

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the October 20, 2021 Meeting

1. Call to Order and Roll Call

State Treasurer Fiona Ma chaired the meeting of the California Tax Credit Allocation Committee (CTCAC). Treasurer Ma called the meeting to order at 11:03 a.m. Also, present Anthony Sertich for State Controller Betty Yee; Gayle Miller for Department of Finance (DOF) Director Keely Martin Bosler; California Housing Finance Agency (CalHFA) Executive Director Tiena Johnson Hall and California Department of Housing and Community Development (HCD) Director Gustavo Velasquez.

County Representative Terra Lawson-Remer and City Representative Vivian Moreno were absent.

2. Approval of the Minutes of the September 29, 2021 Meeting

MOTION: Mr. Sertich moved to approve the September 29, 2021 Meeting Minutes. Mr. Velasquez seconded, and the motion passed unanimously via a roll call vote.

3. Executive Director's Report

CTCAC Executive Director, Nancee Robles stated CTCAC's Compliance Section was back in the field performing audits. In legislative news, she mentioned that Assembly Bill (AB) 447 sponsored by Assembly member Tim Grayson passed. Ms. Robles explained this act amends Section 8869.80 of the Government Code, and amends Sections 12206, 17058, and 23610.5 of the Revenue and Taxation Code to resolve some technical issues in the Low Income Housing Tax Credit statute.

In short, AB 447 resolved three things.

1. Adds missing programs with local funds to the LIHTC statutes to facilitate the preservation of all at-risk properties by allowing CTCAC to fund currently omitted at-risk properties and making these developments eligible for CTCAC's at-risk set aside,
2. Clarifies that a project remains at-risk even if an HCD regulatory agreement is recorded under the Preservation Notice Law, and
3. Clarifies that adaptive reuse projects are eligible for the new construction state credits.

On behalf of CTCAC, she thanked Assembly member Grayson for his diligence and concern to update this State Law and Governor Newsom for signing it.

In other news, Bulletin No. 2021-44 from the Internal Revenue Service (IRS) was released on October 18, 2021 providing the National Pool credit amounts for each state. Ms. Robles explained the National Pool is unused 9% credits from all states from the previous year

divided among the states that qualify for the National Pool. She stated California received \$1,357,757 in 9% federal credits, which is a significant increase from \$471,171 in 2020 allowing CTCAC to reach further down the waiting list to fund an additional 9% project or two.

- End of Executive Director's Report

Treasurer Ma requested that staff delineate which projects will be funded with the National Pool credits.

Ms. Miller joined the meeting at 11:11am and added her vote to the meeting minutes.

4. Discussion and Consideration of appeals if filed under CTCAC Regulation Section 10330(b)(1), and if appeal is granted in its entirety, a Reservation of 2021 Second Round Consolidated Appropriations Act ("CAA") Federal Nine Percent (9%) Low Income Housing Tax Credits (LIHTCs).

Ms. Robles stated staff anticipated an appeal may be submitted to the Committee. She explained no appeal was received and therefore Agenda Item 4 is skipped.

5. Recommendation for Reservation of 2021 Second Round Consolidated Appropriations Act ("CAA") Federal Nine Percent (9%) Low Income Housing Tax Credits (LIHTCs).

Deputy Director, Anthony Zeto stated staff was recommending one additional project in Fresno County for the Consolidated Appropriations Act, 2021 Federal 9% Credit (Disaster Credits). He explained that this project is recommended due to another project withdrawing their application a day before the September 29, 2021 meeting. Mr. Zeto stated the withdrawal allowed for the remaining credits in Fresno County to be recommended to Clinton Avenue Apartments (CA-21-133), which meets all program and regulatory requirements.

MOTION: Mr. Sertich moved to approve the project. Ms. Miller seconded, and the motion passed unanimously via a roll call vote.

6. Discussion and Consideration of appeals if filed under CTCAC Regulation Section 10330(b)(1), and if appeal is granted in its entirety, a Reservation of 2021 Second Round Federal Nine Percent (9%) and State Low Income Housing Tax Credits (LIHTCs). See Exhibit A for a list of the appealing projects.

Mr. Zeto pointed the Committee to Exhibit A of the agenda, which summarized the outcomes of all possible appeals received. He provided updates to each appeal noted on Exhibit A as stated below:

1. Eureka 7th & Myrtle Affordable Housing (CA-21-070) – currently on the preliminary recommendation list in the Rural set aside and no longer pursuing their appeal any further because the appeal has no impact on their status on the list.

2. The Laurel (CA-21-115) – currently on the preliminary recommendation list in the Balance of Los Angeles County. No Committee appeal was received as it has no impact on their status on the list.
3. Heritage Square South (CA-21-177) – the appeal is process is still pending and staff is recommending this appeal, if submitted to the Committee, be considered at the next meeting. If the appeal is granted, the project would replace The Laurel (CA-21-115) as the final project in the Balance of Los Angeles County. Staff recommended considering the final recommended project in the Balance of Los Angeles County to the next meeting.
4. Sun Lodge (CA-21-101) – currently on the preliminary recommendation list. No Committee appeal was received as it has no impact on their status on the list. Staff determined that the Arthur at Blackstone (CA-21-100), not on the preliminary recommendation list, ranked higher than Sun Lodge (CA-21-101) and would replace that project as the final project in the Central Valley region. Staff recommended considering the final recommended project in the Central Valley region to the next meeting.
5. San Jacinto Manor (CA-21-170) – received an updated tie breaker score and recommended for approval in the Inland Empire region.
6. Tahiti Apartment Homes (CA-21-096) – Their appeal was granted at the staff level and therefore recommended for approval in place of Anaheim Midway (CA-21-107) in Orange County.
7. Bay Oaks Apartments (CA-21-150) – currently on the preliminary recommendation list in the South and West Bay region. No Committee appeal was received as it has no impact on their status on the list.
8. Westview Village II (CA-21-117) – Their appeal was granted at the staff level and therefore recommended for approval in place of Cypress & 7th (CA-21-076) in the Central Coast region.
9. Vivalon Healthy Aging Campus (CA-21-164) – currently on the preliminary recommendation list in the Northern region. No Committee appeal was received as it has no impact on their status on the list.

In summary, Mr. Zeto stated the following three projects meet all program requirements and recommended to the Committee for approval:

1. San Jacinto Manor (CA-21-170)
2. Tahiti Apartment Homes (CA-21-096)
3. Westview Village II (CA-21-117)

MOTION: Mr. Sertich moved to approve the three projects. Ms. Miller seconded, and the motion passed unanimously via a roll call vote.

7. Recommendation for Reservation of 2021 Second Round Federal Nine Percent (9%) and State Low Income Housing Tax Credits (LIHTCs).

Mr. Zeto stated staff recommends the projects on the preliminary recommendation list with exception of Anaheim Midway (CA-21-107), Cypress and 7th (CA-21-076), The Laurel (CA-21-115), and Sun Lodge (CA-21-101). He stated the projects on the preliminary recommendation list met all program requirements. In addition, Mr. Zeto stated the final recommended projects in both the Balance of Los Angeles County and the Central Valley Region will be considered at the next meeting.

MOTION: Mr. Sertich moved to approve the preliminary recommended list minus the projects listed by Mr. Zeto. Mr. Velasquez seconded, and the motion passed unanimously via a roll call vote.

8. Recommendation of a Resolution establishing a Waiting List of pending applications for a Reservation of 2021 Second Round Consolidated Appropriations Act (“CAA”) Federal Nine Percent (9%) Low Income Housing Tax Credits (LIHTCs), provided that credit remains available and such applications are complete, eligible and financially feasible.

Mr. Zeto stated \$7.9 million Disaster Credits remained following the Second Round. He explained the remaining \$7.9 million will fund three projects on the proposed waiting list, which include one remaining project in Butte County and the two highest ranking projects in Santa Cruz County. Mr. Zeto recommended the resolution to the Committee for approval to establish a waiting list and provide the Executive Director delegated authority to award these projects from the waiting list.

MOTION: Ms. Miller moved to approve the waiting list. Mr. Sertich seconded, and the motion passed unanimously via a roll call vote.

Treasurer Ma asked the Committee for input on who to direct letters regarding Disaster Credits to since the program has been so successful over the last two years. Congressman Mike Thompson previously spearheaded the Disaster Credits last year but unsure of who will be taking over. Treasurer Ma stated she would provide an update at a future meeting so the Committee members can weigh in as well.

9. Recommendation of a Resolution establishing a Waiting List of pending applications for a Reservation of 2021 Second Round Federal Nine Percent (9%) and State Low Income Housing Tax Credits (LIHTCs), provided that credit remains available and such applications are complete, eligible and financially feasible.

Mr. Zeto requested consideration of this item be held off until the next meeting. He explained the appeals granted affected the placement of the projects on the list. In addition, Mr. Zeto noted Santa Cruz County and the Inland Empire region would no longer be on the waiting list since credits no longer remain in those regions.

The agenda item will be considered at the next meeting.

10. Discussion of Direction for Working Group in Regulation Development.

Mr. Zeto stated the item was placed on the agenda at the request of Mr. Sertich. He added that the working group was still working on their recommendations. Mr. Zeto stated that based on their conversations, there will be no major regulation changes recommended for CTCAC. He explained that staff plans to move forward with clarifying and minor clean up changes.

Mr. Sertich thanked Mr. Zeto for adding the item and stated that staff has a good opportunity in the coming year to look at the 9% regulations and bring efficiency into the scoring and to help leverage other state and local resources. He recommended staff to start thinking through more flexible and creative ways to use the 9% credits in the future.

Ms. Miller agreed and stated it would be beneficial to start gathering the required data needed to make such changes in calendar year 2022.

11. Discussion of Tax-Exempt Bond Financed Projects (4% Projects) Requesting Limited State Tax Credits.

Mr. Zeto stated this item was a follow up item to the discussion that took place at the California Debt Limit Allocation Committee (CDLAC) meeting regarding how projects that rank high on CDLAC's list would be eligible to receive bond allocations but not state tax credits since there was a limited amount. He added that the question of which projects would receive the state tax credits. Mr. Zeto referenced a proposal mentioned at the last meeting and opened the floor to the Committee members for comments.

Ms. Johnson Hall asked if staff had any recommendations on this topic.

Mr. Zeto stated that the highest ranked project is a reasonable solution in the short term for the current round. He also summarized the proposal previously discussed where projects are awarded first in the pools and set asides with the remainder going to the highest ranking projects without regard to geographic region until the bonds for a region have been exhausted. Mr. Zeto stated staff is in favor of the highest ranked project method and asked if there were additional comments.

Mr. Sertich agreed with Mr. Zeto and stated a clear process needs to be in place when the state tax credits are oversubscribed. In the short term, he agreed with the suggestion to go with the CDLAC scoring and allocation process. Mr. Sertich agreed going through the pools and set asides, and then go to all projects within the geographic regions based on the highest score. He added that the projects without state tax credits could receive a bond allocation and given the awarding of the 4% tax credits is ministerial as there is no cap, he would leave that up to staff to decide how to deal with those projects on the 4% tax credit side.

Treasurer Ma stated her concern with providing applicants false hope regarding their bond and tax credit awards.

Mr. Sertich stated that the Committee should consider whether dividing the state tax credits by round would be a more equitable process for projects applying later in the year.

Ms. Miller stated she prefers to have the rounds divided over a longer periods to encourage emerging developers to participate in the process. She wanted to confirm with CalHFA and HCD if the timing would be consistent with their programs as well.

Mr. Velasquez stated he agreed with Ms. Miller's approach to allow the state credits to spread among the various HCD programs throughout the year and benefit the HCD subsidies.

Ms. Hall agreed with Ms. Miller's comment as well.

There was a public comment.

Darren Bobrowsky with USA Properties Fund stated he agreed with staff's recommendation of following the highest scoring projects in the geographic region and funding down the list. In addition, he recommended that in terms of financial feasibility, the 4% credits should only be awarded if the applicant can show that additional developer fee can be deferred in order to cover the gap of lost state tax credit equity in the project. In terms of allocating over the three rounds, Mr. Bobrowsky expressed support to spread the state tax credits throughout the year. He also noted that based on a preliminary survey of the list, he believes there could be approximately \$200 to \$300 million in bond allocations that could be returned, which could either go to a waiting list or carryforward allocation. Mr. Bobrowsky suggested for next year staff should work on retaining geographic parity because there will be regions that will not get their intended percentages as set forth in the regulations since projects will be returning bond allocations. He suggested the Committee align the state tax credits with the bonds so the geographic regions are treated as they were intended in the regulations.

Kasey Burke with Meta Housing commented on the issue with the oversubscription of state tax credits. He agreed with Mr. Bobrowsky and stated that it would lead to a permanent redistribution of credits away from the geographic areas and a delay in the bonds being funded. Mr. Burke suggested that maybe the Committee could forward allocate state tax credits from 2022. Based on an analysis conducted by Kingdom Development, he believed it would be around \$100 million based on self-scores.

Treasurer Ma thanked Mr. Burke for the comment and stated staff will look into the issue of forward funding.

William Leach with Kingdom Development wanted to confirm how the tax credits were going to be awarded to the pools and set aside, then the geographic regions by way of highest ranked project.

Mr. Zeto stated while the guidance was not definitive, the Committee members seemed supportive of the proposal to select projects based on highest rank first in the pools and set asides and then to all projects in the geographic regions based on highest rank.

Treasurer Ma asked if the Committee wanted to formalize it in a vote that would be effective only for the third round of 2021.

Mr. Sertich stated he was supportive of a vote only for the third round of 2021.

Ms. Miller asked Ms. Robles if taking a vote now would aid the CTCAC program or if they should wait.

Ms. Robles stated that it would make sense to take a vote now.

There was discussion among the Committee members and CTCAC staff on the terms of the motion.

MOTION: Mr. Sertich moved to award the CTCAC state tax credits in the CDLAC waterfall order based on the CDLAC scoring with the regional allocations ranked as one group. Ms. Miller seconded and the motion passed unanimously via a roll call vote.

12. Public Comment

None.

13. Adjournment

Treasurer Ma adjourned the meeting at 11:50 a.m.