

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 16/17	Business Unit 0968	Department California Tax Credit Allocation Committee	Priority No. 2
Budget Request Name 0968-002-BCP-BR-2016-GB		Program 0840 - California Tax Credit Allocation Committee	Subprogram

Budget Request Description
 Development Section Staff Augmentation

Budget Request Summary

The California Tax Credit Allocation Committee (TCAC) requests three (3) Associate Governmental Program Analyst (AGPA) positions for the Development Section to carry out core functions and to administer the federal and state mandates of the Low Income Housing Tax Credit program.

This request will not impact the General Fund. Government Health and Safety Code, Section 50199.9(d), allows TCAC to establish and collect fees to pay necessary administrative costs.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

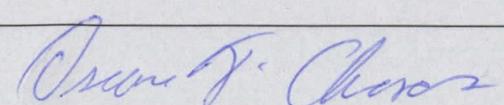
If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
	9-8-15		9-8-15
Department Director	Date	Agency Secretary	Date
	9-8-15		9/8/15

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA 	Date submitted to the Legislature 11/7/16
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BCP Fiscal Detail Sheet

BCP Title: Development Section Staff Augmentation

DP Name: 0968-002-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	3.0	3.0	3.0	3.0	3.0
Total Positions	0.0	3.0	3.0	3.0	3.0	3.0
Salaries and Wages						
Earnings - Permanent	0	186	186	186	186	186
Total Salaries and Wages	\$0	\$186	\$186	\$186	\$186	\$186
Total Staff Benefits	0	83	83	83	83	83
Total Personal Services	\$0	\$269	\$269	\$269	\$269	\$269
Operating Expenses and Equipment						
5301 - General Expense	0	12	12	12	12	12
5302 - Printing	0	2	2	2	2	2
5304 - Communications	0	9	9	9	9	9
5306 - Postage	0	2	2	2	2	2
5320 - Travel: In-State	0	3	3	3	3	3
5322 - Training	0	3	3	3	3	3
5324 - Facilities Operation	0	12	12	12	12	12
5326 - Utilities	0	3	3	3	3	3
5340 - Consulting and Professional Services -	0	45	45	45	45	45
5346 - Information Technology	0	3	3	3	3	3
5368 - Non-Capital Asset Purchases - Equipment	0	30	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$124	\$94	\$94	\$94	\$94
Total Budget Request	\$0	\$393	\$363	\$363	\$363	\$363
Fund Summary						
Fund Source - State Operations						
0457 - Tax Credit Allocation Fee Account	0	393	363	363	363	363
Total State Operations Expenditures	\$0	\$393	\$363	\$363	\$363	\$363
Total All Funds	\$0	\$393	\$363	\$363	\$363	\$363
Program Summary						
Program Funding						
0840 - California Tax Credit Allocation Committee	0	393	363	363	363	363
Total All Programs	\$0	\$393	\$363	\$363	\$363	\$363

Personal Services Details

Positions	Salary Information			CY	BY	BY+1	BY+2	BY+3	BY+4
	Min	Mid	Max						
5393 - Assoc Govtl Program Analyst (Eff. 07-01-				0.0	3.0	3.0	3.0	3.0	3.0
Total Positions				0.0	3.0	3.0	3.0	3.0	3.0
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
5393 - Assoc Govtl Program Analyst (Eff. 07-01-	0	186	186	186	186	186			
Total Salaries and Wages	\$0	\$186	\$186	\$186	\$186	\$186			
Staff Benefits									
5150350 - Health Insurance	0	20	20	20	20	20			
5150500 - OASDI	0	11	11	11	11	11			
5150600 - Retirement - General	0	47	47	47	47	47			
5150800 - Workers' Compensation	0	2	2	2	2	2			
5150900 - Staff Benefits - Other	0	3	3	3	3	3			
Total Staff Benefits	\$0	\$83	\$83	\$83	\$83	\$83			
Total Personal Services	\$0	\$269	\$269	\$269	\$269	\$269			

Analysis of Problem

A. Budget Request Summary

The California Tax Credit Allocation Committee (TCAC) requests three (3) Associate Governmental Program Analyst (AGPA) positions for the Development Section to carry out core functions and administer federal and state mandates of the Low Income Housing Tax Credit program.

This request will not impact the General Fund. Government Health and Safety Code, Section 50199.9(d), allows TCAC to establish and collect fees to pay necessary administrative costs.

B. Background/History

TCAC administers both a federal and a state low-income housing tax credit program. These programs encourage private investment in rental housing development for low and very low income families and individuals. With the passage of the Tax Reform Act of 1986, Congress created the federal Low Income Housing Tax Credit (LIHTC) Program. The LIHTC provisions comprise the longest single section of the Internal Revenue Code (IRC). This program helps private developers/owners create and preserve affordable housing and raises project equity by providing tax benefits to investors who hold an ownership interest in the property. Congress made the LIHTC Program permanent with the passage of the Omnibus Budget Reconciliation Act of 1993. Over the years, the LIHTC Program has become the primary funding source for the development of affordable rental housing throughout the country. California housing tax credits authorized by Chapter 1138, Statutes of 1987, provide State-level investor tax benefits, as well as supplement the federal tax credit. The state tax credit is only available to projects receiving an allocation of federal credits.

TCAC has helped fund the construction of over 375,000 total units since its inception, including more than 14,000 last year. In California, construction of affordable housing has continued to be in high demand throughout the recession and recovery. California has had some of the largest foreclosure rates in the nation, contributing to a high demand for affordable rental housing. With over two million California households spending excessive proportions of their income on housing, California must encourage more affordable home construction.

California is the largest user nationwide of the LIHTC Program. Developers rely on federal, state, and local funding sources to build affordable housing as evidenced by the receipt of over 300 applications annually.

Resource History for Fund 0457

(Dollars in thousands)

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-15
Authorized Expenditures	\$2,026	\$2,152	\$2,125	\$2,264	\$2,323
Actual Expenditures	\$2,609	\$1,940	\$1,788	\$1,876	\$2,223
Revenues	\$4,431	\$4,749	\$5,076	\$4,873	\$5,158
Authorized Positions	13.0	13.0	13.0	14.0	14.0
Filled Positions	13.0	13.0	13.0	14.0	14.0
Vacancies	0.0	0.0	0.0	0.0	0.0

Workload History

See Attachment A for Workload Information

C. State Level Considerations

The federal tax credits for low-income housing developers are provided to encourage the private sector to acquire, rehabilitate, and construct low-income rental housing. From 1987 through 2014, TCAC allocated more than \$24 billion federal and state tax credits. The allocations will result in the development of over 326,000 total units of rental housing throughout the state.

Analysis of Problem

A 2002 Little Hoover Commission report states that: "Among the most basic of human needs is a place to call home. And nowhere in the United States is this need harder to satisfy than in California. The lack of affordable housing is so severe that it threatens the health and welfare of thousands of Californians, as well as the state's long-term prosperity". The report goes on to state that: "The impact of the State's housing shortage is felt most profoundly by low-income Californians who struggle to keep a roof over their heads. Among low-income renters, about two-thirds pay more than half of their income for housing and 91 percent pay more than the recommended 30 percent." The federal LIHTC Program is essential in meeting low-income renters' housing needs in California.

Housing California's low-income workforce and disabled populations will enhance the state's economic strength. A respectable, affordable home provides a stable foundation from which families can succeed and integrate into the state's economy.

The additional positions do not affect other departments and will allow TCAC to accomplish its mission and comply with federal mandates.

D. Justification

TCAC is responsible for administering the allocation of federal and state low income housing tax credits (LIHTCs) for the development of low income housing. Each year the amount of federal LIHTCs allocated by the Internal Revenue Service (IRS) is based on the product of a per capita factor and the state's population. Annual increases in the per capita factor and state population continues to increase the amount of annual federal LIHTCs from \$63.8M in 2004 to \$89.3M in 2015 (a 40% increase) available for allocation to develop low income housing projects. In addition, the total state tax credits has continued to increase from approximately \$74M in 2004 to \$93.8M in 2015 (a 27% increase).

Changes to the project requirements, such as sustainability and accessibility, has resulted in more complex reviews and additional technical assistance from staff. TCAC is required by federal law to conduct three reviews of the applications through the entire development process. Due to the increase in the volume and complexity of applications, workload has increased at each stage of the reviews significantly. Specifically, the review of applications at the placed in service stage has a large backlog due to the increased number of applications and the added complexity due to project requirements. Failure to issue these tax forms in a timely manner can result in tax consequences to the owner and the overall viability of the projects.

Federally-required subsequent reviews assure the state that the project development is moving along as anticipated. The increased application volume creates an amplified workload for Development Section staff. With the current staff levels, TCAC risks missing federally mandated reviews. The final step of the development stage is the Placed-in-Service (PIS) review, which culminates in the issuance of the IRS tax forms 8609 to the developer and more importantly for the investor. Issued tax forms induce in the investor's final equity payment and allow the taking of the tax credits. Increased workload has resulted in a significant backlog of the PIS reviews. The timely issuance of the tax forms is critical for investors to filing tax returns and claiming the tax credits for that year. Adverse impacts of the backlog and delay of the tax forms can result in amended tax returns, increased fees, and delayed equity pay-in schedules that are not being met. TCAC has explored other options to eliminate the backlog, which includes re-evaluating the review process, streamlining submittal requirements, and updating checklists. Additional staff conducting these reviews would allow for the timely issuance of the tax forms.

TCAC is the state allocating agency for the State of California and must be responsive to changes that occur in the LIHTC program. An example of changes are cost monitoring and study to keep project costs down and modifications to the competitive scoring due to the diminished public resources availability. The increased workload associated with ongoing changes and issues include different forms of data analyses, surveying project data, and stakeholder consultation. As the state allocating agency for the State of California, TCAC is responsible for providing data annually, in the form of very detailed and extensive surveys, to the Department of Housing and Urban Development (HUD) and the National Council of State Housing Agencies (NCSHA).

Analysis of Problem

In recent years, the number of existing TCAC projects resyndicating and applying for new credits has increased. Since 2011, the number of resyndication projects has increased from 16 in 2011 to 33 in 2014 (a 100%+ increase). These projects require additional review both at the initial stage as well as the final stage, which requires additional staff time and is accounted for in the workload analysis chart.

In 2014, TCAC added a new apportionment within the Rural set aside titled the Native American apportionment for applications proposing projects on an Indian reservation, whether the land is owned in fee or in trust. There have been challenges associated with the new apportionment that has resulted in more staff time research and technical assistance relating to development on these sites. TCAC staff began meeting and coordinating with tribal representatives in 2013. Determining and incorporating the unique requirements related to tribal land and housing requires regular and ongoing staff time. With the permanent status of the Native American apportionment, TCAC expects the dialog with tribal representatives to continue and improvements to be made. Staff time will also be spent advising on application submissions and reviewing tribal applications.

In 2010, Federal Register FR-5417-N01 permitted Housing Credit Agencies to conduct subsidy layering reviews while following the same guidelines as HUD. This policy change accompanied federal policy to more readily provide federal funding along with tax credits. TCAC now performs subsidy layering reviews because HUD could not complete the reviews and enable TCAC to meet required federal deadlines. TCAC has been conducting these reviews since 2010. In 2011, there were an additional 35 subsidy layering reviews completed by staff. In 2013, HUD launched its Rental Assistance Demonstration (RAD) to preserve and enhance affordable units by allowing public and assisted housing to convert to more stable funding. The introduction of RAD has increased the number of projects requiring subsidy layering reviews as well as added more complexity to the reviews. In 2014, the number of complex subsidy layering reviews increased to more than 50 annually.

In addition, 2011 federal legislation made significant changes to the Section 811 program. The primary purpose of this program is to use LIHTCs to provide housing for extremely low-income persons with disabilities while also making available appropriate support and services. This demonstration program continues to involve TCAC, along with other state agencies, administering the allocation of additional resources resulting in additional workload. This also signals a federal trend toward greater reliance upon tax credits to develop special needs housing.

Because TCAC is the most important funding resource for affordable housing in California, and therefore high profile, there are often legislative bills that are proposed to make changes to the program. All legislative bills affecting the low-income housing tax credit program require analysis by TCAC staff. This workload continues to increase as the need for affordable housing in California remains a priority for many in the legislature.

In 2015, the State Treasurer's Office emphasized the increase in production of affordable units by utilizing noncompetitive four percent (4%) federal low income housing tax credits. TCAC conducted listening sessions with the stakeholder community to discuss possible changes to the regulations to promote the increase in applications. In July, TCAC proposed regulations changes that is expected to increase the number of applications requesting noncompetitive four percent (4%) federal low income housing tax credits. The comment period for the proposed regulation changes has concluded and the proposed regulation changes are currently scheduled for adoption at the October Committee Meeting. The increase in applications would increase the current workload as well as the workload in future years since each application requires a review at the preliminary stage and at the PIS stage.

Due to the overwhelming current workload, TCAC Development Section staff worked over 400 overtime hours in the last fiscal year and is continuing to do so this fiscal year. With the ongoing increase in the workload, there has only been one additional position increase for the Development Section of TCAC in at least the last 10 years.

Analysis of Problem

E. Outcomes and Accountability

Projected Outcomes

Workload Measure*	2014	2015	2016
Number of competitive applications awarded (Review #1)	83 applications	97 applications	95 applications
Processing time of Carryover / Readiness Reviews (Review #2)	3 months	3 months	1 month
Processing time of PIS Reviews / Issuance of tax forms (Review #3 / Final Review)	5 months	5 months	2 months

*The table above only consists of the competitive applications and do not account for the non-competitive applications.

F. Analysis of All Feasible Alternatives

1. Contract with a professional company to perform the duties state staff would be performing. This alternative would be more costly than than having the appropriate state employee staffing level. The salaries of those in the private sector in our industry are well above state pay scales.
2. Require mandatory overtime permanently. While this may be a lower cost alternative initially, eventually the costs would exceed that of hiring three additional AGPAs. TCAC has no vacant positions that can be redirected.
3. Work with congressional representatives to discuss changes to the LIHTC program to reduce the rules associated with its implementation. This alternative would likely take years to bring to fruition if there were consensus nationwide on the changes.
4. Approve three (3) additional AGPA positions on the Development Section to provide the appropriate level of staffing to enable TCAC to perform all required tax credit allocation tasks. Without approval to hire additional staff, California risks non-compliance with federal laws, jeopardizing receipt of the federal LIHTC Program. Losing federal tax credits would be catastrophic to the State's efforts to provide decent, safe and affordable housing to needy Californians. As stated previously, this request will not impact the General Fund. Government Health and Safety Code, Section 50199.9(d), allows TCAC to establish and collect fees for the purpose of paying the costs of monitoring projects with allocations of tax credits for compliance with federal and state law.

G. Implementation Plan

TCAC will hire the new AGPAs in July of 2016.

H. Supplemental Information

N/A

I. Recommendation

Alternative #4: Approve three (3) additional AGPA positions on the Development Section to provide the appropriate level of staffing to enable TCAC to perform all required tax credit allocation tasks. Without approval to hire additional staff, California risks non-compliance with federal laws, jeopardizing receipt of the federal LIHTC Program. Losing federal tax credits would be catastrophic to the State's efforts to provide decent, safe and affordable housing to needy Californians. As stated previously, this request will not impact the General Fund. Government Health and Safety Code, Section 50199.9(d), allows TCAC to establish and collect fees for the purpose of paying the costs of monitoring projects with allocations of tax credits for compliance with federal and state law.

CTCAC Development Workload Analysis Projection
2013-2016

Attachment A

Available Hours: 1509.37

Work Breakdown Structure	Unit of Measure	Annual Volume				Hours Per Unit (2013)	Hours Per Unit	Hours Required				Person-Years Required				
		2013	2014	2015	2016			2013	2014	2015	2016	2013	2014	2015	2016	
Application Reviews	Preliminary Reservation Competitive Point Reviews	Number	120	130	116	120	8	8	960.00	1040.00	928.00	960.00	0.64	0.69	0.61	0.64
	Point Review Meeting Discussion / Appeal Discussion	Number	20	20	20	20	5	5	100.00	100.00	100.00	100.00	0.07	0.07	0.07	0.07
	Preliminary Reservation Competitive Threshold Reviews, Staff Report Preparation	Number	84	83	97	95	8	10	672.00	830.00	970.00	950.00	0.45	0.55	0.64	0.63
	Preliminary Reservation Non-Competitive Threshold Reviews, Staff Report Preparation	Number	95	105	125	140	8	12	760.00	1260.00	1500.00	1680.00	0.50	0.83	0.99	1.11
	Subsidy Layering Reviews	Number	46	52	55	60	6	10	276.00	520.00	550.00	600.00	0.18	0.34	0.36	0.40
	90-Day LOI Reviews	Number	88	84	90	90	4	4	352.00	336.00	360.00	360.00	0.23	0.22	0.24	0.24
	Carryover Allocation Reviews	Number	84	83	97	95	6	6	504.00	498.00	582.00	570.00	0.33	0.33	0.39	0.38
	180-Day Readiness Reviews	Number	88	84	90	90	6	8	528.00	672.00	720.00	720.00	0.35	0.45	0.48	0.48
	Carryover 10% Test Reviews	Number	102	84	83	97	4	4	408.00	336.00	332.00	388.00	0.27	0.22	0.22	0.26
	Placed in Service Reviews (RA Prep / 8609)	Number	142	255	215	179	15	25	2130.00	6375.00	5375.00	4475.00	1.41	4.22	3.56	2.96
Total - Application Reviews								6690	11967	11417	10803	4.43	7.93	7.56	7.16	
Annual Updates and Reporting / Surveys	Annual Reporting to IRS and FTB	Annual	1	1	1	1	50	60	50.00	60.00	60.00	60.00	0.03	0.04	0.04	0.04
	Preparation of Data for Annual Report	Annual	1	1	1	1	40	40	40.00	40.00	40.00	40.00	0.03	0.03	0.03	0.03
	Basis Limit Updates	Annual	1	1	1	1	35	40	35.00	40.00	40.00	40.00	0.02	0.03	0.03	0.03
	Regulation Updates / OAL Update	Annual	1	1	1	1	24	24	24.00	24.00	24.00	24.00	0.02	0.02	0.02	0.02
	Application / Attachment Updates	Annual	1	1	1	1	40	40	40.00	40.00	40.00	40.00	0.03	0.03	0.03	0.03
	Application Checklist Updates	Annual	1	1	1	1	40	40	40.00	40.00	40.00	40.00	0.03	0.03	0.03	0.03
	Application Check-In / Data Entry	Annual	2	2	2	2	80	95	160.00	190.00	190.00	190.00	0.11	0.13	0.13	0.13
	Legislative Bill Analysis	Number	0	0	2	2	16	16	0.00	0.00	32.00	32.00	0.00	0.00	0.02	0.02
	Memo Updates	Continuous	1	1	1	1	36	40	36.00	40.00	40.00	40.00	0.02	0.03	0.03	0.03
Total - Annual Updates and Reporting / Surveys								425.00	474.00	506.00	506.00	0.28	0.31	0.34	0.34	
Request for Approval / Miscellaneous	Owner or General Partner Change Approvals	Number	20	20	20	20	2	2	40.00	40.00	40.00	40.00	0.03	0.03	0.03	0.03
	Waiver Request Approvals	Number	30	30	30	30	2	3	60.00	90.00	90.00	90.00	0.04	0.06	0.06	0.06
	Election to Fix Credit Percentage	Number	40	55	55	60	2	2	80.00	110.00	110.00	120.00	0.05	0.07	0.07	0.07
	Approval Request for Changes to Project	Number	10	10	10	10	2	2	20.00	20.00	20.00	20.00	0.01	0.01	0.01	0.01
	Subordination/Standstill/Assignment & Assumption Agreements	Number	35	40	45	50	2	2	70.00	80.00	90.00	100.00	0.05	0.05	0.06	0.06
	Database Updates / Maintenance	Annual	1	1	1	1	52	52	52.00	52.00	52.00	52.00	0.03	0.03	0.03	0.03
	Technical Assistance (Mainly Pre-Application Deadline)	Staff	7	8	8	8	260	260	1820.00	2080.00	2080.00	2080.00	1.21	1.38	1.38	1.38
	Website Updates / List-Serve	Staff	2	2	2	2	52	52	104.00	104.00	104.00	104.00	0.07	0.07	0.07	0.07
Total - Request for Approval / Miscellaneous								2246.00	2576.00	2586.00	2606.00	1.49	1.71	1.71	1.71	

CTCAC Development Workload Analysis Projection
2013-2016

Available Hours: 1509.37

Work Breakdown Structure	Unit of Measure	Annual Volume				Hours Per Unit (2013)	Hours Per Unit	Hours Required				Person-Years Required				
		2013	2014	2015	2016			2013	2014	2015	2016	2013	2014	2015	2016	
Development Workshops	Prepare Presentations and Handouts	Staff	2	2	2	2	40	40	80	80	80	80	0.05	0.05	0.05	0.05
	Rehearse Presentation / Dry Run	Annual	2	2	2	2	20	20	40	40	40	40	0.03	0.03	0.03	0.03
	Coordinate Travel Arrangements and Logistics	Workshop	3	3	3	3	1	1	3	3	3	3	0.00	0.00	0.00	0.00
	Travel To/From Workshop Location	Workshop	3	3	3	3	3	3	9	9	9	9	0.01	0.01	0.01	0.01
	Check Materials and Set-up Room	Workshop	5	5	5	5	1	1	5	5	5	5	0.00	0.00	0.00	0.00
	Conduct Workshop / Questions	Workshop	5	5	5	5	4	4	20	20	20	20	0.01	0.01	0.01	0.01
	Total - Development Workshops								157.00	157.00	157.00	157.00	0.10	0.10	0.10	0.10
Back up / Cross Training	Additional Verification of Sort	Number	2	2	2	2	4	4	8	8	8	8	0.01	0.01	0.01	0.01
	Additional Verification of Final Tiebreaker Calculation	Number	120	130	116	120	3	3	480	390	348	360	0.32	0.26	0.23	0.23
	Additional Cross-training	Annual	1	1	1	1	80	80	4	3	3	80	0.00	0.00	0.00	0.00
	Preparation / Maintain Detailed Procedures Manual	Annual	2	1	1	1	20	20	8	3	20	20	0.01	0.00	0.01	0.01
	Total - Back up / Cross Training								500	404	379	468	0.33	0.27	0.25	0.25
New Hire Training	New Hire Initial Training	New Hire	2	0.5	2	0.5	100	100	200	50	200	50	0.13	0.03	0.13	0.13
	New Hire Off-Site Training	New Hire	2	0.5	2	0.5	24	24	200	12	48	12	0.13	0.01	0.03	0.03
	Trainer of New Staff	New Hire	2	0.5	2	0.5	80	80	200	40	160	40	0.13	0.03	0.11	0.11
	Total - New Hire Training								600	102	408	102	0.40	0.07	0.27	0.27
Subtotal All Areas Above									10,618.00	15,680.00	15,453.00	14,642.00	7.03	10.39	10.24	9.83
Other @ 6% (includes Other Correspondence, e-Mail, and Telephone Activity)									637.08	940.80	927.18	878.52	0.42	0.62	0.61	0.59
Total SSA/AGPA hours / Filled Positions Required									11,255.08	16,620.80	16,380.18	15,520.52	7.46	11.01	10.85	10.42
plus: Allowance for Vacant Positions (assumes 6% Vacancy Rate)													0.45	0.66	0.65	0.63
Total Authorized SSA/AGPA Positions Required													7.90	11.67	11.50	11.05
Currently Authorized SSA/AGPA Positions (2015)													7	8	8	8
SSA/AGPA positions Surplus/(Deficiency)													(0.90)	(3.67)	(3.50)	(3.05)