

CDLAC & TCAC Recommendations: Scoring System Proposal

Office of State Controller Betty T. Yee

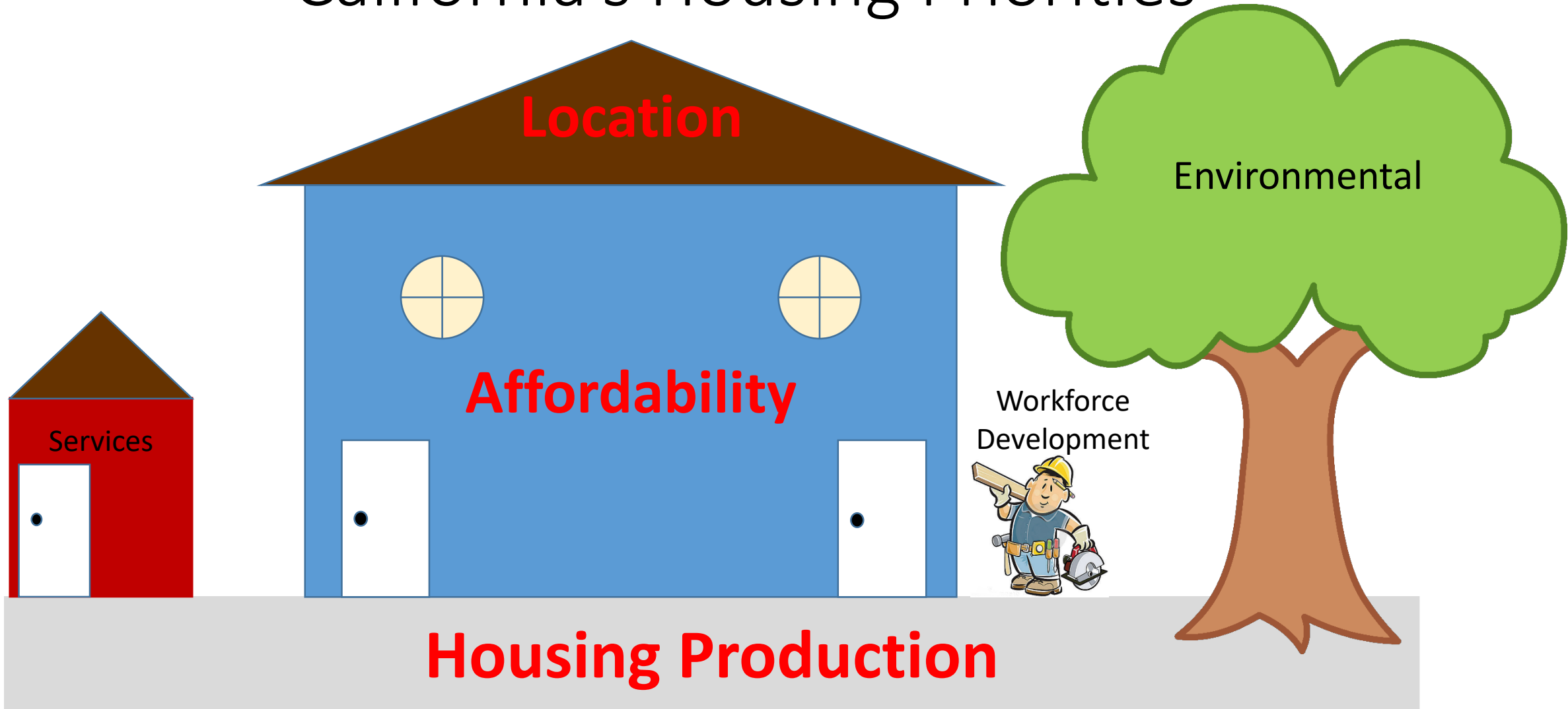
July 2020



Alignment of State Housing Funding Programs

- State housing funding scoring systems should be aligned to better reflect state priorities and produce more consistent outcomes
- A universal scoring system can create uniformity for state staff and program applicants
- Scoring must better reflect efficiency to maximize public benefit with the state's limited housing resources
- While some state programs are designed for specific populations or public benefits, a consistent scoring system can be used with minor alterations to reflect unique priorities

California's Housing Priorities

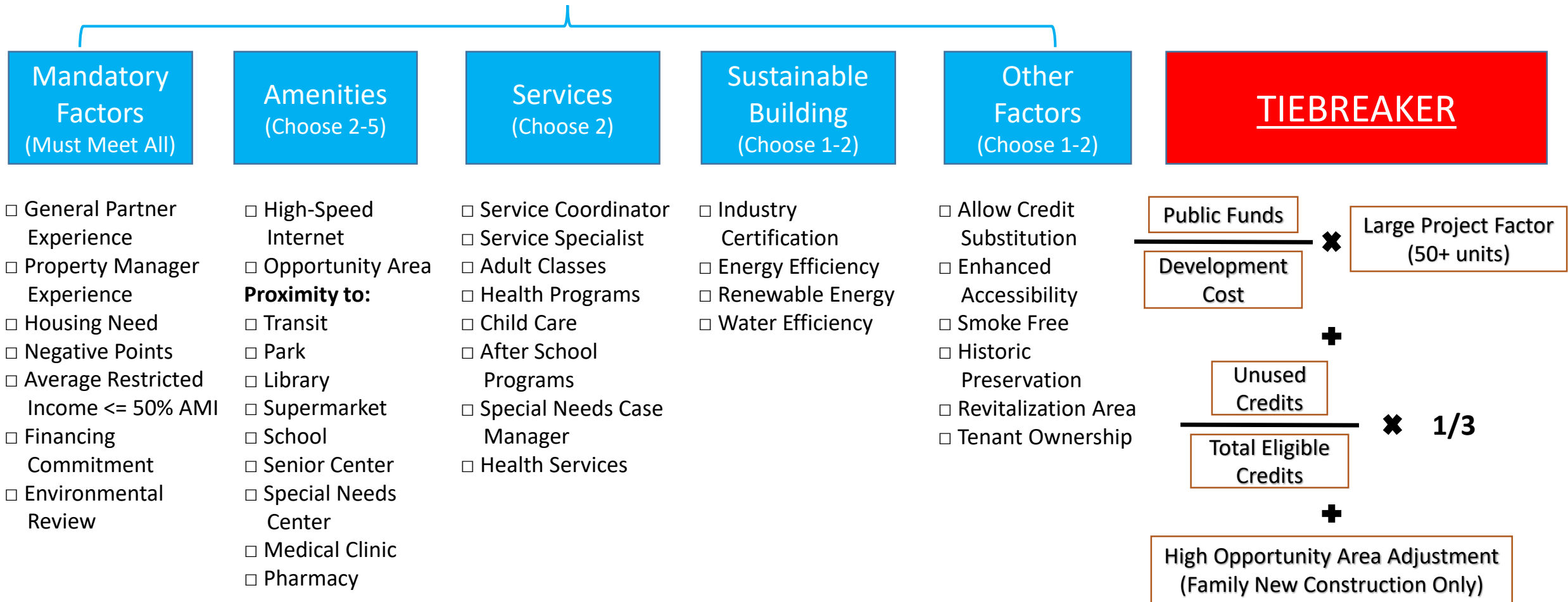


Board Priority Discussion

- CDLAC, TCAC, and HCD programs should be better aligned
- To maximize benefit, cost efficiency should be prioritized to achieve most total public benefit with limited resources
- Programs should serve all affordable income levels
- Location of projects is important factor

Existing 9% Tax Credit Scoring System

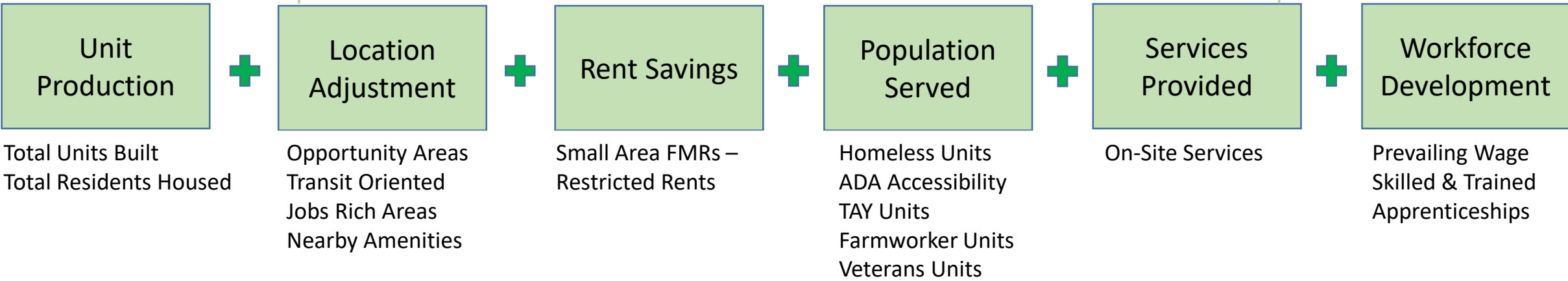
Basic Scoring System - 100% Score Usually Necessary



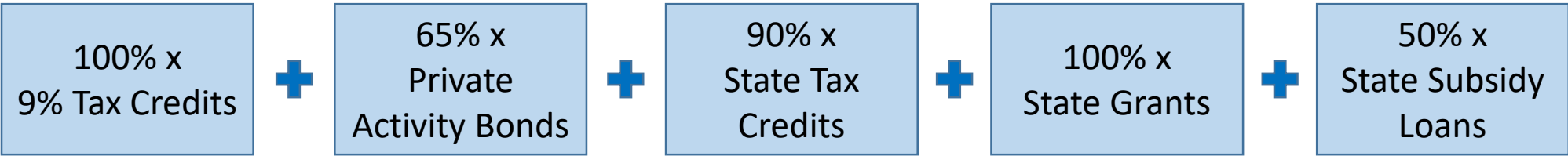
Public Benefit vs State Investment Scoring System

Value of Public Benefit

Over Expected Added Regulatory Life



State Investment



Scoring System Summary

- Maximizes public benefit of all state-controlled subsidy by dividing the value of public benefit achieved by the dollars of state subsidy invested
 - Public benefit targets 3 primary areas: housing production, affordability, location
 - State investment measured by value of investment per dollar of state funding
- New factors (rent savings and jobs-rich areas) are quantified with existing public data sources
- Current factors (amenities and services) preserve existing scoring

Scoring System Improvements

- Total state investment directly measured
- Public benefit metrics more closely measure the value to the public
- Public benefit metrics are not narrowly bound - limiting the possibility of maximum scoring and incentivizing more public benefit value
- High value locations are incentivized through rent savings at zip code level, using HUD Small Area Fair Market Rents, and priority location adjustments

Comparison of Past Competitions

9% Tax Credit Allocation

	Actual Allocation	Proposed Scoring & Pools
Units	3,014	3,806
Residents per Unit	2.54	2.59
Homeless Units	729	977
CDLAC & TCAC Subsidy per Unit	\$338,732	\$319,156
Total State Subsidy per Unit	\$349,758	\$330,298
Development Cost per Unit	\$493,713	\$474,588
Avg Opportunity*	3.41 (Moderate)	3.05 (Moderate)
Avg Small Area Fair Market Rent	\$1,715	\$1,671
Avg Affordability	45.4% AMI	44.1% AMI

Tax-Exempt Bond Allocation

	Actual Allocation	Proposed Scoring & Pools
Units	7,456	7,719
Residents per Unit	2.39	2.43
Homeless Units	1,411	1,755
CDLAC & TCAC Subsidy per Unit	\$248,560	\$242,001
Total State Subsidy per Unit	\$279,330	\$270,179
Development Cost per Unit	\$532,305	\$519,936
Avg Opportunity*	3.72 (Low)	3.65 (Low)
Avg Small Area Fair Market Rent	\$1,961	\$1,978
Avg Affordability	51.5% AMI	50.6% AMI

Competitive CDLAC and TCAC rounds in 2019 and 2020.

Only new construction projects are included, though all projects competed in both scenarios

*1 = Highest Opportunity and 5 = High Poverty and Segregation – Senior projects excluded from this calculation

Additional Review Needed

- Relative value of public benefit factors must be determined
 - Unit Production vs. Rent Savings
 - Special Populations
 - Location and Amenities
 - Cost vs. Value of Services and Workforce Development
- Are any important factors or measurements missing?
- Input welcome on draft public calculator for self-scoring

Other Regulation Changes

- With cost containment incentivized in scoring:
 - Other cost containment attempts (threshold basis limits and maximum allocations) can be eliminated
 - Developer fee limits can be revisited
- Other requirements in the regulations can be eased if they are incentivized in scoring
- Certain items currently scored but effectively required for award may be formally added as requirements (experience, housing need, readiness)

Funding Pools and Set-Asides

- A balanced scoring system minimizes the need for pools and set-asides
- Same pools can be used for bonds and 9% credits
- Projects can compete against each other on the state's valuation of public benefit across project types and location
- Regional allocations should be on larger geographic areas to ensure that the best projects in the state are awarded
- Statewide competition will create more units in highly competitive regions and incentivize more efficient projects in other regions

Proposed Pool Structure

Priority Set Asides		
<u>Category</u>	<u>Bonds</u>	<u>9%</u>
Rural*	5.0%	20.0%
Non-Profit (Homeless)*	5.0%	10.0%
Special Needs	5.0%	5.0%
At-Risk	5.0%	5.0%

* Statutorily required for the federal 9% tax credit program

1. An initial review will award projects in the Priority Set-Asides, which, excluding rural projects, count against the Geographic Allocation for each funded project.

2. If a region's allocation is unfilled after the Priority Set-Asides are distributed, the region will be fully allocated.

3. The remaining allocation will be competed for in a statewide competition.

Geographic Allocation	
<u>Region</u>	<u>Allocation</u>
Los Angeles County	13.9%
Bay Area	13.0%
South Coast	9.2%
Inland Empire	4.1%
Capitol/North	3.8%
Central Valley	3.0%
Central Coast	3.0%

Non-Rural County VLI populations and county FMRs used to determine geographic allocations

Thank you for your feedback!

Please contact us at:

Tony Sertich

Deputy Controller

tsertich@sco.ca.gov

(916) 324-0810

Meagan Tokunaga

Special Assistant

mtokunaga@sco.ca.gov

(916) 709-9285