

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the November 14, 2012 Meeting

1. Roll Call.

Bettina Redway for State Treasurer Bill Lockyer chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Redway called the meeting to order at 11:20 a.m. Also present: Alan Gordon for State Controller John Chiang; Pedro Reyes for the Department of Finance Director Ana Matosantos; Timothy Hsu for California Housing Finance Agency Executive Director Claudia Cappio; Russ Schmunk for Department of Housing and Community Development Director Linn Warren; and County Representative Lois Starr.

2. Approval of the minutes of the October 10, 2012 Committee meeting.

MOTION: Mr. Gordon moved to adopt the minutes of the October 10, 2012 meeting. Mr. Reyes seconded and the motion passed unanimously by roll call vote.

3. Executive Director's Report.

Mr. Pavão announced that the proposed regulation changes for 2013 were posted on the TCAC website on October 24th. He stated that staff would take public comments until Friday, December 7th. In addition, staff held public hearings in Oakland, Los Angeles, and San Diego. The last hearing was scheduled later that day at the Treasurer's Office. Mr. Pavão predicted that staff would bring their final recommendations to the Committee meeting scheduled for January 16, 2013.

Mr. Pavão reported that staff received letters of intent from equity investors associated with the approved First Round 2012 projects. He explained that 41 of the 59 projects awarded 9% or 4% plus state credits had credit pricing in the range of \$1.00 to \$1.14 per tax credit dollar. In addition, 15 projects had pricing in the range of \$0.90 to \$0.95, and three projects had pricing ranging from \$0.80 to \$.89. Mr. Pavão reported that the credit pricing was even better in the 2012 First Round than it was in 2011. He concluded that private investors were investing large amounts of equity to develop the projects.

Mr. Pavão announced that staff scheduled the 2013 application and award dates about 2 weeks earlier than in prior years. He stated that staff adjusted the schedule so they would have enough time to conclude the application reviews before the scheduled Committee meetings. He reminded the Committee that staff had to delay the 2012 First Round awards meeting due to the associated review workload.

4. Discussion and consideration of a Resolution to adopt proposed regulations, Title 4 of the California Code of Regulations, Section 10325(c)(8), Revising Readiness to Proceed.

Mr. Pavão explained that the proposed regulations included an amendment, which provided 2012 First Round award recipients facing the 180-day readiness deadline with an additional 30 days to close their construction period financing. He stated that the current deadline was January 7, 2013. He explained that the 180-day deadline was pushed into the holidays in part because the volume and complexity of staff's workload was such that TCAC awarded the First Round credits 3 weeks later than originally scheduled. Mr. Pavão reported that a number of project sponsored expressed concern that they would be unable to close their construction financing during the holidays. To assist applicants, staff drafted the proposal to change the readiness deadline from January 7, 2013 to February 6, 2013.

MOTION: Mr. Reyes moved to adopt staff recommendations. Mr. Gordon seconded and the motion passed unanimously by roll call vote.

Ms. Redway suggested the Committee discuss Agenda Item 6 before Item 5 so that audience members who were only interested in projects related to Item 6 could leave immediately after the discussion.

6. Discussion and Consideration of the 2012 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão stated that staff recommended 14 applications for 4% credits for use in conjunction with tax-exempt bond financing. He stated that the staff reviewed the projects for feasibility and compliance with the various federal and state requirements and recommended them for approval.

Mr. Pavão noted that 13 of the projects were rehabilitation projects and 7 had project based Section 8 committed to them. He explained that 5 of the projects with Section 8 commitments had no other public debt. In total, 7 of the recommended projects had no public financing commitment other than the tax-exempt bond financing.

Mr. Reyes stated that the Coronado Place Apartments (CA-2012-897) had a redevelopment agency (RDA) funding commitment of approximately \$1 million although the original amount was \$542,000.

Anthony Zeto stated that the excess amount was interest from the original loan.

Mr. Reyes stated that the interest rate charged to the RDA funding must be very high.

Mr. Zeto stated that the loan was issued in 1990.

Mr. Schmunk stated that the projects had commitments from the California Department of Housing and Community Development (HCD) and the California Housing Finance Department (CalHFA). He stated that to his knowledge the project had not received any new public funding.

Mr. Gordon asked if the financing was comprised entirely of assumed public debt.

Mr. Schmunk stated that he assumed the excess amount was accrued interest. He reiterated that he was not aware of any new public money flowing into the project.

Ms. Redway asked if the amount of accrued interest over a 22-year period seemed reasonable.

Mr. Schmunk stated that the amount seemed a little high. He noted that he did not know what the interest rate was.

Mr. Pavão stated that he did not know if the loan was being charged the appropriate applicable federal rate, but he would research to find out what the rate of accrual was.

Mr. Reyes commented that the amount of interest seemed high even over a 22-year period.

Mr. Gordon asked if the Committee intended to remove Coronado Place from the motion under they received better information.

Mr. Reyes stated that he did not know what the detrimental impact of removing Coronado Place would be.

Mr. Gordon agreed with Mr. Reyes that the accrued interest seemed very high.

Mr. Pavão asked his staff to pull the application and review the interest rate.

Mr. Pavão directed the Committee's attention to the golden rod Staff Reports given to them at the beginning of the meeting. He stated that the report for Denny Place & Willow Wood Apartments (CA-2012-903) was amended by staff.

Mr. Zeto explained that staff changed the acquisition amount and other figures on pages 1-3 of the report. He stated that the applicant changed the CRA amount they originally proposed about 2 weeks before the meeting. The updated CRA amount caused the acquisition price to increase, which caused the amount of calculated tax credits to increase.

Mr. Zeto summarized informational items on page 4 of the Staff Report for Vintage at Kendall Apartments (CA-2012-899). He explained that the informational items pertained to re-syndication of an existing project and waivers granted.

MOTION: Mr. Gordon moved approval of all staff recommendations, except project numbers CA-2012-897 and CA-2012-903. Mr. Reyes seconded and the motion passed unanimously by roll call vote.

MOTION: Mr. Gordon moved approval of staff recommendations regarding only CA-2012-903. Mr. Reyes abstained from the vote. Ms. Redway seconded the motion.

Chris Foster, president of Hampstead Partners, stated that his firm was one of the general partners for Denny Place & Willow Wood Apartments. He explained that his firm applied about a year and a half ago to assume the CRA debt and was in a stale mate during that time. Mr. Foster stated that his firm initially thought they would be able to assume all of the debt, but later found out that part of the debt had to be paid down. He stated that his firm requested permission to write off all the interest on the loans originally. Mr. Foster stated that his firm would be assuming more debt than originally planned, which affected the firm's back end economics. He stated that the firm also experienced "hits" with regard to credit pricing and the fact that the firm had to pay down the debt by 25% out of proceeds. Mr. Foster stated that the basis increased, however the numbers were still in alignment.

Mr. Reyes abstained from the vote on Item 6. The motion passed by roll call vote.

5. Discussion and consideration of a reservation of Federal Low Income Housing Tax Credits (LIHTCs) to the West San Carlos Senior Apartments (CA-2012-202) projects as a priority project.

Mr. Pavão reminded the Committee that the West San Carlos Apartments was disqualified because it failed to meet one of the TCAC threshold requirements. He explained that the project failed to have a debt service coverage ratio, which meant the development's projected income was such that after paying operating expenses it would have enough to cover its debt service and have remaining balance sufficient to meet a minimum amount specified by TCAC regulations. He reported that the applicant appealed TCAC's decision at the manager and executive levels; however their final appeal to the Committee was received after the regulatory deadline. Mr. Pavão reminded the Committee that at the last meeting they asked that staff include the project on a future meeting agenda so they could discuss the appeal's merits.

Chris Neale, from Core Affordable Housing, thanked the Committee for considering West San Carlos Senior Apartments for a reservation of 2012 9% tax credits. Mr. Neale stated that a very unique set of circumstances brought him to that day's meeting and he hoped the same circumstances would not occur again. Mr. Neale state that no other applicants applied in the same region as West San Carlos. He stated whether or not the project moved forward, it would have no impact on other projects in the region. Mr. Foster stated that his firm believed the project was absolutely financially feasible and with a slight clarification to the debt service coverage ratio. He announced that a representative from Chase, the project lender, was present to answer any questions about the financial viability of the project. He reiterated that the project was, with clarification, absolutely financially feasible. Mr. Foster stated that the demand for units like those at West San Carlos in the bay area and south bay area was extreme. He explained the

project had a mix of 30%, 40% and 50% units. He stated that the 30% units would rent to seniors in the \$500 per month range compared to the market rate for new units, which was close to \$2,000 or higher. Mr. Foster stated that Dave Bopf, from the City of San Jose Housing Department, was present to speak on behalf of the importance of the project to the city and the need for the units. He announced that he also brought in a letter from the adjacent HOA. Mr. Foster stated, "This is phase 2 of a 2-phase project and there is HOA (inaudible) to homeowners adjacent to the project." Mr. Foster stated that he had a letter of support from the HOA. He explained that the organization was supportive of the project.

Mr. Gordon reported that he had a long discussion with the Controller about the project the prior week. He explained that his agency was concerned that granting a waiver to the project would set a precedent for future applicants who did not fill out their paperwork correctly. Mr. Gordon stated that he was willing to make a motion for the Committee to move the credits to a carry forward into the 2013 9% allocation. He stated that the Controller wanted three conditions placed on the Committee's vote in order to make it clear that the project was in a unique situation. Mr. Gordon explained that the first condition was that there were no other competing projects in the region. The second condition was that the application could be fixed by deferring payment of additional developer fee, while still not exceeding the maximum deferral amount established in TCAC regulation. The third condition was that the project developer would be barred from applying for additional credits during the subsequent program year. Mr. Gordon summarized that with the three conditions he specified and based the Controller's recognition that San Jose was a very expensive region with a large low-income population, he was willing vote in favor of the project.

Mr. Reyes asked Mr. Neale if the conditions specified by Mr. Gordon were acceptable and if they would limit the project in any way.

Mr. Neale stated that the conditions were acceptable and the applicant would be able to adhere to them. He stated that the project sponsor would not submit an application in the 2013 year.

Ms. Redway announced that Terri Balandra wished to comment.

Ms. Balandra reminded the Committee that she spoke at the October 10th meeting in regards to the West San Carlos Senior project. She asked that the Committee add a fourth condition to the three proposed by the Controller's office. Ms. Balandra explained that the project was part of one large planned development which included a homeownership town home project along the portion of the development bordering her property. Ms. Balandra reported that she had recurring drainage problems along a drainage culvert between her home and the larger development since the original construction of the town home development. She stated that she is one of 17 home owners living adjacent to the town home project. In addition, she referenced a property line dispute wherein the 17 neighbor's properties are allegedly encroaching on the townhome development's property. Ms. Balandra suggested that the Committee establish, as a condition of the tax credit award, that the developer completing the senior

development resolve the property boundary lines issue so that the 17 homeowners' properties are not encroaching on the townhome development property. This would also entail the working with 32 townhome owners and their homeowners' association (HOA).

Dave Bopf, from the City of San Jose Housing Department, responded that the matter was between the townhome developer and the neighborhood, so he was reluctant to make any commitments that he was unable to meet regarding the 17 home owners and the townhome developer. He assured the Committee that his agency would do its utmost to ensure that all the information it could obtain was shared with the community and that there was adequate community noticing and meetings about the senior project.

Mr. Pavão noted that the project was once a big parcel, but had been subdivided and there was now a home ownership piece. He asked if the home ownership portion of the project bordered the properties in question and how did it relate to the property the Committee was discussing. Mr. Bopf responded that it was a separate parcel and perhaps the developer should describe it. He suggested that the developer speak about the interaction of the parcels.

Mr. Gordon asked Ms. Balandra if there was a lawsuit ongoing.

Ms. Balandra stated that there was no lawsuit ongoing.

Mr. Gordon asked Mr. Neale to respond to Ms. Balandra's allegations.

Mr. Neale stated that his firm was committed to working with Ms. Balandra and her neighbors, and would continue to work with Ms. Balandra to find a reasonable solution to her concern about disclosure if in the future she chose to sell her property.

Mr. Gordon explained that the TCAC meeting was not a court room, and that the issues regarding the damages and boundary lines were litigation issues that the Committee could not solve. Mr. Gordon stated that he sympathized with Ms. Balandra.

Ms. Balandra and Mr. Neale further discussed the drainage issues. Mr. Neale stated that his firm has worked with Ms. Balandra for 12 years and it would continue to work with her to resolve the issues.

Ms. Redway asked if Mr. Neale had any properties adjacent to the senior properties.

Mr. Neale stated that he did not. He explained that when the property map was recorded 5 years ago, and that it separated the parcel of land for the senior project from the townhome land. He stated that the tax credit project shared no adjacencies with any of the 17 home owners to whom Ms. Balandra alluded.

Ms. Balandra stated that the San Carlos Willard town homes were developed by San Carlos Willard and Associates, LLC with Core, Roem and AOF.

Ms. Redway stated that she did not think Mr. Neale's company was in a position to settle the issues.

Mr. Reyes stated that he was not in a position to adjudicate the issues. He stated that he was concerned about adding the fourth provision, Ms. Balandra described because he did know all the facts. Mr. Reyes stated that he was not prepared to give a resolution in favor of the home owner or the contractor.

Mr. Neale stated that the senior project had no tying whatsoever with the adjacent property line. And his firm would continue to work with Ms. Balandra any of the adjacent property owners to try to find a reasonable solution to the issues.

Ms. Balandra asked that the Committee would include the fourth provision she described in their motion.

Ms. Redway stated that Ms. Balandra's request would be recorded in the meeting minutes. In addition, the Committee acknowledged the issues and they were grateful for the commitment made by Core.

MOTION: Mr. Gordon moved approval of the West San Carlos project for reservation of tax credits with the 3 conditions he specified. Mr. Reyes seconded the motion. Ms. Redway abstained from the vote. The motion passed by roll call vote.

6. Discussion and Consideration of the 2012 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects. (*Continued*)

TCAC analyst, David Navarrette, explained that staff reviewed the application for Coronado Place Apartments (CA-2012-897). He stated that the project loan had a 3% interest rate, which he calculated as 3% simple and compound interest. The simple interest calculation resulted in approximately \$900,000 principal plus interest. The compound interest calculation resulted in approximately \$1 million, which also showed in the application. Mr. Navarrette stated that the applicant confirmed his results.

MOTION: Mr. Gordon moved approval of staff recommendations regarding only project numbers CA-2012-897. Mr. Reyes abstained from the vote. Ms. Redway seconded and the motion passed by a roll call vote.

7. Public Comment.

There were no public comments.

8. Adjournment.

The meeting adjourned at 12:07 p.m.