CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the August 20, 2008 Meeting

1. Roll Call.

   Bettina Redway for Bill Lockyer, State Treasurer, chaired the meeting of the Tax Credit Allocation Committee (TCAC). Ms. Redway called the meeting to order at 1:45 p.m. Also present: David O'Toole for John Chiang, State Controller; Molly Arnold for Michael Genest, Director of the Department of Finance; Lynn Jacobs, Director of the Department Housing and Community Development; Theresa Parker, Executive Director of the California Housing Finance Agency; and David Rutledge, County Representative.

2. Approval of the minutes of the July 16, 2008 Committee meeting.

   No public comment.

   MOTION: Mr. O'Toole moved to adopt the minutes of the July 16, 2008 meeting. Ms. Arnold seconded and the motion passed unanimously.

3. Executive Director's Report.

   Lisa Vergolini introduced new TCAC analyst, David Navarrette, to the Committee.

   Mr. Pavão announced that on July 30, 2008, the Housing and Economic Recovery Act of 2008 was signed into law. On July 31st, staff posted an informational bulletin about the new law on the TCAC website.

   Mr. Pavão reported that staff had been reviewing applications received for the 2008 Second Round. TCAC received a total of 102 9% tax credit applications and 10 4% with State credit applications.

4. Discussion of and Action regarding the Housing and Economic Recovery Act of 2008, H.R. 3221.

   Mr. Pavão reported that in the 2007 Second Round staff reached forward into the 2008 supplemental set-aside and pre-awarded $1.1 million in credits to a special project. The award dramatically depleted the supplemental set-aside for 2008. Mr. Pavão stated that H.R. 3221 had provided TCAC with an additional $0.20 per capita in 2008 and 2009. He reminded the Committee that at the July meeting staff recommended that additional funding created as a result of H.R. 3221 should be loaded into the Set-asides and Geographic apportionments for the 2008 Second Round. He reported that public feedback received since the July meeting indicates stakeholders are opposed to the idea of reloading the supplemental set-aside.

Mr. Pavão presented a second issue staff had encountered as a result of the new federal legislation. He explained that H.R. 3211 had given TCAC authority to permit an increase in the basis used to calculate federal credits for certain projects. Before the law was passed, projects eligible for an increase in basis or "basis boost" were located in a difficult to develop area or a qualified census tract defined by federal law and established by HUD. Under the new legislation, TCAC may permit the boost for projects located outside the federally designated areas. Mr. Pavão suggested the Committee refrain from exercising the new authority until 2009 as there is some uncertainty as to whether the boost would be available to applicants competing in the current funding round.

Mr. Pavão presented the last issue, which related to fixing the 9% applicable percentage or multiplier staff used to calculate the 9% tax credit awards. He explained that the formula used to calculate the 9% credits available to a project was equaled to the adjusted qualified basis in the project multiplied by the applicable percentage. He stated that the TCAC application provides a plug number of 8% for the applicable percentage, which staff multiplies by the qualified basis to determine the amount of credits available to the project. Mr. Pavão pointed out that the actual number is a variable percentage that can change monthly. When the project is completed and placed into service, staff re-calculates the annual federal credits using the most current federal multiplier. He explained that the federal multiplier is a floating number that is trying to arrive at a total of 70% percent of the present value of the basis in the project. The new legislation would fix the federal percentage at 9%. He stated that there would still be a monthly floating number for 4% projects. He informed the Committee that staff had pending applications that were built using the 8% plug number established in the 2008 application. He recommended that staff use the current plug number to derive credits for the current funding round. He stated that staff would use the new 9% figure at placed in service, which would not result in any addition federal credits being reserved for the project.

Ms. Parker asked Mr. Pavão how federal credits will be calculated in 2009.

Mr. Pavão replied that in 2009 staff would begin using 9% as the plug number in the application.

David, an audience participant, asked Mr. Pavão when staff would post the amount of tax credits available to California on the TCAC website.

Mr. Pavão replied that if the Committee approved staff recommendations today, the new augmented amounts for the Second Round would be posted that afternoon.

David asked Mr. Pavão if California would receive a maximum of $7.3 million in additional credits for the Second Round.

Mr. Pavão confirmed that California would receive an additional 10% or $7.3 million in annual federal credits.

Ajit from ADI, addressed the Committee. He suggested that the Committee provide the program users an opportunity to discuss how the additional tax credits should be disbursed in the Second Round and 2009.

Ms. Redway stated that she believed Mr. Pavão would provide the program users the opportunity to discuss how to apply the additional funds in 2009, however, TCAC would maintain the existing program policy for the Second Round of 2008.

Mr. Pavão reminded the Committee that at the July meeting, he presented a recommendation to load additional credits for the Second Round into the supplemental set aside. He reported that since July TCAC received a lot of comments urging staff to proceed in the Second Round under the current allocation policy. He stated that staff would like to treat the additional credits provided to California in July as though the credits were received at the beginning of 2008.

Jeanne Peterson, from the Reznick Group, approached the Committee. She stated that a TCAC memorandum posted on July 31, 2008 suggested the additional credits would be allocated under the rules of the 2008 program policy. She reported that applicants had been calculating how much the additional credit would be as it falls into the geographic areas. She explained that she understood the purpose of the supplemental set-aside is to alleviate situations where the applicant requires more credits than what is available in the set-aside. She stated that the program policy is shorting the geographic areas, in particular, the areas that have small amounts. She asked the Committee why the policy change came about and why there was no opportunity for the public to discuss it.

Mr. Pavão stated that there is just over $1 million in the 2008 supplemental set aside. He explained that normally there is approximately $2.1 million available at the beginning of the Second Round. TCAC would usually reach into that set aside during the second funding round.

Ms. Peterson brought the Committee's attention to the calculations described in the TCAC memos posted on July 31st and August 14th. She asked if staff would add $1.1 million into the set aside and then add the additional $0.20 per capita.

Mr. Pavão stated that TCAC would try to be consistent with the other set asides by adding the $1.1 million and then another $0.20 per capita to the supplemental set aside.

Ms. Redway asked Mr. Pavão if the Committee could act on Agenda Item 4 in a way that gives staff the discretion to continue receiving comments from stakeholders and to modify the item accordingly.

Mr. Pavão asked that the Committee act to give TCAC the ability to proceed with staff's recommendation with the exception of the policy regarding supplement set aside. He stated that staff would consult with stakeholders before implementing a new procedure for supplemental set aside.

Ms. Arnold asked the Committee members for clarification of the discretion that would be given to Mr. Pavão in regarding Agenda Item 4.

Ms. Redway suggested that Mr. Pavão be given more time to consider the public comments surrounding the supplemental set aside policy.

Mr. Pavão proposed that staff meet with Ms. Peterson and other stakeholders to discuss the benefits and consequences of reloading the supplemental set-aside.

Ms. Arnold asked Mr. Pavão how much credit would be added to the supplemental set-aside if staff does not reload but only provides the extra money available after cascading the funds through the various regions.

Mr. Pavão stated that he would need more time to determine the consequences of not reloading the supplemental set-aside.

Ms. Redway summarized that the Committee supported of the recommendations described in the TCAC memos. She suggested giving Mr. Pavão a limited amount of discretion to either reload or not reload the supplemental set-aside.

Ms. Arnold asked Ms. Redway to what dollar limit Mr. Pavão would have the discretion to reload the supplemental set-aside.

Ms. Vergolini stated that approximately $800,000 would be loaded in first to make up for the 2007 forward commitment. Then approximately $200,000 more from the 3% cascade formula would be added to arrive at a total of $1.1 million.

Mr. Pavão stated that he was not convinced that $1.1 million was the correct amount and did not want to commit to a specific figure at that time.

Ms. Arnold asked the legal counsel, Jennifer Rockwell, to help articulate a motion describing the breadth of discretion Mr. Pavão would be given.

Ms. Rockwell stated that the Committee members can agree to have the top set-asides filter down. The members could also agree to load in the amount of credits necessary to make up for the 2007 forward commitment, then filter the remaining credits into the geographic set-asides.

MOTION: Ms. Arnold moved for approval to replace funds in the 2008 supplemental set-aside by using the standard cascade formula and if necessary by utilizing credits made available as a result of H.R. 3221. She also moved that the Executive Director of TCAC be given the discretion to replace funds the supplemental set-aside without use of the additional credits if staff calculations prove the credits are not needed. Mr. O'Toole seconded and the motion passed unanimously.

5. Discussion and Consideration of a Resolution to Adopt Proposed Emergency Regulations, Title 4 of the California Code of Regulations, Section 10300 through 10337.

   Mr. Pavão reported that staff did not request any changes to the current text of Emergency Regulations.

   MOTION: Mr. O'Toole moved for approval of staff recommendations. Ms. Arnold seconded and the motion passed unanimously.

6. Discussion of and Action on 2008 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects, and appeals filed under TCAC Regulation Section 10330.

Project #	Project Name	Credit Amount
CA-2008-835	Alexandria Housing Apartments	$142,527
CA-2008-873	Continental Apartments	$326,803
CA-2008-877	Salinas Gateway Apartments	$683,580
CA-2008-879	Amistad	$310,139
CA-2008-880	Mission Gardens	$265,886
CA-2008-881	Oak Knoll Villas	$343,227
CA-2008-883	Summerset Apartments	$623,158
CA-2008-884	Cloverdale Garden Apartments & Vineyard Manor	$346,448
CA-2008-886	Terracina at Elk Grove Apartments	$450,344
CA-2008-887	Tassafaronga Village Phase 1	$2,507,608
CA-2008-888	Three Courtyards	$895,103
CA-2008-889	Hollywood Bungalow	$393,737
CA-2008-890	Golden Age Garden	$484,185
CA-2008-892	Creekside Apartments	$114,279
CA-2008-895	Leffingwell Manor	$414,088
CA-2008-896	Cherrylee Gardens KBS, L.P.	$527,201
CA-2008-897	Drake Manor	$408,166
CA-2008-898	Casa Lucerna	$302,669
CA-2008-899	Arrow Plaza	$333,151
CA-2008-900	Bonnie Brae Village	$1,232,883

   Mr. Arnold asked Mr. Pavão to explain why development costs were particularly high for Three Courtyards (CA-2008-888), Hollywood Bungalow (CA-2008-889) and Bonnie Brae Village (CA-2008-900).

   Mr. Pavão explained that the high development costs for Three Courtyards was due largely to significant subterranean parking. He stated that the local public funding sources in Van Nuys contributed significantly to the project development. He stated that the Hollywood Bungalow Courts are historic bungalows, which were being acquired and restored. He explained that the acquisition and restoration of the historic bungalows accounted for the high development costs. Local public funding sources were also a huge contributor to the project. Mr. Pavão reported that Bonnie Brae Village had high development costs due to subterranean parking. He pointed out that the cost per unit of property was not particularly high; however, the cost per square foot was high due to the small size of units.

Mr. O'Toole moved for approval of staff recommendations. Ms. Arnold seconded and the motion passed unanimously.

7. Discussion and Consideration of a Resolution Authorizing the Executive Director of the California Tax Credit Allocation Committee to sign contracts and interagency agreements.

   Mr. Pavão explained that the resolution gives the Executive Director of TCAC authority to enter into contracts for office space rent and for services provided by the State Treasurer's Office.

   MOTION: Mr. O'Toole moved for approval of staff recommendations. Ms. Arnold seconded and the motion passed unanimously.

8. Public Comments.

9. Adjournment.

   The meeting adjourned at 2:40 p.m.