

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

915 CAPITOL MALL, ROOM 485
SACRAMENTO, CA 95814
TELEPHONE: (916) 654-6340
FAX: (916) 654-6033



William J. Pavão
Executive Director

MEMBERS:
Bill Lockyer, Chair
State Treasurer

Michael C. Genest, Director
Department of Finance

John Chiang
State Controller

DATE: June 2, 2009
TO: Low Income Housing Tax Credit Stakeholders
FROM: William J. Pavão, Executive Director
SUBJECT: Proposed Regulation Changes

Attached please find proposed regulation changes associated with the federal American Recovery and Reinvestment Act of 2009 (ARRA). All proposed changes are within regulation Section 10323, and incorporate federal requirements as well as additional program provisions.

The following summarizes the proposed changes, with page references to the attached regulations without reason statements:

Proposed Regulation Changes:

1. Incorporate the term "ARRA Funds" rather than multiple references to the two federal funding sources: TCAP and Section 1602 (exchange) funds. **Section 10323(a), (b), (d), (e) and (f), pages 1-7.**
2. Set aside up to \$100 million in ARRA funds for projects with HCD funding unable to get underway due to construction financing uncertainties. **Section 10323(b), page 2.**
3. Require nominal credits to remain in any project receiving TCAP funding, and define "nominal" as \$100 in annual federal credit. **Section 10323(c)(1), page 2.**
4. Require sponsors facing federal Davis Bacon and NEPA requirements solely due to TCAP funds hire subject matter experts. **Section 10323(c)(3), page 2.**
5. Permit the TCAC Executive Director to exchange 2009 credits for 2008 credits where a 2008 credit recipient is unlikely to meet the federally required placed in service deadline. **Section 10323(d)(1), page 3.**
6. For 2009 nine percent credit recipients only, extend the carryover allocation application deadline from October 31, to November 20, 2009. **Section 10323(d)(2), page 3.**
7. Extend the 45-day period by which a nine percent credit reservation recipient must elect to compete for Section 1602 funds out to 60 days. **Section 10323(d)(2)(B).**
8. Establish a five-year minimum experience standard for 2009 special needs, homeless assistance, or SRO sponsors to access exchange funds without additional competition. **Section 10323(d)(2)(B), page 4.**

9. Establish as a threshold selection criterion that applicant projects be expected to be completed by February 16, 2012. **Section 10323(d)(2)(C), page 4.**
10. Allow the TCAC Executive Director to award late-year remaining 9 percent credits by designating State credit recipient projects as DDAs, award remaining ARRA funds by funding waiting list 2009 nine percent credit exchange applicants, or to tax exempt bond waiting list projects. **Section 10323(d)(4), page 5.**
11. Permit loans to be extended and assumed. **Section 10323(e)(3), page 6.**
12. Establish a more timely disbursement schedule, and permit the Executive Director to negotiate and adjust disbursement schedules as needed. **Section 10323(d)(7), page 6.**
13. Establish a recapture provision if a sponsor syndicates and sells tax losses to another party. **Section 10323(e)(8), page 7.**
14. Establish TCAC authority to collect fees for loan origination, asset management services, and federal grant requirement oversight. **Section 10323(f), page 7.**

Attachment

**Proposed Regulation Changes
June 2, 2009**

Section 10323. American Recovery and Reinvestment Act of 2009

- (a) General. Under the authority granted by the American Recovery and Reinvestment Act of 2009 (Public Law 111-5), the California Tax Credit Allocation Committee (CTCAC) may subaward Tax Credit Assistance Program (TCAP) funds and federal grants in lieu of housing credit allocations (~~Exchange Section 1602~~ Funds) to projects awarded Low Income Housing Tax Credits. The provisions of this section shall refer to the two federal funding sources collectively as ARRA Funds. While CTCAC may access and subaward these funds in accordance with the provisions of this Section, nothing in this Section shall be construed to imply an obligation by the Committee to award funds to specific projects. Circumstances related to a specific project, such as updated market information, or the sponsor's financial strength, including inadequate net assets or pending litigation or other liabilities, may cause the Committee to deny a subaward, in spite of that project having previously received a reservation or allocation of credits. The Committee shall state in writing reasons for denying a subaward where the standards described below would otherwise have resulted in a subaward. The overriding public interest in sound investments through cash subawards shall be paramount as the Committee makes its funding decisions. Projects shall be evaluated in accordance with the underwriting criteria listed at Section 10327(g), as modified by this Section. CTCAC may defer to underwriting standards and conclusions reached by equity partners in those projects where CTCAC is providing financing only.

All terms and conditions established by federal rule shall hereby be incorporated by reference.

- (b) Eligible Projects

Applicants for cash awards, ~~TCAP or Exchange~~ ARRA Funds, must have a current reservation of federal Low Income Housing Tax Credits for a project awarded credits in federal fiscal year 2007, 2008, or 2009, except as provided in paragraph (b)(2) below, as follows:

- (1) 2007 and 2008 awardees: Projects with current 2007 or 2008 Credit Ceiling allocations are eligible for ~~TCAP or Exchange~~ ARRA Funds. Tax-Exempt Bond Projects with current 2007 or 2008 credit reservations are also eligible for ~~TCAP or Exchange~~ ARRA Funds under the conditions described in paragraph (d)(3)(A) below.
- (2) 2009 awardees: Tax Exempt Bond Projects receiving a 2009 credit reservation and projects receiving 2009 Credit Ceiling reservations by September 30, 2009 are eligible for TCAP funds. Projects receiving Credit Ceiling reservations in calendar year 2009 are eligible for ~~Exchange Section 1602~~ Funds, if exchange authority remains, under the conditions described in paragraph (d) below.
- (3) CTCAC may, as a priority, provide cash awards subject to (b)(1) and (b)(2) above under this Section to projects that also have funding commitments from programs receiving AB 55 loans through the State's Pooled Money Investment Account (PMIA). Assistance shall be provided in a manner and at the minimum amount required to generate adequate construction period financing. Any funds provided ~~shall~~ may be conditioned upon repayment by the State Department of Housing and Community Development (HCD). These funds shall remedy gaps in construction-period financing, and may be in addition to funds mitigating equity gaps as described below.

CTCAC shall set aside no more than \$100 million in ARRA Funds for projects with HCD funding that have yet to commence construction. Funds shall be committed from this set-aside to generate adequate construction financing, in concert with cash in lieu or gap financing awards. Within the Tax Exempt Bond Project competition described in paragraph (d)(3)(A), applicants may request zero ARRA funds where no equity gap exists, and apply for funds to assist with construction period financing only. Such applications would receive 100 points under the scoring factor listed at (d)(2)(C)(ii).

(c) Award Amounts.

- (1) Cash in lieu of credits: 2007 and 2008 credit recipients may receive an award equal to the stated equity in the original tax credit application up to 85 cents (\$0.85) for every currently reserved federal tax credit dollar and up to 60 cents (\$0.60) for every California State Credit currently reserved by CTCAC for the project.

2009 credit recipient projects may receive the original tax credit application-estimated equity up to 80 cents (\$0.80) for every currently reserved federal tax credit dollar, and up to 55 cents (\$0.55) for every California State Credit dollar currently reserved for the project. Applicants may request a cash in lieu award for a portion of their reserved credits, retaining the balance of credits for an equity partner. CTCAC shall reduce this award amount if a final cost certification would have resulted in a reduced credit award.

To be eligible for cash in lieu of credits, project applicants must demonstrate that they have made good faith efforts to obtain investment commitments for such credits, and that the project remains the same as originally proposed. An applicant shall provide a narrative describing steps they have taken to secure an equity investment, and describing issues inhibiting investor interest in the project. The narrative must identify potential investors proffering unacceptable offers, and why specific terms and conditions were detrimental to the project's feasibility. CTCAC reserves the right to corroborate presented facts, and may request additional information from the applicant and/or the potential investor or syndicator. CTCAC shall determine whether an applicant has met the federal good faith effort test. Any misrepresentations by an applicant shall draw maximum penalties under program regulations.

Where TCAP funds are awarded as cash in lieu of credits, the project shall retain at least a nominal amount of credits and adhere to Section 42 requirements. "Nominal" shall mean at least \$100 of annual federal Low Income Housing Tax Credits.

- (2) Gap financing: 2007 and 2008 projects may receive the difference between the credit equity stated in the original tax credit application, up to \$0.85 for every currently reserved federal tax credit dollar, and the committed equity up to 15 cents per federal tax credit dollar. 2007 and 2008 applicants may also apply for up to 10 cents (\$0.10) for every California State Credit dollar, up to the credit equity stated in the original application, not to exceed \$0.65 per California State Credit dollar.

2009 projects may receive up to 12 cents (\$0.12) per currently reserved federal tax credit dollar. Applicants may also apply for up to nine cents (\$0.09) for every California State Credit dollar. For 2009 Credit Ceiling applicants, projects may receive the above amounts in addition to the equity induced by the credits even where the final equity pricing exceeds the application estimate per federal tax credit dollar. CTCAC shall assure the combination of gap financing and equity does not over-subsidize the project.

- (3) If a TCAP award would add costs associated with the application of federal prevailing wage requirements, CTCAC may adjust the project award by up to 15 percent (15%) of the original application development budget's site work and structures line items to account for the higher costs. In such cases, the project sponsor must retain subject matter experts to assist in complying with prevailing wage and other federal requirements.
- (4) No cash award amount shall exceed \$17 million, except to 2009 Credit Ceiling applicants who may receive a maximum of \$20 million, and Special Needs, Homeless Assistance, or SRO projects may receive up to \$25 million.

(d) Application and Award Processes.

- (1) 2007 and 2008 Credit Ceiling Recipients.

2007 and 2008 Credit Ceiling Reservation awardees may apply to CTCAC for an exchange of a portion or all currently reserved credits for ~~TCAP or Exchange~~ ARRA Funds by a date publicly announced by CTCAC, and for an amount specified in (c)(1) above.

All other 2007 and 2008 applicants may propose retaining all of their credits and seeking gap financing. A portion of TCAP funding, along with any other non-exchanged 2007 or 2008 credits returned or recaptured on or before April 30, 2009, shall then be available to applicants to compete for gap financing. CTCAC shall use the competitive scoring under paragraph (2)(C) below.

CTCAC may award TCAP rather than ~~Exchange~~ Section 1602 Funds to such projects, at CTCAC's sole discretion. CTCAC shall give priority for awarding TCAP funds to projects already subject to federal requirements, such as paying prevailing wages, or where federal funds are a funding source in the project. CTCAC shall condition all awards of ~~TCAP or Exchange~~ ARRA Funds upon the following:

Project owners seeking cash in lieu of 100% of their credit awards must return their entire current tax credit reservation, including any reserved State Credit to CTCAC.

The ~~TCAP or Exchange~~ ARRA Funds recipient must adhere to the original tax credit required placed-in-service and project completion timelines for the project. The CTCAC Executive Director may adjust interim deadlines, including readiness deadlines, to accommodate loan closing schedules associated with these funds. In addition, the Executive Director, at his or her sole discretion, may exchange a 2008 Credit Ceiling reservation for 2009 Credit Ceiling credits. The Executive Director must find that circumstances beyond the project sponsor's control have delayed the project and warrant the extension of the placed in service date. Finally, the Executive Director may extend placed in service deadlines by up to six (6) months for projects receiving cash in lieu of credit awards.

(2) 2009 Credit Ceiling reservation recipients.

For 2009 only, CTCAC shall conduct a single competition for Credit Ceiling tax credit awards. Notwithstanding Section 10325(c)(8), 2009 applicants may apply for readiness points without documenting committed public funding sources, and without documenting items (B) through (D) within the original submitted application. However, applicants must document all such approvals, and the expiration of associated appeal periods, no later than August 17, 2009 to receive the associated readiness points. Similarly, notwithstanding Sections 10325(c)(1)(C), 10325(c)(10), and 10325(f)(8), 2009 applicants may submit a public financing commitment no later than August 17, 2009 and comply with those scoring and basic threshold requirements. In addition, notwithstanding Section 10328(d), 2009 Credit Ceiling recipients must submit an application for a carryover allocation by November 20, 2009.

Within the initial application for Credit Ceiling credits as described in Section 10325, applicants may elect to assume a CTCAC cash award of 12 cents (\$0.12) for every federal tax credit dollar requested, and 9 cents (\$0.09) for every California State Credit dollar requested. Equity pricing assumptions within the original Credit Ceiling application shall be no less than 70 cents (\$0.70) for every tax credit dollar, and no less than 50 cents (\$0.50) for every California State Credit dollar requested.

(A) Successful competitors for 2009 Credit Ceiling awards shall have 90 days, consistent with Section 10325(c)(8), to produce a letter of intent (LOI) from an equity partner.

- (B) If, after 45 60 days and a good faith effort as described in paragraph (c)(1) above, successful 2009 Credit Ceiling reservation recipients have failed to identify an equity partner, the project sponsor may apply for a cash in lieu of credits award from CTCAC. All projects applying for cash in lieu of credits shall submit materials requested by CTCAC, including evidence that the project would be financially feasible with the requested amount of cash in lieu of credits. Special Needs, Homeless Assistance, or SRO projects applying for cash in lieu of credits must return their federal and any State credit reservation, and CTCAC shall exchange all such returned federal credit to the Secretary of the Treasury as part of its grant election amount. CTCAC shall award this federal exchange cash to the applicant Special Needs, Homeless Assistance, and SRO projects subject to CTCAC confirming the project's feasibility. However, to qualify for a non-competitive exchange of ARRA funds for credits, the project sponsor must have at least five (5) years' experience providing such housing for the target population. All other cash in lieu of credits applicants shall be placed in a competition and scored as described in subsection (2)(C) below for an award of cash in lieu of credits. Current Credit Ceiling reservation recipients must return their reservation before competing for a cash award in lieu of credits. Beyond these funds, CTCAC shall also award additional funds as gap financing or cash in lieu of equity associated with California State Credits up to the applicable—loan maximum stated in paragraph (c)(4) above.
- (C) To be eligible to compete under this scoring system, projects must be expected to be completed by February 16, 2012. Competitors shall be scored and ranked competitively based upon the following criteria alone. All scoring information shall be drawn from the originally scored tax credit application with supplemental information as requested by CTCAC.
- (i) Project type (50 points). Projects shall earn points as no more than one project type as follows:
- Special Needs, Homeless Assistance, and SRO projects meeting the requirements of Section 10325(g)(4) 50 points
 - Rural projects meeting the requirements of Section 10315(c) 30 points
 - At-risk projects meeting the requirements of Section 10325(g)(5) 30 points
 - Family projects meeting the requirements of Section 10325(g)(1) and senior projects meeting the requirements of Section 10325(g)(2) 10 points
 - All others 0 points
- (ii) Cash award requested (100 points). Projects shall earn points based upon the cash requested in inverse relation to total project costs. Lesser cash requests relative to total project costs will garner higher scores. Where “N” equals the percentage the cash request represents relative to total project costs, points = 100-N. (Example: Where the cash request N equals 60% of the project cost, the applicant's score would be 40.) Rehabilitation projects, except for At-Risk projects, may access these points only if the per-unit rehabilitation hard costs equal \$40,000 or greater.
- (iii) Average Affordability (100 points). Projects shall earn 5 points for every one percent (1%) that the project's average affordability would be below 60 percent (60%) of Area Median Income (AMI). While CTCAC's Regulatory Agreement shall regulate specific numbers of units at income levels specified in the application, this scoring factor would be based upon a calculation determining the project's average overall affordability. (Example: A project with an average affordability of 50% of AMI would garner the percentage below 60% (10) times 5

points, or 50 points). An average affordability of 40% of AMI would garner the full 100 points. Units with project-based rental or operating subsidy such as Section 8, HUD Project Rental Assistance Contracts (PRAC), Mental Health Services Act (MHSA), McKinney Act subsidies, or CTCAC-approved locally-funded operating subsidy programs shall be assumed to serve households at 40 percent (40%) of AMI, unless regulated to a lower level.

(3) Recipients of credits for Tax-Exempt Bond Projects.

- (A) Eligible 2007, 2008, and 2009 Tax-Exempt Bond Projects with, as of the application due date to be publicly announced by CTCAC, bond allocations, previously awarded tax-exempt bond allocations that have been returned to CDLAC or tax-exempt bond applications pending (a) with a current credit reservation and (b) lacking an equity partner, may apply and compete for cash in lieu of tax credits under the process described in subsections (d)(2)(B) and (C) above. To be eligible for cash in lieu of credits, project applicants must demonstrate that they have made good faith efforts to obtain investment commitments for such credits as described in paragraph (c)(1) above, and that the project remains the same as originally proposed. Eligible 2007, 2008, and 2009 Tax-Exempt Bond Projects with committed equity partners that still have a funding gap may also compete for ~~TCAP or Exchange~~ ARRA Funds as gap financing within the same competition as those seeking cash in lieu of credits. Those projects must also have a current bond allocation or an application pending, a current tax credit reservation, and an executed LOI with an equity partner for less than estimated in the original tax credit application. Projects may apply for either cash in lieu of credits or gap financing if they have a pending tax credit application accepted and deemed complete by CTCAC by the cash application due date referenced above, but only if they have an award of State HCD or MHSA funding. Successful applicants shall receive either ~~TCAP or Exchange~~ ARRA Funds as determined by CTCAC.
- (B) Eligible 2009 Tax Exempt Bond Projects meeting the conditions of preceding paragraph (A) after the application due date required under (A) above, shall similarly compete among themselves for cash in lieu of credits or gap financing under a separate competition. This competition shall be held in an additional round during calendar year 2009, and shall also follow the process described in subsections (d)(2)(B) and (C) above.

Projects shall compete based on the information provided in the original awarded tax credit application and any supplemental information related to CTCAC employing the competitive system described in paragraph (d)(2)(C).

(4) Executive Director's discretion to award remaining funds.

If, following the award processes described in paragraphs (d)(1) through (d)(3) above, CTCAC has a surplus of either ARRA funds or Credit Ceiling credits, the Executive Director may take extraordinary measures to assure that all funds and credits are awarded and allocated by year-end. Such extraordinary measures include:

- (A) If Credit Ceiling credits remain with insufficient time for a waiting list award pursuant to Section 10325(c)(h), the Executive Director may declare a project possessing a Credit Ceiling reservation a Difficult to Develop Area (DDA) project and deliver additional federal Credit Ceiling credits in lieu of the reserved California State Credits. The Executive Director must attempt to minimize project disruption by first conferring with the project sponsor, and must also report such an action to the Committee at its next convened meeting.

- (B) If ARRA funds remain uncommitted at year-end, the Executive Director may offer such funds, first, to the next unfunded applicant competing under Section (d)(2)(B) above. If the requested cash in lieu of credit amount significantly exceeds the requested ARRA funds, the Executive Director may move down the ranked list of unfunded projects to the next ranked project seeking less than or approximately the amount available.
- (C) If no remaining projects on the unfunded ranked list described in preceding paragraph (B) requested less than or approximately the amount of ARRA funds remaining, the Executive Director may award remaining ARRA funds to the next ranked project competing under Section (d)(3)(A) above.

(e) Loan Terms.

The project owner receiving any cash award from CTCAC shall agree to the loan terms described below as applicable.

- (1) All funds must be expended by February 17, 2012.
- (2) All loans shall be underwritten in advance using the applicable financial feasibility standards listed within Section 10327, except that projects must demonstrate a first year debt service coverage ratio of at least 1.15 to 1.
- (3) Loans shall be originated for a term of 55 years. The project owner must execute a Promissory Note secured by a recorded Deed of Trust as required by CTCAC. In addition, the project owner must execute a recorded Regulatory Agreement provided by CTCAC. The loan term may be extended in 15-year increments, and shall be assignable upon the agreement of CTCAC.
- (4) ~~Under the terms of the Promissory Note and Deed of Trust, loan payments shall be due annually as residual receipts payments~~ the loan shall be deferred for the full term. The CTCAC Deed of Trust shall be recorded in a subordinate position relative to the principal private lender's Deed of Trust, as well as those of public lenders, unless the CTCAC loan amount is more than twice the amount lent by the public lender. ~~Payments shall be due in the amount of 50 percent (50%) of any residual receipts after non-cumulative preferred residential cash flow to the owner of \$500 per unit, increasing by the Consumer Price Index for All Urban Consumers, West Region, All Items, as published annually by the Bureau of Labor Statistics, United States Department of Labor, and after payment of a non-interest bearing deferred developer fee included in basis, consistent with the conditions of Section 10327(c)(2)(A). Payment of required principal and interest to other public funding sources under the terms of executed loan documents shall be payable prior to loan payments described in this paragraph.~~
- (5) Recipients of cash loans in lieu of tax credits shall enter into a binding agreement establishing CTCAC's right of first refusal to purchase the project for its fair market value at the time the owner chooses to sell the project, except for a sale under IRC §42(i)(7). This right is assignable by CTCAC to a third party of its choice, and shall be in effect for the duration of the Regulatory Agreement. This requirement shall not apply to projects receiving gap financing only, as described in paragraph (c)(2) above.
- (6) The interest rate for any loans authorized under this section shall be zero.
- (7) CTCAC shall disburse loans provided as gap funding during construction as needed upon receiving evidence that costs have been incurred. CTCAC shall disburse loans provided in lieu of tax credit equity on the following schedule: ~~30 percent (30%)~~ 40 percent (40%) at and following construction loan closing as justified by costs; at least ~~65 percent (65%)~~ 35 percent (35%) at project completion as evidenced by a Certificate of Occupancy for the entire project; and 25 percent (25%) minus a hold-back at 90 percent (90%) occupancy by

eligible households as certified by an independent third party. CTCAC shall hold back up to ~~five percent (5%), not to exceed \$500,000~~ \$300,000 to be payable upon CTCAC approval of final cost certification and other placed-in-service materials. CTCAC may accelerate or depart from this described disbursement schedule at the sole discretion of the Executive Director and as expressed under the terms of a tri-party agreement with other lenders and the project sponsor.

Finally, at the sole discretion of the Executive Director, CTCAC may accelerate payment in order to conform with federal expenditure deadlines.

- (8) All executed loan agreements and regulatory agreements shall reflect recapture provisions for defaults on the regulatory agreement. The terms of recapture shall be proportionate to the scale and duration of the uncorrected noncompliance relative to a 15-year initial compliance period. If, following an ARRA application and award, a sponsor syndicates and sells a portion of their ownership interest to a partner seeking tax losses associated with the project, and such syndication was not set forth in the original ARRA application, nine-tenths of the gross proceeds of that sale shall be remitted to CTCAC as recaptured ARRA funds.

(f) Fees.

- (1) CTCAC may charge ARRA fund recipients a loan origination fee of up to \$10,000. Where the California Housing Finance Agency (CalHFA) performs loan-origination services under the terms of an Interagency Agreement with CTCAC, CalHFA may charge a fee based upon a percentage of the ARRA loan amount. CalHFA shall publish its percentage fee structure on their website.
- (2) CTCAC may charge an ARRA funds recipient an asset management fee for such services. This fee may be in the form of an annual charge during the project's regulatory term, or may be charged at or about project completion. In the event CTCAC contracts out for asset management services, the contracted entity may charge the sponsor an asset management fee directly.
- (3) CTCAC may charge a TCAP funds recipient a fee of up to \$1,000 to oversee compliance with federal NEPA requirements, and \$1,000 to oversee compliance with federal Davis Bacon prevailing wage requirements.