



## CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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DATE: December 20, 2012

TO: Low Income Housing Tax Credit Stakeholders

FROM: Rose Guerrero, Compliance Section Chief

RE: 2013 and 2014 Operating Cost Minimums

The California Tax Credit Allocation Committee (TCAC) maintains a project operating cost dataset to derive average operating costs within California tax credit projects. TCAC began collecting operating cost data for tax credit projects in 2004. The dataset size has expanded significantly as our portfolio has grown in recent years.

### **Data Collection:**

Annually, TCAC staff collects operating costs for all California tax credit projects including projects in their initial federal compliance period as well as projects in the extended use period. This allows TCAC to accurately determine operating costs and identify trends in the California portfolio, which consists of over **2,900** tax credit projects.

The operating cost dataset contains the most recent five-years of operating costs as reported by the project sponsor for each tax credit project. Historically, operating costs were reported based on unaudited financial statements. TCAC began requiring project sponsors to submit operating costs based on audited financial statements beginning in 2009 and adjusted the submittal due date to May of each year. The operating costs are submitted via the Annual Operating Expense (AOE) Report, which is generally due to TCAC by the 3<sup>rd</sup> week in May of each year.

Due to improved compliance reporting in the past few years and the continued growth of TCAC's portfolio, the number of records added annually has grown beyond the number of older records that are excluded each year.

### **Analysis:**

Staff analyzes the detailed operating costs to determine average operating costs statewide, regionally, and for each housing type. Staff removes clearly erroneous submittals from the

dataset, deletes the oldest year's entries and includes the current year's entries to establish an updated five-year dataset. High and low outliers are then removed, leaving a 95% sample with a lower standard deviation. The data reveals significant regional differences in average costs and among the various housing types (senior, large family, etc.) within a region.

### **Calculations:**

To develop the final regional operating cost numbers for 2013 and 2014 staff uses averages for all project types within a region, develops "multipliers" for the various housing types based on the overall relationship shown regionally versus statewide, and applies those "multipliers" to each region's average per-unit operating cost. Finally, using the operating cost averages derived from the 95% dataset, staff computes 90% of the mean for each region and housing type to derive the minimum average operating costs. From this calculated figure, \$100 is added to the minimum for a project with an elevator, \$100 is subtracted from the minimum for a project without an elevator. Operating Cost Minimums are attached for your use and TCAC will be instituting these updated numbers beginning with applications submitted in **2013** and **2014**.

- For 2013 applications, please use operating cost minimums from Exhibit A (<http://www.treasurer.ca.gov/ctcac/2013/minimums.pdf>).
- For 2014 applications, please use operating cost minimums from Exhibit B (<http://www.treasurer.ca.gov/ctcac/2014/minimums.pdf>).

### **Findings:**

#### **Exhibit A - Minimum Operating Costs:**

Based on 2006-2011 operating cost datasets, operating costs statewide increased on average 2.6% during 2011. Our analysis shows most regions increased below 5%, while three geographic regions: **San Francisco County; North & East Bay Region; and South & West Bay Region** increased between 5%-10%. Operating costs categories were reviewed statewide and the top three factors leading to increased operating costs in the TCAC portfolio were water/sewer, administrative, and property management costs.

#### **Exhibit B - Minimum Operating Costs:**

Based on 2007-2012 operating cost datasets, operating costs increased on average 5.1% during 2012. All geographic regions show increases for operating costs during 2012 with three geographic regions: **San Francisco County; North & East Bay Region; and South & West Bay Region** increasing between 7%-16%. Operating cost categories were reviewed statewide and the top three factors leading to increased operating costs remain water/sewer, administrative, and property management costs. This was a shift from our 2010 operating cost analysis which had noted increased costs for utilities, insurance and maintenance costs which moderated in 2011 and 2012. Staff noted operating cost categories experiencing reductions during the past two years as utilities, insurance, and maintenance. However, these reductions were minimal compared to the increases in operating costs factors noted above.

If you have any questions about this memo, please contact Compliance Program Manager, Ammer Singh at 916-654-6340 or via email at: [asingh@treasurer.ca.gov](mailto:asingh@treasurer.ca.gov).