STATE OF CALIFORNIA

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DATE: July 1, 2008

TO: Low Income Housing Tax Credit Stakeholders

FROM: William J. Pavão, Executive Director

SUBJECT: Third Tiebreaker Consistency

In the first round of competition for 2008 nine percent (9%) credits, the California Tax Credit Allocation Committee (TCAC) noted some extremely costly proposed development budgets. While a development's cost can be very project-specific, TCAC staff is concerned about some cost outliers among projects receiving 9% credits.

The Committee is also well-aware of the potential competitive benefits to be derived from high projected development costs, particularly in the third tiebreaker scoring. TCAC staff recognizes that such a scoring benefit could lead to abuse in the form of over-estimating the projected development costs.

The TCAC regulations also envisioned this potential for abuse, and require the following of the third tiebreaker ratio:

> This ratio must not have increased when the project is placed-in-service or negative points will be awarded, and the Tax Credit award may be reduced. (Section 10325(c)(12))

This means that a significant reduction in total development cost against what was presented in the application would result in negative points being assigned when discovered at placed-in-service. In addition, TCAC may reduce the basis amount to restore the ratio, thereby reducing the amount of credits ultimately allocated to the project.

The Committee acknowledges that these consequences are severe, but the clear regulatory intent is to dissuade applicants from overstating development costs and reaping a third tiebreaker benefit. TCAC staff will be carefully reviewing cost certifications at placed-in-service, and will consistently apply the regulatory requirement in this regard.

If you have any questions regarding this matter, please contact your regional analyst, as listed at http://www.treasurer.ca.gov/ctcac/contacts.asp . Thank you for your attention to this matter.