

**California Tax Credit Allocation Committee
2011 Questions & Answers (Part II)
Public Funds Scoring Questions**

The Tax Credit Allocation Committee (TCAC) staff has been presented with a number of scenarios related to scoring public funds. Specifically, questions have arisen regarding various methods of public funding to land acquisition costs. The following lists those scenarios and TCAC's practice in scoring those scenarios. If other scenarios are presented to TCAC, additional guidance may be provided on the TCAC website.

- 1. A sponsor is acquiring or receiving land and improvements for an acquisition and rehabilitation project. How will TCAC count public funding contributions in such cases?**

Such sponsors must always provide an appraisal (consistent with Section 10322(i)(4)), and TCAC shall refer to that appraisal in determining the value of any land and improvement contributions from a public funding source. Consistent with regulations (Section 10327(c)(7)), applications including acquisition and rehabilitation costs for existing improvements shall be underwritten using the lesser amount of the purchase price or the "as is" appraised value of the subject property (as defined in Section 10322(i)(4)(A)).

- 2. A sponsor is purchasing or has purchased land from a third party. Public funds are committed to the project defraying development costs including land purchase. How will TCAC score those public funds?**

TCAC would rely upon the third-party purchase price as the appropriate development cost, and would not require an appraisal. Therefore, committed public funds would be counted in their entirety unless some other unrelated matter called them into question.

- 3. Assume the same facts as in question number 2 but with the following additional facts: The sponsor's third-party purchase with public financing occurred several years ago. Soon after the sale, the sponsor grant deeded the property over to the lending public entity. Now, the public entity is contributing the land back to the sponsor for the current project. What value would TCAC assign to the public contribution?**

If the public entity entered into an exclusive agreement with the sponsor as they took the property back, then TCAC could view the original third-party purchase as the public contribution. Absent such an exclusive agreement, then this scenario is the same as if the public entity had purchased and land-banked the property several years ago, and TCAC would look for a current appraisal to establish the value of the public contribution. A current appraisal is defined as being conducted within one year of the tax credit application (consistent with 10325(c)(1)(C)).

- 4. A sponsor is purchasing a property from a public funding source and the public funding source is either carrying back paper or otherwise providing soft financing equal to or in excess of the appraised value of that property. Must a sponsor provide an appraisal in the application? Would TCAC discount the public funding for scoring purposes if the sales price exceeds the appraised value of the land?**

Yes. The sponsor must submit an appraisal completed within the year prior to the application due date. For example, a site appraised at \$4 million is being sold by a local public entity to the project sponsor for \$6 million. Assume the public funding source is either lending \$6 million for the land purchase or more than \$6 million to defray development costs generally. In this case TCAC would discount the committed public funding amount by the \$2 million difference between the appraised value and the sales price. In the development budget, you may include the \$4 million amount instead of the \$6 million amount for the “total land cost/acquisition” line item.¹ It may be in the applicant’s competitive advantage to include the lower figure in the development budget. While the presented scenario describes a land sale by the public entity, TCAC views such a sale involving the public entity carrying back paper or providing a soft loan in excess of the appraised value as a donation under the regulatory intent (Section 10325(c)(1(C))).

- 5. A public agency is providing land through a disposition and development agreement (DDA) and leasing it or otherwise transferring it to the sponsor. Would the same guidance in question #4 above apply?**

Yes. TCAC views such agreements as a donation under the regulatory intent (Section 10325(c)(1(C))).

- 6. Assume a sponsor acquires a property from a third party and donates the land to a public entity who donates it back to the sponsor. Would TCAC competitively score the value of the public source’s commitment to contribute the land back to the sponsor or partnership?**

No. In this case, the public entity would not have made a net contribution to the project.

¹ If you enter the higher amount in the development budget, the “Final Tie Breaker Self-Score” tab in the Excel application will need to be adjusted. Please contact TCAC staff.

- 7. Assume the project sponsor intends to sell land that they own to the to-be-formed limited partnership and public funds are committed either as purchase financing or to the development generally in an amount in excess of the land's appraised value. How much of the public funding would TCAC count competitively?**

As in question #3 above, TCAC would discount the public contribution by the difference between the purchase price and the land's appraised value.

- 8. Assume the project sponsor who purchased land from a third party sells the land that they own to the to-be-formed limited partnership (a related party transaction) at the same purchase price as in the original third party transaction. Public funds are committed to the to-be-formed limited partnership to be used to purchase the site. How much of the public funding would TCAC count competitively?**

TCAC would rely upon the third-party purchase price as the appropriate development cost, and would not require an appraisal. However, if the purchase price from the related party transaction exceeds the purchase price from the original third party transaction, a current appraisal will be required to establish the public funding contribution.