CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

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State Controller

EXECUTIVE DIRECTOR

JUDITH BLACKWELL

AGENDA

Wednesday, July 15, 2020

TIME:
11:30AM or Upon Adjournment of the TCAC meeting

Jesse Unruh Building
915 Capitol Mall, Room 587
Sacramento, CA 95814

Public Participation Call-In Number***
(888) 557-8511
Participant Code: 5651115

OPEN SESSION

1. Call to Order and Roll Call
2. Discuss and Choose Between Various Regulation Structures and Strategies (Action Item)
3. Public Comment
4. Adjournment

FOR ADDITIONAL INFORMATION:
Judith Blackwell, Executive Director
California Debt Limit Allocation Committee
915 Capitol Mall, Room 311
Sacramento, CA 95814
(916) 653-3255

The Agenda is also available on our website: http://www.treasurer.ca.gov/cdlac

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PROPOSED CDLAC/TCAC REGULATION CHANGES SCHEDULE

7/15/20:	Consider/Determine overall structure to TCAC/CDLAC changes
7/29/20:	Possible 2nd meeting to Determine structure to TCAC/CDLAC changes
7/30/20 to 8/27/20:	Draft proposed regulation changes and statement of reasons
8/28/20:	Publish initial proposed regulation changes
9/3/20	Public hearing
9/10/20:	Public hearing
8/28/20 to 9/21/20:	Public comment period
9/21/20 to 10/2/20:	Review public comments, draft responses to comments
10/2/20:	Publish final proposed regulation changes
10/14/20:	CDLAC/TCAC Meetings – Adopt regulations

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

July 15, 2020

Discuss and Choose Between Various Regulation Structures and Strategies (Agenda Item No. 2)

ACTION:
Approve a structure and strategy to update CDLAC regulations with a focus on the competitive scorecard.

DISCUSSION:
On June 17 and June 19 of 2020, the Committee had a policy discussion with regard to updating CDLAC regulations. The Committee received feedback from the working group, individual developers, and stakeholders on how to better structure and align the CDLAC QRRP program with TCAC and outside agencies.

TCAC and CDLAC participated in 5-City Listening Tour (February 2019) to gather ideas and feedback to improve efforts to increase affordable housing statewide. There was a follow up 10-City Statewide Tour five months later (June 2019) to solicit feedback prior to publishing proposed regulation changes.

TCAC and CDLAC have convened multiple working groups to review the regulations.

- External: A diverse working group made up of for profit and nonprofits in both rural and non-rural areas
- Internal: Housing agency working group made up of TCAC, CDLAC, HCD and CalHFA who have met regularly.

After receiving input from the Committee and stakeholders, CDLAC would like to now select a structure and strategy to directly incorporate and modify the existing competitive scorecard and surrounding regulations.

The purpose of this meeting is to review proposed strategies, frameworks, structures, and even proposed language for modification of the CDLAC competitive scorecard so it meets the Committee's policy objectives and aligns two housing areas in the Treasurer's office (CDLAC and TCAC).

As a tool to help facilitate the discussion, CDLAC and TCAC Management reviewed definitions in the CDLAC regulations for existing alignment as well as compared the CDLAC Competitive Scorecard with the TCAC Scorecards (the attachment).

RECOMMENDATION:
Staff recommends that the Committee approve a strategy, structure, and possible content for updating CDLAC regulations.

- TCAC and CDLAC participated in 5-City Listening Tour (February 2019) to gather ideas and feedback to improve efforts to increase affordable housing statewide. There was a follow up 10-City Statewide Tour five months later (June 2019) to solicit feedback prior to publishing proposed regulation changes.
- TCAC and CDLAC have convened multiple working groups to review the regulations
    - <u>Internal</u>: Housing agency working group made up of TCAC, CDLAC, HCD and CalHFA who have met regularly
    - <u>External</u>: A diverse working group made up of for profit and nonprofits in both rural and non-rural areas

INTERNAL WORKING GROUP RESULTS

- Absent the listening tour and working groups, TCAC's initial approach to a competitive system for the AB101 $500m in state tax credits would have been to use the existing 4% plus state credit (15% of original $70 million) scoring system.
- TCAC staff is aware of existing issues with the current 9% tie breaker calculation and unintended consequences, and has been reviewing options to correct for these.
- The working group agreed that CDLAC and TCAC need to conform our definitions and replicate our scoring systems where feasible.
- The system developed by William Leach and presented to CDLAC, TCAC, HCD and CalHFA in our internal working group is an interesting proposal. It is based on a calculation of units divided by state resources and contains multiple adjustments, weighting factors, and variables. These factors and adjustments require a deeper dive analysis by TCAC staff, which is in process. Attached are examples of some of the types of formulas that will need to be developed.
- Although the internal working group would like to delve into this system, it is clear that it requires more analysis. If the committee wants to pursue this type of system, TCAC staff can work through the process, estimated to be a 3-5 year implementation with heavy dependence on outside consultants, particularly to develop statewide statistical comparisons of construction cost across regions, as well as a statistical survey to compare and assign numerical values to various public benefits and cost factors. Developing weighting for these categories is comparable to the opportunity map process, which took approximately 5 years and only analyzed the opportunity area benefit, a single benefit category.
- A quick implementation (2021) of a broad program overhaul as proposed would be disruptive to housing projects that are currently in the development process and are moving toward application. These pre-development projects are based on the current CDLAC and TCAC systems and developers need time to adapt to program changes.

TCAC – CDLAC Alignment Comparison of Critical Definitions

Definitions Where TCAC & CDLAC Align

Federally Assisted At-Risk
Rural Project[1]
Verification of Zoning and Local Approvals
Capital Needs Assessment
Market Study
Hard Costs[2]
Scattered Site Projects[3]
Other Affordable Pool (*emergency regulation*) – CDLAC specific definition
Public Funds[4]

Definitions Where TCAC & CDLAC could use further Alignment

Restricted Rental Units – CDLAC and TCAC conform to Federal Election requirements (TCAC has the Federal Election of Income Averaging included with no corresponding Federal Election for tax exempt bonds).

New Construction Project (*emergency regulation*) – TCAC has adopted CDLAC's definition for Disaster Credits only and may need a definition covering other tax credit programs.

Preservation Project (*emergency regulation*) – Not explicitly referenced in TCAC regulations outside of At-Risk projects.

Sustainability – Nearly aligned. However, TCAC is more up to date with building codes. Recommend CDLAC cross-referencing TCAC's definition.

Adaptive Re-use – Aligned in usage but not explicitly or formally defined by TCAC.

Mixed-Income Project (*emergency regulation*) – Explicitly defined by CDLAC to include the CalHFA Mixed Income Program but is only referenced within TCAC regulations regarding the AB101 set-aside for CalHFA's Mixed Income Program.

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[1] Difference without meaning because CDLAC designation excludes Mixed-Income Projects, while TCAC has no Rural set aside in the 4% competition.
[2] TCAC and CDLAC using identical standards. Insignificant language change needed to make definitions perfectly identical.
[3] Concepts align although definitions do not track verbatim.
[4] CDLAC's definition is a subset of and is aligned with TCAC's definition.

TCAC – CDLAC Alignment Comparison

Comparison of TCAC and CDLAC Scorecards

Characteristic	**CDLAC**	**TCAC 4% + State**	**TCAC 9%**
General Partner Information		X	X
Management Company Information		X	X
Housing Needs		X	X
Site Amenities	X	X	X
Service Amenities	X	X	X
Sustainable Building Methods*	X		X
Low Income Bonus		X	X
Readiness to Proceed		X	X
Community Revitalization	X		X
Smoke Free Residence	X		X
Credit Substitution			X
Enhanced Accessibility and Visitability			X
Historic Tax Credits			X
Eventual Tenant Ownership			X
Negative Points	X	X	X
Preservation Points	X		
Gross Rents	X		
Exceeding Minimum Rent Restrictions	X		
Exceeding Minimum Term of Restrictions	X		
Large Family Units**	X	X	X
Leveraging	X		
Foregone Eligible Developer Fee	X		
Qualified Project Period	X		
Tie-breaker	X	X	X

*TCAC sustainability standards have been updated for reference to recent building codes.

**For TCAC, Large Family Units is included in the Housing Needs review.

TCAC/CDLAC Possible Aligned Scorecard

Characteristic	**Recommendation**
General Partner Information	Change to a threshold requirement to align with CDLAC
Management Company Information	Change to a threshold requirement to align with CDLAC
Housing Needs	Change to a threshold requirement and align with CDLAC
Site Amenities	Align CDLAC and TCAC requirements
Service Amenities	Align CDLAC and TCAC requirements
Sustainable Building Methods	Align to CDLAC requirements or amend
Low Income	Align CDLAC and TCAC requirements
Readiness to Proceed	Change to a threshold requirement to align with CDLAC
Community Revitalization	Align CDLAC and TCAC requirements
Smoke Free Residence	Align CDLAC and TCAC requirements
Credit Substitution	9% only
Enhanced Accessibility and Visitability	9% only
Historic Tax Credits	9% only
Eventual Tenant Ownership	9% only
Negative Points	Any assessed negative points apply to both CDLAC and TCAC
Preservation Points	Consider points for At-Risk
Gross Rents	Remove
Exceeding Minimum Rent Restrictions	Align CDLAC and TCAC requirements (consolidate with Lowest Income)
Exceeding Minimum Term of Restrictions	Remove
Large Family Units	Align CDLAC and TCAC requirements
Leveraging	Align CDLAC and TCAC requirements (partially included in the TCAC tie-breaker)
Foregone Eligible Developer Fee	Remove or Amend
Qualified Project Period	Remove
Tie-breaker	Develop a consolidated tie-breaker

The following are excerpts of the system developed by William Leach and presented to CDLAC, TCAC, HCD and CalHFA in our internal working group. The system is based on a calculation of units divided by state resources and contains multiple adjustments, weighting factors, and variables. These factors and adjustments require a deeper dive analysis by TCAC staff, which is in process. Attached are examples of some of the types of formulas that will need to be developed.

Although the internal working group would like to delve into this system, it is clear that it requires more analysis. If the committee wants to pursue this type of system, TCAC staff can work through the process, estimated to be a 3-5 year implementation with heavy dependence on outside consultants, particularly to develop statewide statistical comparisons of construction cost across regions, as well as a statistical survey to compare and assign numerical values to various public benefits and cost factors. Developing weighting for these categories is comparable to the opportunity map process, which took approximately 5 years and only analyzed the opportunity area benefit, a single benefit category.

Allocation Methodology

Devising an Ideal Methodology

William Leach, 1/9/20

Proposed Framework

The best measure of efficiency is:
Public Benefit per **Scarce Resource**

The methodology should be **based on units produced** and factor in ancillary public benefits.

The methodology should be **based on all state resources** and allow for inherent cost differences.

$$\frac{\text{Low-Income Units} \times \text{Ancillary Benefit Factor (i)} \times \text{Ancillary Benefit Factor (ii)}}{\text{State Resources} - \text{Inherent Cost Allowance (a)} - \text{Inherent Cost Allowance (b)}}$$

Base Example: More Units

A project providing more units using the same resources should be selected

80 Units

16 M Resources

= 5.0 units per million resources

70 Units

16 M Resources

4.4 units per million resources =

Base Example: Less Resources

A project providing the same units using less resources should be selected

$$\frac{\text{80 Units}}{\text{14 M Resources}} = \text{5.7 units per million resources}$$

$$\text{5.0 units per million resources} = \frac{\text{80 Units}}{\text{16 M Resources}}$$

Base Example: More Efficient

A project providing more units per million resources should be selected

$$\frac{\text{90 Units}}{\text{17 M Resources}} = \text{5.3 units per million resources}$$

$$\text{5.1 units per million resources} = \frac{\text{82 Units}}{\text{16 M Resources}}$$

Benefit Factor Example: Transit

An otherwise equal project with an ancillary public benefit should be selected

80 Units	×	110% Transit Proximity Factor	=	80 * 110% = 88
16 M Resources			=	88/16 = 5.5

80 Units	×	100% Transit Proximity Factor	=	80 * 100% = 80
16 M Resources			=	80/16 = 5.0

Cost Allowance Example: Prevailing Wages

A project requesting additional resources to pay prevailing wages should be considered equal to an otherwise equal project.

$$\frac{\text{80 Units}}{\text{18 M Resources} - \text{2 M P.W. Allowance}} =$$

80 * 25,000 = 2 M

18 – 2 = 16

80 / 16 = 5.0

$$\frac{\text{80 Units}}{\text{16 M Resources} - \text{No Allowances}} =$$

80 / 16 = 5.0

Multifaceted Example

A project providing more public benefit (including ancillary benefit factors) using less scarce resources (allowing for inherent cost differences) should be selected

83 Units Family	×	110% High Opportunity		83 * 110% = 91
			=	20 – 3 = 17
20 M Resources	–	3 M Family Allowance		91 / 17 = 5.4

90 Units Senior	×	105% Transit Proximity Factor		90 * 105% = 95
			=	19 – 1 = 18
19 M Resources	–	1 M Dense Pop. Allowance		95 / 18 = 5.3

Fairness: Proposed Factors

i. **Portfolio enhancement factor** ranging from 50% (rehabilitation) to 100% (new construction, regulatory preservation, or market to affordable conversion)

ii. **High resource area factor** ranging from 100% (low resource area) to 110% (highest resource area)

Low-Income Units × Public Benefit Factors

State Resources –

Fairness: Proposed Factors

iii. **Proximity to amenities factor** ranging from 93% (no amenities) to 100% (amenity rich)

iv. **Proximity to public transit factor** ranging from 94% (infrequent/distant public transit) to 102% (frequent/proximate public transit)

v. **Square footage factor** ranging between 94% (minimum sq. ft.) and 102% (20% above minimum sq. ft.)

Low-Income Units × Public Benefit Factors

State Resources −

Fairness: Proposed Allowances

a. **Prevailing wage allowance** equal to $__,000 per unit, based on historical cost analysis

b. **Family project allowance** equal to $__,000 per unit, based on historical cost analysis

Low-Income Units × Public Benefit Factors

State Resources − Inherent Cost Allowances

15

Fairness: Proposed Allowances

c. **Location costliness index allowance** (plus or minus) $__,000 per unit based on area income, population density, and market rents (compared to state average) (subtracting "allowing" for more costly areas, adding "imputing" for less costly areas.)

d. **Supportive services allowance** being the present value of the annual supportive services budget amortized over 30 years using a 5.5% rate.

Low-Income Units × Public Benefit Factors

State Resources − Inherent Cost Allowances

APPENDIX 4: DETAILED REGRESSION RESULTS

The results of the regression model we discuss in the text are presented in Figure 16 below. For a detailed description of the variables see Appendix 1: Data Descriptions and Summary Statistics.

FIGURE 16: REGRESSION RESULTS - BASIC REGRESSION

Dependent Variable:	log_CostRealTot_Units						
Number of Observations	284			R-Squared	0.8042		
Dependent Mean Value	12.4801			Adjusted R-Squared	0.7729		
Explanatory Variable	**Coefficient**	**T-Statistic**		**Explanatory Variable**	**Coefficient**	**T-Statistic**	
Intercept	9.9006	7.9427	**				
Stories_4Plus	0.0955	2.4284	**	Year construction started (excluded = 2001)			
log_SqFt_NetParking	0.2579	3.9217	**	ConstYr_2002	(0.0832)	(1.3292)	
log_Units_Tot	(0.4153)	(6.3258)	**	ConstYr_2003	(0.0462)	(0.6119)	
PW	0.1113	3.9734	**	ConstYr_2004	(0.0042)	(0.0643)	
SubParking	0.0630	1.9104	*	ConstYr_2005	(0.0052)	(0.0766)	
Int10Yr	(0.0492)	(0.7263)		ConstYr_2006	0.1322	2.0105	**
UnempRate	(0.0024)	(0.2629)		ConstYr_2007	0.1941	3.0065	**
Log_WageRates	0.1048	1.0414		ConstYr_2008	0.0858	0.9693	
Log_Dev_Employees	(0.0251)	(2.6982)	**	ConstYr_2009	0.1211	1.1218	
Funding_Redev	0.0666	2.6358	**	ConstYr_2010	0.0333	0.3098	
Qlty_Average	0.1489	2.7719	**				
ReviewReq	0.0663	2.2900	**	TCAC Region (excluded = Central Region)			
Pct9	(0.0402)	(1.5956)		TCAC_Rgn_Rural	0.1604	2.5704	**
Meetings_4Plus	0.0485	1.9371	*	TCAC_Rgn_CapNorth	0.0442	0.7855	
				TCAC_Rgn_NEBay	0.3241	4.8579	**
Developer Type (excluded = "For Profit")				TCAC_Rgn_SWBay	0.3016	4.1627	**
DevType_NonProfit	0.0939	3.5660	**	TCAC_Rgn_SF	0.4855	4.3591	**
DevType_OtherG	0.1272	2.4565	**	TCAC_Rgn_CenCoast	0.1944	3.4458	**
				TCAC_Rgn_InlandEmp	0.1077	2.0526	**
Housing Type (excluded = "Large Family")				TCAC_Rgn_LA	0.1774	2.9427	**
HT_NonTarget	0.0215	0.3179		TCAC_Rgn_OC	0.1331	1.2566	
HT_SRO	(0.3120)	(3.0711)	**	TCAC_Rgn_SanDiego	0.1975	2.5722	**
HT_Senior	(0.1775)	(4.9702)	**				
HT_SpecialNeeds	(0.0930)	(1.6814)	*				

** Indicates statistical significance at the 95% confidence level.

* Indicates statistical significance at the 90% confidence level.

EXTERNAL WORKING GROUP RESULTS

Background

The CDLAC/TCAC Working Group formed October 2019 at State Treasurer's request. The Working Group is staffed by the California Housing Consortium ("CHC"), a broad coalition of 26 diverse members: non-profit & for-profit affordable housing developers, and public agencies, with urban, suburban, and rural representation. The purpose of the Working Group is to assess and recommend changes to CDLAC/TCAC regulations to meet key affordable housing policy objectives. The focus is both the Low-income Housing Tax Credit and the Tax-Exempt Bond System.

Policy Principles for CDLAC

- Serve as a relatively neutral backbone program to state and local programs
- Strike a balance between mission impact and maximum financial efficiency
- Reduce or eliminate requirements or incentives that inflate costs without clear benefit
- Deliver significant percent of bond cap to extremely low income and very-low income
- Ensure that priority housing types receive most of the bond cap in competitive years
- Ensure geographic distribution of funds roughly proportionate to needs and adjusted for cost
- Maintain emphasis on SB 375 goals to reduce greenhouse gas emissions by encouraging infill development near transit and job centers

Design Principles

In designing the proposal, the Working Group borrowed successful elements of the 9% tax credit program, with some adjustments. The Working Group proposes to align the CDLAC scoring criteria and definitions with TCAC's where appropriate, as well as to allow for flexibility as policies and priorities change over time. The proposals include a base scoring on **relative cost efficiencies** (controlling for housing type and geography) and a shift of bond allocation to larger super-regions (based on the 9% regional allocation). The Working Group recommends avoiding too much complexity and retaining successful approaches when possible.

Working Group CDLAC Proposal - Purposes

These proposals are designed to comply with AB 83 legislative mandates. Compliance with AB 83 includes aligning both programs, increasing production and containing costs. Aligning the programs includes consistent or identical scoring categories and criteria between programs, as well as new cost containment and incentive scoring. Maximizing efficient use of public subsidy and benefits include:

a) # and size of units, including local density incentives
- New scoring category to support high-density development
- New "high-density" housing type (like large family, senior, etc.)
- Measure state resource investment by "adjusted bedrooms"

b) Proximity to amenities, jobs and transit
- New "job center" amenity category
- Change scoring so more transit sites qualify for full points

c) Location of development
- New "super-region" geographic system

d) Housing for very-low, extremely-low income housing
- New requirement to deliver units at 30% AMI and 50% AMI
- Set-asides for homeless and deep-targeting units

TCAC/CDLAC Working Group

CDLAC Allocation System Recommendations

As of July 12th, 2020

TCAC / CDLAC Working Group Background

- Formed October 2019 at State Treasurer's request
- Staffed by the California Housing Consortium ("CHC")
- Broad coalition of 26 diverse members
  - Non-profit & for-profit affordable housing developers
  - Public agencies
  - Urban, suburban, rural representation
- Purpose – Assess and recommend changes to TCAC/CDLAC regulations to meet key affordable housing policy objectives
- Focused on both the Low-income Housing Tax Credit and the Tax-Exempt Bond systems

Policy Principles for CDLAC

- Serve as a relatively neutral backbone program to state and local programs
- Strike a balance between mission impact and maximum financial efficiency
- Reduce or eliminate requirements or incentives that inflate costs without clear benefit
- Deliver significant percent of bond cap to extremely low income and very-low income
- Ensure that priority housing types receive most of the bond cap in competitive years
- Ensure geographic distribution of funds roughly proportionate to needs and adjusted for cost
- Maintain emphasis on SB 375 goals to reduce greenhouse gas emissions by encouraging infill development near transit and job centers

Design Principles for CDLAC Changes

- Borrow successful elements of the 9% tax credit program
- Shift allocation to larger super-regions (based on the 9% regional allocation)
- Align CDLAC scoring criteria and definitions with TCAC where appropriate
- Allow for flexibility as policies and priorities change over time
- Avoid too much complexity and retain successful approaches when possible
- Base scoring on **relative cost efficiencies** (controlling for housing type and geography)

Working Group CDLAC Proposal - Purposes

- Address CDLAC Member key policy objectives
  - Increase production
  - Reduce costs
  - Measure state investment
- Implement stakeholder and program user input
- Modernize outdated system
- Account for competitive environment

Working Group CDLAC Proposal - Purposes

- Comply with AB 83 legislative mandates

   1. Align both programs, increase production and contain costs (as defined)

      - Consistent or identical scoring categories and criteria between programs

      - New cost containment and incentive scoring

Working Group CDLAC Proposal - Purposes

- Comply with AB 83 legislative mandates

  2. Maximize 1) efficient use of public subsidy; and 2) benefit (by including):

     a) <u># and size of units, including local density incentives</u>
        - New scoring category to support high-density development
        - New "high-density" housing type (like large family, senior, etc.)
        - Measure state resource investment by "adjusted bedrooms"

     b) <u>Proximity to amenities, jobs and transit</u>
        - New "job center" amenity category
        - Change scoring so more transit sites qualify for full points

     c) <u>Location of development</u>
        - New "super-region" geographic system

     d) <u>Housing for very-low, extremely-low income housing</u>
        - New requirement to deliver units at 30% AMI and 50% AMI
        - Set-asides for homeless and deep-targeting units

Working Group CDLAC Proposal - Purposes

- Comply with AB 83 legislative mandates

  3. Evaluate total state subsidy provided

    - New “State Resource Benefit and Efficiency Measure”
    - Evaluates total state investment adjusted for regional cost differences (LA vs. Fresno)
    - Accounts for different project design features (podium parking, building type, etc.)
    - Equalizes size and mix of bedrooms (1-bdrm. vs. 4-bdrm.)

Option #1 – Single-Track Proposal

Pools and Set-asides (50% of total allocation)

- 3 Pools (15%)
  - Rural – 5%
  - Preservation – 5%
  - Other Affordable – 5%

- 3 Set-Asides (New Construction only)
  - Homeless– 10%
  - Extremely-Low & Very-Low – 15%
  - Mixed-Income – 10%

- For 2021-22, set-asides should be proportional to HCD and MIP pipelines

- Percentages in Pools and Set-Asides annually adjusted by Committee

Geographic Regions

- Balance of 50% to Geographic Regions
- 6 Super-Regions based largely on combining 9% regions adjusted for cost
  - Coastal Region (San Diego, Orange and Central Coast)
  - City of Los Angeles
  - Balance of Los Angeles County
  - Bay Area Region (5 County Core)
  - Inland Region (Central Valley and Inland Empire)
  - Northern Region (Capitol and North Bay)

Scoring

10 capped categories for 150 points, 1 uncapped category

1. **Leveraged Soft Resources** – mirrors 9% system, but adds private third-party funding

2. **Cost Containment** – similar to one element of 9% tie-breaker, with points awarded based on project costs below basis limits

3. **General Partner & Management Company Experience** – mirrors 9% system

4. **Site Amenities** – to mirror revised 9% factors and scoring, including job centers

5. **Service Amenities** – to mirror revised 9% factors and scoring

6. **Housing Types** – mirrors 9% system with the addition of a new High-Density Housing type

Scoring (continued)

8. **Deeper Income Targeting** – Provides two options: A) Full points for 50% average affordability, or B) 60% average affordability as long as 10% of units at 30% AMI and 10% at 50% AMI – income averaging

9. **% Below Market Rate** – Measures average rent levels of project relative to market rents with adjustment factors depending on region

10. **Density & Local Incentives <u>or</u> Acq. Rehab. Priorities**
    - 9A) Density & Local Incentives: Various ways to qualify for points if project is proposed with high densities
    - 9B) Acq. Rehab Priorities – Tiered points based on at-risk and preservation priorities, with the highest emphasis on projects that could soon go market-rate

10. **Readiness to Proceed** – mirrors 9% system

11. **State Resource Benefit & Efficiency Measure** – Provides a return on state investment by measuring cost-adjusted state resources against bedroom-adjusted units

Option #2 – Two-Track Proposal

- 2 Set-Asides
  - Rural – 5%
  - Preservation & Other Affordable – 10%

- Balance of 85% to New Construction Pool with 6 Geographic Regions

- 2 categories of New Construction scored in different Tracks
  - **Deep Benefit Track** – 50% of remaining amount
  - **Efficiency Track** – 50% of remaining amount
  - Developer chooses project's track

- Scoring – 6 capped categories for 100 points, 1 uncapped category
  - 4 common categories and 4 categories specific to each track
  - State Resource Benefit & Efficiency Measure – same as Single-Track

Working Group Next Steps

- Need to update the 9% regional allocation formula with additional data (e.g. Homeless PIT Counts)

- Undertake a comprehensive review and update of the basis limits
  - Focus on more current data
  - Greater differentiation by housing type and geography
  - Commercial vs. residential wage rates

- Outline steps to move State towards unified housing finance system

CDLAC Allocation System Restructure: Single-Track Option

Rev. 7/12/20

			Notes
Est. QRRP PAB Volume Cap		3,500,000,000	**NOTE: This proposed system remains under on-going review and evaluation by the TCAC/CDLAC Working Group and may change from this current form.**
Pools			Projects funded in pools don't count toward super regions; projects in pools do not spill to set-asides or super regions
Rural	5.0%	175,000,000	All rural projects compete here regardless of new construction / preservation / other definition
Preservation	5.0%	175,000,000	
Other Affordable	5.0%	175,000,000	The "unicorn" pool - includes projects not meeting New Construction or Preservation definitions
New Construction Set-Asides			All set-asides spill to super regions; new construction includes adaptive re-use
Homeless	10.0%	350,000,000	Those homeless projects with HCD / Local only funding spill down to HCD / Local Only Funding Set-Aside if not funded in Homeless Set-Aside
Extremely-Low / Very-Low	15.0%	525,000,000	Projects must have HCD or local funding of 15% or more of total dev. costs; HCD projects include MHP, AHSC, TOD, Joe Serna, NPLH, VHHP
Mixed-Income	10.0%	350,000,000	Projects may only use new bonds relative to their bond/tax credit affordable % if bond/tax credit units are less than 80% of total units
Total Pools and Set-Asides		1,750,000,000	
New Construction Remainder		1,750,000,000	

Super Regions (New Construction Only)

1) No carryforward from year to year of deficits / surpluses like 9%; 2) A waiting list structure would be used for the last round of the year to use regional leftovers; 3) Projects funded in pools and set-asides do not count toward regional goals; 4) %'s are from the 9% geographic system

Location	%	Amount	Notes
Coastal Region	21.1%	369,250,000	Central Coast (5.2%), Orange (7.3%), San Diego (8.6%)
City of Los Angeles (+1%)	18.6%	325,500,000	City of Los Angeles (17.6%)
Balance of LA County	17.2%	301,000,000	Balance of Los Angeles County (17.2%)
Bay Area Region (+2.5%)	19.6%	343,000,000	San Francisco (3.7%), South and West Bay (6.0%), East Bay (7.4%)
Inland Region (-3.5%)	13.4%	234,500,000	Central Valley (8.6%), Inland Empire (8.3%)
Northern Region	10.1%	176,750,000	Capital (5.7%), Northern (4.4%)
	100.0%	1,750,000,000	

	Capped Scoring (150 Points)		Pts.	Notes
1	Leveraged Soft Resources		20	Use TCAC 9% definition, but expand to include private non-related party soft money, 1 point for every 1% of Residential TDC
2	Cost Containment		20	1 point for every 1% below TCAC basis limits, with permitted adjustments - See attached worksheet
3	General Partner & Management Co. Experience		10	Use TCAC 9% criteria (keep same for both programs) but change points from 9 to 10
4	Site Amenities		10	Use TCAC 9% criteria (keep same for both programs) but need to add distance to a job-rich center as an additional amenity
5	Service Amenities		10	Use TCAC 9% criteria (keep same for both programs)
6	Housing Types		10	Use TCAC 9% criteria for Large Family, Senior, Special Needs, SRO (must be Special Needs or 100% at 40% AMI or below) and At-Risk, but add a High Density housing type that meets conditions in 9A; waiver of criteria available for New Construction projects with land-use approvals obtained prior to January 1, 2022
7	Deeper Income Targeting		20	1 point for each .5% the average affordability is below 60% AMI (measure bond/tax credit units only - avg. of 50% AMI = 20 points) <u>OR</u> full points earned with an average affordability of 60% AMI or less (with a minimum of 10% at 30% AMI and 10% at 50% AMI)
8	% Below Comparable Market Rents		20	For LA, Coastal and Bay Area Regions, 1 point for each 1%, and for Northern and Inland Regions, 2 points for each 1%, that the weighted average affordable rent is greater than 10% below market (measures bond/tax credit units only)
9A	Density & Local Incentives (New Cons.)	20	20	Project includes any one of the following: 1) Local jurisdiction has approved the project at a density greater than that allowed by the general plan through the use of state/local density bonus law, SB 35, concession and/or waivers; 2) Project has received an award of funding through HCD's Infill Infrastructure Grant Program; 3) Project is being developed at a per net acre density as follows: A) 100 bedrooms in Urban areas; B) 60 bedrooms in Suburban areas; C) 40 bedrooms in Rural areas. Net acre defined as parcel boundaries after dedication of any public right-of-way, the presence of restrictive easements, and non-buildable areas. Possible grandfather clause: Projects with land-use approvals obtained prior to January 1, 2022 shall earn full points in this category.
9B	Preservation Priorities (Acq. & Rehab.)	20		See attached worksheet tab "Acq Rehab 7-12-20"
10	Readiness to Proceed		10	Use TCAC 9% criteria (keep same for both programs)
	Total Capped Scoring Potential		**150**	

Uncapped Scoring

11	State Resource Benefit & Efficiency Measure	No Score Limit	This is not a tie-breaker but is additive to the capped scoring. See attached worksheet tab "State Measure 7-12-20".

CDLAC Allocation System Restructure: Two-Track Option

Rev. 7/12/20

			% of Total Allocation	Notes
Est. QRRP PAB Volume Cap		3,500,000,000		**NOTE: This proposed system remains under on-going review and evaluation by the TCAC/CDLAC Working Group and may change from this current form.**
Set-Asides				Projects funded in set-asides don't count toward nor spill to regions, but leftover proceeds do in the final round of the year.
Rural	5.0%	175,000,000	5.0%	All rural projects compete here regardless of new construction / preservation / other definition - may choose either scoring track
Preservation & Other	10.0%	350,000,000	10.0%	May choose either scoring track
Total Set-Asides		525,000,000		
New Construction Remainder		2,975,000,000		
Deep Benefit Track	50.0%	1,487,500,000	42.5%	Deep Benefit Track and Efficiency Track %'s are adjusted each year by the Committee
Efficiency Track	50.0%	1,487,500,000	42.5%	Awards from each track count toward regional goals; project skipped if bond request exceeds amount available in track or region for that round
Balance Remaining		-		

Super-Region Distribution Targets

1) No carryforward from year to year of deficits / surpluses like 9%; 2) A waiting list structure would be used for the last round of the year to use regional leftovers; 3) Projects funded in set-asides do not count toward regional goals; 4) %'s are from the 9% geographic system

Location	%	Amount	Notes
Coastal Region	21.1%	627,725,000	Central Coast (5.2%), Orange (7.3%), San Diego (8.6%)
City of Los Angeles (+1%)	18.6%	553,350,000	City of Los Angeles (17.6%)
Balance of LA County	17.2%	511,700,000	Balance of Los Angeles County (17.2%)
Bay Area Region (+2.5%)	19.6%	583,100,000	San Francisco (3.7%), South and West Bay (6.0%), East Bay (7.4%)
Inland Region (-3.5%)	13.4%	398,650,000	Central Valley (8.6%), Inland Empire (8.3%)
Northern Region	10.1%	300,475,000	Capital (5.7%), Northern (4.4%)
	100.0%	2,975,000,000	

Capped Scoring (100 Points)

Base Scoring Categories (40 Points)

1	General Partner & Management Co. Experience		10	Use TCAC 9% criteria (keep same for both programs) but change points from 9 to 10
2	Site Amenities		10	Use TCAC 9% criteria (keep same for both programs) but need to add distance to a job-rich center as an additional amenity
3	Readiness to Proceed		10	Use TCAC 9% criteria (keep same for both programs)
4A	Density & Local Incentives (New Con.)	10	10	Project includes any one of the following: 1) Local jurisdiction has approved the project at a density greater than that allowed by the general plan through the use of state/local density bonus law, SB 35, concession and/or waivers; 2) Project has received an award of funding through HCD's Infill Infrastructure Grant Program; 3) Project is being developed at a per net acre density as follows: A) 100 bedrooms in Urban areas; B) 60 bedrooms in Suburban areas; C) 40 bedrooms in Rural areas. Net acre defined as parcel boundaries after dedication of any public right-of-way, the presence of restrictive easements, and non-buildable areas. Possible grandfather clause: Projects with land-use approvals obtained prior to January 1, 2022 shall earn full points in this category.
4B	Preservation Priorities (Acq. & Rehab)	10		See attached worksheet tab "Acq Rehab 7-12-20"

Track Scoring Categories (60 Points)

		Deep Benefit Track	Efficiency Track	Notes
5A	Deeper Income Targeting	20		1 point for each .5% the average affordability is below 60% AMI (measure bond/tax credit units only - avg. of 50% AMI = 20 points) with a minimum of 10% of the restricted units at 30% AMI and 20% of the restricted units at 50% AMI
5B	Leveraged Soft Resources	20		Use TCAC 9% definition, but expand to include private non-related party soft money, 1 point for every 1% of Residential TDC
5C	Service Amenities	10		Use TCAC 9% criteria (keep same for both programs)
5D	Cost Containment	10		1 point for every 1% below TCAC basis limits, with permitted adjustments, **including deep affordability** - See attached worksheet
6A	Cost Containment		20	1 point for every 1% below TCAC basis limits, with permitted adjustments, **not including deep affordability** - See attached worksheet
6B	% Below Comparable Market Rents		20	For LA, Coastal and Bay Area Regions, 1 point for each 1%, and for Northern and Inland Regions, 2 points for each 1%, that the weighted average affordable rent is greater than 10% below market (measures bond/tax credit units only)
6C	Production of Non-Volume Cap Units		10	1 point for every 5% of units (i.e. a project with 150 units that had 100 bond volume cap units and 50 units at <100% AMI would get 10 points)
6D	Deeper Income Targeting		10	1 point for each 1% of the unit at 50% AMI, 2 points for each 1% of the units at 30% AMI - Income averaging permitted to 60% AMI
	Total Capped Score Potential	**100**	**100**	

Uncapped Scoring

		Deep Benefit Track	Efficiency Track	Notes
7	State Resource Benefit & Efficiency Measure	No Limit	No Limit	This is not a tie-breaker but is additive to the capped scoring. See attached worksheet tab "State Measure 7-12-20".

CDLAC Allocation System Restructure **Rev. 7/12/20**

Cost Containment

Sacramento County	4% TCAC Basis Limits	Units	Base Limit	Notes
				This is virtually identical to the 9% methodology without divided by 3 rule.
1-Bedroom	301,093	30	9,032,790	
2-Bedroom	363,200	40	14,528,000	
3-Bedroom	464,896	30	13,946,880	
Total Base Limit			37,507,670	
+ Various Basis Boosts (Per TCAC Allowances)		35%	13,127,685	See below for current basis boosts plus proposed changes.
+ Impact Fees			2,000,000	
Depreciable Basis Cost Limit (A)			52,635,355	
Project's Budgeted Depreciable Basis (B)			40,000,000	
% Below (Above) Basis Limit (A - B / A)			24.01%	
Points (1 pt. for every 1%, round down)			24	Maximum of 20 points or 10 points depending on Track, if applicable
Current TCAC Basis Boosts - Section 10327(c)(5)(A)				These basis limits all need to be adjusted - some too high, some too low
Prevailing Wages	20.0%			
Project Labor Agreement	5.0%			
Structured Parking	10.0%			Recommended for increase
Day Care	2.0%			
100% Special Needs	2.0%			
Elevator Serviced Building	10.0%			May now be duplicative boost when adding Type I and Type III
Current TCAC Basis Boosts - Section 10327(c)(5)(B) through (F)				
~~Energy/Green Features~~	~~10.0%~~			Energy/Green Feature boost recommended for elimination
Deeper Income Targeting	30.0%	(Max of 30% like 9% max basis limit)		1) Boost eliminated in Track System; 2) Boost eliminated from entire system if basis limits are corrected / methodology improved
Seismic Upgrade/Toxic Mitigation	15.0%			
Local Development Impact Fees	Varies			Convert this to a % for State Resource Benefit and Efficiency Measure
High Resource Area	10.0%			
Proposed New Basis Boosts				
Type III Building	10.0%			Recommended for addition
Type I Building	15.0%			Recommended for addition

State Resource Benefit & Efficiency Measure

Project Data				Notes
				This is the difference between the project's county threshold basis limit and the average county basis limit in the state, adjusted by borrowing capacity.
Statewide Basis Delta	5%			
Project Basis Boosts	35%			These are the project's permitted TCAC basis boosts.
# of Units (by bedroom size)	100			
Total State Resources	40,000,000			Includes: HCD, CalHFA MIP, State Tax Credits, CDLAC Bond Allocation, State NPLH
				Excludes: All local $, All federal $, Local HOME/CDBG, County NPLH, all existing debt in A/R
STEP 1: Calculate Cost-Adjusted State Resources				
1) Add Together State Resources	40,000,000			
2) Calculate Adjuster				
a) Statewide Basis Delta	5%			This % works to standardize costs and borrowing capacity across the state
b) Project Basis Boosts	35%			This % works to standardize costs amongst varying project characteristics
c) Total Percentages	40%			
d) Divided by 2	20%			This is needed to keep Adjusted State Resources above $0 after all the boosts
e) Multiply inverse by State Res.	32,000,000			This adjusted number attempts to account for total cost variances
STEP 2: Calculate Bedroom Adjusted Units		Adj.	Adjusted	All units restricted to 80% AMI or below counted regardless of funding source
Unit Type	Proposed	Factor	Units	
Studio	20	0.75	15.00	
1-Bedroom	20	1.00	20.00	
2-Bedroom	20	2.00	40.00	2-bed and larger treated as 1-bed for PSH unless targeted for PSH families
3-Bedroom	20	3.00	60.00	Up to 30% of total units counted, then counted as a two-bedroom
4-Bedroom or larger	20	4.00	80.00	Up to 10% of total units counted, then counted as a two-bedroom
	100		215.00	
STEP 3: Calculate State Resource Benefit & Efficiency Measure				
Cost-Adjusted State Resources /	32,000,000			
Bedroom-Adjusted Units	215.00			
Equals	148,837			
Adjusted State Resource Benchmark	500,000			
Difference	351,163			
Divided by 10,000 to get Points	**35.12**			

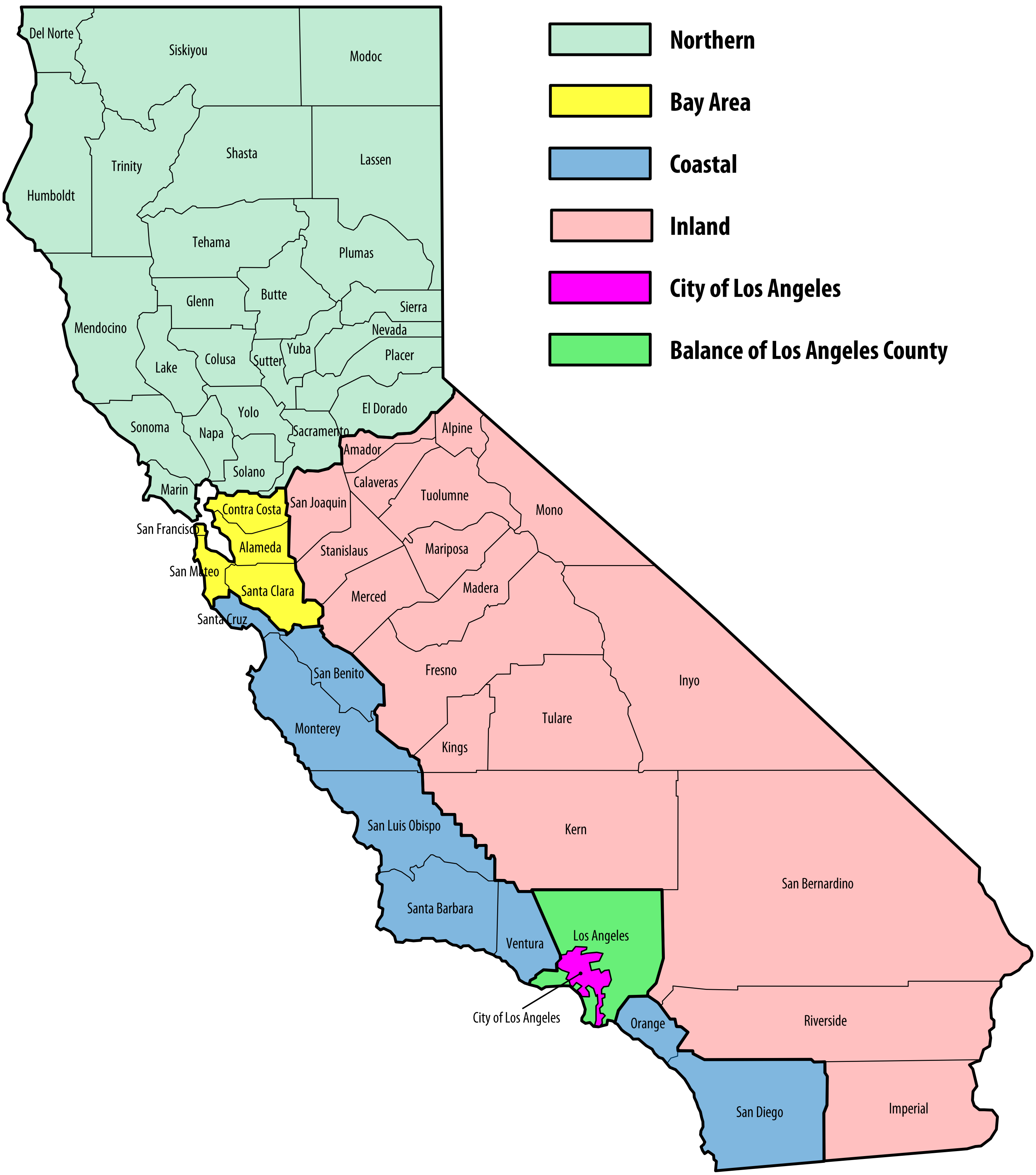
A Bond Pool that encompasses all non-rural Acquisition/Rehabilitation applicant properties. The initial thought was that the Pool would combine the two Pools currently known as "Preservation" and "Other Affordable". If that is the case, the Pool would allocate 10% of the QRRP Volume Cap.

If "Other Affordable" is determined to remain on its own as a "unicorn" pool, consideration should be given as to whether 5% of the QRRP Volume Cap is sufficient for the Acquisition/Rehabilitation Pool. Please note that thirty-two of the sixty-seven applicants in CDLAC's September 16, 2020 allocation round are acquisition/rehabilitation developments.

Acquisition/Rehabilitation properties shall be required to complete rehabilitation work at a minimum of $50,000 in hard construction costs per unit, as defined in TCAC Regulation Section 10302(u), subject to the provisions of IRC Section 42(e)(3)(A)(ii)(I), with the exception of historic properties that shall be subject to the rehabilitation expenditure provisions of IRC Section 47.

Points	*(Points reduced by 50% in Track System)*
20	A property that meets at least one of the following: (i) any replacement or rehabilitation project approved by HUD pursuant to a Section 18 Demolition/Disposition authorization; (ii) any project being rehabilitated under the HUD Rental Assistance Demonstration (RAD) Program; or (iii) a Federally-Assisted At-Risk property.
16	A property that is historic, by virtue of being listed individually in the National Register of Historic Places, or due to its location in a registered historic district and certified by the Secretary of the Interior as being of historical significance to the district, and the rehabilitation will be completed in such a manner as to be eligible for historic rehabilitation tax credits.
12	A property with a pre-1999 HCD loan that is being restructured pursuant to Section 50560 of the Health and Safety Code (AB 1699 projects).
8	A property that receives governmental assistance on at least 50 percent of the units pursuant to either (i) Project-Based Section 8 or Rent Supplement, (ii) USDA Rent Supplement, (iii) Section 236 Financing, (iv) Section 221(d)(3) Financing, (v) USDA 514 or 515 Financing, or (vi) Department of Housing and Community Development Financing (other than AB 1699 projects), that has not previously received an allocation of Low-Income Housing Tax Credits.
4	A property that does not contain pre-acquisition income-restrictions.

CDLAC Allocation System Restructure
Proposed Super Region Map



TCAC / CDLAC Working Group Roster

FIRST NAME	LAST NAME	ORGANIZATION	FORPROFIT/ NONPROFIT	GEOGRAPHIC REACH	ORG REPRES
Doug	Shoemaker	Mercy Housing	NP	Statewide	Co-Chair
Caleb	Roope	The Pacific Companies	FP	Statewide	Co-Chair
Ann	Silverberg	Related CA	FP	Statewide	
Geoff	Brown	USA Properties	FP	Statewide	
Moe	Mohanna	Highridge Costa	FP	Statewide	
Laura	Kobler	CHPC	NP	Statewide	CHPC
Kasey	Burke	Meta Housing	FP	Statewide	
Matt	Franklin	MidPen	NP	Bay Area	NPH
Linda	Mandolini	Eden Housing	NP	Bay Area	
Robin	Hughes	Abode Communities	NP	Los Angeles	
Dora	Leong Gallo	A Community of Friends	NP	LA/OC	SCANPH
Alfred	Diaz-Infante	CHISPA	NP	Rural	HCA
Jeree	Glasser-Hedrick	Jamboree	NP	Orange County	
Michael	Ruane	National CORE	NP	Inland Empire	
Jim	Silverwood	Affirmed Housing	FP	Statewide	
Sue	Reynolds	Community Housing Works	NP	San Diego	SDHF
Tom	Collishaw	Self-Help Enterprises	NP	Valley/Rural	CCRH
Sean	Spear	City of Los Angeles	Public	Los Angeles	
Gus	Becerra	Regional Housing Authority	Public	North San Joaquin Valley	
Arjun	Nagarkatti	AMCAL	FP	Statewide	
Laurie	Doyle	AHDC	FP	Central Valley	
Paul	Patierno	Highland	FP	Statewide	
Anne	Wilson	Chelsea	FP	San Diego	CCAH
Adhi	Nagraj	McCormack Baron Salazar	FP	Statewide	
Dan	Wu	Charities Housing	NP	Santa Clara	