

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the August 26, 2009 Meeting

1. Roll Call.

Bettina Redway for Bill Lockyer, State Treasurer, chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Redway called the meeting to order at 2:15 p.m. Also present: Marcy Jo Mandel for John Chiang, State Controller; Thomas Sheehy for Michael Genest, Director of the Department of Finance; Bruce Gilbertson for Steven Spears, Acting Executive Director of the California Housing Finance Agency; Elliott Mandell for Lynn Jacobs, Director of the Department Housing and Community Development; and County Representative, David Rutledge.

2. Approval of the minutes of the August 5, 2009 Committee meeting.

No public comment.

MOTION: Mr. Sheehy moved to adopt the minutes of the August 5, 2009 meeting. Ms. Mandel seconded and the motion passed unanimously.

3. Executive Director's Report.

Mr. Pavão reported that staff were almost finished scoring the 2009 9% tax credit applications. He stated that TCAC received a total of 241 applications. Mr. Pavão predicted that staff would recommend 80 applications for 9% credits at the September 10th TCAC meeting. He reminded the Committee that TCAC normally holds two competitive funding rounds each year. He explained that unlike prior years TCAC would hold just one competitive funding round for 2009. Additionally, staff would not recommend a Waiting List of projects as part of the 2009 funding round. Mr. Pavão stated that staff would likely bring the recommended Waiting List to the Committee at the October 22nd meeting.

Ms. Vergolini reminded the Committee that TCAC had an interagency agreement with STO for administrative support services. She reported that costs incurred by TCAC for administrative services such as rent, budget services, and information technology (IT) services decreased this year by \$7,573. Ms. Vergolini explained that TCAC had two contracts with STO. One was for administrative services that included personnel, budget, and IT services. Ms. Vergolini stated that the administrative services contract increased by \$6,603 this year. She explained that the increase was due in part to TCAC adding three staff positions. Additionally, TCAC increased its use of electronic file storage which increased IT costs. Total administrative costs increased by 1.07%. Ms. Vergolini stated that TCAC and STO had a separate interagency agreement for rent and security. She reported that the rent and security decreased this year by \$14,176. She explained that the decrease was mostly due to a decrease in the per square footage rate charged by Department of General Services (DGS). Last year DGS charged TCAC \$1.80 per

square foot whereas this year DGS charged \$1.57 per square foot. Ms. Vergolini pointed out that DGS based the rent on the office space prior to the move of several staff into different offices. She reported that DGS was in the process of measuring the TCAC office space and noted that the rent could change based on the new measurements.

Mr. Sheehy thanked Mr. Pavão and Ms. Vergolini for their reports.

Mr. Pavão announced that several Staff Reports from Agenda Item 6 had been revised. He explained that the staff reports were for 4% tax credit recipients requesting ARRA funds. He stated that federal requirements indicated projects receiving Tax Credit Exchange (TCAP) funds in lieu of the credits must maintain a small amount of credit. Mr. Pavão stated the projects may exchange the balance of the credits for TCAP dollars. He noted that the Staff Report for projects recommended for TCAP funds reflected \$100 of federal credit remaining in each project. He explained that staff inadvertently maintained a small credit balance for projects recommended for Section 1602 funds. Mr. Pavão stated that projects recommended for Section 1602 funds were not required to maintain any credits. The Staff Reports were corrected to show that projects recommended for Section 1602 were not going to retain \$100 of federal credit.

Mr. Pavão stated that the Staff Report for Cedar Gateway listed on Agenda Item 5 had a typing error. He explained that on Page 2, the \$14,124,415 figure was stricken and the correct number inserted below it. He stated that the deferred developer fee was also adjusted.

Mr. Pavão announced that staff revised the proposed Resolution associated with Agenda Item 6. He stated that he would explain the revision when the Committee arrived at Item 6.

Ms. Mandel informed Mr. Pavão that Internal Revenue Code stated in the Resolution was incorrect. She explained that the code should have read "Internal Revenue Code of 1986" rather than "Internal Revenue Code of 1896".

Mr. Pavão thanked Ms. Mandel for her observation.

4. Informational update regarding the American Recovery and Reinvestment Act (ARRA) of 2009.

Mr. Rutledge asked Mr. Pavão how the \$325 million in ARRA would be divided among the applicant pools.

Mr. Pavão summarized the actions taken by the Committee at the July 8th and August 5th meetings. He brought the Committee's attention to a chart listing projects that received preliminary ARRA awards. Mr. Pavão reported that TCAC made conditional ARRA awards to 45 projects. Of the total amount awarded approximately \$190 million was Section 1602 awards and \$195.9 million was TCAP awards. In total staff recommended approximately \$386 million in ARRA funds awards.

Mr. Pavão stated that staff intended to recover prior year tax credits and exchange them for Section 1602 funds. Additionally, staff intended to deliver TCAP funds to the early 2009 9% projects instead of Section 1602 funds. Mr. Pavão concluded that the 4% projects on the Agenda did not have a federally exchangeable resource committed to them. The projects either could not secure an equity partner for their resource or did secure an equity partner but still experienced a funding gap.

Mr. Pavão announced that staff would post a summary of the funding actions to date on the TCAC website. He stated that earlier this year staff predicted that applicants would demand approximately \$66 million in TCAP funds as gap fillers in the 9% competition. He reported that only about half of the 2009 9% applicants requested a gap filler along with their tax credits. Mr. Pavão stated that TCAC currently had plenty of resources to carry out funding competitions scheduled for fall. He explained that an exchange competition for 9% credit recipients who were unsuccessful in getting an equity partner was scheduled for this fall. Additionally, staff intended to hold a second competition for 2009 4% projects that could not find an equity partner or still have a funding gap.

Mr. Rutledge asked Mr. Pavão how the \$325 million in TCAP funds would be allocated among the 4% and 9% applicant pools.

Mr. Pavão stated that TCAC disclosed publicly that \$100 million of the \$325 million would be made available for HCD loan guarantees. He announced that today's Agenda contained additional requests for TCAP funds, which he would explain further when the Committee arrived at Item 5.

Mr. Rutledge stated that he understood the staff was working on loan documents. He stated that some projects needed loan guarantees by October in order to be placed into service by December 2010 deadline. He asked Mr. Pavão if TCAC would extend the deadline for applicants under severe time constraints.

Mr. Pavão stated the TCAC Regulations provide staff some authority to exchange older credits for newer credits. He explained that TCAC was able to extend the placed in service deadline by trading older credits for newer credits. Additionally, the Regulations permit TCAC to fully replace credits with cash, which would also extend that deadline up to 6 months.

Mr. Pavão assured Mr. Rutledge that staff would be prompt in disbursing the HCD loan guarantee forms to applicants. He stated that staff intended to begin mailing loans forms out this week. Mr. Pavão noted that there were also some federal deadlines associated with the ARRA funds. He explained that the U.S. Treasury's deadline to expend Section 1602 funds was December 31, 2010. Mr. Pavão stated that he received communications from the U.S Treasury, which indicated that the December 31st deadline could be extended. He noted that the U.S. Treasury had not stated any changes to the deadline writing to date.

5. Discussion of and Action on a 9% Application for HCD Loan Guarantees.

Mr. Pavão reported that the Staff Report for Cedar Gateway (CA-2009-520) contained a correction. He stated the project received an ARRA award at the July TCAC meeting. He reminded the Committee that the project was unable to secure an equity partner. Mr. Pavão summarized that the Committee preliminarily reserved \$14 million for Cedar Gateway. He reported that the project sponsor came back to TCAC for an HCD loan guarantee in the amount of \$3.3 million. The loan guarantee would facilitate the construction loan that was reliant upon HCD financing. He noted that Cedar Gateway would be the last of the prior year 9% projects funded with ARRA funds if the Committee chose to approve staff recommendations.

Mr. Sheehy commented that projects located in coastal areas and San Diego seemed to have less difficulty securing equity investors. He asked why the Cedar Gateway project was unable to secure an investor.

Mr. Pavão asked the audience if a representative from the project could respond to Mr. Sheehy's inquiry.

Marcus Griffin, from ROEM Development Corporation, approached the Committee. Mr. Griffin stated that his company was one of the developers of Cedar Gateway. He commented that even though the project was located in San Diego, it included a special needs component and a retail component that investors found unattractive given the current state of the market.

Ms. Mandel asked Mr. Pavão if the HCD backfill would be used to solve the project's construction lending issue.

Mr. Pavão confirmed that TCAP funds would be reserved for the project to guarantee the HCD financing.

MOTION: Mr. Sheehy moved to adopt staff recommendations. Ms. Mandel seconded and the motion passed unanimously.

6. Discussion of and Action on 2007, 2008, and 2009 4% Tax-Exempt Bond Applications financed projects for both Gap and Cash in Lieu Financing.

Ms. Mandel stated that she would not participate in the Committee vote associated with the following projects: Valley Vista Senior Housing (CA-2009-549), Gleason Park (CA-2009-553), 36th Street & Broadway Apartments (CA-2009-558), Rosa Garden Apartments (CA-2009-560), Shiloh Arms Apartments (CA-2009-572), and Lillie Mae Jones Plaza (CA-2009-580).

Mr. Pavão reported that TCAC originally recommended 30 projects, which were posted on the TCAC website. He announced that staff received information from applicants who were not on the original list that has caused the staff to modify the list of recommendations. Mr. Pavão stated that the project called St. Mark's was

deleted from today's Agenda. He noted that the project sponsor voluntarily withdrew the project.

Mr. Pavão stated that five projects were added to the Agenda. He explained that staff reviewed the original applications for Golden Village and Jose's place and determined that the projects were At-risk deals. Mr. Pavão explained that in the 4% scheme staff did not focus on the at-risk nature of a project as they did with 9% competitive applicants. He stated that TCAC could fund Golden Village and Jose's Place because they received additional points for being At-risk deals.

Mr. Pavão stated that the last three projects added to the Agenda were Camellia Place, 2235 Third Street, and Arc Light Company. He explained that the projects had HCD funding commitments and had pending 4% applications. He reported that staff scored the applications and determined that they warranted recommendation.

Mr. Pavão stated that the lack of demand for some ARRA funds allowed staff to free up enough ARRA funding to fund the first published list of applicants, excluding St. Mark's and the five that were added. He summarized that the total amount of ARRA awards recommended was approximately \$78.9 million, which exceeded the \$75 million TCAC originally made available. Mr. Pavão commented that it was in the public interest to fund all of the recommended projects.

MOTION: Mr. Sheehy moved to adopt staff recommendations, excluding Valley Vista Senior Housing (CA-2009-549), Gleason Park (CA-2009-553), 36th Street & Broadway Apartments (CA-2009-558), Rosa Garden Apartments (CA-2009-560), Shiloh Arms Apartments (CA-2009-572), and Lillie Mae Jones Plaza (CA-2009-580). Ms. Mandel seconded and the motion passed unanimously.

Ms. Mandel exited the meeting.

MOTION: Mr. Sheehy moved to adopt staff recommendations of the six projects excluded from the first motion. Ms. Redway seconded and the motion passed.

Ms. Mandel re-entered the meeting.

7. Discussion of and Action on an Application for HCD Loan Guarantees using TCAP Funds.

Ms. Redway announced Ms. Mandel would abstain from the Committee vote on Gleason Park (CA-2009-553), 36th Street & Broadway Apartments (CA-2009-558), Rosa Garden Apartments (CA-2009-560), Fairmount Apartments (CA-2009-563), and Lillie Mae Jones Plaza (CA-2009-580).

Ms. Mandel exited the meeting.

MOTION: Mr. Sheehy moved to adopt staff recommendations regarding only Gleason Park (CA-2009-553), 36th Street & Broadway Apartments (CA-2009-558), Rosa Garden Apartments (CA-2009-560), Fairmount Apartments (CA-

2009-563), and Lillie Mae Jones Plaza (CA-2009-580). Ms. Redway seconded and the motion passed.

Ms. Mandel re-entered the meeting.

MOTION: Mr. Sheehy moved to adopt staff recommendations, excluding the five projects from the first motion. Ms. Mandel seconded and the motion passed unanimously.

8. Public Comment.

No public comments.

9. Adjournment.

The meeting adjourned at 2:50 p.m.