

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the September 20, 2017 Meeting

1. Roll Call.

Jeree Glasser-Hedrick for State Treasurer John Chiang chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Glasser-Hedrick called the meeting to order at 11:10 a.m. Also present: Alan LoFaso for State Controller Betty Yee; Eraina Ortega for Department of Finance Director Michael Cohen; California Housing Finance Agency (CalHFA) Executive Director Tia Boatman-Patterson; Department of Housing and Community Development (HCD) Director Ben Metcalf; and County Representative Santos Kreimann.

City Representative Ray Mueller entered the meeting at 11:12 a.m.

2. Approval of the Minutes of the August 16, 2017 Meeting.

Executive Director, Mark Stivers reported that staff revised the minutes at the request of Mr. LoFaso just prior to the meeting.

MOTION: Ms. Ortega moved approval of the August 16, 2017 minutes as amended. Mr. LoFaso seconded and the motion passed unanimously by a roll call vote.

3. Executive Director's Report.

Mr. Stivers welcomed Mr. Mueller, TCAC's new City Representative appointed by the California State Assembly.

Mr. Stivers announced that staff published the proposed 2018 regulation changes on the TCAC website. He stated that the public comment period for these regulations would conclude on October 30th. In addition, staff will hold 4 public hearings in Oakland, Sacramento, Los Angeles and San Diego during October to gather public feedback.

Mr. Stivers reported that staff recommended 35 projects for 2017 Second Round 9% credit awards. He explained that staff may recommend 1 or 2 waiting list projects for 9% credits at an upcoming meeting.

Mr. Stivers reported that in July and August staff emailed a customer satisfaction survey to recipients on its ListServ distribution list. The survey allowed the public to grade staff performance in 10 metrics. The survey also included a general comment section. Mr. Stivers reported that public responses were generally positive. He stated that staff would send an email to ListServ recipients explaining strategies TCAC will pursue to improve customer service and administration of the program.

4. Discussion and Consideration of the 2017 Second Round Applications for Reservation of Federal Nine Percent (9%) and State Low Income Housing Tax Credits (LIHTCs) and pending appeals, if any, filed to staff recommendations.

Development Section Chief, Gina Ferguson, reported that staff recommended 35 projects for 9% awards. She noted that staff revised the Staff Report for CA-17-088 prior to the meeting. She explained that staff received notice that the Mayor's Office of Housing and Community Development in San Francisco reviewed the project and strongly supported it. Subsequently, staff updated the Staff Report to reflect the support of the local reviewing agency.

Mr. Stivers stated that the 35 recommended projects comprised 1,603 new construction units and 310 rehabilitation units. He explained that Second Round projects comprised fewer units than those in the First Round but requested more credits per unit. Mr. Stivers suggested this trend was the result of increased project costs, decreased credit pricing and a lack of subsidies available to various types of projects.

Ms. Boatman-Patterson reported that HCD has been working with TCAC to identify cost outliers and evaluate their reasonableness. She stated that 4 of the new construction projects recommended by TCAC had multiple high-cost indicators. CA-17-083 located in Cupertino had 15.4% in architectural fees whereas CA-17-164 located in Napa had 8%. Ms. Boatman-Patterson explained that while the two projects are similar in size, only the percentage of architecture fees for CA-17-164 was closer to the industry standard of 5% for new construction projects.

Ms. Boatman-Patterson reported that CA-17-083 also included 10% in construction contingencies whereas CA-17-164 included 5%, consistent with the industry standard. HCD staff also reviewed the percentage of financing fees associated with both projects and found that CA-17-083 included 11.7% whereas CA-17-164 included 7.7%.

Ms. Boatman-Patterson suggested that TCAC applicants often include buffers in their cost estimates because they do not have detailed drawings or specifications at the time they submit their applications. As a result the applicants sometimes apply for TCAC funding too early. Ms. Boatman-Patterson stated that CalHFA would continue to research these issues in conjunction with TCAC.

Ms. Glasser-Hedrick stated that in the past there seemed to be some consistency between the outliers and the vertical integration of the development companies.

Ms. Boatman-Patterson stated that her staff did not notice if the development companies involved with the projects were related.

Mr. LoFaso asked if the amount of state credit recommended for the Second Round was higher than the amount awarded in the First Round.

Mr. Stivers stated that the amount of state credits recommended for Second Round applicants was most likely higher. He explained that 9% projects are entitled to state credits if they qualify. He reported that TCAC has over allocated state credits in each of the last 2 years. He predicted that TCAC would over allocate state credits to 2017 competitive projects by about \$40 million.

Mr. Stivers reported that TCAC has set aside federal credits, which staff will exchange for about \$28 million in state credits upon completion of the Second Round awards. He predicted the over allocation of state credits would be lower this year in comparison to prior years as a result of the exchange.

Mr. LoFaso asked Mr. Stivers if any state credit exchanges have occurred since the June awards were made.

Mr. Stivers stated that no credit exchanges have occurred to date, but staff will review projects awarded in June and September after that day's meeting. He stated that he would brief Committee members via email regarding the outcome of the exchange process.

Ms. Boatman-Patterson stated that she wished to amend her previous comment regarding CA-17-083 and CA-17-164. She explained that her staff did not notice related development parties associated with CA-17-083; however they did notice related parties associated with CA-17-164. She noted that there was a trend of projects with related development parties not meeting the industry cost standards; however CA-17-164 exemplified a project with related parties that was close to meeting the industry standards.

Ms. Glasser-Hedrick invited Kyra Ross to comment.

Ms. Ross stated that she represented Emanuels Jones & Associates on behalf of the City of Glendale. She stated that she supported staff recommendations, specifically in regard to 5th and Sonora Apartments, CA-17-110.

Ms. Glasser-Hedrick invited Loren Messeri to comment.

Ms. Messeri thanked the Committee for their consideration of CA-17-149. She also thanked staff for conducting a third-party review of the high cost test.

MOTION: Mr. LoFaso moved approval of staff recommendations. Ms. Ortega seconded and the motion passed unanimously by a roll call vote.

5. Discussion and consideration of a resolution authorizing the Executive Director of the California Tax Credit Allocation Committee to sign contracts and interagency agreements.

Mr. Stivers explained that the resolution was an annual exercise, which allowed the Executive Director of TCAC to enter into contracts for an aggregate amount of up to \$250,000 without Committee approval; however the Executive Director must report to the Committee on any contract that exceeds \$50,000.

Ms. Glasser-Hedrick asked Mr. Stivers if the resolution was consistent with past practice.

Mr. Stivers confirmed that TCAC has executed this type of resolution in previous years.

MOTION: Ms. Ortega moved approval of the resolution. Mr. LoFaso seconded and the motion passed unanimously by a roll call vote.

6. Public comment.

Due to a teleconference system malfunction during the meeting, the following comments were accepted by email from Rob Fredericks, Executive Director/CEO of the Housing Authority of the City of Santa Barbara.

“Good morning Madam Chair and Committee Members, my name is Rob Fredericks. I am the Executive Director of the Housing Authority of the City of Santa Barbara. I thank you for the opportunity to provide public comment today.

As each member of this Committee understands, the shortage of affordable housing in California is a serious problem. We appreciate the difficult task that the Tax Credit Allocation Committee and its staff have in awarding limited tax credits to an always-oversubscribed pool of needy applicants throughout the entire state. There are a myriad of small and large judgments that must be made in the evaluation of each application - and - as long as our Housing Authority has been involved in the process dating back to 1993, we think that overall the Committee has done an excellent job of creating a level playing field through the creation of thoughtful regulations which have been consistently and fairly applied.

By now each Committee member has received a copy of our appeal letter to Executive Director Mark Stivers requesting that TCAC determine the application point score for our Gardens on Hope (CA-17-139) project submitted this second round. The letter details that the Gardens on Hope did not receive an award in the first round of this year because of an application error and we did not appeal because we knew from longstanding precedent that the regulations do not permit a correction once the application is submitted. Thus, we were surprised by the Committee’s decision to approve the appeal at the August 16th hearing.

The Committee’s approval came AFTER Mr. Stivers offered a very clear warning to the Committee that an approval of the Cielito Lindo project would affect the Special Needs housing type sort and which projects get funded throughout the state. This is what happened. Despite having one of the highest tiebreaker scores in the round, our ‘Gardens on Hope’ project did not make the funding list due to the fact that the Committee’s appeal

approval allowed the Cielito Lindo project to absorb so much of the remaining Special Needs allocation. This then impacted other projects in the state based on the sequential sorts that TCAC follows. While we feel aggrieved, we sympathize with all applicants impacted.

Out of our respect for Mr. Stivers and his interpretation that there are no grounds for appeal in our case, we decided not to push forward with a formal appeal. Nevertheless, today we would like to impress upon the Committee that the commitment to provide much needed affordable housing is shared by ALL applicants and that you consider the true impact of your August 16th decision today and in the future.

For now, we simply ask that the Committee provide clarity for future reference about when it is permissible for an applicant to be able to correct regulation violations after application submittal.

In closing, I would just like to add that WE will remain hopeful that Gardens on Hope will obtain wait list status or be funded in the next round through a new application submittal.

Thank you for your time and consideration today.”

7. Adjournment.

The meeting adjourned at 11:26 a.m.