

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

915 CAPITOL MALL, ROOM 485
SACRAMENTO, CA 95814
TELEPHONE: (916) 654-6340
FAX: (916) 654-6033



William J. Pavão
Executive Director

MEMBERS:
Bill Lockyer, Chair
State Treasurer

Michael C. Genest, Director
Department of Finance

John Chiang
State Controller

DATE: September 25, 2008
TO: Low Income Housing Tax Credit Stakeholders
FROM: William J. Pavão, Executive Director
SUBJECT: First Round 2008 Tax Credit Award Recipients

The California Tax Credit Allocation Committee (TCAC) posted a July 18, 2008 memorandum from me referencing the cost-consistency requirements for nine percent (9%) credit reservation recipients in regulation Section 10325(c)(12). That regulation requires that a project's third-tiebreaker ratio must not have increased between the application and the project's placed-in-service date. The July 18 memo acknowledged the equity market's volatility, and the continuing uncertainty regarding Low Income Housing Tax Credit pricing. TCAC recognized that some applicants and syndication letter authors may have been, in good faith, overly optimistic in estimating their credit pricing.

In response to those circumstances, TCAC granted a grace period through August 20, 2008 during which first-round nine percent (9%) reservation recipients could return the reserved credits without receiving negative points. This would have permitted a sponsor to restructure the project and bring it back in a subsequent funding round, and TCAC would have promptly reserved the returned credits for second round applications within the appropriate set-aside or geographic apportionment of origin.

Expectations for First Round Reservation Recipients

As stated in my July 18, 2008 memorandum, at carryover allocation on October 31, 2008, project sponsors electing to retain their credit reservation will be required to provide TCAC with an executed offering letter from their selected syndicator or equity investor. At that time, the sponsor must demonstrate to TCAC that the equity pay-in will be adequate, in conjunction with other documented funding sources, to fully fund the project's development costs. The executed offering letter must state the committed credit price, equity amount, a pay-in schedule, and all conditions for entering into the partnership agreement.

By October 31, 2008 the sponsor must also complete and provide a TCAC Exhibit E updating the projects sources and uses, and showing total development costs. From this update, TCAC will recalculate the third tiebreaker. If the third tiebreaker ratio is significantly increased (score worsened), the reservation would be reconsidered pursuant to regulation Section 10328(d)(1) and negative points would be assigned.

Extended Grace Period

In light of the ongoing and worsening circumstances in the capital markets, TCAC understands that some first round projects may have recently had prospective investors or syndicators withdraw their interest in the credits. Therefore, I am extending the period during which first-round reservations may be returned without a negative point penalty. Effective immediately, any first-round 2008 reservation recipient may return their reservation without penalty through October 31, 2008.

Conclusion

TCAC recognizes that project sponsors continue to operate in a time of great uncertainty. The Committee does not intend to assess negative points to sponsors who, in good faith, estimated their construction costs and equity amounts within their original application. Those facing a shortfall may return the reservation without penalty through October 31. Thereafter, TCAC will assure consistency with application assertions and scoring.

If you have any questions regarding this matter, please contact your regional analyst.