CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the January 28, 2009 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 2:15 p.m. Also present: David O'Toole for John Chiang, State Controller; Tom Sheehy for Michael Genest, Director of the Department of Finance; Steven Spears, Acting Executive Director of the California Housing Finance Agency; Lynn Jacobs, Director of the Department Housing and Community Development; and David Rutledge, County Representative.

2. Approval of the minutes of the December 3, 2008 Committee meeting.

   No public comment.

   MOTION: Mr. O'Toole moved to adopt the minutes of the December 3, 2008 meeting. Mr. Sheehy seconded and the motion passed unanimously.

3. Executive Director's Report.

   Mr. Pavão reported that this week TCAC would conclude its public comment period for the proposed 2009 regulation changes. He also announced that staff would conduct application training sessions in late February and early March.

4. Executive Director's Report on the proposed Regulation changes for 2009.

   Mr. Pavão reported that on December 10, 2008, staff released a set of proposed regulations changes to the public, which included substantive changes to the tax credit program. He stated that on December 22, 2008 staff released a second set of proposed changes in response to suggestions from a working group formed by the California Housing Consortium. He announced that the public would have an opportunity to comment this week at the TCAC Public Hearings.

   Mr. Pavão commented that staff were considering significant changes to the TCAC program. He explained that one set of changes affects the leverage scoring factor associated with the 9% tax credit application. He stated that the leverage scoring factor was a 20-point category. Applicants could garner the leverage scoring points in three ways: 1) They can bring other public funds into the project 2) They can show cost efficiency 3) They can voluntarily reduce the volume of credit they request. Mr. Pavão stated that TCAC proposed a change that would increase the leverage scoring category from 20 to 30 points. Additionally, the change would make the points available through a combination of cost efficiency and inclusion of other public funds. He explained that applicants would get up to 15 points for cost efficiency and up to 15 points for bringing in public funding.

Mr. Sheehy asked Mr. Pavão what he hoped to achieve by increasing the maximum points in the leverage scoring category.

Mr. Pavão stated that one of TCAC's goals was to encourage developers to be as cost efficient as possible. He explained that the proposed changes would make achieving the maximum points in the leverage scoring category more challenging, which would reduce the occurrence of tied scores. He predicted that less emphasis would be put on the tie-breaker system.

Mr. Sheehy asked Mr. Pavão if he thought the diminishing of the tie-breaker system would be temporary as applicants find new ways to achieve the full 30 points in the leverage scoring category.

Mr. Pavão stated that applicants would be very challenged at first, but would find ways to achieve the maximum points over time.

Mr. Pavão announced a second proposed change to the TCAC regulations, which involved changing the third tie-breaker system. He explained that under the current third tie-breaker system staff measures the ratio of requested eligible basis to total project costs. He stated that in requesting the lowest possible basis applicants request the lowest amount of credits possible. Mr. Pavão explained that the intended result of the ratio is to give developers an incentive to seek out other funding sources for their projects. He commented that the third tie-breaker had become dysfunctional over time. One of the dysfunctional results was applicants with higher project costs were more competitive because they had a lower ratio of eligible basis to project costs. Mr. Pavão commented that when other public funding partners are involved they provided additional due diligence and oversight, which helps assure TCAC receives feasible projects. He predicted that the Committee would hear a lot of public comments regarding the proposed changes.

The third set of substantive changes affects the 150-Readiness policy. He summarized that the readiness policy would become more rigorous. The policy would encourage sponsors to submit projects that would be ready to proceed consistent with TCAC deadlines.

Mr. Pavão stated that the 150-Readiness policy changes also gave the Executive Director the authority to declare an environment of general economic distress in the credit and equity market and in that environment extend the readiness deadline up to 90 days. He stated that he intended to use the authority for Second Round 2008 projects facing the March 9, 2009 readiness deadline. Mr. Pavão explained that Second Round applicants needed to perform several tasks including closing their construction loans, recording deeds of trust, and obtaining building permits in order to be ready to begin development by March 9th. He reported that in the current financial market Second Round applicants were having difficulty securing investors and accomplishing all of the necessary readiness requirements. He predicted that TCAC would receive a large volume of returned credits on March 9th unless applicants are granted forbearance. He suggested extending the readiness deadline to June 9th in order to give the 2008 Second Round applicants more time to secure investors. He noted that recaptured credits would be held until the 2009 First Round in June even if the readiness deadline was not extended.

Mr. Sheehy asked if anyone would like to discuss how the market for the sale of credits has changed.

Ms. Redway commented that the price of credits used to be one dollar for every dollar, but was now at $0.70 for every dollar.

Mr. Sheehy stated that fewer investors are putting money into tax credit deals because corporate earnings were down. He asked if federal law would allow for individuals who pay income taxes to purchase the tax credits

Patrick Sabelhaus, from the California Council for Affordable Housing, commented on Mr. Sheehy's question. He stated that when the TCAC was established in 1987, tax credit project investments were raised by individual tax payers. Over time corporations and banks also start investing in TCAC projects. He explained that a liquity problem occurred in the markets, which dried up investor capitol. He stated that investors hoped the Economic Stimulus Package, already approved by The House but still under review by the Senate would bring more individual investors back into the TCAC program. Specifically investors wanted the new package to lift the cap on the alternative minimum tax and raise the amount of credits individuals can take. Mr. Sabelhaus explained that Congress limited the amount of tax credits individuals could purchase in order to prevent excessive deductions by the wealthy.

5. Discussion and Consideration of Setting the 2009.

   Mr. Pavão reviewed the 2009 TCAC meeting schedule with the Committee Members.

6. Discussion 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-2008-941	36th Street & Broadway	$347,142
CA-2008-942	Jose's Place Apartments	$220,143
CA-2008-956	Shiloh Arms Apartments	$424,983
CA-2008-959	Whitney ranch Apartments	$1,187,278
CA-2008-961	St. Joseph's Senior Apartments	$1,293,166
CA-2008-963	Lincoln Anaheim Phase II	$1,134,089
CA-2008-964	Nihonmachi Terrace	$1,144,654

Ms. Redway asked Mr. Pavão to confirm that 36th Street & Broadway (CA-2008-941) had an unusually high per unit cost.

Mr. Pavão confirmed that 36th Street & Broadway had an unusually high per unit cost of $409,000. He stated that the project had 27 units between two sites. He explained that the project did not have the efficiencies of scale associated with larger projects. Additionally, the project was in Los Angeles where land and other project costs are often high. He stated that the California Department of Housing and Community Development, the Los Angeles Housing Department, and the Housing Authority of the County of Los Angeles would each cover one quarter of the project costs. He summarized that the equity induced into the project by TCAC would cover the final quarter of the costs.

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

7. Public Comment.

8. Adjournment.

The meeting adjourned at 2:50pm.