November 3, 2025

DC Navarrette, Section Chief
California Debt Limit Allocation Committee
Anthony Zeto, Deputy Director
California Tax Credit Allocation Committee
901 P Street, Suite 213A
Sacramento, CA 95814

RE: Feedback on October 2025 TCAC/CDLAC Proposed Regulation Changes

Dear Mr. Navarrette and Mr. Zeto:

Thank you for the opportunity to comment on the October 2025 proposed CDLAC/TCAC regulations. We appreciate your commitment to improving the State's housing finance delivery system and the continued dialogue you have exhibited with our diverse statewide sector. As you consider changes to TCAC and CDLAC regulations during this annual cycle, we offer suggestions for how the system may be fairer, simpler, and more oriented towards the public benefits that affordable housing creates.

Additionally, we would like to thank you for the proposed changes that include comments made in our previous letter with the intention of making it easier for users of the program to meet requirements. We are particularly grateful for the Committees' willingness to pursue pathways to Rehabilitate existing projects. Since tax-exempt bonds became competitive in 2020, we have not been able to reinvest in our aging portfolio. Many of these projects serve residents who are extremely- or very-low income, or that have significant capital needs.

A few other areas of note are changes that we will comment on, which include: an increase to the maximum 9% federal credit, not counting the farm worker credits in the CDLAC tiebreaker, following new state law that allows applicants to swap allocated state credits for certificated state credits at any time before claiming credits, refining the extra point soft cap for AFFH projects to mirror the HCD approach, and tightening up the Readiness criteria to ensure projects obtaining a scoring advantage are indeed ready to start construction.

CDLAC

Section 5100: New Construction definition
We are supportive of locking in the Neighborhood Change Map designation from the year initial site control was obtained for seven years from the application due date. This change is consistent with the Opportunity Maps and provides important certainty to developers.

Section 5102(b)(4): Legal Status of Development Team Members
We have some reservations about adding general contractors to the disclosures section as applicants have often not chosen a general contractor at the time of application, rendering this

out of sequence with the development cycle. We instead recommend this information be provided at project readiness.

Section 5105(b): Acquisition / Rehabilitation Projects
We support the creation of a combined Acquisition and Rehabilitation Pool and appreciate the thoughtful approach of prioritizing projects with more severe building needs than what the current system rewards. The greater availability of 4% LIHTC presents a unique opportunity to reconsider what types of investments the State of California will prioritize. The increased construction costs per tax credit unit being set at $120,000 in the 8 pt. category is a welcome first step towards the system acknowledging the needs of its own portfolio. We would recommend that the results of future rounds be analyzed to understand if this alone is enough to recapitalize the projects with the deepest needs, or if we should engage in a more robust discussion on the tiebreaker. From experience, we share that we withhold applying on many projects within our portfolio because they are so far from being competitive that the extensive effort needed to apply would be futile. From experience, we share that we withhold applying on many projects within our portfolio because they are so far from being competitive that the extensive effort needed to apply would be futile. As a result, the unfunded project list is not representative of the universe of need.

Related to the increase in 4% LIHTC, we encourage the committee to allocate at least 20% of available bonds to rehabilitations to support the projects that are most in need of physical repair and clear the pipeline of projects that have applied multiple times in this category. While we understand that increasing the allocation to this pool would mean a reduction elsewhere, we believe this could occur with the least impact to new construction projects by using a portion of the Mixed-Income Pool (MIP), which has historically not used its total allocation. Further, it is our understanding that CalHFA will have the same amount of MIP funding available in 2026 and thanks to the new 25% test, the same number of MIP projects can be funded with slightly more than half of the allocation. A further reduction to the MIP Pool could occur after the MIP allocation round, of which any unused MIP bonds from the first or second round would automatically be assigned to the Acquisition/Rehabilitation Poll for future rounds.

Below you'll find our recommendations on how to achieve the intention of awarding bond allocations to the highest priority projects.

- **5105(b)(2)(A): 10 points**
    - Remove the requirement that applicants limit the cash-out developer fee to score a full 10 points as this was not previously a requirement for Preservation projects, which tend to be the most difficult and time consuming. While a Developer could choose to forego these points, it is extremely unlikely a project would be competitive without them. As an alternative, CDLAC could provide a 1-point bonus for applicants who forgo the full cash-out developer fee. Adding the limitation of cash-out developer fee as an optional incentive achieves the same result without making it a requirement.
    - Prohibit the repayment of soft loans for at-risk projects involving third party acquisitions in order for the deal proceeds to be used towards the rehabilitation scope.

- **5105(b)(2)(C): 8 points**
  - We support CDLAC setting the threshold for hard construction costs to $120,000 to recognize projects with more significant capital needs. The existing rehab demand is substantial, rendering it important to maintain a proposed threshold in order to prioritize projects with significant needs. A lower threshold would not serve to adequately prioritize high needs projects.

Deleted Section 5105(h): Leveraged Soft Resources
We recommend against eliminating the Leverage Soft Resources point score on new construction projects as it would eliminate one of the only mechanisms in the scoring system that recognizes the higher public benefit delivered by projects that leverage public dollars and align with local or state priorities, rather than simply reward cost efficiency. Instead, we recommend keeping the leverage points category but removing recycled bonds from the leveraged soft resources definition.

Section 5105(h): Readiness to Proceed
While we are supportive of the enforceable financing commitment requirement in Section 5102(b)(5) for applicants to provide evidence for at least 50% of the project's construction or permanent financing, we suggest CDLAC revise the readiness points category to require commitments for 100% of construction financing and 95% of permanent financing to achieve full readiness points. We have concerns with applicants applying for bonds who do not yet have their soft financing committed and may never be able to obtain those commitments in time to achieve readiness closing within deadline. During a competitive system, projects that are truly ready to go should be able to achieve higher points than projects that do not. This would be more consistent with the 9% program which requires all deferred payment financing be committed as a threshold requirement. The 5% leeway for permanent financing would allow projects that are gathering their final commitments to still be able to submit competitive applications but obtain the final commitment post application (such as an AHP award). For CDLAC, if tied to readiness points rather than threshold requirements, a project could still apply having less than 95% of all its deferred financing committed, but it would not achieve the 10 readiness points and would therefore not do as well as a project that has all its financing in place.

Section 5105(i): Access to Opportunity – Soft Cap
We support refining the soft cap on the 120th point so the benefit turns off when 48% of resources have been awarded to higher-opportunity area projects or the next award would exceed 52% of resources going to higher-opportunity area projects. The existing language has caused uncertainty for developers and has enabled 120-point projects to receive far more than 50% of bond resources in some pools. In 2023's CDLAC Round 1, 120-point projects took 83% of the City of Los Angeles' regional allocation before the soft cap was applied. Additionally, we laud the removal of "approximately" from the soft cap language, which has confusion and uncertainty. These changes will help ensure an equitable distribution of new affordable housing across higher- and lower-resource neighborhoods.

Section 5106(f)(1)(B)(ii): Actual Rents
We support allowing all Acquisition and Rehabilitation projects to use actual rents in their rent savings benefit calculation. This will enhance competitiveness for deeply affordable developments that face the most difficult rehabilitation challenges.

Section 5106(d)(2): State Credit Distributions
In order to support the fair distribution of state tax credits within the geographic regions similar to the set-asides, we suggest implementing a system of allocating bonds (and state credits if requested) to the highest ranking project in each region, starting from the largest regions to smallest, and then repeating the cycle until each geographic region is exhausted, much like the 9% program allocates its geographic credits. This will increase the odds that each region has an opportunity to win some of the state tax credits. This change is especially important with the implementation of the 25% test as more projects within each region will be funded, thereby unfairly favoring regions that have traditionally been awarded first.

Section 5106(f)(1)(C): Farmworker Special Needs Population Benefit
We encourage CDLAC to add farmworkers to the Special Needs Population Benefit in the CDLAC tiebreaker formula numerator. That would acknowledge the public benefit of farmworker housing and increase the competitiveness of these projects.

Section 5106(f)(1)(C)(ii): Homeless Population Benefit.
We support the creation of a priority for projects in the Homeless Set-Aside that are serving communities with a high homeless population per capita to help ensure that permanent supportive housing (PSH) units reach the communities that need them most. However, we recommend two adjustments. First is to cap the benefit at 50% of units (similar to the Special Needs set-aside) to reduce the incentive for projects with a high percentage of PSH units that may not be financially sustainable in the long term. Second, we suggest adjusting the language to the following, which points to a standardized data source that CDLAC maintains and is centered around the most recent Point-in-Time count.

Section 5106(f)(2)(B): Cost Adjuster
While we appreciate the introduction of a cost adjuster for projects subject to additional labor standards defined in this Section, we recommend increasing the cost adjuster from 3% to 10%. The inclusion of a Project Labor Agreement (PLA), beyond a Prevailing Wage labor standard, adds significant cost to projects.

It would be beneficial for the system to recognize that there are differences that are largely driven by distinct hard costs, with labor being a primary driver in a dynamic construction market. Using a 10% adjustment would get closer to the real cost of employing a higher labor standard. Data recognizes that “after accounting for project characteristics, the actual total development costs of projects subject to the [Los Angeles proposition] HHH PLA were $92,700 (21 percent) higher on average, than non-PLA, HHH-funded comparison projects that had an average cost of $585,000 per unit." (RAND, Ward, Stearns, et. al., 2024)

TCAC

Section 10315(b)(1)(A): Homeless Assistance Set-Aside
For the Homeless Assistance set-aside, we support reducing the minimum share of Low-Income units required to have rental subsidies from 50% to 25% to align with the lower required percentage of Homeless units in this set-aside adopted by TCAC in 2024. These changes are important to ensure that affordable housing projects are financially sustainable in the long term and can adequately serve residents given limited funding for rental subsidy and supportive services.

Section 10315(c): Rural At-Risk Projects
We support the change CTCAC is proposing to allow unsuccessful Rural Set-Aside projects to compete in the At-Risk set-aside. To make this work in practice, CTCAC should still allow rural projects to retain the allowed rural distances to site amenities so there is an even playing field for them to achieve full points.

Section 10325(a): Concurrent Applications
While we appreciate the intent of this proposed change to allow for concurrent applications, the language as written does not fully resolve the issue. For further clarity, we recommend adding language that makes it clear that CTCAC/CDLAC will not remove a project from consideration if it was on the preliminary recommendation list but did not make it to the final recommendation list as the list sometimes changes from preliminary to final.

Section 10325(c)(9)(A)(v): Leveraged Soft Resources
As stated in our comments on the proposed October 2025 CDLAC regulations, we recommend against eliminating the Leveraged Soft Resources point score on new construction projects altogether. This would eliminate one of the only mechanisms in the scoring system that recognizes the higher public benefit delivered by projects that leverage public dollars, rather than simply rewarding cost efficiency. Instead, we recommend keeping the leverage points category but removing recycled bonds from the leveraged soft resources definition.

Section 10325(f)(1)(B)(i): Remove the Square Foot Ratio Test from Market Studies
Due to market dynamics and the regulatory environment, including the trend toward smaller and more efficient units being built in response to increasing costs, it is becoming more common that applicants in high-cost areas fail the square foot ratio test even though the proposed rents are still well below market. For example, in the City of San Jose, affordable units designed at the TCAC minimum size are 40% smaller than market-rate units, but a 60% AMI unit has a rent limit that is only 26% lower than market-rate rent. Without significant adjustments, the affordable rents on a per square foot basis tend to be above market rents per square foot. We recommend removing the square foot ratio test from the market study guidelines. TCAC already has construction standards that set the minimum square footage for most unit types, so there should not be any concerns with a change in incentives.

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Section 10325(f)(9)(C): Per Project Award Increase
We are in strong support of the per project increase from \$2.5 million to \$2.8 million to accommodate larger developments with greater economies of scale as well as address current financial realities.

Section 10326(b) and (b)(3): State Tax Credits by Set Aside
We support increasing the limit for state tax credits in the ELI/VLI set-aside from 15% to 20% and allowing the 20% to be exceeded by the amount of state tax credits that exceed the Homeless set-aside 25% limit. Additionally, we propose rolling over any unused state credits from the BIPOC and Rural pools for the Homeless and the ELI/VLI set asides and from Homeless to ELI/VLI. Having more state credits available to the state priority set asides will move forward more deeply targeted projects that will provide the greatest public benefit.

Section 10327(c)(4)(A): Site Amenity Points
We support the changes made to site amenity points for farmworker and tribal projects, which help address the geographic disadvantage that these projects face in the scoring system. This change will remove real, recurring barriers to develop farmworker and tribal housing.

Section 10317(k)(1). We strongly support the change to implement AB 480 (2025), which allows for greater flexibility when the election to sell ("certificate") state credits can be made.

Thank you for your consideration. Please feel free to contact me at 650-477-6195 or nmerriman@midpen-housing.org.

Sincerely,

Nevada V. Merriman
VP, Policy & Advocacy

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