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Date: March 8, 2010
To: 2010 Low Income Housing Tax Credit Stakeholders
From: Anny Beeson, Development Manager
Subject: 2010 Application Workshop Questions and Answers

The California Tax Credit Allocation Committee (TCAC) conducted its 2010 Application Workshop training in Sacramento, Los Angeles, San Diego and Oakland in late February. Staff responded to many questions during those sessions. The attached list of Questions and Answers is posted to further assist the stakeholder community as they prepare their 2010 9% applications and ARRA funding applications.

If you have any questions regarding the Q&A's, please contact your regional analyst at (916) 654-6340 or <http://www.treasurer.ca.gov/ctcac/assignments.pdf>

Questions and Answers

March 2010

1. What underwriting parameters will TCAC employ when evaluating final tiebreaker private funding sources?

Under the authority granted by Section 10325(c)(10), TCAC will employ the following parameters for private funding sources to assure reasonableness:

Amortization period: 30 years

Minimum interest rate: 7 percent (7.0%)

Debt Service Coverage Ratio: 1.15 to 1

TCAC would use the lower loan amount assumptions based upon net operating income available for debt service, and increase the requested eligible basis for scoring purposes only.

2. How is TCAC defining an “employment center” within the Transit Amenities category (Section 10325 (c)(5)(a)(1))for points scoring purposes?

If the applicant is proposing a project that has a bus stop with multiple lines using that same bus stop going to an employment center, and the applicant needs to aggregate these lines to meet the frequency requirement in order to get the maximum points in this category, please submit in advance of the application deadline, March 25. Please contact your regional analyst directly and provide detailed information on the bus stop, the bus lines using the bus stop, and the routes/destinations of these bus lines so that TCAC can determine, prior to the funding round, if the bus stop and bus lines will qualify for the indicated points.

Please note that a project near two different bus stops may not aggregate those even if they are going to the same employment center and, taken together, would meet the frequency requirement.

3. In relation to Section 10325(c)(10), a project will be receiving a \$1,000,000 operating subsidy. This money, which will provide operating subsidies for 20 years, will be fully funded at permanent loan closing and held and distributed by CALHFA during the 20 year term. Will the project be able to include the full \$1,000,000 of operating subsidy in the numerator of part 1 of the final tie breaker?

No, an operating subsidy will not receive any consideration in the public funds or tiebreaker sections. Only loans, donations, or fee waivers covering project development costs (or a cost that would have been incurred if not for the donation) are counted. For future regulations consideration TCAC is contemplating a way to take public rental subsidies and public operating subsidies into account as public funds, but to date, nothing has been adopted.

However, a loan commitment from a private institutional lender underwritten/derived solely from public subsidy income, such as a project-based HUD Section 8 contract, will be treated as public funds in both the final tiebreaker and the public funds point section.

4. In relation to Section 10325(c) – Credit Ceiling Application Competitions: Per the regulation changes, beginning with the second round in 2010, the total number of projects receiving a reservation of tax credits any one member of the development team will be allowed to be part of 4 projects. In the event a project is in line to receive a reservation in the second round, would TCAC skip that project? Would the project development team which receives a reservation of credit in the second round, but who loses a team member because of this 4 project limit be allowed to replace that team member with another qualified team member without jeopardizing credit reservation?

If any of the parties listed in Section 10325 (c) would participate in five awards, should TCAC reach a 5th project as it comes up for funding in the sort, that project would be skipped in the funding order so as not to violate the 4 project limit. Please reference to the regulations for the list of parties to which the 4 project limit applies.

An applicant may never swap out a co-general partner. However a project will not be skipped over in the sort if that co-general partner is not receiving a developer fee.

5. Section 10325(c)(5)(A)(10) indicates high speed service should have an average capacity of at least 768 kilobytes/second. Can the applicant offer free WiFi service in the buildings/units instead?

Yes, as long as the free WiFi service meets the minimum average capacity of 768 kilobytes/second on a per unit basis.

6. In Section 10325(c)(5)(A)4., if a project s close to a Certified Farmer’s Market and close to a neighborhood grocery store, can points be combined from both options within the category to score full scale grocery points?

No, TCAC does not allow additive points within this category.

7. Both Super WalMart and Target Greatland stores carry fresh produce, fresh meat and staples. In relation to Section 10325(c)(5)(A)4., how would a project receive full scale grocery store points if located near one of these stores?

Please contact your regional analyst directly before the application deadline, March 25, with the store location and store contact. TCAC will ascertain whether the square footage dedicated to these items within the store will meet the full scale grocery store square footage requirements.

8. In relation to Section 10325(c)(5)(A)4., what will TCAC take as verification of the grocery store square footage?

Please refer to the application. However, TCAC will accept an architect’s certification of the grocery store square footage, a commercial real estate broker’s certification of the same, a letter from the grocery store manager verifying the store’s square footage that includes the store address and contact number for that store manager, a website that indicates the square footage of the specific store being used for grocery store points, documentation of square footage size from a local public agency verifying the specific store being used for grocery store points. If an

applicant wants to provide something other than these options, please contact your regional analyst before the application deadline for guidance.

9. Will a publicly chartered charter school qualify for points if it is within the appropriate distances (Section 10325 (c)(5)(A) 5.)?

A charter school that is chartered by the local public school district may receive points if the applicant demonstrates the school allows all tenant resident children to attend free of tuition or specific parent involvement requirements (e.g. parents must commit to a certain number of volunteer hours each year for students to be allowed to attend the charter school). TCAC recommends that an applicant check with their regional analyst before the application deadline if the applicant intends to use a public charter school for scoring purposes.

10. Is a project sponsor required to commit to 10 years of free internet service to receive those site amenity points (Section 10325 (c)(5)(A)10.)?

Yes, sponsors must commit to 10 years of free internet service. Within the application, the sponsor may provide a will serve letter or letter from the local internet provider indicating they are able to provide such service.

Please note, if a project sponsor opts to receive points for providing internet service and they receive a competitive award, the sponsor may not request to change that since it is no longer a service but a site amenity.

11. How does an applicant submit a 15-year operating proforma for the project if it has both a residential and a commercial component?

Please submit a separate 15 year operating proforma for the residential piece and a separate proforma for the commercial piece. Be advised, according to Section 10327(g)(7): *The income from the residential portion of a project shall not be used to support any negative cash flow of a commercial portion. Alternatively, the commercial income shall not support the residential portion without evidence that adequate security will be provided to substitute for commercial income deficits that may arise. Applicants must provide an analysis of the anticipated commercial income and expenses.*

12. Are offsite improvements includable in basis?

In some instances. TCAC will un-shade that portion within the Sources and Uses section of the application. However, please be aware that if the off-sites are being included in eligible basis, the CPA certification must verify those are eligible.

13. How will TCAC account for HCD Proposition 1C loans and grants?

TCAC will only allow a HCD Proposition 1C loan or grant for public funds scoring or threshold if the loan is backfilled by a local public agency. If the HCD Proposition 1C loan is backfilled by a private lender, it will not receive public funds point scoring. Projects with HCD Proposition 1C funds that do not have a **committed** backfill will NOT meet threshold under 10325(f)(8).

14. Is an HCD HOME award affected by the above scenario?

No. HCD HOME funds are not Proposition 1C funds.

15. Does an applicant need to submit a new CPA certification for General Partner experience if submitting a re-application from 2009?

Yes. All documentation should be current for this application cycle. CPA certifications are required to be dated within 60 days of the application deadline. If your CPA reviews prepared financial statements for his/her certification and the projects for which points are requested have not completed their 2009 prepared financial statements, 2008 prepared financial statements may be utilized for the first round 2010 CPA certification only. In addition to current CPA certifications, city zoning approvals and signatures, etc., should also be current. Please do not use old contracts from service providers or property management companies, either.

16. Is there a limitation as to how much State credit one can request within a given region?

Applicants are limited as to how much credit they may request within a regional competition. Regulation Section 10325(d)(2) limits the combined Federal and State credit award per round within any given region to no more than 125 percent (125%) of that region's apportionment in that round. So, if a region has \$2 million available in round one, then that region's top ranked applicant could receive up to \$2.5 million (125% x \$2 million).

The amount of State credit that an applicant requests may not exceed 30 percent (30%) of the project's qualified eligible basis. For example, if the project's qualified eligible basis is \$10 million then the State credit request may be up to \$3 million. The project's complementary federal credit request may be based on 100 percent (100%) of the project's qualified basis, consistent with TCAC's adjusted threshold basis limits. Again, using the \$10 million basis example, an applicant could request \$900,000 in federal credits (\$10 million x 9%).

Applicants may not request a combination of credits that total more than 125% of the region's apportionment for that round. Using the example above, the applicant would establish the combined requested total as follows:

$$[(\text{Annual federal credits} \times 10) + \text{State credits}] \div 10 = \text{Combined Credit Request}$$

$$[(\$900,000 \times 10) + \$3 \text{ million}] \div 10 = \text{Combined Credit Request}$$

$$\$12 \text{ million} \div 10 = \text{Combined Credit Request}$$

$$\$1.2 \text{ million} = \text{Combined Credit Request}$$

This combined amount may not be more than 125% of that round's apportionment for the region.

17. How do the apportionment percentages align with the housing type goals?

Reference Section 10315 (i) and (j). TCAC views set asides as minimum federal credit amounts committed to the housing types, Special Needs/SROs, and At-Risk projects. Housing type goals are percentages to which a sponsor might be at a competitive disadvantage once a particular housing type goal has been reached (essentially a ceiling).

18. Would a project receive points for a public funding commitment if that commitment is contingent on my project receiving a tax credit award?

Yes, a project would receive points in this scenario.

19. Regarding the Lowest Income points, regulation Section 10325(c)(7), does TCAC round up or down when calculating these points?

In determining the percent of units at a particular AMI and the corresponding points, TCAC rounds down the percent of units at a particular AMI in determining the points. For example, if a project has 49.8% of the units at 45% AMI, the project would only get points from the table for providing 45% @ 45% AMI, not 50% @ 45% AMI. Please note that the manager's units are excluded from this calculation.

20. What type of commitment will TCAC accept as proof of Neighborhood Stabilization Program (NSP) funding?

TCAC will accept a copy of the HCD Award letter.

21. Will ARRA funds be available in 2010 (Section 10323)?

As of this date, the U.S. Congress has not enacted legislation to enable TCAC to access ARRA funding. TCAC does not anticipate any ARRA funding for the first round of 2010. Applications should be submitted under the assumption that should the project receive an award of tax credits, it can move forward without any federal funding assistance.

22. Would a grant from a local public utility, like SMUD, count towards your public funds score?

No. TCAC is looking to general public entities such as the city, county, or local redevelopment agency to provide funding that would qualify for public funds points scoring.

23. If a permit fee is waived is it includable as a public funding source?

Yes. Reference regulation section 10325(c)(1)(C) regarding "waivers resulting in quantifiable cost savings that are not required by federal or state law."

24. An applicant wants to request \$2.5 million in federal credits for a project in the first round competition, but the set aside doesn't have that much available in the first round. Could an applicant receive an award of \$2.5 million in federal credits in the first round?

An applicant may request the full amount, but if the total within the set aside for both rounds is less than the request, TCAC will only fund up to the amount available within the set aside for the first round. The supplemental set aside is not available in the first round. See regulation Section 10325(d)(1). In the first round, if a project requested more than the total annual amount of credits available in a particular setaside, the project would be skipped in the sort even if it was the highest ranking project in the setaside.

25. If an applicant gets a land donation from a public agency for a \$1.00, but the land value is \$6 million, what figure would be used for the tiebreaker?

TCAC would allow \$6 million for the value of the land, assuming proof of that land value is provided with the application in the form of a purchase contract or current appraisal. If the public agency has owned the property for more than 3 years, TCAC will use the value based on a current appraisal. If the public agency has owned the property for less than 3 years, TCAC will use the lesser of the current appraised value or the public agency's purchase price. See regulation Section 10325(c)(1)(C) and application pages 27-28, section VI. Points System – Section 1 A(3) Public Funds Section.

26. Is a below market residual receipts land lease from a location jurisdiction considered donated land? How would the applicant value it?

Yes. The land value is based on either a current appraisal if the public agency has owned the property for more than 3 years, or if the public agency has owned the property for less than 3 years, the lesser of their purchase price or the current appraised value. This is essentially the same approach as in the previous question/answer. TCAC views land under a \$1 per year long-term lease (55 years or longer) to be at fee simple value for appraisal purposes.

27. Does an applicant need an appraisal to support/determine the value of the land shown in the development budget?

For the first round application cycle in order to verify/document the value of the land which will be used in the development budget and subsequently as part of the final tiebreaker calculation in the total residential project cost, TCAC will accept as evidence of the land cost/value, third (3rd) party evidence/documentation completed/executed within the last 3 years (no older than March 25, 2007) such as a 3rd party, arms-length purchase contract or appraisal. This applies even to lease scenarios. If these types of 3rd party documentation are not available, then a current appraisal is required.

For the second round application cycle, TCAC will provide further guidance -- TCAC may require a current land appraisal.

28. Does an applicant always need to include a land value/cost in the development budget, even if it is a donation or a lease or some other type of transfer?

Yes, an applicant must always show a land value/cost in the development budget. TCAC will not accept a development budget with just a nominal value/cost shown. For lease scenarios, this will typically require an appraisal (see answer to question 27 above) to establish the land value/cost with a corresponding source shown in the development budget.

28. Now that the internet service is a site amenity and not part of the service amenities, can TCAC confirm that expenses associated with providing internet service to the units would be considered a true operating expense and includable in the per unit operating expense minimum?

Please see the application. The expenses associated with providing internet service to the units will not be considered when determining whether the project meets the TCAC minimum operating expense. This will be treated as if it were a service. In other words, when adding up the project's operating expenses to see if the project meets the TCAC minimum do not include

the expenses associated with providing free internet service to the tenants in their units. TCAC will include when calculating the DCR minimum and treat similarly to property taxes and replacement reserves.

30. Are the bedrooms in the manager's unit included in the bedroom count when determining the service coordinator staffing ratio?

No. TCAC does not include the bedrooms in the manager's unit in determining the service coordinator staffing ratio.

31. In order to receive two points in addition to other points received under the Lowest Income table, what method do I use to in distributing 10% of the units @ 30% AMI?

Roughly distribute evenly amongst all bedroom sizes, and err on the side of giving TCAC more of the larger bedroom size units (after spreading across all unit types and still having extra units to meet the 10% overall minimum, load up the larger bedroom size units). If TCAC does not consider the distribution reasonable, TCAC will make minor adjustments.

32. In a situation where the developer will be hiring an individual to provide services, can the experience of the individual count towards the service provider experience requirement?

No. Services for which the applicant is claiming points must be provided by an **organization** with at least 24 months of experience providing services to one of the target populations to be served by the project. In the situation where the developer is hiring an individual to provide social services to tenants, the developer is the service provider (the developer is the organization that is providing the services) and the developer must have the required experience.

33. On the Service Provider Experience Chart, can TCAC provide clarification about the requirement that the person providing a reference for the service provider (column 6 of the chart) may not be affiliated with the provider?

The person providing a reference may not be an employee, a volunteer or board member of the service provider. Individuals who work for organization that have conducted business with the service provider (e.g. an organization that has a contract with the service provider to provide services in a housing development) may provide the reference.