

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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DATE: October 13, 2010

TO: Recipients of 2010 9% Competitive Housing Tax Credits

FROM: William J. Pavão, Executive Director

SUBJECT: **State Credit Exchange and 2010 9% Updated Funding Analysis Advisory**

This memo is to provide guidance for recipients considering state credit exchange requests as well as to advise 2010 9% award recipients in light of current, favorable equity pricing being offered by investors.

State Credit Exchange

TCAC Regulation Section 10317(e) states that remaining state credit may be awarded “in exchange for the ‘equivalent’ amount of Federal Tax Credits.” The calculation for the exchange is as follows:

$$\text{Total Federal Credit Returned} = \frac{\text{Total State Credit Request} \times \text{State Tax Credit Factor}}{\text{Federal Tax Credit Factor}}$$

The product of the total federal credit returned multiplied by the federal tax credit factor should equal the product of the total state credit requested multiplied by the state tax credit factor. TCAC will confirm the state credit request along with the tax credit factors in order to determine the amount of total federal tax credits that will need to be returned. A Letter of Intent (LOI) from the investor confirming the tax credit factors must be submitted with your request. Please note, you may request up to 30% of the actual eligible basis indicated in the original application. This is not a boosted (130%) number.

2010 9% Funding Analysis

As equity pricing has increased and many projects now have a larger equity contribution than anticipated at the time of application, please be advised of the following conditions: (1) The tax credit award cannot exceed what is necessary for a project’s financial feasibility per IRC Section 42(m)(2); and (2) if a project appears to be oversourced, TCAC may reduce the tax credit award at or prior to the Final Reservation.

Updated application materials are required with the carryover allocation submission:

<http://www.treasurer.ca.gov/ctcac/requirements/carryover/deadline.pdf> . When submitting updated information, if project costs have changed, please provide an explanation of each line item change in the Sources and Uses Budget. Any developer fees deferred in the original application may be reduced to offset an increase in tax credit equity. However, public fund contributions may not be decreased for any reason. Award recipients are also reminded that tiebreaker scores should be maintained per regulation Section 10325(c)(10). Projects were recommended to the Committee based on the competitive tiebreaker scores represented in the application.

TCAC staff will be performing a review of each project to determine that it has maintained the feasibility standards outlined in TCAC regulations, including those of Section 10327 and any relevant competitive scoring of Section 10325. First round award recipients must submit updated TCAC electronic applications with their carryover submissions. Second round award recipients must submit updated

TCAC electronic applications with their 150-day Readiness (soon to be 180-day) documentation. These submissions must reflect a project's current underwriting structure. TCAC staff will be comparing this documentation to the 90-day LOI submissions. In the case of projects requesting state credit exchange,

TCAC staff will review the most current LOI when performing an analysis. If any other documentation is required to perform a complete project analysis, staff may request this upon project review.

When submitting updated applications with tax credit factors greater than the maximums set in the electronic application, an adjustment to the application may be required. Please email your electronic file to Gina Ferguson at gferguson@treasurer.ca.gov . TCAC will enable the application to accept increased tax credit pricing.