State of California **California Tax Credit Allocation Committee**

M E M O R A N D U M

January 28, 2003, 2002

To: Interested Parties

From: Jeanne Peterson
Executive Director

Re: Final Proposed 2003 Housing Tax Credit Regulations

As you know, Committee staff have been working on the proposed 2003 housing tax credit regulations. Subsequent to publication of the first draft of regulations, two public hearings were held as well as a public comment period. Two different drafts were published, and various comments were received after publication of each. As a result of the many comments, several changes are being recommended for your approval.

Various people commented that there were too many changes to absorb in a short period of time; that the program has been working fine and that only "tweaks" should be considered. In response, several initially proposed changes have been modified and it is now recommended that these areas remain either unchanged, or only slightly changed, from 2002.

In fact, the vast majority of the regulations are not suggested for change. A major area that staff will be focusing on in coming months is the change to the geographic areas and their respective percentages. We anticipate having meetings with user groups throughout the state as we formulate a recommendation for future change in this area. Once these changes are accomplished, we hope to have program regulations in place for a two year time period.

This final draft of the regulations does not show all the previous iterations. Rather, it shows only changes from the 2002 program, since, in several instances, we are reverting back to that.

This memo will highlight some of the finally recommended changes. In the "points" categories most of the changes are more narrow than initially anticipated, and include:

1. Leveraging – after much discussion and thought, I recommend that we largely revert to the 2002 program, that is, enabling points to be scored for cost efficiency, public funds, and credit reduction. The recommend change in this category will assure some cost containment and that is that in order to receive the full 20 points in this section, each applicant must reduce its requested credit by 2%.

2. Site amenities – I recommend keeping the maximum points at 15, as was the case in 2002. The changes from 2002 in this category are in distances (and adding time and density to some transit points).

3. Service amenities – a new point category is added for wiring units so that they are computer ready. Otherwise, there is no significant change to this category, and the maximum score remains as in 2002.

4. Neighborhood revitalization – This category eliminates points for being located in a Qualified Census Tract, as has previously been announced. Otherwise, achieving the points is done in a similar manner to 2002, but hopefully, one in which projects can be distinguished, one from another.

5. Tie-breaker- minor changes only.

Other, non-pointed changes include reducing the overall unit size of projects beginning in the second funding round of this year, but allowing for a "grandfathering" of applications submitted to the Committee before the second funding. This will enable more rural communities to have tax credit projects.

Employing the "50% rule" for all projects (except those large acquisition/rehab projects that receive a waiver), including the highest scoring project in each geographic area. This should help alleviate "over allocation" to certain counties and the corresponding under allocation to others.

Creating a new 2% set-aside for Special Needs/SRO projects and eliminating the previously available extra 2 points for such projects (this will eliminate those projects that were only attempting to gain the extra points).

Permitting tax-exempt projects to get state credit by applying in the second funding round and being competitively scored.

Making changes to the permissible increases to the basis limits by eliminating the "boosts" for large family size projects and elevatored projects (since these are both taken into account within the limits themselves). Boosts exist for projects required to pay prevailing wages (12%), projects requiring parking underneath units (7%), projects with day care facilities (2%), and projects that are designed for 100% special needs populations (2%).

Advantaging tax-exempt applications by permitting certain additions to basis and developer fee that are not permitted in the 9%, competitive program.

By reducing the number of proposed changes to the system, it should be easier for users, and not disrupt terribly those projects that have been in the "pipeline". Because each applicant seeks to maximize its own score based on its own location and particular circumstances, because the program is so competitive and not all worthy proposals can be successful, and because of the vast diversity within the state, in terms of building and operating costs and tenant incomes, whether applicants are relying solely on public funds, and so on, it is an impossible to create a system wherein each applicant is entirely pleased. Recognizing that, these final proposed regulations represent staff's best attempt at balancing the many competing concerns and policies California's affordable housing community.