CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Minutes of the May 21, 2014 Meeting

1. Roll Call.

   Michael Paparian for State Treasurer Bill Lockyer chaired the meeting of the Tax Credit Allocation Committee (TCAC). Mr. Paparian called the meeting to order at 11:37 a.m. Also present: Alan Gordon for State Controller John Chiang; Eraina Ortega for the Department of Finance Director Michael Cohen; California Housing Finance Agency Executive Director Claudia Cappio; and Department of Housing and Community Development Representative Laura Whittall-Scherfee.

   City Representative Lucas Frerichs was absent.

2. Approval of the minutes of the March 19, 2014 Committee meeting.

   MOTION: Ms. Ortega moved to adopt the minutes of the March 19, 2014 meeting. Mr. Gordon seconded and the motion passed unanimously.

3. Executive Director's Report.

   Executive Director, William Pavão reported that staff was completing their reviews of competitive applications for the 2014 First Round. He stated that the final recommendations would be brought to the Committee for consideration at the June 11th meeting. In addition, staff would post a list of preliminary recommendations for public view and comments prior to the meeting. Mr. Pavão estimated that 42 of the 85 nine percent credit applications would be recommended for awards and five applications would be recommended for four percent plus state credit awards.

   Mr. Pavão reported that staff released a draft of minor regulation changes for public view and comment. He stated that the public comment period would end that day at 5:00 p.m. He explained that one of the proposed changes related to the application scoring system, which factored in the proximity of projects to various site amenities like public schools, transit, medical facilities, grocery stores, etc.

   Mr. Pavão reported that staff encountered a situation in which an applicant planned to include a publicly administered amenity (a library) in the project itself. He explained that the regulations required an amenity to be in place at the time of application in order for a project to receive points for being near that amenity.

   Mr. Pavão stated that staff was in an odd situation where they could not award points for the proposed amenity, even though the local library system funded construction of the space on the ground floor where the library would reside. In addition, the library system budgeted for the first year's operating budget. Mr. Pavão stated that the developer expected the library to be included in the project, but due to TCAC rules staff could not award amenity points because the library was not in place at the time of application.

Mr. Pavão proposed to change the regulations for future situations where amenity points were requested and a public entity helped pay for the development, had a budget for the first year operations, and the developer actually developed the space. The change would allow staff to consider the amenity in place for the purpose of scoring. He predicted that a similar situation was unlikely to happen again, but if it did staff would recommend awarding the points.

Mr. Pavão stated that staff proposed another regulation change related to soft public financing. He explained that the term "soft" meant a loan was issued by a public entity and the terms of repayment were residual receipts meaning payment was only necessary if the owner had enough project cash flows to afford the payment.

Mr. Pavão advised the Committee that attorneys representing a public funding source contested the TCAC interpretation of the term "soft". In response, staff proposed a regulation change to clarify that soft debt was the opposite of hard debt. He explained that sponsors were not required to make payments on soft debt because payments were made on a residual receipts basis.

Mr. Pavão reported that a small glitch was discovered in the regulations. He explained that one section stated that if a sponsor developed a project according to a nationally or regionally recognized standard such as LEED or GreenPoint Rated, the sponsor was not required to submit a TCAC's workbook with their application. He stated that systems like LEED and GreenPoint Rated included arduous standards that mitigated the need for applicants to complete the workbook; however in some situations competitors sought points for developing according to the recognized standards and sought additional points for energy efficiency beyond those standards. Mr. Pavão stated that in situations where applicants sought points for surpassing standards like LEED the applicant was required to complete TCAC's workbook along with their application.

Mr. Pavão reported that there was some confusion about the provisions related to energy efficiency scoring. In response, staff proposed to amend the section of the regulations stating that applicants adhering to a recognized standard were not required to submit a workbook. Staff inserted a clause in that section explaining that applicants must complete the workbook if they were seeking sustainable building points through another avenue.

Mr. Pavão stated that the proposed changes seemed minor and had generated little public comments. He announced that the final proposed changes would be brought to the Committee for consideration at the June 11th meeting.

Mr. Pavão reported that plaintiffs in the legal case involving UHC Reseda 00402, L.P. dismissed their appeal and the Committee would not hold any more closed sessions regarding that matter.

Mr. Pavão announced that Lois Starr resigned from her position as county representative for TCAC. He stated that the position was appointed by the Senate Rules Committee. He reported that staff notified the Senate Rules Committee of

Ms. Starr's resignation and offered to help the agency locate potential candidates for the position.

Mr. Gordon asked Mr. Pavão how many disappointed First Round applicants he expected to come before the Committee.

Mr. Pavão stated that approximately 20 applicants submitted appeals to staff and most of them were resolved at the staff level. He stated that two appeals were escalated to his level for review. Mr. Pavão stated that he did not know if the applicants would come before the Committee to appeal his decisions; although they had the right to do so.

4. Discussion and consideration of the 2014 Applications for Reservation of Federal Low Income Housing Tax Credits (LIHTCs) for Tax-Exempt Bond Financed Projects.

Mr. Pavão stated that 15 projects were recommended for 4% LIHTCs to be used with tax-exempt bond financing. He noted that the original Agenda showed 18 recommended projects. He explained that 3 projects were withdrawn and would likely return for consideration at the June meeting or shortly thereafter.

Mr. Pavão brought the Committee's attention to the project called Hunter's View Phase IIA (CA-14-852). He stated that some TCAC members may have reviewed the project in their capacity as CDLAC members. He noted that the project received a bond allocation. Mr. Pavão commented that the project was remarkably expensive. Hunter's View was a public housing project that was being redeveloped. The project involved constructing and reconstructing residential structures and a great deal of infrastructure. Mr. Pavão stated that the Department of Housing and Community Development (HCD) committed an infill infrastructure grant and MHP funds to the project.

Mr. Pavão stated that the phase of the project currently under review included 107 units. And the estimated total development cost was $78 million. He stated that the cost per unit was over $700,000, but after factoring out the infrastructure costs (installing streets, curbs, gutters, sidewalks, water lines, waste water lines, and utilities) and concentrating on the true residential cost, the project resembled other San Francisco properties that staff typically reviewed.

Mr. Gordon asked Mr. Pavão what the cost per unit was.

Mr. Pavão stated that the cost per unit was over $500,000. He noted that the cost was similar to other San Francisco projects that staff typically reviewed. He stated that Hunter's View was a very complex development, which staff noted in the Special Issues section of the Staff Report. Mr. Pavão stated that a representative for the developer was present to explain more about the ambitious project.

Mr. Gordon asked Mr. Pavão if the typical cost for San Francisco was about $360,000 per unit.

Mr. Pavão stated that staff was rarely surprised when unit costs for San Francisco projects exceeded $450,000. He noted that many of those projects were high rises and in very challenging lots. It was not uncommon in urban settings for a developer to lease another lot just to stage construction for a high rise. Mr. Pavão concluded that there were a variety of reasons that San Francisco was a very expensive and difficult market to develop in. He invited the representative from Hunter's View to describe some of the unique characteristics of the project.

Catherine Etzel stated that she represented the John Stewart Company, a co-developer for Hunter's View. Ms. Etzel explained that the project under consideration was the second phase of Hunter's View. The first phase was recently completed. Like the second phase, it included 107 units and new infrastructure for that portion of the first phase. Ms. Etzel stated that for the second phase, the developer was conducting mass site wide grading. She commented that the infrastructure was truly the unique part of the project, which must be implemented because Hunter's View was a redevelopment of public housing and part of the HOPE SF vision to rebuild aged public housing sites. She stated that in addition to curbs, gutters, and sidewalks, the developer would build a new park and new underground utilities.

Ms. Etzel stated that another big challenge for the developer was that the project was on a very steep site. In addition, there was naturally occurring asbestos in the soil. She explained that the project site was on a 20% grade where the soil must be excavated and hauled away. She noted that these processes must be done under numerous heavily regulated systems to monitor and control dust emissions. Ms. Etzel stated that the project area was historically challenged with environmental issues and so the developer took extra precautions to ensure dust mitigation measures were done properly. The cost for that process included over $1 million for a dust control and management consultant who was at the site every day. The consultant did daily and hourly reports to the developer. In addition, he provided weekly reports to the community and attended community meetings.

Ms. Etzel concluded that the infrastructure of Hunter's View Phase IIA was unique and included a myriad of costs such as mapping and permitting, which set the project apart as a standalone vertical construction project.

Mr. Gordon asked Ms. Etzel to confirm that the project was in an area that was already developed.

Ms. Etzel confirmed that the project was being built from 267 existing public housing units, which the developer divided into 3 sub-phases. She stated that the first phase was completed and second phase, currently underway, was up for Committee consideration that day.

Mr. Pavão suggested that board members may want to know if staff should have included the infrastructure items in the budget presented to them. He stated that the items should be included partly because many of the off-site costs were includable in basis for purposes of calculating tax credits. Mr. Pavão commented that he initially thought that the off-site costs should not be included in the tax credit application, but recognized that the offsite costs in basis contributed to the ultimate credit award amount.

Mr. Pavão brought the Committee's attention to a revised Staff Report for Royal Vista Terrace CA-14-853 on golden rod paper. He explained that staff corrected the number of buildings shown on the first page. He noted that the number of residential buildings was changed from 2 to 1.

MOTION: Mr. Gordon moved to adopt staff recommendations. Ms. Ortega seconded and the motion unanimously.

5. Public Comments.

   No public comments.

6. Adjournment

   The meeting adjourned at 11:53 a.m.