



AB-346 Income tax credits: low-income housing: California Debt Limit Allocation Committee rulemaking

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Date Published: 01/31/2023 09:00 PM

CALIFORNIA LEGISLATURE— 2023–2024 REGULAR SESSION

ASSEMBLY BILL

NO. 346
Introduced by Assembly Member Quirk-Silva
January 31, 2023

An act to amend Section 8869.94 of the Government Code, and to amend Sections 12206, 17058, and 23610.5 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 346, as introduced, Quirk-Silva. Income tax credits: low-income housing: California Debt Limit Allocation Committee rulemaking.

Existing federal law prescribes a volume ceiling on the aggregate amount of private activity bonds that may be issued in a state. Existing law creates the California Debt Limit Allocation Committee (CDLAC) for the purpose of administering the volume limit for the state on private activity bonds through an allocation system. Existing law authorizes CDLAC to adopt, amend, or repeal rules and regulations as emergency regulations in accordance with the rulemaking provisions of the Administrative Procedure Act.

This bill, instead, would authorize CDLAC to adopt, amend, or repeal rules and regulations without complying with the procedural requirements of the Administrative Procedures Act, except as specified. The bill would make rules and regulations adopted, amended, or repealed by CDLAC effective immediately upon adoption.

Existing law establishes a low-income housing tax credit program pursuant to which the California Tax Credit Allocation Committee (CTCAC) provides procedures and requirements for the allocation, in modified conformity with federal law, of state insurance, personal income, and corporation tax credit amounts to qualified low-income housing projects that have been allocated, or qualify for, a federal low-income housing tax credit, and farmworker housing. Existing law limits the total annual amount of the state low-income housing credit for which a federal low-income housing credit is required to the sum of \$70,000,000, as increased by any percentage increase in the Consumer Price Index for the preceding calendar year, any unused credit for the preceding calendar years, and the amount of housing credit ceiling returned in the calendar year.

Existing law provides for an additional allocation of \$500,000,000 in low-income housing tax credits for the 2020 calendar year and up to \$500,000,000 for the 2021 calendar year and thereafter. Existing law provides that the additional amount for the 2021 calendar year and thereafter is available only if the Budget Act or related legislation specifies an amount available for allocation. Existing law authorizes CTCAC to allocate up to \$200,000,000 of this amount for housing financed by the California Housing Finance Agency (CalHFA) under its Mixed-Income Program. Existing law makes a housing sponsor receiving a nonfederally subsidized allocation ineligible for receipt of this increased housing credit allocation.

This bill would, for any calendar year in which CDLAC has declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, authorize CTCAC to allocate some or all of the additional credit amount, other than credits allocated for housing financed by CalHFA under these provisions, to nonfederally subsidized buildings and require CTCAC to allocate the remainder for new buildings, as defined by specified federal law, that are federally subsidized and can begin

construction within a reasonable time as determined by the California Tax Credit Allocation Committee. For any calendar year in which CDLAC has not declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, the bill would require a project receiving an award of credits from the additional credit allocation to begin construction within a reasonable time as determined by the California Tax Credit Allocation Committee. The bill would, if there are credits still available after the final allocation round in a calendar year, allow the CTCAC to allocate some or all of the remaining credits for nonfederally subsidized buildings, as specified.

For purposes of determining the amount of low-income housing tax credit allocated under the above-described provisions, existing law defines various terms, including the term "applicable percentage." In the case of any qualified low-income building that receives an allocation of the \$70,000,000 credit amount available under existing law and meets specified additional criteria, existing law defines "applicable percentage" to mean 30% for each of the first 3 years and 5% for the 4th year.

This bill would revise the above-described definition of "applicable percentage" to delete the limitation that the qualified low-income building receive an allocation of the \$70,000,000 credit amount available under existing law, thereby applying this definition to any qualified low-income building that meets the above-described criteria.

Existing law authorizes a taxpayer to elect in its application to CTCAC to sell all or any portion of the low-income housing tax credit to one or more unrelated parties for each taxable year in which the credit is allowed, as specified.

This bill would make a taxpayer who has purchased a credit eligible to claim the credit commencing in the year the building is placed in service and the federal credit period commences notwithstanding that CTCAC has not certified the amount of the tax credit. The bill would prohibit the taxpayer from claiming an amount of credit that exceeds the lesser of 9% of the qualified basis of the building set forth in the preliminary reservation or the amount of credit for which the project is eligible as certified in the "taxpayer certification," which the bill would define for these purposes as the certification by the certified public accountant of the taxpayer who originally received the preliminary reservation of credits. The bill would authorize CTCAC to elect to rely upon the taxpayer certification for the purposes of making its required certification, and to review the taxpayer certification and other information provided by the taxpayer who originally received the preliminary reservation of credits, as specified. In the event CTCAC issues a certification that is inconsistent with the taxpayer certification, the bill would require the taxpayer to amend any previously filed tax returns as needed to reflect the credit amount certified by CTCAC.

This bill would make technical and conforming changes to the low-income housing tax credit program.

This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $\frac{2}{3}$ of the membership of each house of the Legislature.

Vote: 2/3 Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 8869.94 of the Government Code is amended to read:

8869.94. (a) The committee may adopt, amend, or repeal rules and regulations pursuant to this chapter ~~as emergency regulations in accordance with the rulemaking provisions~~ *without complying with the procedural requirements* of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title ~~2~~; 2), *except as described in subdivision (b).*

(b) The committee shall provide a notice of proposed action as described in Section 11346.5. The notice of proposed action shall be provided to the public at least 21 days before the close of the public comment period, and the committee shall schedule at least one public hearing as described in Section 11346.8 before the close of the public comment period. The committee shall maintain a rulemaking file as described in Section 11347.3. The final version of the regulations shall be accompanied by a final statement of reasons as described in subdivision (a) of Section 11346.9.

(c) These rules and regulations shall be effective immediately upon adoption by the committee.

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(d) The committee may also adopt, amend, or repeal emergency rules and regulations pursuant to this chapter. The adoption, amendment, or repeal of these regulations is conclusively presumed to be necessary for the immediate preservation of the public peace, health, safety, or general welfare within the meaning of Section 11346.1.

SEC. 2. Section 12206 of the Revenue and Taxation Code is amended to read:

12206. (a) (1) There shall be allowed as a credit against the "tax," described by Section 12201, a state low-income housing tax credit in an amount equal to the amount determined in subdivision (c), computed in accordance with Section 42 of the Internal Revenue Code, relating to low-income housing credit, except as otherwise provided in this section.

(2) "Taxpayer," for purposes of this section, means the sole owner in the case of a "C" corporation, the partners in the case of a partnership, and the shareholders in the case of an "S" corporation.

(3) "Housing sponsor," for purposes of this section, means the sole owner in the case of a "C" corporation, the partnership in the case of a partnership, and the "S" corporation in the case of an "S" corporation.

(b) (1) The amount of the credit allocated to any housing sponsor shall be authorized by the California Tax Credit Allocation Committee, or any successor thereof, based on a project's need for the credit for economic feasibility in accordance with the requirements of this section.

(A) Except for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, that are allocated credits solely under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code, the low-income housing project shall be located in California and shall meet either of the following requirements:

(i) The project's housing sponsor has been allocated by the California Tax Credit Allocation Committee a credit for federal income tax purposes under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(ii) It qualifies for a credit under Section 42(h)(4)(B) of the Internal Revenue Code, relating to special rule where 50 percent or more of building is financed with tax-exempt bonds subject to volume cap.

(B) The California Tax Credit Allocation Committee shall not require fees for the credit under this section in addition to those fees required for applications for the tax credit pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit. The committee may require a fee if the application for the credit under this section is submitted in a calendar year after the year the application is submitted for the federal tax credit.

(C) (i) For a project that receives a preliminary reservation of the state low-income housing tax credit, allowed pursuant to subdivision (a), on or after January 1, 2009, the credit shall be allocated to the partners of a partnership owning the project in accordance with the partnership agreement, regardless of how the federal low-income housing tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code, relating to determination of distributive share.

(ii) This subparagraph shall not apply to a project that receives a preliminary reservation of state low-income housing tax credits under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code unless the project also receives a preliminary reservation of federal low-income housing tax credits.

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this section allocated to the housing sponsor for each credit period.

(B) In the case of a partnership or an "S" corporation, the housing sponsor shall provide a copy of the California Tax Credit Allocation Committee certification to the taxpayer.

(C) (i) The taxpayer shall attach a copy of the certification to any return upon which a tax credit is claimed under this section.

(ii) In the case of a failure to attach a copy of the certification for the year to the return in which a tax credit is claimed under this section, no credit under this section shall be allowed for that year until a copy of that certification is provided.

(D) All elections made by the taxpayer pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit, shall apply to this section.

(E) (i) Except as described in clause (ii) or (iii), for buildings located in designated difficult development areas (DDAs) or qualified census tracts (QCTs), as defined in Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code, relating to low-income housing credit, is computed on 100 percent of the qualified basis of the building.

(ii) Notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit for buildings located in DDAs or QCTs that are restricted to having 50 percent of the building's occupants be special needs households, as defined in the California Code of Regulations by the California Tax Credit Allocation Committee, or receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), even if the taxpayer receives federal credits pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, provided that the credit allowed under this section shall not exceed 30 percent of the eligible basis of the building.

(iii) On and after January 1, 2018, notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit pursuant to paragraph (6) of subdivision (c) even if the taxpayer receives federal credits, pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas.

(F) (i) The California Tax Credit Allocation Committee may allocate a credit under this section in exchange for a credit allocated pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, in amounts up to 30 percent of the eligible basis of a building if the credits allowed under Section 42 of the Internal Revenue Code, relating to low-income housing credit, are reduced by an equivalent amount.

(ii) An equivalent amount shall be determined by the California Tax Credit Allocation Committee based upon the relative amount required to produce an equivalent state tax credit to the taxpayer.

(c) Section 42(b) of the Internal Revenue Code, relating to applicable percentage: 70 percent present value credit for certain new buildings; 30 percent present value credit for certain other buildings, shall be modified as follows:

(1) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, relating to temporary minimum credit rate for nonfederally subsidized new buildings, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(2) In the case of any qualified low-income building that is a new building and is federally subsidized and receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), the term "applicable percentage" means for the first three years, 9 percent of the qualified basis of the building, and for the fourth year, 3 percent of the qualified basis of the building.

(3) In the case of any qualified low-income building that receives an allocation after 1989 pursuant to subparagraph (A) of paragraph (1) of subdivision (g) and that is a new building that is federally subsidized or that is an existing building that is "at risk of conversion," the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.

(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.

(4) In the case of any qualified low-income building that ~~receives an allocation pursuant to subparagraph (A) of paragraph (1) of subdivision (g) that~~ meets all of the requirements of subparagraphs (A) through (D), inclusive, the term "applicable percentage" means 30 percent for each of the first three years and 5 percent for the fourth year. A qualified low-income building receiving an allocation under this paragraph is ineligible to also receive an allocation under paragraph ~~(3)~~ (2).

(A) The qualified low-income building is at least 15 years old.

(B) The qualified low-income building is either:

(i) Serving households of very low income or extremely low income such that the average maximum household income as restricted, pursuant to an existing regulatory agreement with a federal, state, county, local, or other governmental agency, is not more than 45 percent of the area median gross income, as determined under Section 42 of the Internal Revenue Code, relating to low-income housing credit, adjusted by household size, and a tax credit regulatory agreement is entered into for a period of not less than 55 years restricting the average targeted household income to no more than 45 percent of the area median income.

(ii) Financed under Section 514 or 521 of the National Housing Act of 1949 (42 U.S.C. Sec. 1485).

(C) The qualified low-income building would have insufficient credits under paragraphs (2) and (3) to complete substantial rehabilitation due to a low appraised value.

(D) The qualified low-income building will complete the substantial rehabilitation in connection with the credit allocation herein.

(5) For purposes of this section, the term "at risk of conversion," with respect to an existing ~~property~~ *property*, means a property that satisfies all of the following criteria:

(A) The property is a multifamily rental housing development in which at least 50 percent of the units receive governmental assistance pursuant to any of the following:

(i) New construction, substantial rehabilitation, moderate rehabilitation, property disposition, and loan management set-aside programs, or any other program providing project-based assistance pursuant to Section 8 of the United States Housing Act of 1937, Section 1437f of Title 42 of the United States Code, as amended.

(ii) The Below-Market-Interest-Rate Program pursuant to Section 221(d)(3) of the National Housing Act, Sections 1715I(d)(3) and (5) of Title 12 of the United States Code.

(iii) Section 236 of the National Housing Act, Section 1715z-1 of Title 12 of the United States Code.

(iv) Programs for rent supplement assistance pursuant to Section 101 of the Housing and Urban Development Act of 1965, Section 1701s of Title 12 of the United States Code, as amended.

(v) Programs under Sections 514, 515, 516, 533, and 538 of the Housing Act of 1949 (Public Law 81-171), as amended.

(vi) The low-income housing credit program set forth in Section 42 of the Internal Revenue Code, relating to low-income housing credit, this section, and Sections 17058 and 23610.5.

(vii) Programs for loans or grants administered by the Department of Housing and Community Development.

(viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec. 1701q), as amended.

(ix) Section 142(d) of the Internal Revenue Code or its predecessors.

(x) Section 147 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986 (Public Law 99-514), or as subsequently amended, including as amended by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) and all amendments enacted prior to the Tax Cuts and Jobs Act of 2017 (Public Law 115-97).

(xi) Title I of the Housing and Community Development Act of 1974, as amended.

(xii) Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

(xiii) Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including the Department of Housing and Urban Development's Supportive Housing Program, Shelter Plus Care Program, and surplus federal property disposition program.

(xiv) The following assistance provided by counties and cities in exchange for restrictions on the maximum rents that may be charged for units within a multifamily rental housing development and on the maximum tenant income as a condition of eligibility for occupancy of the unit subject to the rent restriction, as reflected by a recorded agreement with a county or city:

(I) Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code).

(II) Local housing trust funds, as referred to in paragraph (3) of subdivision (a) of Section 50843 of the Health and Safety Code.

(III) The sale or lease of public property at or below market rates.

(IV) The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

(B) As used in subparagraph (A), "government assistance" shall not include the use of tenant-based housing choice vouchers under subsection (o) of Section 1437f of Title 42 of the United States Code, excluding paragraph (13), relating to project-based assistance. Restrictions shall not include any rent control or rent stabilization ordinance imposed by a county or city.

(C) If the development is subject to restrictions on rent and income levels, 50 percent of the units are also restricted to initial occupancy by lower income households, as defined in Section 50079.5 of the Health and Safety Code.

(D) The restrictions on rent and income levels, excluding any restrictions recorded pursuant to paragraph (2) of subdivision (e) of Section 65863.11 or Section 65863.13 of the Government Code or in connection with interim or acquisition financing, will terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

(E) The entity acquiring the property enters into a regulatory agreement that requires the property to be operated in accordance with the requirements of Section 42 of the Internal Revenue Code and any further requirements added by the California Tax Credit Allocation Committee to implement the low-income housing tax credit established by Section 42 of the Internal Revenue Code (26 U.S.C. Sec. 42), this section, and Sections 17058 and 23610.5 pursuant to Chapter 3.6 (commencing with Section 50199.4) of Part 1 of Division 31 of the Health and Safety Code.

(F) The property satisfies the requirements of Section 42(e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, except that the provisions of Section 42(e)(3)(A)(ii)(I) shall not apply.

(6) On and after January 1, 2018, in the case of any qualified low-income building that is (A) farmworker housing, as defined by paragraph (2) of subdivision (h) of Section 50199.7 of the Health and Safety Code, and (B) is federally subsidized, the term "applicable percentage" means for each of the first three years, 20 percent of the qualified basis of the building, and for the fourth year, 15 percent of the qualified basis of the building.

(d) The term "qualified low-income housing project" as defined in Section 42(c)(2) of the Internal Revenue Code, relating to qualified low-income building, is modified by adding the following requirements:

(1) The taxpayer shall be entitled to receive a cash distribution from the operations of the project, after funding required reserves, that, at the election of the taxpayer, is equal to:

(A) An amount not to exceed 8 percent of the lesser of:

- (i) The owner equity that shall include the amount of the capital contributions actually paid to the housing sponsor and shall not include any amounts until they are paid on an investor note.
- (ii) Twenty percent of the adjusted basis of the building as of the close of the first taxable year of the credit period.

(B) The amount of the cashflow from those units in the building that are not low-income units. For purposes of computing cashflow under this subparagraph, operating costs shall be allocated to the low-income units using the "floor space fraction," as defined in Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(C) Any amount allowed to be distributed under subparagraph (A) that is not available for distribution during the first five years of the compliance period may be accumulated and distributed any time during the first 15 years of the compliance period but not thereafter.

(2) The limitation on return shall apply in the aggregate to the partners if the housing sponsor is a partnership and in the aggregate to the shareholders if the housing sponsor is an "S" corporation.

(3) The housing sponsor shall apply any cash available for distribution in excess of the amount eligible to be distributed under paragraph (1) to reduce the rent on rent-restricted units or to increase the number of rent-restricted units subject to the tests of Section 42(g)(1) of the Internal Revenue Code, relating to in general.

(e) The provisions of Section 42(f) of the Internal Revenue Code, relating to definition and special rules relating to credit period, shall be modified as follows:

- (1) The term "credit period" as defined in Section 42(f)(1) of the Internal Revenue Code, relating to credit period defined, is modified by substituting "four taxable years" for "10 taxable years."
- (2) The special rule for the first taxable year of the credit period under Section 42(f)(2) of the Internal Revenue Code, relating to special rule for 1st year of credit period, shall not apply to the tax credit under this section.
- (3) Section 42(f)(3) of the Internal Revenue Code, relating to determination of applicable percentage with respect to increases in qualified basis after 1st year of credit period, is modified to read:

If, as of the close of any taxable year in the compliance period, after the first year of the credit period, the qualified basis of any building exceeds the qualified basis of that building as of the close of the first year of the credit period, the housing sponsor, to the extent of its tax credit allocation, shall be eligible for a credit on the excess in an amount equal to the applicable percentage determined pursuant to subdivision (c) for the four-year period beginning with the later of the taxable years in which the increase in qualified basis occurs.

(f) The provisions of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, shall be modified as follows:

- (1) Section 42(h)(2) of the Internal Revenue Code, relating to allocated credit amount to apply to all taxable years ending during or after credit allocation year, does not apply and instead the following provisions apply:

The total amount for the four-year credit period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.

- (2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, do not apply to this section.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 17058, and Section 23610.5 shall be an amount equal to the sum of all the following:

- (1) (A) Seventy million dollars (\$70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars (\$70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term "Consumer Price Index" means the last Consumer Price Index for All Urban Consumers published by the federal Department of Labor.

(B) Five hundred million dollars (\$500,000,000) for the 2020 calendar year, and up to five hundred million dollars (\$500,000,000) for the 2021 calendar year and every year thereafter. Allocations shall only be available pursuant to this subparagraph in the 2021 calendar year and thereafter if the annual Budget Act, or if any bill providing for appropriations related to the Budget Act, specifies an amount to be available for allocation in that calendar year by the California Tax Credit Allocation Committee, after the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee have adopted regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for

bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. ~~→~~ *Except as provided in clause (vi), a* housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall remain eligible for receipt of the housing credit allocated from the credit ceiling amount under subparagraph (A).

(i) Eligible projects for allocations under this subparagraph include any new building, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to newly constructed buildings, and the regulations promulgated thereunder, excluding rehabilitation expenditures under Section 42(e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, and is federally subsidized. Eligible projects for allocations under this subparagraph also include any retrofitting and repurposing of existing nonresidential structures, including, but not limited to, hotels and motels, that were converted to residential use within the previous five years from the date of the application.

(ii) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2020 calendar year, the California Tax Credit Allocation Committee shall consider projects located throughout the state and shall allocate housing credits, subject to the minimum federal requirements as set forth in Sections 42 and 142 of the Internal Revenue Code, the minimum requirements set forth in Sections 5033 and 5190 of the California Debt Limit Allocation Committee regulations, and the minimum set forth in Section 10326 of the Tax Credit Allocation Committee regulations, for projects that can begin construction within 180 days from award, subject to availability of funds.

(iii) (I) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2021 calendar year and thereafter, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee shall develop and prescribe regulations, rules, or guidelines necessary to implement a new allocation methodology that is aimed at increasing production and containing costs, which would include a scoring system that maximizes the efficient use of public subsidy and benefit created through the private activity bond and low-income housing tax credit programs. The factors for determining the efficient use of public subsidy and benefit shall include, but not be limited to, all of the following:

(ia) The number and size of units developed including local incentives provided to increase density.

(ib) The proximity to amenities, jobs, and public transportation.

(ic) The location of the development.

(id) The delivery of housing affordable to very low and extremely low income households by the development.

(II) The efficient use of public subsidy and benefit criteria specified in this clause shall take into account the total state subsidy provided and prioritize cost containment and increased unit production. These regulations, rules, or guidelines developed pursuant to this subparagraph shall also consider updated definitions for at-risk preservation and new construction.

(III) For bond allocations for the 2021 calendar year to projects eligible for an allocation under this subparagraph, the California Debt Limit Allocation Committee may adopt emergency regulations.

(iv) Of the amount available pursuant to this subparagraph, and notwithstanding any other requirement of this section, the California Tax Credit Allocation Committee may allocate up to two hundred million dollars (\$200,000,000) for housing financed by the California Housing Finance Agency under its Mixed-Income Program.

(v) (I) For the calendar years of 2024 to 2034, inclusive, of the amount available pursuant to this subparagraph, the lesser of 5 percent of that amount or twenty-five million dollars (\$25,000,000) per calendar year shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, and administered consistent with the credits available pursuant to paragraph (4).

(II) Any credits pursuant to this clause that remain unallocated following the conclusion of a funding round shall roll over to consecutive subsequent funding rounds in that calendar year with the exception that any credits that remain unallocated prior to the final funding round in that calendar year shall be added back to the aggregate amount of credits that may be allocated pursuant to this subparagraph.

(III) For the 2035 calendar year, and every year thereafter, of the amount available pursuant to this subparagraph, a portion of the amount allocated shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code. The amount set aside shall be determined by the Legislature upon consideration of the comprehensive strategy, or most recent update thereof, provided by the Department of Housing and Community Development pursuant to subdivision (c) of Section 50408.5 of the Health and Safety Code.

(vi) (I) For any calendar year in which the California Debt Limit Allocation Committee has declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, the California Tax Credit Allocation Committee may allocate some or all of the credits allocated under this subparagraph, except for any credits allocated for housing financed by the California Housing Finance Agency under its Mixed-Income Program, for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing

credit, and shall allocate the remainder of these credits for new buildings, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to new buildings, that are federally subsidized and that can begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(II) For any calendar year in which the California Debt Limit Allocation Committee has not declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, projects receiving an award of credits pursuant to this subparagraph shall begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(III) Notwithstanding subclauses (I) and (II), if credits available under this subparagraph remain unallocated after the final California Debt Limit Allocation Committee round for qualified residential rental projects in a given calendar year, the California Tax Credit Allocation Committee may allocate some or all of the remaining credits for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(2) The unused housing credit ceiling, if any, for the preceding calendar years.

(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.

(4) Five hundred thousand dollars (\$500,000) per calendar year for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(5) The amount of any unallocated or returned credits under former Sections 17053.14, 23608.2, and 23608.3, as those sections read prior to January 1, 2009, until fully exhausted for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(h) The term "compliance period" as defined in Section 42(i)(1) of the Internal Revenue Code, relating to compliance period, is modified to mean, with respect to any building, the period of 30 consecutive taxable years beginning with the first taxable year of the credit period with respect thereto.

(i) (1) Section 42(j) of the Internal Revenue Code, relating to recapture of credit, shall not be applicable and the provisions in paragraph (2) shall be substituted in its place.

(2) The requirements of this section shall be set forth in a regulatory agreement between the California Tax Credit Allocation Committee and the housing sponsor, and the regulatory agreement shall be subordinated, when required, to any lien or encumbrance of any banks or other institutional lenders to the project. The regulatory agreement entered into pursuant to subdivision (f) of Section 50199.14 of the Health and Safety Code, shall apply, provided that the agreement includes all of the following provisions:

(A) A term not less than the compliance period.

(B) A requirement that the agreement be recorded in the official records of the county in which the qualified low-income housing project is located.

(C) A provision stating which state and local agencies can enforce the regulatory agreement in the event the housing sponsor fails to satisfy any of the requirements of this section.

(D) A provision that the regulatory agreement shall be deemed a contract enforceable by tenants as third-party beneficiaries thereto and that allows individuals, whether prospective, present, or former occupants of the building, who meet the income limitation applicable to the building, the right to enforce the regulatory agreement in any state court.

(E) A provision incorporating the requirements of Section 42 of the Internal Revenue Code, relating to low-income housing credit, as modified by this section.

(F) A requirement that the housing sponsor notify the California Tax Credit Allocation Committee or its designee and the local agency that can enforce the regulatory agreement if there is a determination by the Internal Revenue Service that the project is not in compliance with Section 42(g) of the Internal Revenue Code, relating to qualified low-income housing project.

(G) A requirement that the housing sponsor, as security for the performance of the housing sponsor's obligations under the regulatory agreement, assign the housing sponsor's interest in rents that it receives from the project, provided that until there is a default under the regulatory agreement, the housing sponsor is entitled to collect and retain the rents.

(H) A provision that the remedies available in the event of a default under the regulatory agreement that is not cured within a reasonable cure period include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.

(j) (1) The committee shall allocate the housing credit on a regular basis consisting of two or more periods in each calendar year during which applications may be filed and considered. The committee shall establish application filing deadlines, the maximum percentage of federal and state low-income housing tax credit ceiling that may be allocated by the committee in that period, and the approximate date on which allocations shall be made. If the enactment of federal or state law, the adoption of rules or regulations, or other similar events prevent the use of two allocation periods, the committee may reduce the number of periods and adjust the filing deadlines, maximum percentage of credit allocated, and the allocation dates.

(2) The committee shall adopt a qualified allocation plan, as provided in Section 42(m)(1) of the Internal Revenue Code, relating to plans for allocation of credit among projects. In adopting this plan, the committee shall comply with the provisions of Sections 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code, relating to qualified allocation plan and relating to certain selection criteria must be used, respectively.

(3) Notwithstanding Section 42(m) of the Internal Revenue Code, relating to responsibilities of housing credit agencies, the California Tax Credit Allocation Committee shall allocate housing credits in accordance with the qualified allocation plan and regulations, which shall include the following provisions:

(A) All housing sponsors, as defined by paragraph (3) of subdivision (a), shall demonstrate at the time the application is filed with the committee that the project meets the following threshold requirements:

(i) The housing sponsor shall demonstrate there is a need and demand for low-income housing in the community or region for which it is proposed.

(ii) The project's proposed financing, including tax credit proceeds, shall be sufficient to complete the project and that the proposed operating income shall be adequate to operate the project for the extended use period.

(iii) The project shall have enforceable financing commitments, either construction or permanent financing, for at least 50 percent of the total estimated financing of the project.

(iv) The housing sponsor shall have and maintain control of the site for the project.

(v) The housing sponsor shall demonstrate that the project complies with all applicable local land use and zoning ordinances.

(vi) The housing sponsor shall demonstrate that the project development team has the experience and the financial capacity to ensure project completion and operation for the extended use period.

(vii) The housing sponsor shall demonstrate the amount of tax credit that is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the extended use period, taking into account operating expenses, a supportable debt service, reserves, funds set aside for rental subsidies and required equity, and a development fee that does not exceed a specified percentage of the eligible basis of the project prior to inclusion of the development fee in the eligible basis, as determined by the committee.

(B) The committee shall give a preference to those projects satisfying all of the threshold requirements of subparagraph (A) if both of the following apply:

(i) The project serves the lowest income tenants at rents affordable to those tenants.

(ii) The project is obligated to serve qualified tenants for the longest period.

(C) In addition to the provisions of subparagraphs (A) and (B), the committee shall use the following criteria in allocating housing credits:

(i) Projects serving large families in which a substantial number, as defined by the committee, of all residential units are low-income units with three or more bedrooms.

(ii) Projects providing single-room occupancy units serving very low income tenants.

(iii) Existing projects that are "at risk of conversion," as defined by paragraph (5) of subdivision (c).

(iv) Projects for which a public agency provides direct or indirect long-term financial support for at least 15 percent of the total project development costs or projects for which the owner's equity constitutes at least 30 percent of the total project development costs.

(v) Projects that provide tenant amenities not generally available to residents of low-income housing projects.

(D) Subparagraphs (B) and (C) shall not apply to projects receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g).

(4) For purposes of allocating credits pursuant to this section, the committee shall not give preference to any project by virtue of the date of submission of its application except to break a tie when two or more of the projects have an equal rating.

(k) Section 42(l) of the Internal Revenue Code, relating to certifications and other reports to secretary, shall be modified as follows:

The term "secretary" shall be replaced by the term "Franchise Tax Board."

(l) In the case in which the credit allowed under this section exceeds the "tax," the excess may be carried over to reduce the "tax" in the following year, and succeeding years if necessary, until the credit has been exhausted.

(m) The provisions of Section 11407(a) of Public Law 101-508, relating to the effective date of the extension of the low-income housing credit, apply to calendar years after 1993.

(n) The provisions of Section 11407(c) of Public Law 101-508, relating to election to accelerate credit, shall not apply.

(o) (1) (A) (i) For a project that receives a preliminary reservation under this section beginning on or after January 1, 2016, a taxpayer may elect in its application to the California Tax Credit Allocation Committee to sell all or any portion of any credit allowed under this section to one or more unrelated parties for each taxable year in which the credit is allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

(ii) (I) A taxpayer who has purchased a credit pursuant to this subdivision shall be eligible to claim any such credit commencing in the taxable year the building is placed in service and the federal credit period commences, notwithstanding that the certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) has not been issued by the California Tax Credit Allocation Committee, provided that the taxpayer that originally received the credit has filed a taxpayer certification with the California Tax Credit Allocation Committee and delivered a copy to the purchasing taxpayer. The Franchise Tax Board may, but shall not be required to, require submission of the taxpayer certification concurrently with the submission of the purchasing taxpayer's tax return in the first year the purchasing taxpayer claims the credit. The amount of credit claimed by the taxpayer shall not exceed the lesser of either of the following:

(ia) The applicable percentages for each of the four credit years, as specified in subdivision (c), multiplied by the qualified basis of the building set forth in the preliminary reservation.

(ib) The amount of credit the project is eligible for as stated in the taxpayer certification.

(II) The California Tax Credit Allocation Committee may elect to rely upon the taxpayer certification for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(III) The California Tax Credit Allocation Committee may, but is not required to, review the Taxpayer Certification and other information provided by the taxpayer who originally received the preliminary reservation of credits to confirm both of the following:

(ia) The calculations set forth in the Taxpayer Certification.

(ib) The amount of credits allocated to the project is consistent with applicable California Tax Credit Allocation Committee rules and regulations for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(IV) If the California Tax Credit Allocation Committee issues a certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) that is inconsistent with the taxpayer certification upon which a credit has been claimed, the taxpayer shall amend any previously filed tax returns to reflect the credit amount certified by the California Tax Credit Allocation Committee pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(V) For purposes of this clause, "taxpayer certification" means a certified statement from the certified public accountant of the taxpayer that originally received the preliminary reservation of credits. The taxpayer certification shall contain the amount of the credit the project is eligible for, the taxable year the building is placed in service, and the taxable year in which the federal credit period for the building has commenced.

(B) A credit that a taxpayer elects to sell all or a portion of pursuant to this subdivision shall be sold for consideration that is not less than 80 percent of the amount of the credit.

(C) A taxpayer shall not elect to sell all or any portion of any credit pursuant to this subdivision if the taxpayer did not make that election in its application submitted to the California Tax Credit Allocation Committee.

(2) (A) The taxpayer that originally received the credit shall report to the California Tax Credit Allocation Committee within 10 days of the sale of the credit, in the form and manner specified by the California Tax Credit Allocation Committee, all required information regarding the purchase and sale of the credit, including the social security or other taxpayer identification number of the unrelated party or parties to whom the credit has been sold, the face amount of the credit sold, and the amount of consideration received by the taxpayer for the sale of the credit.

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that have sold or purchased a credit pursuant to this subdivision.

(3) A credit may be sold pursuant to this subdivision to more than one unrelated party.

(4) Notwithstanding any other law, the taxpayer that originally received the credit that is sold pursuant to paragraph (1) shall remain solely liable for all obligations and liabilities imposed on the taxpayer by this section with respect to the credit, none of which shall apply to a party to whom the credit has been sold or subsequently transferred. Parties that purchase credits pursuant to paragraph (1) shall be entitled to utilize the purchased credits in the same manner in which the taxpayer that originally received the credit could utilize them.

(p) The California Tax Credit Allocation Committee may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the California Tax Credit Allocation Committee pursuant to this section.

(q) This section shall remain in effect for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credit, remains in effect.

SEC. 3. Section 17058 of the Revenue and Taxation Code is amended to read:

17058. (a) (1) There shall be allowed as a credit against the "net tax," defined in Section 17039, a state low-income housing tax credit in an amount equal to the amount determined in subdivision (c), computed in accordance with Section 42 of the Internal Revenue Code, relating to low-income housing credit, except as otherwise provided in this section.

(2) "Taxpayer," for purposes of this section, means the sole owner in the case of an individual, the partners in the case of a partnership, and the shareholders in the case of an "S" corporation.

(3) "Housing sponsor," for purposes of this section, means the sole owner in the case of an individual, the partnership in the case of a partnership, and the "S" corporation in the case of an "S" corporation.

(b) (1) The amount of the credit allocated to any housing sponsor shall be authorized by the California Tax Credit Allocation Committee, or any successor thereof, based on a project's need for the credit for economic feasibility in accordance with the requirements of this section.

(A) The low-income housing project shall be located in California and shall meet either of the following requirements:

(i) Except for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, that are allocated credits solely under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code, the project's housing sponsor has been allocated by the California Tax Credit Allocation Committee a credit for federal income tax purposes under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(ii) It qualifies for a credit under Section 42(h)(4)(B) of the Internal Revenue Code, relating to special rule where 50 percent or more of building is financed with tax-exempt bonds subject to volume cap.

(B) The California Tax Credit Allocation Committee shall not require fees for the credit under this section in addition to those fees required for applications for the tax credit pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit. The committee may require a fee if the application for the credit under this section is submitted in a calendar year after the year the application is submitted for the federal tax credit.

(C) (i) For a project that receives a preliminary reservation of the state low-income housing tax credit, allowed pursuant to subdivision (a), on or after January 1, 2009, the credit shall be allocated to the partners of a partnership owning the project in accordance with the partnership agreement, regardless of how the federal low-income housing tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code, relating to determination of distributive share.

(ii) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the federal credit shall not be allowed in the taxable year in which the sale or other disposition occurs, but shall instead be deferred until and treated as if it occurred in the first taxable year immediately following the taxable year in which the federal credit period expires for the project described in clause (i).

(iii) This subparagraph shall not apply to a project that receives a preliminary reservation of state low-income housing tax credits under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code unless the project also receives a preliminary reservation of federal low-income housing tax credits.

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this section allocated to the housing sponsor for each credit period.

(B) In the case of a partnership or an "S" corporation, the housing sponsor shall provide a copy of the California Tax Credit Allocation Committee certification to the taxpayer.

(C) The taxpayer shall, upon request, provide a copy of the certification to the Franchise Tax Board.

(D) All elections made by the taxpayer pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit, apply to this section.

(E) (i) Except as described in clause (ii) or (iii), for buildings located in designated difficult development areas (DDAs) or qualified census tracts (QCTs), as defined in Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code, relating to low-income housing credit, is computed on 100 percent of the qualified basis of the building.

(ii) Notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit for buildings located in DDAs or QCTs that are restricted to having 50 percent of the building's occupants be special needs households, as defined in the California Code of Regulations by the California Tax Credit Allocation Committee, or receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), even if the taxpayer receives federal credits pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, provided that the credit allowed under this section shall not exceed 30 percent of the eligible basis of the building.

(iii) On and after January 1, 2018, notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit pursuant to paragraph (7) of subdivision (c) even if the taxpayer receives federal credits, pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas.

(F) (i) The California Tax Credit Allocation Committee may allocate a credit under this section in exchange for a credit allocated pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, in amounts up to 30 percent of the eligible basis of a building if the credits allowed under Section 42 of the Internal Revenue Code, relating to low-income housing credit, are reduced by an equivalent amount.

(ii) An equivalent amount shall be determined by the California Tax Credit Allocation Committee based upon the relative amount required to produce an equivalent state tax credit to the taxpayer.

(c) Section 42(b) of the Internal Revenue Code, relating to applicable percentage: 70 percent present value credit for certain new buildings; 30 percent present value credit for certain other buildings, shall be modified as follows:

(1) In the case of any qualified low-income building placed in service by the housing sponsor during 1987, the term "applicable percentage" means 9 percent for each of the first three years and 3 percent for the fourth year for new buildings (whether or not the building is federally subsidized) and for existing buildings.

(2) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, relating to temporary minimum credit rate for nonfederally subsidized new buildings, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(3) In the case of any qualified low-income building that is a new building that is federally subsidized and receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), the term "applicable percentage" means for the first three years, 9 percent of the qualified basis of the building, and for the fourth year, 3 percent of the qualified basis of the building.

(4) In the case of any qualified low-income building that receives an allocation after 1989 pursuant to subparagraph (A) of paragraph (1) of subdivision (g) and that is a new building that is federally subsidized or that is an existing building that is "at risk of conversion," the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.

(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.

(5) In the case of any qualified low-income building that ~~receives an allocation pursuant to subparagraph (A) of paragraph (1) of subdivision (g) that~~ meets all of the requirements of subparagraphs (A) through (D), inclusive, the term "applicable percentage" means 30 percent for each of the first three years and 5 percent for the fourth year. A qualified low-income building receiving an allocation under this paragraph is ineligible to also receive an allocation under paragraph (3).

(A) The qualified low-income building is at least 15 years old.

(B) The qualified low-income building is either:

(i) Serving households of very low income or extremely low income such that the average maximum household income as restricted, pursuant to an existing regulatory agreement with a federal, state, county, local, or other governmental agency, is not more than 45 percent of the area median gross income, as determined under Section 42 of the Internal Revenue Code, relating to low-income housing credit, adjusted by household size, and a tax credit regulatory agreement is entered into for a period of not less than 55 years restricting the average targeted household income to no more than 45 percent of the area median income.

(ii) Financed under Section 514 or 521 of the National Housing Act of 1949 (42 U.S.C. Sec. 1485).

(C) The qualified low-income building would have insufficient credits under paragraphs (2) and (3) to complete substantial rehabilitation due to a low appraised value.

(D) The qualified low-income building will complete the substantial rehabilitation in connection with the credit allocation herein.

(6) For purposes of this section, the term "at risk of conversion," with respect to an existing ~~property~~ *property*, means a property that satisfies all of the following criteria:

(A) The property is a multifamily rental housing development in which at least 50 percent of the units receive governmental assistance pursuant to any of the following:

(i) New construction, substantial rehabilitation, moderate rehabilitation, property disposition, and loan management set-aside programs, or any other program providing project-based assistance pursuant to Section 8 of the United States Housing Act of 1937, Section 1437f of Title 42 of the United States Code, as amended.

(ii) The Below-Market-Interest-Rate Program pursuant to Section 221(d)(3) of the National Housing Act, Sections 1715I(d)(3) and (5) of Title 12 of the United States Code.

(iii) Section 236 of the National Housing Act, Section 1715z-1 of Title 12 of the United States Code.

(iv) Programs for rent supplement assistance pursuant to Section 101 of the Housing and Urban Development Act of 1965, Section 1701s of Title 12 of the United States Code, as amended.

(v) Programs under Sections 514, 515, 516, 533, and 538 of the Housing Act of 1949 (Public Law 81-171), as amended.

(vi) The low-income housing credit program set forth in Section 42 of the Internal Revenue Code, relating to low-income housing credit, this section, and Sections 12206 and 23610.5.

(vii) Programs for loans or grants administered by the Department of Housing and Community Development.

(viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec. 1701q), as amended.

(ix) Section 142(d) of the Internal Revenue Code or its predecessors.

(x) Section 147 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986 (Public Law 99-514), or as subsequently amended, including as amended by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) and all amendments enacted prior to the Tax Cuts and Jobs Act of 2017 (Public Law 115-97).

(xi) Title I of the Housing and Community Development Act of 1974, as amended.

(xii) Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

(xiii) Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including the Department of Housing and Urban Development's Supportive Housing Program, Shelter Plus Care Program, and surplus federal property disposition program.

(xiv) The following assistance provided by counties and cities in exchange for restrictions on the maximum rents that may be charged for units within a multifamily rental housing development and on the maximum tenant income as a condition of eligibility for occupancy of the unit subject to the rent restriction, as reflected by a recorded agreement with a county or city:

(I) Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code).

(II) Local housing trust funds, as referred to in Section 50843 of the Health and Safety Code.

(III) The sale or lease of public property at or below market rates.

(IV) The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

(B) As used in subparagraph (A), "government assistance" shall not include the use of tenant-based housing choice vouchers under subsection (o) of Section 1437f of Title 42 of the United States Code, excluding subparagraph (13) relating

to project-based assistance. Restrictions shall not include any rent control or rent stabilization ordinance imposed by a county or city.

(C) If the development is subject to restrictions on rent and income levels, 50 percent of the units are also restricted to initial occupancy by lower income households, as defined in Section 50079.5 of the Health and Safety Code.

(D) The restrictions on rent and income levels, excluding any restrictions recorded pursuant to paragraph (2) of subdivision (e) of Section 65863.11 or Section 65863.13 of the Government Code or in connection with interim or acquisition financing, will terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

(E) The entity acquiring the property enters into a regulatory agreement that requires the property to be operated in accordance with the requirements of Section 42 of the Internal Revenue Code and any further requirements added by the California Tax Credit Allocation Committee to implement the low-income housing tax credit established by Section 42 of the Internal Revenue Code (26 U.S.C. Sec. 42), this section, and Sections 12206 and 23610.5 pursuant to Chapter 3.6 (commencing with Section 50199.4) of Part 1 of Division 31 of the Health and Safety Code.

(F) The property satisfies the requirements of Section 42(e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, except that the provisions of Section 42(e)(3)(A)(ii)(I) shall not apply.

(7) On and after January 1, 2018, in the case of any qualified low-income building that is (A) farmworker housing, as defined by paragraph (2) of subdivision (h) of Section 50199.7 of the Health and Safety Code, and (B) is federally subsidized, the term "applicable percentage" means for each of the first three years, 20 percent of the qualified basis of the building, and for the fourth year, 15 percent of the qualified basis of the building.

(d) The term "qualified low-income housing project" as defined in Section 42(c)(2) of the Internal Revenue Code, relating to qualified low-income building, is modified by adding the following requirements:

(1) The taxpayer shall be entitled to receive a cash distribution from the operations of the project, after funding required reserves, that, at the election of the taxpayer, is equal to:

(A) An amount not to exceed 8 percent of the lesser of:

(i) The owner equity, which shall include the amount of the capital contributions actually paid to the housing sponsor and shall not include any amounts until they are paid on an investor note.

(ii) Twenty percent of the adjusted basis of the building as of the close of the first taxable year of the credit period.

(B) The amount of the cashflow from those units in the building that are not low-income units. For purposes of computing cashflow under this subparagraph, operating costs shall be allocated to the low-income units using the "floor space fraction," as defined in Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(C) Any amount allowed to be distributed under subparagraph (A) that is not available for distribution during the first 5 years of the compliance period may be accumulated and distributed any time during the first 15 years of the compliance period but not thereafter.

(2) The limitation on return shall apply in the aggregate to the partners if the housing sponsor is a partnership and in the aggregate to the shareholders if the housing sponsor is an "S" corporation.

(3) The housing sponsor shall apply any cash available for distribution in excess of the amount eligible to be distributed under paragraph (1) to reduce the rent on rent-restricted units or to increase the number of rent-restricted units subject to the tests of Section 42(g)(1) of the Internal Revenue Code, relating to in general.

(e) The provisions of Section 42(f) of the Internal Revenue Code, relating to definition and special rules relating to credit period, shall be modified as follows:

(1) The term "credit period" as defined in Section 42(f)(1) of the Internal Revenue Code, relating to credit period defined, is modified by substituting "four taxable years" for "10 taxable years."

(2) The special rule for the first taxable year of the credit period under Section 42(f)(2) of the Internal Revenue Code, relating to special rules for 1st year of credit period, shall not apply to the tax credit under this section.

(3) Section 42(f)(3) of the Internal Revenue Code, relating to determination of applicable percentage with respect to increases in qualified basis after 1st year of credit period, is modified to read:

If, as of the close of any taxable year in the compliance period, after the first year of the credit period, the qualified basis of any building exceeds the qualified basis of that building as of the close of the first year of the credit period, the housing sponsor, to the extent of its tax credit allocation, shall be eligible for a credit on the excess in an amount equal to the applicable percentage determined pursuant to subdivision (c) for the four-year period beginning with the taxable year in which the increase in qualified basis occurs.

(f) The provisions of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, shall be modified as follows:

- (1) Section 42(h)(2) of the Internal Revenue Code, relating to allocated credit amount to apply to all taxable years ending during or after credit allocation year, does not apply and instead the following provisions apply:

The total amount for the four-year credit period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.

- (2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, do not apply to this section.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 12206, and Section 23610.5 shall be an amount equal to the sum of all the following:

- (1) (A) Seventy million dollars (\$70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars (\$70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term "Consumer Price Index" means the last Consumer Price Index for All Urban Consumers published by the federal Department of Labor.

(B) Five hundred million dollars (\$500,000,000) for the 2020 calendar year, and up to five hundred million dollars (\$500,000,000) for the 2021 calendar year and every year thereafter. Allocations shall only be available pursuant to this subparagraph in the 2021 calendar year and thereafter if the annual Budget Act, or if any bill providing for appropriations related to the Budget Act, specifies an amount to be available for allocation in that calendar year by the California Tax Credit Allocation Committee, and after the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee have adopted regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. ~~Except as provided in clause (vi),~~ a housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall remain eligible for receipt of the housing credit allocated from the credit ceiling amount under subparagraph (A).

(i) Eligible projects for allocations under this subparagraph include any new building, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to newly constructed buildings, and the regulations promulgated thereunder, excluding rehabilitation expenditures under Section 42(e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, and is federally subsidized. Eligible projects for allocations under this subparagraph also include any retrofitting and repurposing of existing nonresidential structures, including, but not limited to, hotels and motels, that were converted to residential use within the previous five years from the date of the application.

(ii) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2020 calendar year, the California Tax Credit Allocation Committee shall consider projects located throughout the state and shall allocate housing credits, subject to the minimum federal requirements as set forth in Sections 42 and 142 of the Internal Revenue Code, the minimum requirements set forth in Sections 5033 and 5190 of the California Debt Limit Allocation Committee regulations, and the minimum set forth in Section 10326 of the Tax Credit Allocation Committee regulations, for projects that can begin construction within 180 days from award, subject to availability of funds.

(iii) (I) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2021 calendar year and thereafter, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee shall develop and prescribe regulations, rules, or guidelines necessary to implement a new allocation methodology that is aimed at increasing production and containing costs, which would include a scoring system that maximizes the efficient use of public subsidy and benefit created through the private activity bond and low-income housing tax credit programs. The factors for determining the efficient use of public subsidy and benefit shall include, but not be limited to, all of the following:

- (ia) The number and size of units developed including local incentives provided to increase density.
- (ib) The proximity to amenities, jobs, and public transportation.
- (ic) The location of the development.
- (id) The delivery of housing affordable to very low and extremely low income households by the development.

(II) The efficient use of public subsidy and benefit criteria specified in this clause shall take into account the total state subsidy provided and prioritize cost containment and increased unit production. These regulations, rules, or guidelines developed pursuant to this subparagraph shall also consider updated definitions for at-risk preservation and new construction.

(III) For bond allocations for the 2021 calendar year to projects eligible for an allocation under this subparagraph, the California Debt Limit Allocation Committee may adopt emergency regulations.

(iv) Of the amount available pursuant to this subparagraph, and notwithstanding any other requirement of this section, the California Tax Credit Allocation Committee may allocate up to two hundred million dollars (\$200,000,000) for housing financed by the California Housing Finance Agency under its Mixed-Income Program.

(v) (I) For the calendar years of 2024 to 2034, inclusive, of the amount available pursuant to this subparagraph, the lesser of 5 percent of that amount or twenty-five million dollars (\$25,000,000) per calendar year shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, and administered consistent with the credits available pursuant to paragraph (4).

(II) Any credits pursuant to this clause that remain unallocated following the conclusion of a funding round shall roll over to consecutive subsequent funding rounds in that calendar year with the exception that any credits that remain unallocated prior to the final funding round in that calendar year shall be added back to the aggregate amount of credits that may be allocated pursuant to this subparagraph.

(III) For the 2035 calendar year, and every year thereafter, of the amount available pursuant to this subparagraph, a portion of the amount allocated shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code. The amount set aside shall be determined by the Legislature upon consideration of the comprehensive strategy, or most recent update thereof, provided by the Department of Housing and Community Development pursuant to subdivision (c) of Section 50408.5 of the Health and Safety Code.

(vi) (I) For any calendar year in which the California Debt Limit Allocation Committee has declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, the California Tax Credit Allocation Committee may allocate some or all of the credits allocated under this subparagraph, except for any credits allocated for housing financed by the California Housing Finance Agency under its Mixed-Income Program, for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit, and shall allocate the remainder of these credits for new buildings, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to new buildings, that are federally subsidized and that can begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(II) For any calendar year in which the California Debt Limit Allocation Committee has not declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, projects receiving an award of credits pursuant to this subparagraph shall begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(III) Notwithstanding subclauses (I) and (II), if credits available under this subparagraph remain unallocated after the final California Debt Limit Allocation Committee round for qualified residential rental projects in a given calendar year, the California Tax Credit Allocation Committee may allocate some or all of the remaining credits for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(2) The unused housing credit ceiling, if any, for the preceding calendar years.

(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.

(4) Five hundred thousand dollars (\$500,000) per calendar year for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(5) The amount of any unallocated or returned credits under former Sections 17053.14, 23608.2, and 23608.3, as those sections read prior to January 1, 2009, until fully exhausted for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(h) The term "compliance period" as defined in Section 42(i)(1) of the Internal Revenue Code, relating to compliance period, is modified to mean, with respect to any building, the period of 30 consecutive taxable years beginning with the first taxable year of the credit period with respect thereto.

(i) Section 42(j) of the Internal Revenue Code, relating to recapture of credit, shall not be applicable and the following requirements of this section shall be set forth in a regulatory agreement between the California Tax Credit Allocation Committee and the housing sponsor, and the regulatory agreement shall be subordinated, when required, to any lien or encumbrance of

any banks or other institutional lenders to the project. The regulatory agreement entered into pursuant to subdivision (f) of Section 50199.14 of the Health and Safety Code shall apply, provided that the agreement includes all of the following provisions:

- (1) A term not less than the compliance period.
 - (2) A requirement that the agreement be recorded in the official records of the county in which the qualified low-income housing project is located.
 - (3) A provision stating which state and local agencies can enforce the regulatory agreement in the event the housing sponsor fails to satisfy any of the requirements of this section.
 - (4) A provision that the regulatory agreement shall be deemed a contract enforceable by tenants as third-party beneficiaries thereto and that allows individuals, whether prospective, present, or former occupants of the building, who meet the income limitation applicable to the building, the right to enforce the regulatory agreement in any state court.
 - (5) A provision incorporating the requirements of Section 42 of the Internal Revenue Code, relating to low-income housing credit, as modified by this section.
 - (6) A requirement that the housing sponsor notify the California Tax Credit Allocation Committee or its designee if there is a determination by the Internal Revenue Service that the project is not in compliance with Section 42(g) of the Internal Revenue Code, relating to qualified low-income housing project.
 - (7) A requirement that the housing sponsor, as security for the performance of the housing sponsor's obligations under the regulatory agreement, assign the housing sponsor's interest in rents that it receives from the project, provided that until there is a default under the regulatory agreement, the housing sponsor is entitled to collect and retain the rents.
 - (8) A provision that the remedies available in the event of a default under the regulatory agreement that is not cured within a reasonable cure period include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.
- (j) (1) The committee shall allocate the housing credit on a regular basis consisting of two or more periods in each calendar year during which applications may be filed and considered. The committee shall establish application filing deadlines, the maximum percentage of federal and state low-income housing tax credit ceiling that may be allocated by the committee in that period, and the approximate date on which allocations shall be made. If the enactment of federal or state law, the adoption of rules or regulations, or other similar events prevent the use of two allocation periods, the committee may reduce the number of periods and adjust the filing deadlines, maximum percentage of credit allocated, and the allocation dates.
- (2) The committee shall adopt a qualified allocation plan, as provided in Section 42(m)(1) of the Internal Revenue Code, relating to plans for allocation of credit among projects. In adopting this plan, the committee shall comply with the provisions of Sections 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code, relating to qualified allocation plan and relating to certain selection criteria must be used, respectively.
- (3) Notwithstanding Section 42(m) of the Internal Revenue Code, relating to responsibilities of housing credit agencies, the California Tax Credit Allocation Committee shall allocate housing credits in accordance with the qualified allocation plan and regulations, which shall include the following provisions:
- (A) All housing sponsors, as defined by paragraph (3) of subdivision (a), shall demonstrate at the time the application is filed with the committee that the project meets the following threshold requirements:
 - (i) The housing sponsor shall demonstrate that there is a need and demand for low-income housing in the community or region for which it is proposed.
 - (ii) The project's proposed financing, including tax credit proceeds, shall be sufficient to complete the project and that the proposed operating income shall be adequate to operate the project for the extended use period.
 - (iii) The project shall have enforceable financing commitments, either construction or permanent financing, for at least 50 percent of the total estimated financing of the project.
 - (iv) The housing sponsor shall have and maintain control of the site for the project.
 - (v) The housing sponsor shall demonstrate that the project complies with all applicable local land use and zoning ordinances.
 - (vi) The housing sponsor shall demonstrate that the project development team has the experience and the financial capacity to ensure project completion and operation for the extended use period.
 - (vii) The housing sponsor shall demonstrate the amount of tax credit that is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the extended use period, taking into account operating expenses, a supportable debt service, reserves, funds set aside for rental subsidies and required

equity, and a development fee that does not exceed a specified percentage of the eligible basis of the project prior to inclusion of the development fee in the eligible basis, as determined by the committee.

(B) The committee shall give a preference to those projects satisfying all of the threshold requirements of subparagraph (A) if both of the following apply:

- (i) The project serves the lowest income tenants at rents affordable to those tenants.
- (ii) The project is obligated to serve qualified tenants for the longest period.

(C) In addition to the provisions of subparagraphs (A) and (B), the committee shall use the following criteria in allocating housing credits:

- (i) Projects serving large families in which a substantial number, as defined by the committee, of all residential units are low-income units with three or more bedrooms.
- (ii) Projects providing single-room occupancy units serving very low income tenants.
- (iii) Existing projects that are "at risk of conversion," as defined by paragraph (6) of subdivision (c).
- (iv) Projects for which a public agency provides direct or indirect long-term financial support for at least 15 percent of the total project development costs or projects for which the owner's equity constitutes at least 30 percent of the total project development costs.
- (v) Projects that provide tenant amenities not generally available to residents of low-income housing projects.

(4) For purposes of allocating credits pursuant to this section, the committee shall not give preference to any project by virtue of the date of submission of its application.

(D) Subparagraphs (B) and (C) shall not apply to projects receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g).

(k) Section 42(l) of the Internal Revenue Code, relating to certifications and other reports to secretary, shall be modified as follows:

The term "secretary" shall be replaced by the term "Franchise Tax Board."

(l) In the case in which the credit allowed under this section exceeds the "net tax," the excess may be carried over to reduce the "net tax" in the following year, and succeeding years, if necessary, until the credit has been exhausted.

(m) A project that received an allocation of a 1989 federal housing credit dollar amount shall be eligible to receive an allocation of a 1990 state housing credit dollar amount, subject to all of the following conditions:

- (1) The project was not placed in service prior to 1990.
- (2) To the extent the amendments made to this section by the Statutes of 1990 conflict with any provisions existing in this section prior to those amendments, the prior provisions of law shall prevail.
- (3) Notwithstanding paragraph (2), a project applying for an allocation under this subdivision shall be subject to the requirements of paragraph (3) of subdivision (j).

(n) The credit period with respect to an allocation of credit in 1989 by the California Tax Credit Allocation Committee of which any amount is attributable to unallocated credit from 1987 or 1988 shall not begin until after December 31, 1989.

(o) The provisions of Section 11407(a) of Public Law 101-508, relating to the effective date of the extension of the low-income housing credit, apply to calendar years after 1989.

(p) The provisions of Section 11407(c) of Public Law 101-508, relating to election to accelerate credit, shall not apply.

(q) (1) (A) *(i)* For a project that receives a preliminary reservation under this section beginning on or after January 1, 2016, a taxpayer may elect in its application to the California Tax Credit Allocation Committee to sell all or any portion of any credit allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

(ii) (I) A taxpayer who has purchased a credit pursuant to this subdivision shall be eligible to claim any such credit commencing in the taxable year the building is placed in service and the federal credit period commences, notwithstanding that the certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) has not been issued by the California Tax Credit Allocation Committee, provided that the taxpayer that originally received the credit has filed a taxpayer certification with the California Tax Credit Allocation Committee and delivered a copy to the purchasing taxpayer. The Franchise Tax Board may, but shall not be required to, require submission of the taxpayer certification concurrently with the submission of the purchasing taxpayer's tax return in the first year the purchasing taxpayer claims the credit. The amount of credit claimed by the taxpayer shall not exceed the lesser of either of the following:

(ia) The applicable percentages for each of the four credit years, as specified in subdivision (c), multiplied by the qualified basis of the building set forth in the preliminary reservation.

(ib) The amount of credit the project is eligible for as stated in the taxpayer certification.

(II) The California Tax Credit Allocation Committee may elect to rely upon the taxpayer certification for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(III) The California Tax Credit Allocation Committee may, but is not required to, review the Taxpayer Certification and other information provided by the taxpayer who originally received the preliminary reservation of credits to confirm both of the following:

(ia) The calculations set forth in the Taxpayer Certification.

(ib) The amount of credits allocated to the project is consistent with applicable California Tax Credit Allocation Committee rules and regulations for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(IV) If the California Tax Credit Allocation Committee issues a certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) that is inconsistent with the taxpayer certification upon which a credit has been claimed, the taxpayer shall amend any previously filed tax returns to reflect the credit amount certified by the California Tax Credit Allocation Committee pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(V) For purposes of this clause, "taxpayer certification" means a certified statement from the certified public accountant of the taxpayer that originally received the preliminary reservation of credits. The taxpayer certification shall contain the amount of the credit the project is eligible for, the taxable year the building is placed in service, and the taxable year in which the federal credit period for the building has commenced.

(B) A credit that a taxpayer elects to sell all or a portion of pursuant to this subdivision shall be sold for consideration that is not less than 80 percent of the amount of the credit.

(C) A taxpayer shall not elect to sell all or any portion of any credit pursuant to this subdivision if the taxpayer did not make that election in its application submitted to the California Tax Credit Allocation Committee.

(2) (A) The taxpayer that originally received the credit shall report to the California Tax Credit Allocation Committee within 10 days of the sale of the credit, in the form and manner specified by the California Tax Credit Allocation Committee, all required information regarding the purchase and sale of the credit, including the social security or other taxpayer identification number of the unrelated party or parties to whom the credit has been sold, the face amount of the credit sold, and the amount of consideration received by the taxpayer for the sale of the credit.

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that have sold or purchased a credit pursuant to this subdivision.

(3) A credit may be sold pursuant to this subdivision to more than one unrelated party.

(4) Notwithstanding any other law, the taxpayer that originally received the credit that is sold pursuant to paragraph (1) shall remain solely liable for all obligations and liabilities imposed on the taxpayer by this section with respect to the credit, none of which shall apply to a party to whom the credit has been sold or subsequently transferred. Parties that purchase credits pursuant to paragraph (1) shall be entitled to utilize the purchased credits in the same manner in which the taxpayer that originally received the credit could utilize them.

(5) A taxpayer shall not sell a credit allowed by this section if the taxpayer was allowed the credit on any tax return of the taxpayer.

(r) The California Tax Credit Allocation Committee may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the California Tax Credit Allocation Committee pursuant to this section.

(s) The amendments to this section made by Chapter 1222 of the Statutes of 1993 apply only to taxable years beginning on or after January 1, 1994.

(t) This section shall remain in effect on and after December 1, 1990, for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credit, remains in effect. Any unused credit may continue to be carried forward, as provided in subdivision (l), until the credit has been exhausted.

SEC. 4. Section 23610.5 of the Revenue and Taxation Code is amended to read:

23610.5. (a) (1) There shall be allowed as a credit against the "tax," defined in Section 23036, a state low-income housing tax credit in an amount equal to the amount determined in subdivision (c), computed in accordance with Section 42 of the Internal Revenue Code, relating to low-income housing credit, except as otherwise provided in this section.

(2) "Taxpayer," for purposes of this section, means the sole owner in the case of a "C" corporation, the partners in the case of a partnership, and the shareholders in the case of an "S" corporation.

(3) "Housing sponsor," for purposes of this section, means the sole owner in the case of a "C" corporation, the partnership in the case of a partnership, and the "S" corporation in the case of an "S" corporation.

(b) (1) The amount of the credit allocated to any housing sponsor shall be authorized by the California Tax Credit Allocation Committee, or any successor thereof, based on a project's need for the credit for economic feasibility in accordance with the requirements of this section.

(A) The low-income housing project shall be located in California and shall meet either of the following requirements:

(i) Except for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, that are allocated credits solely under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code, the project's housing sponsor has been allocated by the California Tax Credit Allocation Committee a credit for federal income tax purposes under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(ii) It qualifies for a credit under Section 42(h)(4)(B) of the Internal Revenue Code, relating to special rule where 50 percent or more of building is financed with tax-exempt bonds subject to volume cap.

(B) The California Tax Credit Allocation Committee shall not require fees for the credit under this section in addition to those fees required for applications for the tax credit pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit. The committee may require a fee if the application for the credit under this section is submitted in a calendar year after the year the application is submitted for the federal tax credit.

(C) (i) For a project that receives a preliminary reservation of the state low-income housing tax credit, allowed pursuant to subdivision (a), on or after January 1, 2009, the credit shall be allocated to the partners of a partnership owning the project in accordance with the partnership agreement, regardless of how the federal low-income housing tax credit with respect to the project is allocated to the partners, or whether the allocation of the credit under the terms of the agreement has substantial economic effect, within the meaning of Section 704(b) of the Internal Revenue Code, relating to determination of distributive share.

(ii) To the extent the allocation of the credit to a partner under this section lacks substantial economic effect, any loss or deduction otherwise allowable under this part that is attributable to the sale or other disposition of that partner's partnership interest made prior to the expiration of the federal credit shall not be allowed in the taxable year in which the sale or other disposition occurs, but shall instead be deferred until and treated as if it occurred in the first taxable year immediately following the taxable year in which the federal credit period expires for the project described in clause (i).

(iii) This subparagraph shall not apply to a project that receives a preliminary reservation of state low-income housing tax credits under the set-aside described in subdivision (c) of Section 50199.20 of the Health and Safety Code unless the project also receives a preliminary reservation of federal low-income housing tax credits.

(2) (A) The California Tax Credit Allocation Committee shall certify to the housing sponsor the amount of tax credit under this section allocated to the housing sponsor for each credit period.

(B) In the case of a partnership or an "S" corporation, the housing sponsor shall provide a copy of the California Tax Credit Allocation Committee certification to the taxpayer.

(C) The taxpayer shall, upon request, provide a copy of the certification to the Franchise Tax Board.

(D) All elections made by the taxpayer pursuant to Section 42 of the Internal Revenue Code, relating to low-income housing credit, shall apply to this section.

(E) (i) Except as described in clause (ii) or (iii), for buildings located in designated difficult development areas (DDAs) or qualified census tracts (QCTs), as defined in Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, credits may be allocated under this section in the amounts prescribed in subdivision (c), provided that the amount of credit allocated under Section 42 of the Internal Revenue Code, relating to low-income housing credit, is computed on 100 percent of the qualified basis of the building.

(ii) Notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit for buildings located in DDAs or QCTs that are restricted to having 50 percent of the building's occupants be special needs households, as defined in the California Code of Regulations by the California Tax Credit Allocation Committee, or receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), even if the taxpayer receives federal credits pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, provided that the credit allowed under this section shall not exceed 30 percent of the eligible basis of the building.

(iii) On and after January 1, 2018, notwithstanding clause (i), the California Tax Credit Allocation Committee may allocate the credit pursuant to paragraph (7) of subdivision (c) even if the taxpayer receives federal credits, pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas.

(F) (i) The California Tax Credit Allocation Committee may allocate a credit under this section in exchange for a credit allocated pursuant to Section 42(d)(5)(B) of the Internal Revenue Code, relating to increase in credit for buildings in high-cost areas, in amounts up to 30 percent of the eligible basis of a building if the credits allowed under Section 42 of the Internal Revenue Code, relating to low-income housing credit, are reduced by an equivalent amount.

(ii) An equivalent amount shall be determined by the California Tax Credit Allocation Committee based upon the relative amount required to produce an equivalent state tax credit to the taxpayer.

(c) Section 42(b) of the Internal Revenue Code, relating to applicable percentage: 70 percent present value credit for certain new buildings; 30 percent present value credit for certain other buildings, shall be modified as follows:

(1) In the case of any qualified low-income building placed in service by the housing sponsor during 1987, the term "applicable percentage" means 9 percent for each of the first three years and 3 percent for the fourth year for new buildings (whether or not the building is federally subsidized) and for existing buildings.

(2) In the case of any qualified low-income building that receives an allocation after 1989 and is a new building not federally subsidized, the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are not federally subsidized for the taxable year, determined in accordance with the requirements of Section 42(b)(2) of the Internal Revenue Code, relating to temporary minimum credit rate for nonfederally subsidized new buildings, in lieu of the percentage prescribed in Section 42(b)(1)(A) of the Internal Revenue Code.

(B) For the fourth year, the difference between 30 percent and the sum of the applicable percentages for the first three years.

(3) In the case of any qualified low-income building that is a new building and is federally subsidized and receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g), the term "applicable percentage" means for the first three years, 9 percent of the qualified basis of the building, and for the fourth year, 3 percent of the qualified basis of the building.

(4) In the case of any qualified low-income building that receives an allocation after 1989 pursuant to subparagraph (A) of paragraph (1) of subdivision (g) and that is a new building that is federally subsidized or that is an existing building that is "at risk of conversion," the term "applicable percentage" means the following:

(A) For each of the first three years, the percentage prescribed by the Secretary of the Treasury for new buildings that are federally subsidized for the taxable year.

(B) For the fourth year, the difference between 13 percent and the sum of the applicable percentages for the first three years.

(5) In the case of any qualified low-income building that ~~receives an allocation pursuant to subparagraph (A) of paragraph (1) of subdivision (g) that~~ meets all of the requirements of subparagraphs (A) through (D), inclusive, the term "applicable percentage" means 30 percent for each of the first three years and 5 percent for the fourth year. A qualified low-income building receiving an allocation under this paragraph is ineligible to also receive an allocation under paragraph (3).

(A) The qualified low-income building is at least 15 years old.

(B) The qualified low-income building is either:

(i) Serving households of very low income or extremely low income such that the average maximum household income as restricted, pursuant to an existing regulatory agreement with a federal, state, county, local, or other governmental agency, is not more than 45 percent of the area median gross income, as determined under Section 42 of the Internal Revenue Code, relating to low-income housing credit, adjusted by household size, and a tax credit regulatory agreement is entered into for a period of not less than 55 years restricting the average targeted household income to no more than 45 percent of the area median income.

(ii) Financed under Section 514, or 521 of the National Housing Act of 1949 (42 U.S.C. Sec. 1485).

(C) The qualified low-income building would have insufficient credits under paragraphs (2) and (3) to complete substantial rehabilitation due to a low appraised value.

(D) The qualified low-income building will complete the substantial rehabilitation in connection with the credit allocation herein.

(6) For purposes of this section, the term "at risk of conversion," with respect to an existing ~~property~~ *property*, means a property that satisfies all of the following criteria:

(A) The property is a multifamily rental housing development in which at least 50 percent of the units receive governmental assistance pursuant to any of the following:

(i) New construction, substantial rehabilitation, moderate rehabilitation, property disposition, and loan management set-aside programs, or any other program providing project-based assistance pursuant to Section 8 of the United States

Housing Act of 1937, Section 1437f of Title 42 of the United States Code, as amended.

(ii) The Below-Market-Interest-Rate Program pursuant to Section 221(d)(3) of the National Housing Act, Sections 1715l(d)(3) and (5) of Title 12 of the United States Code.

(iii) Section 236 of the National Housing Act, Section 1715z-1 of Title 12 of the United States Code.

(iv) Programs for rent supplement assistance pursuant to Section 101 of the Housing and Urban Development Act of 1965, Section 1701s of Title 12 of the United States Code, as amended.

(v) Programs under Sections 514, 515, 516, 533, and 538 of the Housing Act of 1949 (Public Law 81-171), as amended.

(vi) The low-income housing credit program set forth in Section 42 of the Internal Revenue Code, relating to low-income housing credit, this section, and Sections 12206 and 17058.

(vii) Programs for loans or grants administered by the Department of Housing and Community Development.

(viii) Section 202 of the Housing Act of 1959 (12 U.S.C. Sec. 1701q), as amended.

(ix) Section 142(d) of the Internal Revenue Code or its predecessors.

(x) Section 147 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986 (Public Law 99-514), or as subsequently amended, including as amended by the Tax Cuts and Jobs Act of 2017 (Public Law 115-97) and all amendments enacted prior to the Tax Cuts and Jobs Act of 2017 (Public Law 115-97).

(xi) Title I of the Housing and Community Development Act of 1974, as amended.

(xii) Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990, as amended.

(xiii) Titles IV and V of the McKinney-Vento Homeless Assistance Act of 1987, as amended, including the Department of Housing and Urban Development's Supportive Housing Program, Shelter Plus Care Program, and surplus federal property disposition program.

(xiv) The following assistance provided by counties and cities in exchange for restrictions on the maximum rents that may be charged for units within a multifamily rental housing development and on the maximum tenant income as a condition of eligibility for occupancy of the unit subject to the rent restriction, as reflected by a recorded agreement with a county or city:

(I) Loans or grants provided using tax increment financing pursuant to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code).

(II) Local housing trust funds, as referred to in Section 50843 of the Health and Safety Code.

(III) The sale or lease of public property at or below market rates.

(IV) The granting of density bonuses, or concessions or incentives, including fee waivers, parking variances, or amendments to general plans, zoning, or redevelopment project area plans, pursuant to Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

(B) As used in subparagraph (A), "government assistance" shall not include the use of tenant-based housing choice vouchers under subsection (o) of Section 1437f of Title 42 of the United States Code, excluding subparagraph (13) relating to project-based assistance. Restrictions shall not include any rent control or rent stabilization ordinance imposed by a county or city.

(C) If the development is subject to restrictions on rent and income levels, 50 percent of the units are also restricted to initial occupancy by lower income households, as defined in Section 50079.5 of the Health and Safety Code.

(D) The restrictions on rent and income levels, excluding any restrictions recorded pursuant to paragraph (2) of subdivision (e) of Section 65863.11 or Section 65863.13 of the Government Code or in connection with interim or acquisition financing, will terminate or the federally insured mortgage or rent subsidy contract on the property is eligible for prepayment or termination any time within five years before or after the date of application to the California Tax Credit Allocation Committee.

(E) The entity acquiring the property enters into a regulatory agreement that requires the property to be operated in accordance with the requirements of Section 42 of the Internal Revenue Code and any further requirements added by the California Tax Credit Allocation Committee to implement the low-income housing tax credit established by Section 42 of the Internal Revenue Code (26 U.S.C. Sec. 42), this section, and Sections 12206 and 17058 pursuant to Chapter 3.6 (commencing with Section 50199.4) of Part 1 of Division 31 of the Health and Safety Code.

(F) The property satisfies the requirements of Section 42(e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, except that the provisions of Section 42(e)(3)(A)(ii)(I) shall not apply.

(7) On and after January 1, 2018, in the case of any qualified low-income building that is (A) farmworker housing, as defined by paragraph (2) of subdivision (h) of Section 50199.7 of the Health and Safety Code, and (B) is federally subsidized, the

term "applicable percentage" means for each of the first three years, 20 percent of the qualified basis of the building, and for the fourth year, 15 percent of the qualified basis of the building.

(d) The term "qualified low-income housing project" as defined in Section 42(c)(2) of the Internal Revenue Code, relating to qualified low-income building, is modified by adding the following requirements:

(1) The taxpayer shall be entitled to receive a cash distribution from the operations of the project, after funding required reserves, that, at the election of the taxpayer, is equal to:

(A) An amount not to exceed 8 percent of the lesser of:

(i) The owner equity, which shall include the amount of the capital contributions actually paid to the housing sponsor and shall not include any amounts until they are paid on an investor note.

(ii) Twenty percent of the adjusted basis of the building as of the close of the first taxable year of the credit period.

(B) The amount of the cashflow from those units in the building that are not low-income units. For purposes of computing cashflow under this subparagraph, operating costs shall be allocated to the low-income units using the "floor space fraction," as defined in Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(C) Any amount allowed to be distributed under subparagraph (A) that is not available for distribution during the first 5 years of the compliance period may be accumulated and distributed any time during the first 15 years of the compliance period but not thereafter.

(2) The limitation on return shall apply in the aggregate to the partners if the housing sponsor is a partnership and in the aggregate to the shareholders if the housing sponsor is an "S" corporation.

(3) The housing sponsor shall apply any cash available for distribution in excess of the amount eligible to be distributed under paragraph (1) to reduce the rent on rent-restricted units or to increase the number of rent-restricted units subject to the tests of Section 42(g)(1) of the Internal Revenue Code, relating to in general.

(e) The provisions of Section 42(f) of the Internal Revenue Code, relating to definition and special rules relating to credit period, shall be modified as follows:

(1) The term "credit period" as defined in Section 42(f)(1) of the Internal Revenue Code, relating to credit period defined, is modified by substituting "four taxable years" for "10 taxable years."

(2) The special rule for the first taxable year of the credit period under Section 42(f)(2) of the Internal Revenue Code, relating to special rule for 1st year of credit period, shall not apply to the tax credit under this section.

(3) Section 42(f)(3) of the Internal Revenue Code, relating to determination of applicable percentage with respect to increases in qualified basis after 1st year of credit period, is modified to read:

If, as of the close of any taxable year in the compliance period, after the first year of the credit period, the qualified basis of any building exceeds the qualified basis of that building as of the close of the first year of the credit period, the housing sponsor, to the extent of its tax credit allocation, shall be eligible for a credit on the excess in an amount equal to the applicable percentage determined pursuant to subdivision (c) for the four-year period beginning with the later of the taxable years in which the increase in qualified basis occurs.

(f) The provisions of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, shall be modified as follows:

(1) Section 42(h)(2) of the Internal Revenue Code, relating to allocated credit amount to apply to all taxable years ending during or after credit allocation year, does not apply and instead the following provisions apply:

The total amount for the four-year credit period of the housing credit dollars allocated in a calendar year to any building shall reduce the aggregate housing credit dollar amount of the California Tax Credit Allocation Committee for the calendar year in which the allocation is made.

(2) Paragraphs (3), (4), (5), (6)(E)(i)(II), (6)(F), (6)(G), (6)(I), (7), and (8) of Section 42(h) of the Internal Revenue Code, relating to limitation on aggregate credit allowable with respect to projects located in a state, do not apply to this section.

(g) The aggregate housing credit dollar amount that may be allocated annually by the California Tax Credit Allocation Committee pursuant to this section, Section 12206, and Section 17058 shall be an amount equal to the sum of all the following:

(1) (A) Seventy million dollars (\$70,000,000) for the 2001 calendar year, and, for the 2002 calendar year and each calendar year thereafter, seventy million dollars (\$70,000,000) increased by the percentage, if any, by which the Consumer Price Index for the preceding calendar year exceeds the Consumer Price Index for the 2001 calendar year. For the purposes of this paragraph, the term "Consumer Price Index" means the last Consumer Price Index for All Urban Consumers published by the federal Department of Labor.

(B) Five hundred million dollars (\$500,000,000) for the 2020 calendar year, and up to five hundred million dollars (\$500,000,000) for the 2021 calendar year and every year thereafter. Allocations shall only be available pursuant to this

subparagraph in the 2021 calendar year and thereafter if the annual Budget Act, or if any bill providing for appropriations related to the Budget Act, specifies an amount to be available for allocation in that calendar year by the California Tax Credit Allocation Committee, and after the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee have adopted increasing production and containing regulations, rules, or guidelines to align the programs of both committees with the objective of increasing production and containing costs as described in clause (iii). The California Tax Credit Allocation Committee shall accept applications for the 2021 calendar year not sooner than 30 days after these regulations, rules, or guidelines have been adopted. The California Debt Limit Allocation Committee shall not accept applications for the 2021 calendar year for bond allocations for an eligible project under this section prior to issuing, reviewing, and publishing a new tax-exempt private activity bond demand survey. ~~Except as provided in clause (vi), a~~ housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall not be eligible for receipt of the housing credit allocated from the increased amount under this subparagraph. A housing sponsor receiving a nonfederally subsidized allocation under subdivision (c) shall remain eligible for receipt of the housing credit allocated from the credit ceiling amount under subparagraph (A).

(i) Eligible projects for allocations under this subparagraph include any new building, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to newly constructed buildings, and the regulations promulgated thereunder, excluding rehabilitation expenditures under Section 42 (e) of the Internal Revenue Code, relating to rehabilitation expenditures treated as separate new building, and is federally subsidized. Eligible projects for allocations under this subparagraph also include any retrofitting and repurposing of existing nonresidential structures, including, but not limited to, hotels and motels, that were converted to residential use within the previous five years from the date of the application.

(ii) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2020 calendar year, the California Tax Credit Allocation Committee shall consider projects located throughout the state and shall allocate housing credits, subject to the minimum federal requirements as set forth in Sections 42 and 142 of the Internal Revenue Code, the minimum requirements set forth in Sections 5033 and 5190 of the California Debt Limit Allocation Committee regulations, and the minimum set forth in Section 10326 of the Tax Credit Allocation Committee regulations, for projects that can begin construction within 180 days from award, subject to availability of funds.

(iii) (I) Notwithstanding any other provision of this section, for allocations pursuant to this subparagraph for the 2021 calendar year and thereafter, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee shall develop and prescribe regulations, rules, or guidelines, necessary to implement a new allocation methodology that is aimed at increasing production and containing costs, which would include a scoring system that maximizes the efficient use of public subsidy and benefit created through the private activity bond and low-income housing tax credit programs. The factors for determining the efficient use of public subsidy and benefit shall include, but not be limited to, all of the following:

- (ia) The number and size of units developed including local incentives provided to increase density.
- (ib) The proximity to amenities, jobs, and public transportation.
- (ic) The location of the development.
- (id) The delivery of housing affordable to very low and extremely low income households by the development.

(II) The efficient use of public subsidy and benefit criteria specified in this clause shall take into account the total state subsidy provided and prioritize cost containment and increased unit production. These regulations, rules, or guidelines developed pursuant to this subparagraph shall also consider updated definitions for at-risk preservation and new construction.

(III) For bond allocations for the 2021 calendar year to projects eligible for an allocation under this subparagraph, the California Debt Limit Allocation Committee may adopt emergency regulations.

(iv) Of the amount available pursuant to this subparagraph, and notwithstanding any other requirement of this section, the California Tax Credit Allocation Committee may allocate up to two hundred million dollars (\$200,000,000) for housing financed by the California Housing Finance Agency under its Mixed-Income Program.

(v) (I) For the calendar years of 2024 to 2034, inclusive, of the amount available pursuant to this subparagraph, the lesser of 5 percent of that amount or twenty-five million dollars (\$25,000,000) per calendar year shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code, and administered consistent with the credits available pursuant to paragraph (4).

(II) Any credits pursuant to this clause that remain unallocated following the conclusion of a funding round shall roll over to consecutive subsequent funding rounds in that calendar year with the exception that any credits that remain unallocated prior to the final funding round in that calendar year shall be added back to the aggregate amount of credits that may be allocated pursuant to this subparagraph.

(III) For the 2035 calendar year, and every year thereafter, of the amount available pursuant to this subparagraph, a portion of the amount allocated shall be set aside for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code. The amount set aside shall be determined by the Legislature upon consideration of the comprehensive strategy, or most recent update thereof, provided by the

Department of Housing and Community Development pursuant to subdivision (c) of Section 50408.5 of the Health and Safety Code.

(vi) (I) For any calendar year in which the California Debt Limit Allocation Committee has declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, the California Tax Credit Allocation Committee may allocate some or all of the credits allocated under this subparagraph, except for any credits allocated for housing financed by the California Housing Finance Agency under its Mixed-Income Program, for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit, and shall allocate the remainder of these credits for new buildings, as defined in Section 42(i)(4) of the Internal Revenue Code, relating to new buildings, that are federally subsidized and that can begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(II) For any calendar year in which the California Debt Limit Allocation Committee has not declared a competition for the award of tax-exempt bond authority for qualified residential rental projects, projects receiving an award of credits pursuant to this subparagraph shall begin construction within a reasonable time, as determined by the California Tax Credit Allocation Committee.

(III) Notwithstanding subclauses (I) and (II), if credits available under this subparagraph remain unallocated after the final California Debt Limit Allocation Committee round for qualified residential rental projects in a given calendar year, the California Tax Credit Allocation Committee may allocate some or all of the remaining credits for nonfederally subsidized buildings eligible for credits under Section 42 of the Internal Revenue Code, relating to low-income housing credit.

(2) The unused housing credit ceiling, if any, for the preceding calendar years.

(3) The amount of housing credit ceiling returned in the calendar year. For purposes of this paragraph, the amount of housing credit dollar amount returned in the calendar year equals the housing credit dollar amount previously allocated to any project that does not become a qualified low-income housing project within the period required by this section or to any project with respect to which an allocation is canceled by mutual consent of the California Tax Credit Allocation Committee and the allocation recipient.

(4) Five hundred thousand dollars (\$500,000) per calendar year for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(5) The amount of any unallocated or returned credits under former Sections 17053.14, 23608.2, and 23608.3, as those sections read prior to January 1, 2009, until fully exhausted for projects to provide farmworker housing, as defined in subdivision (h) of Section 50199.7 of the Health and Safety Code.

(h) The term "compliance period" as defined in Section 42(i)(1) of the Internal Revenue Code, relating to compliance period, is modified to mean, with respect to any building, the period of 30 consecutive taxable years beginning with the first taxable year of the credit period with respect thereto.

(i) Section 42(j) of the Internal Revenue Code, relating to recapture of credit, shall not be applicable and the following shall be substituted in its place:

The requirements of this section shall be set forth in a regulatory agreement between the California Tax Credit Allocation Committee and the housing sponsor, and the regulatory agreement shall be subordinated, when required, to any lien or encumbrance of any banks or other institutional lenders to the project. The regulatory agreement entered into pursuant to subdivision (f) of Section 50199.14 of the Health and Safety Code shall apply, provided that the agreement includes all of the following provisions:

(1) A term not less than the compliance period.

(2) A requirement that the agreement be recorded in the official records of the county in which the qualified low-income housing project is located.

(3) A provision stating which state and local agencies can enforce the regulatory agreement in the event the housing sponsor fails to satisfy any of the requirements of this section.

(4) A provision that the regulatory agreement shall be deemed a contract enforceable by tenants as third-party beneficiaries thereto and that allows individuals, whether prospective, present, or former occupants of the building, who meet the income limitation applicable to the building, the right to enforce the regulatory agreement in any state court.

(5) A provision incorporating the requirements of Section 42 of the Internal Revenue Code, relating to low-income housing credit, as modified by this section.

(6) A requirement that the housing sponsor notify the California Tax Credit Allocation Committee or its designee if there is a determination by the Internal Revenue Service that the project is not in compliance with Section 42(g) of the Internal Revenue Code, relating to qualified low-income housing project.

(7) A requirement that the housing sponsor, as security for the performance of the housing sponsor's obligations under the regulatory agreement, assign the housing sponsor's interest in rents that it receives from the project, provided that until there

is a default under the regulatory agreement, the housing sponsor is entitled to collect and retain the rents.

(8) A provision that the remedies available in the event of a default under the regulatory agreement that is not cured within a reasonable cure period include, but are not limited to, allowing any of the parties designated to enforce the regulatory agreement to collect all rents with respect to the project; taking possession of the project and operating the project in accordance with the regulatory agreement until the enforcer determines the housing sponsor is in a position to operate the project in accordance with the regulatory agreement; applying to any court for specific performance; securing the appointment of a receiver to operate the project; or any other relief as may be appropriate.

(j) (1) The committee shall allocate the housing credit on a regular basis consisting of two or more periods in each calendar year during which applications may be filed and considered. The committee shall establish application filing deadlines, the maximum percentage of federal and state low-income housing tax credit ceiling that may be allocated by the committee in that period, and the approximate date on which allocations shall be made. If the enactment of federal or state law, the adoption of rules or regulations, or other similar events prevent the use of two allocation periods, the committee may reduce the number of periods and adjust the filing deadlines, maximum percentage of credit allocated, and allocation dates.

(2) The committee shall adopt a qualified allocation plan, as provided in Section 42(m)(1) of the Internal Revenue Code, relating to plans for allocation of credit among projects. In adopting this plan, the committee shall comply with the provisions of Sections 42(m)(1)(B) and 42(m)(1)(C) of the Internal Revenue Code, relating to qualified allocation plan and relating to certain selection criteria must be used, respectively.

(3) Notwithstanding Section 42(m) of the Internal Revenue Code, relating to responsibilities of housing credit agencies, the California Tax Credit Allocation Committee shall allocate housing credits in accordance with the qualified allocation plan and regulations, which shall include the following provisions:

(A) All housing sponsors, as defined by paragraph (3) of subdivision (a), shall demonstrate at the time the application is filed with the committee that the project meets the following threshold requirements:

(i) The housing sponsor shall demonstrate there is a need and demand for low-income housing in the community or region for which it is proposed.

(ii) The project's proposed financing, including tax credit proceeds, shall be sufficient to complete the project and that the proposed operating income shall be adequate to operate the project for the extended use period.

(iii) The project shall have enforceable financing commitments, either construction or permanent financing, for at least 50 percent of the total estimated financing of the project.

(iv) The housing sponsor shall have and maintain control of the site for the project.

(v) The housing sponsor shall demonstrate that the project complies with all applicable local land use and zoning ordinances.

(vi) The housing sponsor shall demonstrate that the project development team has the experience and the financial capacity to ensure project completion and operation for the extended use period.

(vii) The housing sponsor shall demonstrate the amount of tax credit that is necessary for the financial feasibility of the project and its viability as a qualified low-income housing project throughout the extended use period, taking into account operating expenses, a supportable debt service, reserves, funds set aside for rental subsidies and required equity, and a development fee that does not exceed a specified percentage of the eligible basis of the project prior to inclusion of the development fee in the eligible basis, as determined by the committee.

(B) The committee shall give a preference to those projects satisfying all of the threshold requirements of subparagraph (A) if both of the following apply:

(i) The project serves the lowest income tenants at rents affordable to those tenants.

(ii) The project is obligated to serve qualified tenants for the longest period.

(C) In addition to the provisions of subparagraphs (A) and (B), the committee shall use the following criteria in allocating housing credits:

(i) Projects serving large families in which a substantial number, as defined by the committee, of all residential units are low-income units with three or more bedrooms.

(ii) Projects providing single-room occupancy units serving very low income tenants.

(iii) Existing projects that are "at risk of conversion," as defined by paragraph (6) of subdivision (c).

(iv) Projects for which a public agency provides direct or indirect long-term financial support for at least 15 percent of the total project development costs or projects for which the owner's equity constitutes at least 30 percent of the total project development costs.

(v) Projects that provide tenant amenities not generally available to residents of low-income housing projects.

(D) Subparagraph (B) and (C) shall not apply to projects receiving an allocation pursuant to subparagraph (B) of paragraph (1) of subdivision (g).

(4) For purposes of allocating credits pursuant to this section, the committee shall not give preference to any project by virtue of the date of submission of its application except to break a tie when two or more of the projects have an equal rating.

(5) Not less than 20 percent of the low-income housing tax credits available annually under this section, Section 12206, and Section 17058 shall be set aside for allocation to rural areas as defined in Section 50199.21 of the Health and Safety Code. Any amount of credit set aside for rural areas remaining on or after October 31 of any calendar year shall be available for allocation to any eligible project. No amount of credit set aside for rural areas shall be considered available for any eligible project so long as there are eligible rural applications pending on October 31.

(k) Section 42(l) of the Internal Revenue Code, relating to certifications and other reports to secretary, shall be modified as follows:

The term "secretary" shall be replaced by the term "Franchise Tax Board."

(l) In the case in which the credit allowed under this section exceeds the "tax," the excess may be carried over to reduce the "tax" in the following year, and succeeding years, if necessary, until the credit has been exhausted.

(m) A project that received an allocation of a 1989 federal housing credit dollar amount shall be eligible to receive an allocation of a 1990 state housing credit dollar amount, subject to all of the following conditions:

(1) The project was not placed in service prior to 1990.

(2) To the extent the amendments made to this section by the Statutes of 1990 conflict with any provisions existing in this section prior to those amendments, the prior provisions of law shall prevail.

(3) Notwithstanding paragraph (2), a project applying for an allocation under this subdivision shall be subject to the requirements of paragraph (3) of subdivision (j).

(n) The credit period with respect to an allocation of credit in 1989 by the California Tax Credit Allocation Committee of which any amount is attributable to unallocated credit from 1987 or 1988 shall not begin until after December 31, 1989.

(o) The provisions of Section 11407(a) of Public Law 101-508, relating to the effective date of the extension of the low-income housing credit, apply to calendar years after 1989.

(p) The provisions of Section 11407(c) of Public Law 101-508, relating to election to accelerate credit, shall not apply.

(q) (1) A corporation may elect to assign any portion of any credit allowed under this section to one or more affiliated corporations for each taxable year in which the credit is allowed. For purposes of this subdivision, "affiliated corporation" has the meaning provided in subdivision (b) of Section 25110, as that section was amended by Chapter 881 of the Statutes of 1993, as of the last day of the taxable year in which the credit is allowed, except that "100 percent" is substituted for "more than 50 percent" wherever it appears in the section, as that section was amended by Chapter 881 of the Statutes of 1993, and "voting common stock" is substituted for "voting stock" wherever it appears in the section, as that section was amended by Chapter 881 of the Statutes of 1993.

(2) The election provided in paragraph (1):

(A) May be based on any method selected by the corporation that originally receives the credit.

(B) Shall be irrevocable for the taxable year the credit is allowed, once made.

(C) May be changed for any subsequent taxable year if the election to make the assignment is expressly shown on each of the returns of the affiliated corporations that assign and receive the credits.

(r) (1) (A) (i) For a project that receives a preliminary reservation under this section beginning on or after January 1, 2016, a taxpayer may elect in its application to the California Tax Credit Allocation Committee to sell all or any portion of any credit allowed, subject to subparagraphs (B) and (C). The taxpayer may, only once, revoke an election to sell pursuant to this subdivision at any time before the California Tax Credit Allocation Committee allocates a final credit amount for the project pursuant to this section, at which point the election shall become irrevocable.

(ii) (I) A taxpayer who has purchased a credit pursuant to this subdivision shall be eligible to claim any such credit commencing in the taxable year the building is placed in service and the federal credit period commences, notwithstanding that the certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) has not been issued by the California Tax Credit Allocation Committee, provided that the taxpayer that originally received the credit has filed a taxpayer certification with the California Tax Credit Allocation Committee and delivered a copy to the purchasing taxpayer. The Franchise Tax Board may, but shall not be required to, require submission of the taxpayer certification concurrently with the submission of the purchasing taxpayer's tax return in the first year the purchasing taxpayer claims the credit. The amount of credit claimed by the taxpayer shall not exceed the lesser of either of the following:

(ia) The applicable percentages for each of the four credit years, as specified in subdivision (c), multiplied by the qualified basis of the building set forth in the preliminary reservation.

(ib) The amount of credit the project is eligible for as stated in the taxpayer certification.

(II) The California Tax Credit Allocation Committee may elect to rely upon the taxpayer certification for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(III) The California Tax Credit Allocation Committee may, but is not required to, review the Taxpayer Certification and other information provided by the taxpayer who originally received the preliminary reservation of credits to confirm both of the following:

(ia) The calculations set forth in the Taxpayer Certification.

(ib) The amount of credits allocated to the project is consistent with applicable California Tax Credit Allocation Committee rules and regulations for the purposes of making the certification required pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(IV) If the California Tax Credit Allocation Committee issues a certification pursuant to subparagraph (A) of paragraph (2) of subdivision (b) that is inconsistent with the taxpayer certification upon which a credit has been claimed, the taxpayer shall amend any previously filed tax returns to reflect the credit amount certified by the California Tax Credit Allocation Committee pursuant to subparagraph (A) of paragraph (2) of subdivision (b).

(V) For purposes of this clause, "taxpayer certification" means a certified statement from the certified public accountant of the taxpayer that originally received the preliminary reservation of credits. The taxpayer certification shall contain the amount of the credit the project is eligible for, the taxable year the building is placed in service, and the taxable year in which the federal credit period for the building has commenced.

(B) A credit that a taxpayer elects to sell all or a portion of pursuant to this subdivision shall be sold for consideration that is not less than 80 percent of the amount of the credit.

(C) A taxpayer shall not elect to sell all or any portion of any credit pursuant to this subdivision if the taxpayer did not make that election in its application submitted to the California Tax Credit Allocation Committee.

(2) (A) The taxpayer that originally received the credit shall report to the California Tax Credit Allocation Committee within 10 days of the sale of the credit, in the form and manner specified by the California Tax Credit Allocation Committee, all required information regarding the purchase and sale of the credit, including the social security or other taxpayer identification number of the unrelated party or parties to whom the credit has been sold, the face amount of the credit sold, and the amount of consideration received by the taxpayer for the sale of the credit.

(B) The California Tax Credit Allocation Committee shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Tax Credit Allocation Committee and the Franchise Tax Board, of the taxpayers that have sold or purchased a credit pursuant to this subdivision.

(3) A credit may be sold pursuant to this subdivision to more than one unrelated party.

(4) Notwithstanding any other law, the taxpayer that originally received the credit that is sold pursuant to paragraph (1) shall remain solely liable for all obligations and liabilities imposed on the taxpayer by this section with respect to the credit, none of which shall apply to a party to whom the credit has been sold or subsequently transferred. Parties that purchase credits pursuant to paragraph (1) shall be entitled to utilize the purchased credits in the same manner in which the taxpayer that originally received the credit could utilize them.

(5) A taxpayer shall not sell a credit allowed by this section if the taxpayer was allowed the credit on any tax return of the taxpayer.

(s) The California Tax Credit Allocation Committee may prescribe rules, guidelines, or procedures necessary or appropriate to carry out the purposes of this section, including any guidelines regarding the allocation of the credit allowed under this section. Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code shall not apply to any rule, guideline, or procedure prescribed by the California Tax Credit Allocation Committee pursuant to this section.

(t) Any unused credit may continue to be carried forward, as provided in subdivision (I), until the credit has been exhausted.

(u) This section shall remain in effect on and after December 1, 1990, for as long as Section 42 of the Internal Revenue Code, relating to low-income housing credit, remains in effect.

(v) The amendments to this section made by Chapter 1222 of the Statutes of 1993 shall apply only to taxable years beginning on or after January 1, 1994, except that paragraph (1) of subdivision (q), as amended, shall apply to taxable years beginning on or after January 1, 1993.