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SCIENCE, TECHNOLOGY, ENGINEERING AND MATH

February 14, 2019

FEB 1 8 2020

Members
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Re: Proposed Audit of the California Tax Credit Allocation Committee and California Debt Limit Allocation Committee

Dear Members of the Committee:

I respectfully request your approval for an audit of the California Tax Credit Allocation Committee (TCAC) and the California Debt Limit Allocation Committee (CDLAC). Housing prices in California have reached historic highs. The statewide median monthly rent paid for a one-bedroom apartment is $1,906. In San Francisco, it is $3,720. A third of California renters and 16 percent of homeowners spend more than half their income on housing. Only 30 percent of households in the State can afford a median-priced home in their county. Experts correctly attribute our astronomical rents and home prices to a lack of supply. TCAC and CDLAC are tasked with playing an important role in providing affordable housing in California by awarding tax credits for affordable housing for Californians.

TCAC

TCAC facilitates the investment of private capital into the development of affordable rental housing for low-income Californians. TCAC allocates federal and state tax credits to the developers of these projects through both competitive and non-competitive means. Corporations provide equity to build the projects in return for the tax credits. TCAC verifies that the developers have met all the requirements of the program and ensures the continued affordability and habitability of the developments for many years.

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In 1986, Congress enacted the Low-Income Housing Tax Credit Program (LIHTC). This program provides incentives for the investment of private equity capital in the development of affordable rental housing. The LIHTC reduces the federal tax liability of project owners in exchange for the acquisition, rehabilitation, or construction of affordable rental housing units that will remain income and rent restricted over a long period. The amount of tax credit allocated is based on the number of qualified low-income units that meet federal rent and income targeting requirements.

Each state develops a Qualified Allocation Plan (QAP), which establishes the guidelines and procedures for the acceptance, scoring, and competitive ranking of applications and for the administration of the LIHTC Program. The QAP and California's Program Regulations are developed to be relevant to state housing needs and consistent with state housing priorities. The California Tax Credit Allocation Committee (CTCAC) is the designated "housing credit agency" to allocate and administer tax credits for the entire state.

CDLAC

Federal law limits how much tax-exempt debt a state can issue in a calendar year for private projects that have a qualified public benefit. This cap is determined by a population-based formula. CDLAC was created to set and allocate California's annual debt ceiling, and administer the State's tax-exempt bond program to issue the debt. CDLAC's programs are used to finance affordable housing developments for low-income Californians, build solid waste disposal and waste recycling facilities, and finance direct loans used by in-need college students and their parents.

Efforts to Increase Supply

The Legislature and Governor have rightfully committed themselves to increasing the supply of affordable housing. The Governor pointed out during his first State of the State address that "if we want a California for all, we have to building housing for all." He has also talked about a Marshall Plan for affordable housing in California, a plan that would result in 3.5 million new housing units by 2025.

Because local governments are often responsible for blocking new housing developments, the Governor has been aggressive is forcing cities to allow more housing. He sued the city of Huntington Beach for not planning adequately for new housing. Additionally, 40 cities have been placed on a list of bad housing actors, some of which have recently come into compliance with state law. The Governor has also threatened to withhold transportation funding from cities that do not meet their state-mandated housing goals.

The Legislature has also taken up the challenge of increasing the supply of affordable and other housing units in California. For example, Senator Atkins and other Members of the Legislature passed the Building Homes and Jobs Act in 2017, an act that established a permanent source of funding for affordable housing development. The funding supports state programs that provide assistance for emergency housing, multifamily housing,

farmworker housing, home ownership for low-income households, and down payment assistance for first-time home buyers. The funding is generated from a fee of $75 that is collected at the time any real estate instrument, paper or notice is recorded.

The 2019 Budget Act provided $500 million in additional funding to TCAC to allocate for low-income housing projects. TCAC will distribute these funds through a non-competitive application process. TCAC anticipated first accepting the first applications in January 2020 with a March 2020 award date.

Proposed Scope of Audit

I respectfully request that the Joint Legislative Audit Committee approve this request to have the State Auditor review the California Tax Credit Allocation Committee (TCAC) and the California Debt Limit Allocation Committee (CDLAC), and their efforts to provide affordable housing throughout California. The audit should also cover the following:

1. Identify and evaluate TCAC's and CDLAC's efforts to fulfill their missions related to increasing the supply of affordable housing for low-income Californians while also balancing the need for public benefits like serving our most vulnerable populations, like people experiencing homelessness as well as leveraging local and private investments.

2. Generally review management and operation practices, management structure, and internal controls to ensure that TCAC and CDLAC are efficient, well-run agencies.

3. Analyze the transparency TCAC and CDLAC provide to their processes and governance, e.g., whether rules and processes are sufficiently clear for developers, and whether topics discussed at meetings are properly agendized.

4. Provide and analyze information regarding the geographical distribution of funds awarded by TCAC for affordable housing. In performing this analysis, consider the following:

    a. Where additional affordable housing is needed most,
    b. Whether rural and infill projects are adequately represented, and
    c. Whether farmworkers projects are adequately represented.

5. Review TCAC's and CDLAC's competitive and non-competitive processes for deciding which projects to fund.
6. Review any effort by TCAC to recruit applicants that would provide affordable housing throughout the entire state, including but not limited to the San Joaquin Valley and rural areas.

7. Provide information regarding how much in bond funds CDLAC has allocated to affordable housing over at least the last 5 years. Evaluate CDLAC's methodology for allocating tax-exempt debt to housing and other purposes.

8. Identify any best practices or ideas on how TCAC and CDLAC could encourage additional affordable housing throughout the State, including the balancing the needs of high-cost and rural areas.

9. Review TCAC's process for ensuring that developers have met all program requirements and continue the affordability and habitability of their developments into the future.

10. Analyze CDLAC and TCAC's efforts to work together to prioritize projects to ensure there are enough private equity bonds available for projects approved by TCAC. Further, analyze CDLAC and TCAC housing priorities, how they may conflict and how this conflict is resolved.

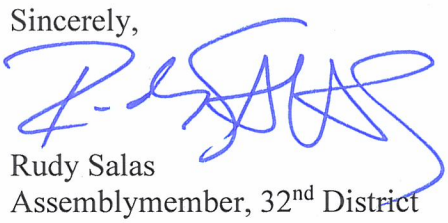
11. Identify the sources and amount of funds developers typically used on TCAC projects including ways to incentivize non-state resources.

12. Identify any challenges TCAC and CDLAC are facing in regards to increasing the construction of affordable housing while ensuring the state is receiving public benefits like serving our most vulnerable populations, like people experiencing homelessness as well as leveraging local and private investments.

13. Identify any ways in which the Legislature can assist TCAC and CDLAC in fulfilling its mission of providing affordable housing to Californians.

Thank you for your consideration of my audit request. If you have any questions, please do not hesitate to contact me.

Sincerely,



Rudy Salas
Assemblymember, 32nd District