



CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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Dear TCAC stakeholders,

On January 24, I sent out a list serve email stating that TCAC was considering allowing 2016 9% tax credit awardees to convert their projects to a hybrid 9%/4% structure to bring in additional 4% tax credit equity on the excess basis. While acknowledging the numerous challenges and costs such a conversion would likely entail, the feedback was generally positive. Upon further consideration, TCAC is proposing to allow 2016 **SECOND ROUND** awardees (almost all first round projects have already closed and the few remaining have a March closing deadline which leaves insufficient time) to seek permission for such a conversion within the following parameters.

1. Staff will issue proposed emergency regulations changes for public comment and ask the committee at the March 15 meeting to adopt any regulation changes that may be necessary or advisable. TCAC will proceed in anticipation of the regulations being adopted, but applicants are advised that TCAC's ability to grant permission will depend on the committee's action.
2. Awardees seeking permission to convert must submit a revised 9% application and a new 4% tax credit application to TCAC and a new bond allocation application to CDLAC by the March 13 deadline for the May 17 meeting. The applications to TCAC need only include:
 - a) a revised 9% application workbook and a 4% application workbook;
 - b) site control documentation specific to each component of the project (see #4 below) (Tab 1);
 - c) finance letters specific to each component of the project (4%-Tab 2; 9%-Tab 20);
 - d) organizational structure for each partnership (Tab 5);
 - e) revised construction and design description and a site layout or parcel map showing the division of the two sites (Tab 12)
 - f) a certification relating to the 50% test and verification by the bond issuer of the bond financing availability and the estimated bond issuance date (Tab 15).
 - g) investor letters specific to each component of the project (Tab 16);
 - h) an eligible basis certification specific to each component of the project (Tab 19)

TCAC will otherwise use the documents submitted with the original 9% application to establish compliance with TCAC regulations.

Applicants shall submit a full application to CDLAC and must update documents such as market studies and CNAs to comply with the CDLAC timing requirements.

3. Projects receiving such permission, in the aggregate, shall maintain the targeting, point score, and amount of public funds cited in the initial 9% staff report. In addition, projects receiving such permission, in the aggregate, shall be subject to the high cost test and shall not increase the developer fee in cost beyond the limit stated in the initial 9% staff report but may claim 4% tax credit basis for any portion of the developer fee, including the amount above the 9% limit in basis. The 4% application may include any eligible basis appropriately allocated to the 4% component, whether or not it was part of a voluntary reduction in the original 9% tax credit application.
4. Awardees seeking permission to convert will need to legally differentiate the land/air space associated with each component. It is TCAC's understanding that leasehold interests may be sufficient, but applicants will need to consult their real estate attorney to determine if this is so. Projects that require a subdivision will likely be unable to convert given the delays a subdivision would entail.
5. TCAC hereby extends the readiness closing deadline for all 2016 second round projects such that the new closing deadline shall be the later of a) the date that is two months later than the readiness closing deadline stated in the project's reservation letter; or b) June 30, 2017. As a result, most second round projects will have a closing deadline extended to June 30. Those projects awarded in October and November of 2016 and which already had their closing deadlines extended by two months will continue to benefit from the later date.
6. For NEW CONSTRUCTION projects only that seek permission to convert and upon committee approval of the proposed regulation changes, TCAC will allow an exchange of 2016 credits for 2017 credits to reset the placed in service deadline. Applicants must express their election to exchange credits in a letter to TCAC when submitting the revised 9% and new 4% tax credit applications. TCAC will execute the exchange concurrently with the award of the 4% credits.

TCAC understands that this 9%/4% hybrid structure adds time, cost, and considerable complexity. It will not work or be advisable for all projects. For any project, whether seeking conversion or not, that is unable to close by its extended closing deadline, TCAC will allow the sponsor to return the 2016 credit reservation without negative points and reapply for 9% credits at a higher amount.

Lastly, I would like to thank Matt Grosz of Redstone Equity for suggesting this hybrid approach. While I take full responsibility for the parameters above and any oversights, it was his suggestion that started the ball rolling.

Mark Stivers
Executive Director