includes an increase for large projects.

Ms. Miller asked if it would be feasible to approve the regulations package today with the exception of the changes to the developer fee, and then Ms. Wiant and the staff could work on this issue and come back to the Committee with a recommendation.

Mr. Zeto asked Ms. Miller if she is proposing the removal of the existing developer fee changes in the regulations package or moving forward with the package and then revisiting the issue of the special needs units at a later date.

Ms. Miller said she would prefer not to have this discussion at the Committee level, so she would like to remove the proposed changes to the developer fees.

Mr. Zeto asked Ms. Miller if she would support adopting all the other proposed regulations changes with the exception of the change to the developer fees.

Ms. Miller responded affirmatively.

Chairperson Ma asked how difficult that would be and if the regulations would have to be submitted to the Office of Administrative Law (OAL).

Mr. Zeto said the regulations would not have to be submitted to OAL for the regulations to be effective, but the 9% tax credit Round 1 application deadline is February 13, 2024, so staff wanted to get the increase in place so stakeholders could begin their applications under the amended regulations. If the Committee were to delay a decision on this, the changes to the developer fees would not be in place before Round 1, and staff would need to put out an additional regulations package for those changes.

Ms. Wiant echoed Ms. Talcott's comment that the developer fees have not kept pace with inflation for many years. Staff's recommendation is less than what would have been the inflationary change.

Ms. Miller said the developer fees are not stopping stakeholders from applying for tax credits; the Committee just had a conversation at the CDLAC meeting about how competitive the tax credits are. There is disagreement about where and how the per-unit increases should be made, and that is a discussion that should first be had with stakeholders at the staff level. The debate could continue at a future Committee meeting, which could take place before February 13. Developer fees are a function of who is and is not applying for tax credits, and CTCAC is not seeing a decreased demand for tax credits. During the CDLAC meeting this afternoon, the Committee had a discussion about how the amount of available tax credits is not high enough, and there are requests being submitted to the Governor's office to continue the tax credits. There is probably a solution somewhere in the middle. Ms. Miller is happy to have the discussion now, but she would prefer to wait until these issues are vetted more. Given the good points made about PSH, the good points made about whether changes to developer fees are necessary, and the questions about the per-unit fees, it seems like more discussion is warranted.

Chairperson Ma said the developer fee has not increased and has not kept up with inflation.

Ms. Wiant said that is correct.

Chairperson Ma said the developer fee increase could be even higher if the Committee were to continue this discussion later.

Ms. Ferguson asked Mr. Zeto if there is a reason why staff proposed an increase to the developer fees for large projects but did not consider an increase for the PSH projects.

Mr. Zeto said staff wanted to do more research and are not opposed to an increase for PSH projects, which staff stated in their response letter to the public comments. However, they wanted to dig a little bit deeper on this issue before making a recommendation.

Ms. Ferguson said there is still a conversation needed, and she does not necessarily see a problem with Ms. Miller's suggestions. CalHFA is happy to come back to another Committee meeting before the Round 1 deadline to ensure that this is included in the regulations and can be applied fairly throughout the year to everyone.

Mr. Johnson agreed with Ms. Ferguson's comments that the Committee would benefit from more information on this issue. He expressed that it is difficult to understand how the numbers are justified in terms of staff's proposed developer fee increases and the additional PSH per-unit increases proposed by Ms. Talcott. He asked if the proposed increases are justifiable by cost increases or if they are arbitrary. He does not have a sense of how the proposed fee increases match the need, and more information would be helpful at a future meeting.

Ms. Talcott expressed that it was not her intention for the Committee to hold off on the rest of the developer fee increases. MidPen Housing would love to see those changes implemented and would be happy to accept the proposed changes for now if the Committee decides to come back at a later date to discuss an increase for PSH units.

Ms. Wiant expressed concern because there are multiple places in the regulations where the developer fee is referenced, so holding off on those changes entirely would create some complications with moving the rest of the package forward.

Mr. Zeto asked if bifurcating that section would change anything with regard to the regulations process.

Ted Ballmer, legal counsel for CTCAC, clarified that per the CTCAC rules under the government code, regulations become effective as soon as they are adopted. His understanding, based on the discussion today, is that the regulations need to be in place for the next round. Part of the rulemaking process requires that any proposed regulations are subject to a 21-day notice period. One option would be for the Committee to adopt the regulations as proposed. Another option would be to go through the regulations and remove, clarify, or change anything the Committee wishes, including the developer fee references. However, those changes would have to be very clear because they would go into effect immediately. Alternatively, the Committee could pull back all the changes.

William Leach from Kingdom Development agreed with the sentiment that the development of PSH is challenging, and it would be good for the Committee to consider allowing higher developer fees for those projects. However, that idea is not fully developed at the staff level, and it is not timely to accomplish that prior to Round 1. The increase to the developer fee proposed by staff is reasonable, and the fact that the increase is less than inflation is a testament to the proposal's reasonableness. Developers appreciate that increase, and it should be noted to the Committee that the developer fee generates eligible basis, which generates tax credit proceeds. The developers can defer the extra basis and use it to fill gaps in their projects. By raising the developer fee, the Committee would make it possible for the developer community to make some projects feasible that otherwise would be infeasible. Mr. Leach expressed support for the Committee approving staff's proposed regulations package today since it has received widespread support from the developer community. Over the next few months, the Committee could consider Ms. Talcott's and other stakeholders' ideas about the developer fees for PSH units. The idea has merit, but the regulations package should not be delayed because of that suggestion; that would cause more damage than good. Mr. Leach reiterated his support for staff's recommendations as proposed.

Mr. Velasquez asked if inflation was the impetus for the proposed changes to the developer fees.

Ms. Wiant said there were several reasons staff proposed the increases. For many years, stakeholders have been asking for an increase to the developer fees due to inflation and the increasingly complex nature of the developments. Staff's proposal did not fully reflect exactly what the stakeholders asked for; it was slightly less.

Mr. Velasquez said he was just speaking at the CDLAC meeting about how far behind the state is in terms of meeting its housing goals, and he wonders if it is appropriate to look at the developer fee as an incentive for developers. The state is prioritizing infill and ameliorating climate change, as well as density. One of the most important laws administered in California is the Density Bonus Law, and Mr. Velasquez is concerned about whether the proposed regulations provide an incentive for developers to meet state goals.

Ms. Wiant said she has never viewed the developer fee as an incentive as much as a fee for service. Developers are doing difficult work on behalf of the state and should be duly compensated.

Ms. Miller disagreed, stating that the developers are private entities, many of which have a profit incentive while others have a nonprofit incentive and are paid in other ways by the state. There are many agents of the state that get compensated for their work, and the developers are not among them. The tax credits and tax-exempt financing are incentives. The Committee can have a conversation about inflation and what is fair, but in no way is the developer fee a fee for a service provided to the State of California.

Mr. Velasquez expressed that he would like to continue the conversation about the proposal to increase the developer fee by $10,000 per unit for projects exceeding 50 units, and whether that incentivizes density.

Chairperson Ma said that is a good question, and the Committee should consider whether it is incentivizing developers to do more or less. The goal is more density and more units, and if developers build more units, they should be incentivized for that. Chairperson Ma asked if this regulation change is going in that direction.

Ms. Ferguson said that if the developer fee is viewed as just a fee, the amount of which is controlled by the regulations, then the incentive comes from scoring, since that is where the Committee places its priorities. The developer fee is part of the cost of completing a project, whether the developer is a for-profit or nonprofit entity and whether the project is affordable or not. The developer fee is a fee charged to do the development. While Ms. Ferguson understands Mr. Velasquez's perspective, she does not think the developer fee is where most of the incentive is placed; rather, it is in the scoring.

Chairperson Ma said all costs increase, including the cost of living. State employees also get cost of living adjustments in their pay. The discussion at hand is whether the fee has kept up with the amount of work required for these projects.

Ms. Miller expressed that she is happy to have another meeting before February 13 in order to get the regulations adopted prior to Round 1. She is comfortable with increasing the developer fee so that it is somewhat consistent with inflation, but she believes it is possible to delay the conversation about per-unit fee increases. However, the issue of if and when to increase the fee for PSH units and other units is debatable. It is important to have one discussion encompassing the discussion about all potential per-unit increases rather than approving the proposed regulations now and then also having a separate discussion about PSH increases. That could lead to overcompensating developers for PSH units in a way that is unfair to the developers of non-PSH units. The Committee recognizes that the developer fee has not kept up with inflation, so the base amount of the developer fee could be increased rather than the per-unit amount. That could be amended in the regulations prior to Round 1, and the additional $10,000 per unit increase could either wait until the next round or a change could be made prior to February 13.

Caleb Roope from The Pacific Companies emphasized Ms. Miller's point about inflation. That is the real issue. Mr. Roope has worked closely with staff on the proposed changes and knows that Mr. Zeto put in a lot of time looking at historical inflation rates and what other states are doing, and everyone who commented on the regulations was highly supportive of staff's proposed changes. There were positive comments about the whole regulations package, not just this issue. Although it is at the Committee's discretion whether to make these changes incrementally, the proposed changes are still behind inflation. Staff's proposal is still lagging behind what would be the inflation rate, so it has been moderated to some degree. Mr. Roope also works on PSH projects and understands the struggles and complexity the developers face, as well as the need to take care of the residents properly. In some ways, these projects have to serve as mental health institutions without the support of a mental health institution's staff. Mr. Roope supports the nonprofit community and additional fees for PSH, and he believes staff wanted to do more work on that, but it was a different subject altogether. Mr. Roope believes staff has taken a moderated approach and advanced the ball a little bit. The community as a whole would like to see further increases, especially for PSH projects. When Mr. Roope came to the meeting today, he came to support the addition of fee increases for PSH; however, it is clear that the Committee wants more time to study that issue. Therefore, Mr. Roope supports what staff has already done as it is a good first step.

Mr. Zeto said that staff wanted to do more research on how to quantify a fee increase for PSH units.

Ms. Miller asked if increasing the base developer fee first and then addressing the possibility of per-unit increases later would be feasible.

Mr. Zeto said those issues are connected. The per-unit increase is one piece, but the discussion about a fee increase for PSH units would be a separate issue.

Ms. Wiant said that Ms. Miller is likely referring to the overall slight increase in the developer fee from $2.2 million to $2.5 million that is proposed in the regulations package. The proposed per-unit increase is on top of that, and Ms. Miller seems to be suggesting holding off on that piece but adopting the change to $2.5 million for the 9% tax credit projects.

Ms. Miller said her proposal should indicate the Committee's willingness to increase the fees. The Committee could also schedule a meeting before February 13 to make a decision.

Doug Shoemaker from Mercy Housing stated that most developers of PSH develop projects with fewer than 75 units. Projects that are 100% PSH often consist of 50-75 units. Therefore, the developers would not receive the benefit of the per-unit fee increase in the proposed regulations package. The state has pushed hard to advance PSH in a financially unsustainable way for sponsors. Sponsors are struggling to get their projects insured, and Mr. Shoemaker does not know of any other ways PSH sponsors are compensated by the state for their operational work. In fact, the opposite is true; sponsors effectively cost subsidize the state and local governments by fundraising in order to manage and operate those projects.

That is done consistently across the industry. While Mr. Shoemaker understands that the Committee may need more time to make a decision on this issue, it is important to understand that the state is effectively burning out nonprofits that are developing PSH, as evidenced by a host of organizations that are either teetering on the edge or have already gone under, as in the case of Skid Row. He hopes Mr. Velasquez can speak to this issue. While that cannot be fully attributed to state policy, a huge amount of financial responsibility is pushed onto small nonprofits as well as bigger nonprofits like Mercy Housing.

Ms. Miller said that she meant that more research needs to be done because more information is needed. She would welcome continued debate on this issue, but this is not a good use of the Committee's time since they are looking for a solution to the issues that Mr. Shoemaker and Ms. Talcott raised.

Mr. Velasquez said the Committee acknowledges the difficulties of developing and running PSH in the State of California. As Mr. Shoemaker mentioned, certain organizations have gone under, but for the most part, that was a reflection of mismanagement and other problems that do not speak broadly about providers of PSH. The biggest issue the state is grappling with is the difficulty of the higher acuity levels needed to provide the necessary services onsite that require more money and operating support to be sustained over time. The Governor has stated that the state needs support in Congress to allow states like California to receive more vouchers to support the operating expenses of PSH. More partnership is needed at the federal level. However, the state has done great things with the subsidies, such as Homekey. Mr. Velasquez is more concerned about PSH projects over time, such as 10-20 years down the line, than the developer fees. He agrees with Ms. Miller that more time is needed to study this and assess the effect that an increased developer fee would have overall on the creation of this type of housing. The Committee should increase the developer fee to keep up with inflation, but the other proposals should be left on the table for now.

Chairperson Ma said that when she served on the California State Legislature, the jockeys complained that they had not received a raise in 50 years. The thoroughbred owners and others in that industry were making money, but the jockeys, who had a difficult job with a high risk of illnesses, were underpaid. Chairperson Ma proposed a law that implemented automatic raises for jockeys based on Consumer Price Index (CPI) increases, so the issue did not have to be addressed again. Similarly, if the Committee increases the developer fee, there should also be measures taken to ensure that it is keeping up with inflation on an ongoing basis.

William Wilcox, Bond Program Manager at the San Francisco Mayor's Office of Housing and Community Development (MOHCD), commented that in Section 10325(9)(A)(v) of the proposed regulations, the definition of "leveraged soft resources" allows for the consideration of Section 8 overhang and soft debt awards from agencies like MOHCD and HCD as leveraged soft resources. In 2021, recycled bonds were added as another leveraged soft resource, and Mr. Wilcox believes these are not equivalent. MOHCD has made great use of recycled bonds in projects throughout its portfolio and has a great partnership with CalHFA to issue those bonds. However, only 2-10% of the value of recycled bonds is actually subsidy because they only provide a tax exemption, so they are worth far less than the subsidy dollars from a soft debt loan from HCD or MOHCD. These different sources of leveraged soft resources should be counted similarly, so recycled bonds should be adjusted to only have 10% of the value, representing their actual subsidy value. The Committee should consider adjusting this in the regulations to reflect a more realistic understanding of recycled bonds. This expanded definition of leveraged soft resources was originally added to the regulations to support the use of recycled bonds, but CalHFA now has a thriving program that is being utilized, and the definition should be adjusted to describe the value of recycled bonds more realistically, similar to the Section 8 overhang formula.

Chairperson Ma said that would need to be conversation for another time, since many of the Committee members are not up to speed on recycled bonds.

Mr. Leach shared some context on the concept of a per-unit developer fee in excess of a certain threshold of units. That concept was put into the regulations about six years ago for 4% tax credit projects when both HCD and CTCAC noticed that the project sizes were getting smaller and developers were opting to develop 80-unit projects in two phases of 40 units each. The problem was how to incentivize developers to build single, larger phase, projects. Including a per-unit developer fee increase helped incentivize developers to not cut projects up into smaller projects, but rather to deliver larger projects with single phases. This is why the decision was made for 4% tax credit projects and might help inform the discussion on the 9% tax credit projects.

Andrew Dawson from the California Housing Partnership expressed support for all the proposed changes to the regulations as well as Ms. Talcott's suggestions.

Darren Bobrowsky from USA Properties Fund said it is important to recognize that the developer fee has not kept up with inflation, and as projects have gotten more complex, they have taken more staff time to develop for submission to CDLAC and CTCAC for funding. Additionally, even after projects are funded, there is no guarantee that developers will be paid the developer fee. Developers sign construction completion guarantees, operating deficit guarantees, and credit loss guarantees; and quite often, with rising construction costs and interest rates, as well as other challenges to the projects, developers do not receive much of the developer fee when the project is placed-in-service. The developer fee is an important tool to have, and as was mentioned previously, it can be counted as part of the basis for receiving tax credits and can be deferred to help with the feasibility of the project. Mr. Bobrowsky participated in the group that worked on the proposed changes to the regulations, and the changes were widely supported. Additionally, there were letters of support for this change in particular. Mr. Bobrowsky suggested that the Committee move forward with approving the proposed regulations changes and then address PSH projects at a future meeting.

Jimmy Silverwood from Affirmed Housing expressed support for the comments regarding PSH. Affirmed Housing is a for-profit company with more than 1,000 PSH units in operation in California. Mr. Silverwood has not seen a lot of PSH properties with more than 75 units. He agrees with the comments made by Mr. Leach and Mr. Roope; a lot of work went into the proposed changes to the developer fee, and rather than delaying action on this entirely, he recommends that the Committee move forward with the changes in place and address PSH at a later date. Affirmed Housing would like to be part of that discussion as a large PSH developer in California.

Chairperson Ma closed public comments.

Chairperson Ma said it seems like the stakeholders are happy enough with proposed regulations, but the nonprofits and other developers of PSH would like to have the developer fee addressed for those projects.

Mr. Velasquez said he also has questions about the 50-unit threshold in the proposed regulations.

Ms. Wiant asked Mr. Velasquez if he would prefer to table that issue.

Mr. Velasquez responded affirmatively.

Ms. Miller said that there appear to be two options to reconcile all the comments heard today. The first option is to adopt the proposed regulations with the exception of the changes to the developer fee for the 9% tax credit projects, and then come back to that issue at a future meeting. The second option would be to include the increase in the developer fee for the 9% tax credit projects from $2.2 million to $2.5 million as proposed, but not to include the $10,000 per-unit increase above 50 units, and then address that issue at a future meeting. The Committee does not have enough information at this time and has to figure out the best way to solve the problem.

Chairperson Ma expressed that she wants to keep the process moving, but she also believes that the developer fee needs to keep up with inflation.

Ms. Miller asked if CPI could be used as the marker rather than inflation.

Chairperson Ma responded affirmatively.

Ms. Wiant clarified that staff's proposal includes an increase to the existing per-unit fee for large 4% tax credit projects. She asked Ms. Miller if she is suggesting moving forward with that and just holding off on the per-unit increase for the 9% tax credit projects.

Ms. Miller said she thought PSH projects were more commonly 9% tax credit projects, so she was supportive of the increase for the 4% tax credit projects.

Ms. Wiant said that a lot of PSH units are now being done under the 4% tax credit program with HCD funds.

Ms. Miller said it might be better to wait on both.

Ms. Ferguson said she heard Ms. Miller propose that the Committee approve the increase in the developer fee for the 9% tax credit projects but not the per-unit increase for either the 9% tax credit projects or the 4% tax credit projects. She asked Ms. Miller to clarify if that is what she proposed.

Ms. Miller said that was not her original proposal, but given the new information provided by Ms. Wiant, that is now her proposal.

Ms. Wiant asked for clarification that Ms. Miller's new proposal is to make no changes to the developer fee for 4% tax credit projects, and only increase the overall developer fee for 9% tax credit projects, not the per-unit fee.

Ms. Miller asked for clarification that there are two proposed changes for the 4% tax credit projects.

Mr. Zeto clarified that the proposal is to lower the number of units from 100 to 75 to meet the threshold for the per-unit fee.

Ms. Miller said that change is satisfactory.

Mr. Zeto asked if she would accept all the changes for the 4% tax credit projects.

Ms. Miller said she does not want to make the changes to the per-unit fees for either the 4% or 9% tax credit projects. She would rather come back later and have this discussion because it is important, and the Committee needs a better understanding of what additional fees are needed by developers of PSH.

Mr. Velasquez said the Committee acknowledges the complexity of PSH projects, and the complexity increases as a project gets bigger. The capital stack becomes more complex, and all of the dynamics are much more complex with the factors that the state is trying to promote. The Committee might need to come back with a more generous approach. The denser projects are more difficult for developers, so Mr. Velasquez is reluctant to support the $10,000 per-unit increase for projects over 50 units because there may need to be a scale, and he would like more time to think about this. It could end up being more beneficial for developers if the Committee takes more time on the issue.

Chairperson Ma asked the Committee members how they would like to move forward.

Ms. Miller suggested that a more robust proposal is needed, and the Committee should schedule another meeting prior to February 13.

Mr. Zeto said the Round 1 application deadline is February 13, and he is unsure about the comfort level of the developers if the regulations are not definitive until shortly before the deadline.

Ms. Ferguson asked Ms. Miller if she would approve the overall increase to the developer fee for both 4% and 9% tax credit projects.

Mr. Zeto said the developer fee limit would increase from $2.2 million to $2.5 million for 9% tax credit projects in Section 10327(c)(2)(A). Additionally, the references to 100 units would change to 75 units in Section 10327(c)(2)(B). Those are the only changes Ms. Miller is recommending moving forward with today that pertain to this conversation.

Ms. Ferguson asked staff for their thoughts on that recommendation.

Ms. Wiant said staff is comfortable coming back at another meeting with a proposal regarding the per-unit fee increases for both larger projects and PSH projects. However, Mr. Zeto's question to the developer community was whether not having a decision so close to the Round 1 application deadline would have a material impact on their applications.

Mr. Bobrowsky said that it takes time to put together the large and complex applications, and one issue is that it can take a week or more for a CPA to provide an eligible basis certification. It is not feasible to wait until the day before the deadline to redo the application to make an adjustment to the developer fee.

Ms. Ferguson asked if the application due date is set in stone.

Mr. Zeto said that given how tight the schedule already is, he does not think it would be a good idea to push back the application due date.

The Committee and staff discussed the possibility of continuing this meeting at a later date to further discuss the proposed regulations package, including the developer fee.

The Committee decided to continue the meeting to January 24, 2024, at 9 a.m., to further discuss and take action on Agenda Item 5.

6. **Resolution No. 23/24-06, Adoption of the CTCAC/HCD Opportunity Area Map for 2024 –**
(Action Item)
Presented by: Anthony Zeto

Mr. Zeto explained that the CTCAC/HCD Opportunity Map is updated annually. The 2024 draft map was released on October 23, 2023, and a public comment period was held through November 17, 2023. CTCAC staff worked closely with Mr. Velasquez's team at HCD and their research partners. Staff received 14 written comments specific to the proposed changes and recommends the CTCAC/HCD Opportunity Area Map for 2024 for Committee approval.

Mr. Velasquez said that even though the changes to the map were not significant, there was one change that brought more transparency. There have been a lot of comments and concerns that the map drives funding decisions only to approved areas, and Mr. Velasquez believes those comments have indicated that more transparency is needed in order for developers to understand the purpose of the map. This year, a threshold-based approach was implemented for the assignment of resource categories. In the past, there was a methodology that Mr. Velasquez would characterize as opaque because there were opportunity scores that were all blended together, and each census tract ended up with a single score. Now, developers can see how each census tract in the state performs on each indicator. The map was always intended to focus on families with children, and allocation decisions are made using a place-based strategy that focuses not only on the brick and mortar, but on the community as a whole where the housing is created. Education opportunities, transportation access, and job centers are a few of the indicators that need to be considered. Now that there is a score for each indicator, as opposed to a blended score, it is clear how these indicator scores contribute to the final opportunity score and shows how indicators drive changes in resource levels. A neighborhood change map was created this past fall that supports how the CTCAC/HCD Opportunity Map is presented. Gradual improvements are being made to the map, not to change its purpose – which is to drive opportunity in the allocation of tax credits – but to be more transparent to the developers.

Chairperson Ma called for public comments:

Caleb Smith from the City of Oakland Department of Housing and Community Development said his organization submitted a comment letter regarding the CTCAC/HCD Opportunity Map. This year's map is an improvement over the previous map, and Mr. Smith appreciates the enhanced transparency. However, the map could be further strengthened by incorporating some of the feedback that a number of stakeholders submitted in their comment letters. One of the key trends that he would like the Committee to reflect on is interregional disparities; over the past ten years, an increasing number of people have been displaced from coastal regions into interior areas, such as from the Bay Area to the Central Valley, and from Los Angeles to the Inland Empire. Therefore, instead of looking at opportunity purely on a regional level within the Bay Area, for example, it would make sense to consider scoring areas both in terms of their opportunity score on a regional level and also statewide. There is one area on the map that is considered low opportunity in Oakland, but if that same area were located in Los Angeles, it would be considered high opportunity. There is the potential for unintended consequences for these statewide competitions. Additionally, the neighborhood change maps are exciting but could be further strengthened by including some of the adjacent areas that were originally scored as low opportunity. There are some places in the Bay Area where the maps do not entirely capture natural neighborhoods, so having more of a spillover included in the maps could be an effective way to address that.

Mr. Smith also expressed concerns about the inclusion of home valuations in the map; he understands that it is difficult to find a good set of variables to try to capture these factors, but because of the historic impacts of racism tainting relative home appraisals in minority neighborhoods, he is concerned that this could have unintended consequences in terms of the state's equity objectives. Therefore, that factor should be removed, even though the other factors are strong.

Caleb Roope from the Pacific Companies expressed support for the CTCAC/HCD Opportunity Map and the overall policy. Housing is being created for families in places where it did not exist previously. Mr. Roope's company has developed a lot of these projects, and it has been great to see how a policy objective came forward into production. The maps have changed a lot of lives, especially for children, which was the intent. He asked the Committee to maintain this policy and continue to support it in order to create more units in areas where they have not existed previously and keep working to house children in places with better schools, better job environments, and safer neighborhoods, because it will change future generations.

Chairperson Ma closed public comments.

MOTION: Mr. Velasquez motioned to adopt Resolution No. 23/24-06, and Ms. Miller seconded the motion.

The motion passed unanimously via roll call vote.

7. **Resolution No. 23/24-07, Establishing a Minimum Point Requirement for the Competitive 2024 Applications (Cal. Code of Regs., tit. 4, § 10305(g)) –** *(Action Item)*
   Presented by: Carmen Doonan

Ms. Doonan explained that staff is recommending for Committee approval the adoption of a resolution to establish a minimum point requirement for 9% tax credit projects. This is done annually in order to ensure quality projects are submitted.

Chairperson Ma called for public comments:
None.

MOTION: Ms. Miller motioned to adopt Resolution No. 23/24-07, and Mr. Velasquez seconded the motion.

The motion passed unanimously via roll call vote.

8. **Adoption of the approximate amount of tax credits available in each reservation cycle for the 2024 calendar year (Cal. Code Regs., tit. 4, §§ 10305, 10310) –** *(Action Item)*
   Presented by: Anthony Zeto

Mr. Zeto explained that a copy of the credit estimates was included in the E-Binder prior to this meeting. There was a per capita increase from $2.75 last year to $2.90 this year. This resulted in an increase of the annual 9% tax credits of approximately $5 million. Those credits are dispersed among the various set asides and regions. However, this item is dependent on the approval of the proposed regulations package (Agenda Item 5) because Community Development Block Grant Disaster Recovery (CDBG-DR) was added to an existing apportionment in the proposed regulations. Therefore, action on this item cannot be taken until the regulations are adopted. Additionally, staff will bring forward at a future meeting the discussion of how to distribute the state tax credits throughout the rounds, given that the 4% tax credit application deadline is in April.

Action on Agenda Item 8 was deferred until January 24, 2024, at 9 a.m., upon the continuation of the meeting.

9. *Agenda Item:* **Public Comment**

Caleb Roope from The Pacific Companies said there is pending legislation in Congress that could provide a big boost to the 9% tax credits, so it would be helpful for staff to be clear about when those credits would become available. If passed, the legislation would affect how much allocation would go to each region, and stakeholders may choose to apply or not dependent on when those credits were available. It would be a great opportunity but would also add complexity.

10. *Agenda Item:* **Adjournment**

At 4:25 p.m., the meeting was continued to January 24, 2024, at 9 a.m. at 901 P Street, Room 102, Sacramento, CA 95814, to further discuss and take action on Agenda Items 5 and 8.

California Tax Credit Allocation Committee

901 P Street, Room 102
Sacramento, CA 95814

January 24, 2024

CTCAC Committee Meeting Minutes
(Continued from January 17, 2024, to further discuss and take action on Agenda Items 5 and 8)

1. *Agenda Item:* **Call to Order and Roll Call**

The California Tax Credit Allocation Committee (CTCAC) meeting was called to order at 9:10 a.m. with the following Committee members present:

Voting Members:	Fiona Ma, CPA, California State Treasurer, Chairperson California State Controller Malia M. Cohen Gayle Miller for Department of Finance (DOF) Director Joe Stephenshaw Department of Housing and Community Development (HCD) Director Gustavo Velasquez Kate Ferguson for Tiena Johnson Hall, Executive Director for the California Housing Finance Agency (CalHFA)
Advisory Members:	County Representative – VACANT City Representative Brian Tabatabai

5. **Resolution No. 23/24-05, Adoption of a Regular Rulemaking for Amendments to the Federal and State Low-Income Housing Tax Credit Programs (Cal. Code of Regs., tit. 4, §§ 10302-10337) (Health and Saf. Code, § 50199.17)** – *(Action Item)*
Presented by: Marina Wiant

Ms. Wiant explained that the final proposed changes memorandum includes two recommendations to the developer fee limit. First, the proposal increases the developer fee from $2.2 million to $2.5 million in the 9% tax credit program. Additionally, the proposal provides a further increase to projects developing units in excess of 50 tax credit units. These two changes would create more parity with the limit for the 4% tax credit projects but with a lower per tax credit unit amount of $10,000 versus the $20,000 per-unit amount for 4% tax credit projects. These changes account for the increased costs incurred by the developer as the limit has not been increased since 2016, and prior to that, it had not been increased since 2003. The Consumer Price Index (CPI) adjusted amount of the 2003 figure of $2 million would be in excess of $3.3 million today. Second, for 4% tax credit projects, the proposed regulations change lowers the number of tax credit units required for the per-unit increase from 100 to 75 and increases the per tax credit unit dollar amount from $20,000 to $25,000, allowing more projects to access additional cash-out developer fee to account for increased costs associated with larger projects. These projects typically cost more and have more risk associated with the guarantees and indemnities. These fees are often used as a contingency to cover cost overruns or financing shortfalls. The CPI adjusted 2003 figure of $2.5 million would be in excess of $4.2 million today.

Ms. Wiant said that the comments received during the public comment period and at the January 17, 2024, meeting recommended an additional increase to the developer fee limit for Permanent Supportive Housing (PSH) projects to account for increased costs due to longer development timelines, higher staffing and operating costs, and increased financial risk. Staff generally agrees that PSH projects have unique challenges, both on the development side and for ongoing operations. The appropriate solution may include additional changes to the regulations in addition to the developer fee limit. However, staff maintains the recommendation to proceed with the proposed changes published on January 10, 2024. If that is not possible, staff strongly recommends at least proceeding with the developer fee limit changes for the 9% tax credit projects, which would take effect immediately upon adoption today, in advance of the Round 1 9% tax credit application deadline. Staff is committed to continuing to research and analyze the best options to address the challenges for projects proposing special needs units, and 4% tax credit projects generally, which could be accomplished in advance of the Round 2 4% tax credit application deadline.

Ms. Miller suggested that the Committee approve the developer fee increase to $2.5 million for the 9% tax credit projects and adopt the rest of the regulations so they can go into effect for Round 1. A working group could then be created and include individuals from CalHFA, HCD, developers, and other appropriate stakeholders. That group could discuss the per-unit increases to the developer fee. There are many questions about how to create operational efficiencies and whether a per-unit increase is the best way to accomplish that. This would allow CTCAC to begin Round 1 seamlessly and allow more time to consider this issue. The Committee would need to commit to resolving this issue prior to the April 23, 2024, Round 1 4% tax credit application deadline so the regulations are clear for those applicants.

Mr. Velasquez agreed with Ms. Miller about the bifurcation of the proposed changes to the developer fee for 9% tax credit projects. It is important that the Committee does not delay the approval of the developer fee increase for the 9% tax credit projects. There is a lot for the working group to consider as far as making sure that any bonus per-unit fee aligns with other policy objectives that the Committee has approved before, including increased density, infill, and special needs. From HCD's perspective, the proposal on PSH is interesting. HCD is going through the process, due to a legislative mandate, of increasing the PSH cap cost, and would look forward to the opportunity to participate in the working group and explain how that change could alleviate some of the concerns about the difficulties of operating PSH. That could potentially be a better solution, and Mr. Velasquez welcomes the opportunity to explain that at the working group. The working group will provide an opportunity to determine if increasing the developer fee for PSH projects is the best solution.

Chairperson Ma called for public comments:

David Whatley said that regulation of affordable housing providers is an important public policy issue, but CTCAC's regulations are lengthy. He asked how the regulations translate to residents of affordable housing projects and if there is a more user-friendly resource to explain the policies. Additionally, he asked how more regulations could be implemented to protect residents.

Chairperson Ma explained that there is a competitive system of allocating bonds and tax credits, and the regulations are geared more toward developers in terms of applying for bonds and tax credits. She asked Mr. Whatley to call or email CTCAC with any concerns about the conditions in his complex or similar concerns, as those would be handled under a different process overseen by the operators of the projects after they are built or renovated.

Mr. Whatley provided his email address and staff indicated that they would reach out to him.

Ben Winter from LINC Housing explained that his organization is a statewide nonprofit affordable housing developer in Long Beach. Over the past five years, LINC Housing has participated in advancing a housing first approach to solving homelessness and has dramatically expanded its portfolio of supportive housing to almost 1,000 units either completed or under construction, plus another 800 units in the pipeline. Additionally, LINC Housing has grown its in-house Integrated Curriculum Management System (ICMS) staff from four to 56 members in the past five years. It is a strong team that is advancing a trauma informed approach to keep people housed and achieve their life goals. Focusing on PSH is a labor of love for LINC Housing; they know the model works and is life changing for the residents and the people who work on the developments. However, the cost to put the projects together and operate them is extremely high. At best, these projects break even, but too often, considering the organizational costs to operate them, they are operating in the red. While a comprehensive approach is needed for additional funding for operations and services, including a more detailed look at HCD's Uniform Multifamily Regulations (UMRs) to increase cash flow, LINC Housing also supports increased developer fees, especially for nonprofits that are developing PSH. That would help ensure that organizations like LINC Housing that are long-term stewards of these assets are also financially secure for the long-term.

Jimmy Silverwood, President of Affirmed Housing, asked if there is a February 13 deadline for the changes to the regulations regarding the 4% tax credit projects.

Ms. Wiant said February 13 is the 9% tax credit application due date for Round 1, so if the regulations package is adopted before that date, including the increase in the developer fee for the 9% tax credit projects, there will be enough time for developers to implement those changes on their applications. Staff's goal is for the working group to take place in February to inform a draft regulations package to be published on March 1. That would allow time for the required 21-day public comment period and analysis before the end of March, which would then give the development community two or three weeks to implement those changes before the 4% tax credit application due date on April 23.

Mr. Silverwood said it can take a couple of weeks for developers to get the necessary documents from their CPAs to finish their applications, so he is glad CTCAC is taking that into account when planning the timeline. He expressed support for staff's recommendations and would like the Committee to approve them. There has already been a working group on this issue that helped to produce staff's recommendations, and some of the participants in that group might be on today's call and available to speak. Mr. Silverwood recommends that the Committee adopt the proposed regulations package, but if there is an additional working group formed, Mr. Silverwood would like to participate.

Chairperson Ma explained that Ms. Miller suggested adding additional people to the working group, and since CTCAC is a five-person Committee, two of its members can participate without violating the Brown Act.

Jonathan Centeno from PATH Ventures explained that his organization is the housing development arm of PATH, which is one of the largest and most impactful homeless developers and service providers in California. Its mission is to end homelessness for individuals, families, and communities. Across the state, PATH Ventures has 44 residential communities in its portfolio and pipeline, totaling over 3,000 homes. PATH Ventures seeks to build PSH, but it is very risky; because the developer is filling a void that the private market cannot fill, multiple different funding sources and tax credits must be utilized. That process can often take several years, and if the developer is not awarded a grant, they must either wait to get paid or cut losses and move on. PATH Ventures pays its employees competitively so they can remain in public service. The most recent Super NOFA was oversubscribed by almost 100%, so PATH Ventures lost out on funding and only avoided layoffs because of careful financial stewardship and trimmed ambition. Even if the developer receives construction funds, the nature of PSH requires the coordination of services for a highly vulnerable population through a very complicated service delivery system. Lease-up often stretches for months, and operating expenses are higher; as a result, cash flow tends to be tight. Over the past year, insurance premiums for PSH have risen exponentially, adding risk for the developer. PATH Ventures wants to build supportive housing and be part of the movement to end homelessness, and in order to do so, must be able to attract and retain top talent. Raising the developer fee is a commonsense step that would allow the developer to accomplish those goals.

JT Harechmak from the Non-Profit Housing Association of Northern California (NPH) explained that NPH represents affordable housing developers across the nine-county Bay Area region. Mr. Harechmak voiced support for the staff's recommendations and offered to help work toward a solution on the PSH boost in March. There are a lot of unique pressures on the developers of PSH projects, including higher demands on staff, additional administrative costs, a more complicated financing stack, and unique ongoing risks for those projects. An increase in the developer fee would be a good start in supporting the PSH developers. PSH is a powerful strategy that is known to work to solve the crises of housing and homelessness. Mr. Harechmak thanked the staff for doing this work and offered to participate in a working group that might help CTCAC to arrive at a solution.

Courtney Pal, Policy Manager at Resources for Community Development, explained that her organization is a nonprofit developer based in Berkeley. She echoed the comments made by Mr. Winter, Mr. Silverwood, Mr. Centeno, and Mr. Harechmak in support of continuing to work on additional developer fees for PSH. There is a lot of complicated and careful work involved in developing these projects that serve the most vulnerable Californians.

Audrey Hahn from Wakeland Housing echoed the comments made by Mr. Winter, Mr. Silverwood, Mr. Centeno, Mr. Harechmak, and Ms. Pal. She expressed support for an increase to the developer fee for PSH projects, which will help nonprofit developers like Wakeland Housing. Cost increases are not usually covered by the standard inflator, so nonprofit developers often have to cover some of the cost increases out of pocket, such as insurance. Wakeland Housing is supportive of building PSH projects and supports the recommendation.

Christine Anderson from Mercy Housing explained that her organization is a statewide developer with a considerable amount of PSH both in its portfolio and pipeline. She thanked the Committee for considering the proposed increase to the developer fee and expressed that developing PSH projects, especially in the current time, is increasingly difficult. Mercy Housing is developing a project that has seven different layers of population criteria and six or seven different funding sources. It is an incredibly important project, but a significant amount of staff time was needed in every part of the organization to do the necessary work. In order to keep the organization sustainable and to continue to produce units that are needed throughout the state, additional financial resources are needed. Mercy Housing looks forward to working with CTCAC on this issue.

Louis Chicoine from Abode Housing Development explained that his organization is focused on ending homelessness. The organization currently has a number of projects in its pipeline, and PSH is central to Abode's work. Mr. Chicoine expressed support for staff's recommendation regarding the increase in the developer fee and the consideration of an additional increase for PSH. These are incredibly challenging times for PSH developers, and they often question whether they can grow their impact. Mr. Chicoine has been doing this work for 30 years, and this is a unique moment with incredibly difficult headwinds. Abode has a mission that it would like to focus on, but it is also questioning whether it can be sustainable in the current environment regarding PSH. Mr. Chicoine asked CTCAC to continue to consider the long-term impacts of the headwinds that developers are facing now, and he reiterated his support for staff's recommendation.

Brad West from the Supportive Housing Alliance explained that his organization is a coalition of a dozen of Los Angeles's most experienced PSH developers that collectively have developed over 7,500 units of PSH. He echoed the previous comments about the need to increase the developer fee and add a PSH specific boost. A few of the compounding factors that his organization is experiencing are: rising insurance costs, some of which have been as high as 550%; scarcity of property management companies which have increased those costs; and an acute shortage of project-based vouchers, necessitating financial innovation to get projects underwritten. All of these compounding factors have contributed to a problem that needs many solutions. An increased developer fee and PSH bonus are two of many factors that the development community needs to advocate for to ensure that the PSH model is sustainable moving forward.

Mary Jane Jagodzinski, Senior Vice President of Development at BRIDGE Housing, explained that her organization is a 40-year-old nonprofit that was founded and led by former State of California executives. BRIDGE Housing supports staff's recommendation and appreciates CTCAC addressing the issue of developer fees. This is vitally important to the health of the industry since it is largely a fee-based industry, and costs have increased dramatically. BRIDGE Housing works across all three states on the Pacific coast, and California's developer fees lag compared to Oregon and Washington. BRIDGE Housing would like to be part of the working group.

Mr. Velasquez expressed that he hears the comments from stakeholders on PSH. When looking at the HCD awarded projects, it is clear that a lot of developers are deferring their developer fee because of the complexity involved with these projects. Mr. Velasquez is sympathetic, but HCD will bring a full explanation to the working group of what is being done under AB 2483. Mr. Velasquez would like to look at the sustainability of PSH projects so that the developer fee does not continue to be deferred. The revisions under AB 2483 are being made in coordination with stakeholders, and one of the changes being worked on is increasing the amount of the cap on supportive services that can be paid for projects for homeless and special needs above the levels now permitted by the UMRs. HCD is also providing the ability to request exemptions to the requirement to go above the cap if there are sufficient issues with projected cashflow. Additionally, HCD is increasing the annual percentage of cost escalators on those caps. Most importantly, HCD is proposing changes that would incentivize projects to seek other sources of funding specifically dedicated to supportive services, such as Mental Health Services Act funds. This is not being done just as a group of housing experts in the administration, but also as a partnership with the California Health and Human Services Agency (CalHHS). HCD is looking holistically at what can be done for these projects to remain sustainable. Mr. Velasquez will bring this information to the working group to assess whether an increased developer fee is really the best solution.

Chairperson Ma closed public comments.

Chairperson Ma proposed adding a CPI increase provision to the regulations so the Committee would not have to continually adjust the developer fee.

Ms. Miller asked if that conversation could take place along with the conversation about per-unit fee increases. Adjusted according to the CPI, the developer fee would have almost doubled, so there is a larger question that the Committee needs to address in terms of how best to create the efficiencies in PSH and developer fees at large. The question is if creating an automatic developer fee increase creates a system so that the Committee never has to revisit how developers are incentivized.

Chairperson Ma said she would also like to look at increasing CTCAC's fees, since they have not been increased either. If an adjuster is put in place for the developer fees, it should also apply to CTCAC's fees. CTCAC has been discussing whether or not to raise its fees for five years.

Ms. Wiant said that is a good point; the adjuster should apply to CTCAC as well.

Chairperson Ma said that as projects have gotten harder for developers, they have also gotten harder for CTCAC. Everyone should be compensated for the time and complexity required to build this important housing in California.

MOTION: Ms. Miller motioned to adopt Resolution No. 23/24-05 with the following revisions to the amended regulations: only include the developer fee increase for the 9% tax credit projects from $2.2 million to $2.5 million. All other proposed increases to the developer fee will not be adopted, including the per-unit increase for the 9% tax credit projects and all proposed changes for the 4% tax credit projects. Those proposed changes will be discussed at a working group to be convened by CTCAC staff prior to Round 2.

Ms. Wiant said the bulk of the work will be done in the working group in February.

Mr. Zeto read Section 10327(c)(2)(A) of the regulations as amended per Ms. Miller's motion:
"The maximum developer fee that may be included in project costs and eligible basis for 9% competitive credit new construction, rehabilitation only, or adaptive reuse applications applying under Section 10325 of these regulations is the lesser of 15% of the project's unadjusted eligible basis and 15% of the basis for non-residential costs included in the project allocated on a pro rata basis or two million five hundred thousand ($2,500,000) dollars. The maximum developer fee that may be included in project costs and eligible basis for a 9% competitive credit acquisition/rehabilitation application is the lesser of 15% of the project's unadjusted eligible construction related basis plus 5% of the project's unadjusted eligible acquisition basis and 15% for the basis for non-residential costs included in the project allocated on a pro rata basis or two million five hundred thousand ($2,500,000) dollars."

Mr. Zeto noted that there was also a change to Section 10327(c)(2)(C), but there have been no comments regarding that change.

Ms. Miller confirmed her approval of the amended paragraph as read by Mr. Zeto.

Mr. Velasquez seconded the motion.

The motion passed unanimously via roll call vote.

8. **Adoption of the approximate amount of tax credits available in each reservation cycle for the 2024 calendar year (Cal. Code Regs., tit. 4, §§ 10305, 10310) –** *(Action Item)*
   Presented by: Anthony Zeto

Mr. Zeto explained that this item is an adoption of the approximate amount of tax credits available in the reservation cycles for the 2024 calendar year. As Mr. Zeto mentioned previously on January 17, there was a per capita increase from $2.75 last year to $2.90 this year. This resulted in an increase of the annual 9% tax credits of approximately $5 million. The credit amount will be filtered through the set asides and regions in accordance with CTCAC's regulations. Staff is recommending the adoption of the approximate amount of tax credits available in each reservation cycle for the 2024 calendar year. Additionally, staff will bring forward at a future meeting the discussion of how to distribute the 4% state tax credits throughout the rounds.

Ms. Wiant said the staff is continuing to monitor what is happening at the federal level. In particular, there is a proposal to increase the 9% tax credits by 12.5%, which would backdate to 2023. Staff is discussing internally how to recommend allocating the 12.5% increase from last year and this year.

Chairperson Ma called for public comments:
None.

MOTION: Ms. Miller motioned to adopt the approximate amount of tax credits available in each reservation cycle for the 2024 calendar year, and Ms. Ferguson seconded the motion.

The motion passed unanimously via roll call vote.

10. *Agenda Item:* **Adjournment**

The meeting was adjourned at 9:45 a.m.

AGENDA ITEM 3

Executive Director's Report
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AGENDA ITEM 4

Discussion of future State Tax Credit allocations and Adoption of the approximate amount of State Tax Credits available in each reservation cycle for the 2024 calendar year (Cal. Code Regs., tit. 4, §§ 10305, 10310, 10317)

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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DATE: February 7, 2024

TO: Committee Members

FROM: Marina Wiant, Executive Director

RE: Enhanced State Tax Credit Allocation for 2024

In advance of the February 12, 2024 meeting, the California Tax Credit Allocation Committee ("CTCAC") is providing information regarding the distribution of the enhanced state tax credits since the credits were first available for allocation in calendar year 2020 and presenting options for the Committee Members to consider.

Background

Efforts to establish an enhanced state credit began in 2016, when Asm. David Chiu introduced AB 35, which would have increased the state credit allocation by $300 million. At the time, the state was underutilizing private activity bonds, largely due to the loss of additional state and local funding sources that were necessary to leverage these bonds. It was estimated that an additional $300 million in state credits would allow the state to leverage an additional $200 million in federal 4% tax credits and at least $400 million in California Debt Limit Allocation Committee's (CDLAC) federal tax-exempt bond authority.

By the time the $500 million enhanced state tax credits were included in the FY 2019-2020 state budget, several local and state funding sources had also passed, driving more demand to the 4% tax credit and bond programs. Statute allows up to $200 million to be allocated to CalHFA to pair with the Mixed-Income Program (MIP) and, historically, the executive director has allocated as much as CalHFA has requested of that amount.

Since the enhanced state tax credits were first available in 2020, staff has explored various ways to effectively allocate these credits and maximize production. Demand for these credits outpaces the availability by as much as 3:1.

Data Analysis

In 2020, the state tax credits were allocated $150 million in each of the first two rounds with any remaining amount, if any, being available in third round. The result was $148.4 million awarded in first round and $151.5 million awarded in the second round. The entire $200 million in state tax credits for projects financed by CalHFA's MIP was made available in the first round. The MIP state tax credit awards were made in the first three rounds totaling $189.4 million with the surplus of $10.5 million being redirected to the general allocation for new construction projects in the fourth round.

In 2021, the new competitive scoring system for CDLAC tax-exempt bonds took effect in the second round. The entire $365.3 million in state tax credits for 2021 were made available the first round with any remaining amount, if any, being available in the subsequent round(s). $150 million in state tax credits for projects financed by CalHFA's MIP was also made available in the first round. The MIP state tax credit awards were made in the second and third rounds totaling $42.6 million with the surplus of $107.4 million being redirected to the general allocation for new construction projects in the third round. The result was $147 million awarded in the first round, $204.3 million awarded in the second round, and $148.6 million awarded in the third round.

2020 and 2021 are less relevant for analyzing the outcomes of the distribution because the new competitive scoring system for CDLAC tax-exempt bonds had yet to be fully established.

In 2022, the entire $428.6 million in state tax credits were made available in the first of two rounds for that year. The $428.6 million included an initial surplus of $109.9 million MIP state tax credits that was redirected to the general allocation for new construction projects prior to the first round. $90 million in 2022 state tax credits for projects financed by CalHFA's MIP was made available in the first round. The MIP state tax credit awards were made in the first round totaling $79.6 million with the remaining surplus of $10.4 million being redirected to the general allocation for new construction projects in the second round. A total of $342.8 million was awarded in the first round and the remaining $95.3 million was awarded in the second round. Every project that requested state credits in the first round and was successful in the CDLAC competition received them. In the second and final round of 2022, there were insufficient state tax credits to award all successful projects that requested them. As a result, beginning in the CDLAC ELI/VLI set-aside, projects were skipped because there was an insufficient amount of state credits available to meet their request and the final tax credit award went to a project in the geographic region of the CDLAC New Construction pool.

In 2023, the entire $316.5 million in state tax credits was available in first of three rounds. A total of $315.6 million was awarded in the first round leaving a nominal amount available for the second round. The MIP state tax credit awards were made in the second round totaling $181.8 million with the surplus of $18.2 million being redirected to the general allocation for new construction projects in the third round. With the surplus MIP state tax credits being redirected to the general allocation, a total of $22.2 million was available and awarded in the third round. This resulted in state credits being awarded to all successful projects that requested them in the first round, including 12 projects that were successful in the geographic region of the CDLAC New Construction pool. In the third and final round of 2023, the $22.2 million in state tax credits were awarded to 3 projects in the Homeless set aside within the New Construction pool.

Allocation Options and Potential Outcomes for 2024

For 2024, the current estimate of enhanced state tax credits available is $502.5 million with $200 million reserved for projects financed by the California Housing Finance Agency's Mixed-Income Program and $25 million for Farmworker Housing leaving approximately $277.5 million for the general allocation.

In determining how to allocate state credits in 2024, the Committee may wish to consider which types of projects they'd like to prioritize:

Allocating enhanced state credits evenly across 4% rounds 1 and 2 will allow more projects competing in the set-asides and pools to have priority access to the credits, regardless of round. However, this would also leave insufficient state tax credits for projects competing solely in the geographic region of the New Construction pool in both rounds.

Alternatively, if the full $277.5 million was available in the first round, it may allow for projects applying solely in the geographic region of the New Construction pool to be awarded state tax credits in the first round similar to 2022 and 2023, but potentially no projects competing in the second round.

State Credit Limits

CDLAC currently includes controls that encourage projects to only request the minimum amount of state credits necessary: the tiebreaker includes state credits in the denominator and CDLAC prohibits projects from receiving bonds if they requested and were not awarded state credits. However, projects located in high resource communities that receive an extra point in the base scoring are largely immune to these levers.

Since the state tax credits became available for calendar year 2020, the average per project state tax credit award increased from $6.7 million in 2020 to $7 million in 2021 to $10.5 million in 2022 to $13.1 million in 2023. The average per project state tax credit award doubled from 2020 to 2023. The average per unit state tax credit award in 2020 was $72,083 and decreased slightly to $68,056 in 2021. In 2022, the average per unit state tax credit award increased to $85,910 and again in 2023 to $107,028.

The Committee may wish to consider applying a per project or per unit limit on the state tax credit award to extend out credits among more projects. Should the Committee give this direction, staff would include a proposal in the next regulation package for additional stakeholder feedback.

STATE TAX CREDITS - NEW CONSTRUCTION 4% PROJECTS

State Tax Credits Available in 2024	**$500,000,000**	
Plus Carry Forward of Prior Year's Credits	**$2,573,615**	
Total State Tax Credit Available in 2024	**$502,573,615**	

		Annual	**Round 1**	**Round 2**
A	**General Allocation**	$277,573,615	$277,573,615	TBD
	General Allocation for Farmworker Housing	$25,000,000	$25,000,000	$0
	California Housing Finance Agency (CalHFA) - Mixed-Income Program	$200,000,000	$200,000,000	$0

OR

		Annual	**Round 1**	**Round 2**
B	**General Allocation**	$277,573,615	$138,786,808	TBD
	General Allocation for Farmworker Housing	$25,000,000	$25,000,000	$0
	California Housing Finance Agency (CalHFA) - Mixed-Income Program	$200,000,000	$200,000,000	$0

STATE FARMWORKER TAX CREDITS

State Farmworker Tax Credits Available in 2024	**$500,000**
Plus Annual Allocation Amount	**$500,000**
Total State Farmworker Tax Credits Available in 2024	**$1,000,000**

AGENDA ITEM 5

Public Comment

AGENDA ITEM 6

Adjournment