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Promoting Quality Affordable Housing and Community  
Development Throughout San Diego County

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William J. Pavao, Executive Director  
California Tax Credit Allocation Committee  
915 Capitol Mall, Room 303  
Sacramento, CA 95814

**Re: Comments and suggestions on regulation changes**

Dear Bill:

A group of San Diego developers and others familiar with California's tax credit allocation program have been discussing possible changes to the California low income tax credit allocation program. The purpose of this letter is to share our recommendations.

First, while agreeing that substantive changes are needed in the tax credit program particularly to eliminate the competition to take fewer credits, local users strongly recommend that major changes be carefully vetted and not implemented until 2010. Several developers already have projects in the pipeline for which they've invested thousands of dollars assuming the current guidelines and current schedule for allocation rounds. Small changes in the program could probably be accommodated but more significant revisions would mean they would have to begin their applications anew or put off projects that are otherwise ready to go and counting on a successful application.

In response to proposals that have been informally circulated, other recommendations include:

- The credit cap should be increased to at least \$2.5 million and indexed to inflation. The current cap has not been changed in many years and limits 9% LIHTC properties to 65-80 units. A higher cap is needed for larger more urban developments that typically have podium parking – projects that require more units than the current cap accommodates. In fact, we question whether a credit cap is needed at all since there is already a 150 limit on the number of units which should provide a sufficient cap.
- Allow projects to accrue the full points for which they are eligible rather than putting an arbitrary limit on the number of points that are available in a category. For example, allow the full 23 points for site amenities, not 15. This could create more variation in final total scores making the tiebreaker less necessary.
- We do not support a tiebreaker formula that puts greater pressure on local government investment. Needed projects in smaller cities would find it difficult to

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compete because those jurisdictions have limited redevelopment or other local funds to dedicate to housing. These often are the cities/projects that have the greatest need for tax credit financing. Furthermore, developers are already going to local governments to meet ever-widening financing gaps.

- Reward projects that drive development costs down. The current program does not provide incentives for cost savings that can be accrued in a project. In fact, there is a disincentive.
- The Balanced Communities and Neighborhood Stabilization criteria should be maintained. Given the difficulty in finding good site opportunities, there should be no attempt to constrain site selection in order to achieve better LIHTC scores. The criteria should be considered a package – keep them both or eliminate them both.
- Historic preservation points work in the sustainability category as they currently are.
- While San Diego developers like the idea of “leveling the playing field” by having a set tax credit price for all applicant pro formas in a round, they caution that the number should not be so low that it would encourage lower pricing by investors. The price needs to be high enough to provide an incentive to push for higher pricing from an investor.
- The 30% boost should be allowed, at least on an emergency basis, in non-boost areas for 9% deals.
- TCAC should eliminate the 2% voluntary basis decrease in order to maximize points.
- Given the fact that developers are taking on more risk and it's taking longer to get deals done, the current developer fee is inequitable. Furthermore, a higher developer fee would create an additional contingency in a project. The fee should be increased to 15% of eligible basis or add \$1 million to the existing cap with the provision that a developer could choose to reduce the amount.

Other recommendations discussed by the committee included:

- Given the risk and cost of making a tax credit application, give automatic priority for unsuccessful projects in the next round.
- Provide a boost reward to projects that can get a tax credit investor to commit to SROs and special needs in 2009 since most investors appear to have steered away from these deals.

We look forward to seeing the changes you are considering. Please feel free to call me or Doris Payne-Camp, SDHF Policy Director, if you have questions about these recommendations.

Sincerely,



Tom Scott  
Executive Director