TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING

Tuesday, January 13, 2004
Waller Creek Office Building
507 Sabine Street, Room 437
Austin, Texas

BOARD:

BETH ANDERSON, Chair
C. KENT CONINE
NORBERTO SALINAS
SHAD BOGANY
PATRICK GORDON

STAFF:

EDWINA CARRINGTON, Executive Director
TOM GOURIS
BYRON JOHNSON
SARAH ANDERSON
SUE CAVAZOS
CHRIS WITTMAYER, General Counsel

A G E N D A

P R O C E E D I N G S

MS. ANDERSON: Good morning. I call to order the board meeting of the Texas Department of Housing and Community Affairs for January 13th.

The first item of business is the roll call. Beth Anderson, present. Kent Conine?

MR. CONINE: Here.

MS. ANDERSON: Shad Bogany?

MR. BOGANY: Here.

MS. ANDERSON: Vidal Gonzalez --

(No response.)

MS. ANDERSON: -- is absent. Patrick Gordon?

MR. GORDON: Here.

MS. ANDERSON: Mayor Salinas?

MR. SALINAS: Here.

MS. ANDERSON: We have five members present, one absent. We do have a quorum present.

At this time the board will solicit public comment. I have a good number of witness affirmation forms, so I'm going to ask that in the interest of time that we will today limit public comment, individual's public comment to three minutes.

And I appreciate your understanding why we need to do that. So that we can hear from everybody that would like to make public comment.

You have the option of making public comment here at the beginning of the meeting or at the time that each agenda item is introduced to be considered by the board. So I'm going to read the names of people who have submitted witness affirmation forms and you may speak now or at the agenda item.

Robert Chavira? Item number three?

MR. CHAVIRA: Here.

MS. ANDERSON: Dora Ellis?

MS. ELLIS: I'm here.

MS. ANDERSON: Will you speak now, ma'am?

MS. ELLIS: At the time of our item.

MS. ANDERSON: Okay. Gary Dugger?

MR. DUGGER: Here.

MS. ANDERSON: Speak now, sir?

MR. DUGGER: At the agenda item, if possible.

MS. ANDERSON: Trent Townsend?

MR. TOWNSEND: At the item, please.

MS. ANDERSON: Okay. Sharon Shields? At the agenda item, or now?

MS. SHIELDS: Now, if I might.

MS. ANDERSON: Okay, great.

MS. SHIELDS: My name is Shannon Shields and I am Chief of Staff for State Representative Bill Zedler. I am here today on his behalf in representing the Kennedale

Independent School District regarding Agenda Item 4 A1, the proposed issuance of multi-family mortgage revenue bonds for Addison Park Apartments in Arlington, Texas, in an amount not to exceed $14 million in issuance and determination notice in the amount of $620,571 for housing tax credits for Addison Park Apartments, with TDHCA as the issuer.

The concern that Kennedale Independent School District has brought to our office and the other elected officials who represent them is that Kennedale Independent School District, although this housing development is listed in Arlington, is extremely small. And the influx of students that a development of this size would put into their district, they do not have the space, the staff or the funds to adequately serve.

So it would compromise the level of education that they are providing. What I would like to present is a copy of the letter, to be read for the record, that Representative Zedler submitted to the board on December 18, regarding Addison Park.

"Dear Board Members, Park Development is requesting tax-exempt bonds for a property located within the Kennedale Independent School District. As State Representative of this area, my concern is that it will be extremely difficult for Kennedale Independent School

District to provide for the children that will live in that proposed development.

"The Kennedale School Board has expressed to me a great negative impact that this development could bring. A housing development such as a senior center, however, would have virtually no impact, since the issue solely regards the school district.

"As the Addison Park proposal stands, we recommend that the Board please deny the tax-exempt bonds. Thank you for both your consideration and your service on the Board. Sincerely, State Representative Bill Zedler, District 96."

MS. ANDERSON: Thank you.

Any questions for the witness? Thank you very much.

Cliff Bates?

MR. BATES: At the time of the agenda item.

MS. ANDERSON: Michael Eaton?

MR. EATON: Defer to the agenda item, please.

MS. ANDERSON: Chip Triplett?

MR. TRIPLETT: I would like also to defer to the agenda item.

MS. ANDERSON: Ryan Wilson?

MR. WILSON: I'll defer to the agenda item.

MS. ANDERSON: David Sepulveda?

MR. SEPULVEDA: I'll defer to the agenda item.

MS. ANDERSON: Eugene Thomas?

MR. THOMAS: I'll defer to the agenda item.

MS. ANDERSON: Bill Fisher?

MR. FISHER: The agenda item.

MS. ANDERSON: Reverend H. J. Johnson?

REV. JOHNSON: Can I speak now?

MS. ANDERSON: You bet, sir. Thank you.

REV. JOHNSON: I am the Reverend H. J. Johnson, Of course, let me say good morning, and Happy New Year to each of you and allow me, I hope this is not part of my three minutes. But let me, number one, thank you for what you did.

Not only do I represent Sylvester Turner and the Baptist Ministers' Union of Houston and vicinity and the Maxima Housing and Economic Development Group of Texas, but I personally represent myself in my thanks to you, because I am one of those persons who was a victim of poor housing.

I had to fight as to whether I or the rats was going to sleep in my bed at night. So, I want to thank you for what you did.

Of course, Sylvester Turner, our state representative, supports this project at Providence at Veterans Memorial, in Houston, Texas. And I'd like to pass a letter out, of support, several letters of support, Madam Chair, if I may.

I don't know. At this time, may I do that?

MS. ANDERSON: You bet. Yes, sir.

REV. JOHNSON: Okay. All right. Number one, while you are receiving those letters of support, Sylvester Turner, our state representative, has given his absolute support.

In fact, he encourages this kind of development in the Houston area. And of course, as you read the letter, you will discover that he has met at several neighbor meetings, of course.

And they are in support of this as well. And later on, someone will speak in reference to our State Congressperson Sheila Jackson Lee, who has also given me a letter of support, the Baptist Minister's Association that takes up Houston and vicinity. Many of our churches are in this immediate area.

We do support because we have a special group that talks about housing and development in all of our neighborhoods. So I am asking, really, that you will continue the good work that you are doing and support this development that is Providence at Veterans' Memorial.

It is well needed, and of course, they are giving us strong and definite signs that they will be an excellent neighbor for this particular area of Houston. Thank you very kindly, and may God bless you real good. Any questions?

(No response.)

REV. JOHNSON: Thank you.

MS. ANDERSON: Brent Stewart?

MR. STEWART: Only if there are questions.

MS. ANDERSON: Okay. Thank you.

Darrell Jack?

MR. JACK: I'll defer to the item, please.

MS. ANDERSON: Clifton Phillips?

MR. PHILLIPS: I'll defer to the item.

MS. ANDERSON: Ted Stokely?

MR. STOKELY: Defer to the item.

MS. ANDERSON: Tammie Goldston?

MS. GOLDSTON: Defer to the item.

MS. ANDERSON: Kelly Hunt?

MS. HUNT: Defer to the item, please.

MS. ANDERSON: Michael Eaton?

MR. EATON: I'll defer to that agenda item as well.

MS. ANDERSON: Cherno Njie?

MR. NJIE: Good morning, Board members. I am here to speak on behalf of business item 5c.

I wish to withdraw that item for consideration today, for the notice. And that is all I have.

MR. CONINE: He's withdrawn that, isn't it? 5c?

MS. ANDERSON: Yes. Item 5c, number 3. Little York Villas in Houston.

MR. CONINE: Okay.

MR. NJIE: Yes. I need to provide additional documentation to the Department.

MS. ANDERSON: Okay.

Mr. Ketchum? I'm sorry. Is it Kennis?

MS. KETCHUM: Exactly.

MS. ANDERSON: Now, or at the agenda item?

MS. KETCHUM: I'll defer to the agenda item.

MS. ANDERSON: Tom McMullen?

MR. MCMULLEN: I'd like to defer.

MS. ANDERSON: Okay. Are there any other witness affirmation forms. Did I miss calling anyone's name? Okay.

Then we will conclude public comment and as I mentioned before, you have the opportunity to make public comment as we consider each agenda item. Item number one on the agenda is presentation, discussion and possible approval of the minutes of the board meeting of December 11, 2003.

MR. BOGANY: So moved.

MR. CONINE: Second.

MS. ANDERSON: It's been moved and seconded to approve the minutes. Any discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we're ready to vote. All in favor, say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed?

(No response.)

MS. ANDERSON: The motion carries. Item number two is presentation, discussion and possible approval of the interagency contract with the Texas Department of Housing and Community Affairs and the Office of Rural Community Affairs on the Housing Tax Credit rural regional allocation. Ms. Carrington?

MS. CARRINGTON: Thank you, Madam Chair. As we begin the meeting this morning, I would like to note for the board that you may look at the audience and recognize that you don't see a lot of familiar staff faces out there.

There has not been any kind of mass exodus, except that they're in very cold Washington, D.C. The National Council of State Housing Agencies once a year has a series of meetings that are for housing finance agency staff only, where they have an opportunity to have dialogue with the Internal Revenue Service, with HUD, with attorneys and others who are well versed in the variety of programs that we administer.

And TDHCA does have a number of senior staff at those meetings this week. However, with that said, as I look around, I get great comfort in knowing that that senior staff has left very competent, qualified backup so if we do have particular questions on items, we do indeed have staff resources to be able to answer those questions.

With that, the interagency contract between TDHCA and ORCA, our statute 2306, says that we will jointly administer any set-aside for the rural areas in the low income housing tax credit program with the Office of Rural Community Affairs. This is the second year for this memorandum of understanding.

And while our statute doesn't say that we must memorialize how we will jointly administer an MOU, we have chosen to use the memorandum of understanding process to do that. If you will turn the page, you do have a copy of the blackline of the MOU.

And there are really three changes from last year. The reference to the set-aside has been removed, because if you will remember, in the tax credit program, we called that the rural regional allocation.

Also the reference to low income housing tax credits in our QAP this year, we changed that reference to housing tax credit. And in section three, we had said very specifically what will happen if the rural regional allocation is undersubscribed.

And any undersubscribed in that area will go to the urban/exurban regional part of the state. With that, I would ask the Board if there are any questions and staff is recommending approval of this MOU for the second year with ORCA.

MR. BOGANY: So moved.

MR. CONINE: Second.

MS. ANDERSON: It's been moved and seconded that the MOU be adopted. Any discussion?

(No response.)

MS. ANDERSON: Hearing none, I'll assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Before I go to item number three, I want to welcome Beau Rothchild and Liza Gonzales.

Beau, he is the Committee Clerk for the House Urban Affairs committee. Liza Gonzales is with the Governor's office.

We appreciate the time and attention you give to housing issues in support for this agency and we appreciate you being here this morning.

Item number three is presentation, discussion and possible approval of the Program Committee report.

Mr. Conine? And also a programmatic item from the multi-family division.

MR. CONINE: Thank you, Madam Chair. Before I get started, I'd like to for the record say that, if you will remember, at our last meeting we had a cell phone that went off in the audience of one of our staff members, Gordon Anderson. John Henneberger will be glad to know that here's the first payment towards the Housing Trust Fund of that particular fine.

And he said that his phone is on silent today. So we got us a contribution to the Housing Trust Fund.

The Program Committee met today and for the board's knowledge, we're going to try to make a thorough review of all our programs this year and report back to the board progress reports as the year goes forward. The first one we're going to take a look at is the Bond Program.

We've been trying to get a seminar put together, and I think at our February meeting, we're going to be able to do that. And then we're going to take a look at the HOME Program and some of the various aspects of that.

And this will be an ongoing thing as time goes along. And hopefully, throughout the year, we'll get through most of the programs that the agency participates in and had a chance to scrub and review and take a fresh look at some of the stuff we've been doing over the years.

So, I'm looking forward to that effort along with the rest of the Programs Committee. And now we've got an appeal for Star Village.

Ms. Carrington, do you want to handle that?

MS. CARRINGTON: May I ask? There are two people who would like to comment on this agenda item. I neglected to --

Mr. Chavira?

MR. CHAVIRA: Good morning. My name is Robert Chavira. I represent Housing Plus, Inc., a nonprofit organization based in Harlingen, Texas.

Here to my right is Ms. Dora Ellis. She is the chair of the board of directors of Housing Plus, and she will also make some comments after I am through.

We are here to discuss and make a few comments regarding appeal of Star Village Apartments. It's application number 2003-0320.

I understand that my time is limited, being this appeal, there is a lot of information that I can provide. But I will keep my comments short and we'll just focus on several items.

First, I'd like to mention that in the consideration of our appeal, we request that the Board consider the circumstances and actions of two previous appeals that have subsequently been approved by this board. One in September of last year and the other, I believe, in October.

The circumstances are somewhat similar to those appeals, and I'd like to focus on those. As far as the reason for the denial of the application, there's one main item.

This reason was having to do with insufficient committed funding sources. In your board book, there are two issues that are mentioned.

One is that our grant application of $350,000 was denied by the Federal Home Loan Bank of Dallas. And secondly, it mentions that even if our organization was approved for those $350,000, that this project would still not work based on debt service capacity.

I'd like to comment on just those two. As far as the Federal Home Loan Bank, it's very difficult to receive any of these funds, simply because of the scoring criteria.

More specifically, the income-targeting criteria. Without a rental application it's very difficult to target our units to very low income, which is 50 percent or below.

Because there is debt involved, operating expenses, we can only limit our very low income units to 20 percent of the total. Thus, the remaining units will be focused on those incomes at 80 percent or below.

Federal Home Loan Bank awards primarily to those applicants that focus 50 percent or below. The other issue regarding debt service or our capacity, basically what they are saying is that we have too much debt.

We're looking at a loan of about $1.8 million. So they are saying that if we were to receive these funds, we would not have enough income to operate, or to pay that debt.

We disagree. In our new application there is the underwriting analysis. Based on our estimates, we have a debt coverage ratio of 1.10.

Whereas, TDHCA's staff had had a slightly higher increase in the operating expenses and therefore resulting in the lower DCR. We feel very comfortable with our numbers and we feel that this project will work. Now as far as the options, there are several.

One is to substitute the $350,000 Federal Home Loan grant application denial with additional HOME dollars. In your board package, there's a little sentence in one of the response letters that says it's not allowable.

We disagree with that. In fact, this board approved an additional $250,000 on a previous application under an appeal.

They had requested $250,000 in Housing Trust funds. The application scored real well, there just wasn't enough money to fund that application.

Therefore to use HOME dollars to go ahead and take care of that gap. We feel that our circumstances are similar.

We have an agency that did not award our application, not because the application was bad, it just didn't score high enough to have funding reach that far down. Our financial feasibility, we feel, is strong.

And we feel this is a good project. Now as far as the other issue regarding still not enough money, one of the things that I want to point out is that in next year's funding cycle, TDHCA is increasing their limit of $1 million to $1.5 million.

So if there is concerns regarding not enough rent monies, well, we feel there is an opportunity for the board to go and increase our request even further higher up to that 1.5-. This is a strong application.

We feel very comfortable with it. We feel that it can work. And I'll be glad to answer any questions, or Ms. Ellis can.

MS. ELLIS: My name is Dora Ellis and I'm currently the chairman for the Housing Plus board and representative of the board. And I'm here in that capacity.

San Benito has a very big need for affordable housing that can house people. Currently they are going to lose a development, Resaca Gardens, which has 100 units.

By February, they will start, if everything is approved, demolishing that complex. That would mean that there is 100 families that will need to find housing.

And as it is, it is very hard to go find houses that meet the standards for them to live in. We also have under the low rent, 655 on the waiting list, and under Section 8, 603 with 244 vouchers actually out there.

And one of the biggest hurdles that these families encounter is finding suitable housing to rent. We come from an area that has that need because the income is very low, as you know, in the Border region.

And I would like you to take that into

consideration. I feel like Housing Plus is an organization that has a proven track record in making advancement toward the betterment of people in the housing industry, and we've done well with it.

We've always come through, even when it's been a challenge. So, I'd like for you to consider that.

There is a big need, and you would be helping a lot of people. Do you have any questions?

MS. CARRINGTON: Any questions from the board for either one?

MR. BOGANY: I have a question, if I might. Can you talk to me about the payroll discrepancy on the expense side of the ledger?

I noticed that that's probably the biggest differential in numbers. Tell me how you plan on managing the property.

MR. CHAVIRA: The difference is $17,000. In our operating expense estimate, we estimated 17-. TDHCA estimated 34-, twice that amount.

We feel that being that it's a small project of 52 units and being that Housing Plus has several other properties in the area, there is really not necessarily a need to have outside management on a daily basis. We could manage our property outside with the other properties that are available.

If there is going to be outside management, which there will be, it will not be on a daily basis. It will be on a part-time basis. That's the reason for our lower amounts.

MR. BOGANY: Okay. That's all the questions I had of them.

MR. SALINAS: So, your financing is in place with your local institutions?

MR. CHAVIRA: Well, not necessarily. We refer to it as a conditional commitment. We're pretty much, let's say, standing at the table.

Our bank, First National, is saying get your HOME dollars, get your grant money and come back with us and we'll work out a deal. It's one of these things that has occurred in previous transactions with TDHCA, the chicken and the egg.

I mean, we're basically saying, each party is saying get us the other source and then come talk to us. TDHCA is saying get us our firm commitment from First National and First National is saying get the HOME dollars.

So what this award basically, what we are doing is we're taking that commitment to First National and securing our construction and permanent financing. It puts us at the table.

MR. SALINAS: Wouldn't that be logical for them to get a little grant from us and have the local institutions to get the balance?

MS. ANDERSON: Well, we'll have the staff presentation. That would be a good question to maybe ask them.

MR. SALINAS: What is the staff recommendation?

MS. ANDERSON: Thank you. Any other questions for the witnesses? And then we'll have the staff.

MR. SALINAS: But you will get, do you think you will get commitment from them?

MR. CHAVIRA: Oh yes. We've been in constant contact with First National. Not only First National, there's another bank, Coastal Bank that's also talking to us as well.

MS. ANDERSON: Thank you very much.

MR. CHAVIRA: Thank you.

MS. ELLIS: Thank you for listening.

MS. CARRINGTON: Thank you. The item before you for your consideration is the appeal of Star Village Apartments.

This application, Star Village applied last year in the multi-family round of CHDO. The intent is to build 52 units of affordable housing, using the HOME Program.

At the time of evaluation, back last fall, when the real estate analysis division reviewed this transaction, it was determined financially that the development is financially infeasible. There was an appeal filed.

The appeal was actually filed with the department more than two months late. The appeal should have been filed in September.

It was filed in the latter part of November. As I stated to you, in the first paragraph, the appeal was filed.

However, it was not filed for one of the allowable items that you could file an appeal for. However, in looking at your materials, staff did respond in depth to the appeal that was filed with the department on what the issues were as it related to the financial feasibility or the financial infeasibility of the transaction.

Our real estate analysis division has been continuing to look at this transaction, and I would like to ask Tom Gouris, since staff recommendation has not changed since last fall, I'd like Tom to come up and discuss the particular question about financing that the board may have.

Good morning.

MR. GOURIS: Good morning. Tom Gouris. I'll leave you all to ask questions, unless you want more presentation from --

MS. ANDERSON: I'm sorry.

MR. BOGANY: I've got a question, Tom. I guess in layman's terms, has this group done any other projects with us? And if so, what kind of success have they had with those projects?

MR. GOURIS: The group has administered a TDHCA homebuyer assistance program with us. And they've also been involved in a tax credit development in Raymondville with us. So they have had some experience.

MR. BOGANY: The next question. If we approve this appeal and the financial institution looks at it and says, no, it won't work.

What happens at that point? Could we approve this appeal, and they still have to go out and get the private sector to look at it and determine if it will work for them financially?

MR. GOURIS: In all sincerity, we could do that with every applicant that came through, and approve every funding cycle subject to them coming through and getting some sort of financial -- the problem with this transaction is, they are on their third lender, and their most recent commitment comes from Frost Bank, and is dated in November, well after the cycle closed and the funding had been made.

And from what we've gathered from our conversations with them, that's the most likely lender that they'd go with, at a much better interest rate than what was proposed in the original application. So yes, we could do that.

But we could do that with every applicant that came through. And that wouldn't give us any ability to discern if the transaction is actually viable or feasible. It would really render our underwriting meaningless, because you don't know what the terms are, what the amounts are.

MR. BOGANY: My last question. So, what I hear you saying is that if all 52 of these units are rented, this still is not going to be able to make money and keep afloat and the discrepancy with the $17,000 is salary versus the $32,000 that you are recommending. How does that come into play in determining what percentage points that they got on that?

MR. GOURIS: Well, that's one of the key issues, obviously. If we could get comfortable with their much lower payroll number, I suppose we could get comfortable with a larger debt amount.

And then that gap that we identified would be reduced and maybe even go away. But the problem with doing that is, however, we have already underwritten it with the payroll number that is less than what you'd see in a conventional transaction.

But something that you would see in a comparable 50-unit transaction in a rural area, in a submarket. We looked at other transactions to see what that would cost to operate.

They may very well be able to have some economies, but as a prudent lender, we would want to make sure that should something ill befall the transaction, that the new lender would be able to take it up like that efficiently. There's no guarantee that they can have these efficiencies.

They haven't shown the ability to have that payroll efficiency, so we've got a couple of issues there. The lease of which is a prudent lender would say, gee that doesn't seem reasonable if I need to take it over, it's going to cost me more to operate it.

And given that problem, and the problem that you know, we've got three different lenders who indicated at one time or another that they had interest but none with any firm conviction. I have no idea what the lender will say about that.

So we have to use our best judgment on that.

This is really the minimum that a prudent lender is going to be comfortable with. Did that answer your question?

MR. BOGANY: Yes.

MR. SALINAS: It's logical that the bank is not going to give them any money until he gets a pretty good idea of where we're at. And then we're going to be able to assist them. Now, my question is, do they have a good credit record with the homebuyers program that they had?

MR. GOURIS: That's a different program.

MR. SALINAS: I know. But, I mean tell me if they are here to stay or have they done some other programs where you all have had any problems with them? The first-time homebuyers?

MR. GOURIS: I don't know of any problems that we've had with them.

MR. SALINAS: First-time homebuyers is a program that shows you that they are interested in finding homes for some of the people in South Texas. In the area of San Benito and Harlingen, if I was a banker, I would want you to guarantee me that they are going to get some kind of support from Texas Department of Housing before they make the commitment of giving the money.

MR. GOURIS: And typically, the commitments that we receive are conditioned on our recommendation. And on our approval of funds.

And that's fine. We can deal with that. If First National would have been the only story there, that would have been fine.

But First National's commitment originally was included with their NHP Grant, which was denied. Not by us, but by another agency.

And without those funds, there is no way of telling if First National was really committed. They came back during the application cycle and gave us a letter of intent from Coastal.

The Coastal letter had no terms, or no conditions, or no due diligence. It just said, we're interested in looking at your transaction.

There's no way for us to underwrite to that. Those are the two commitments that we made our decision on.

Now I've gone back and looked at the third commitment that they provided from Frost, and the Frost commitment, while it contains the terms that they need to contain, it also contains some provisions that we believe would they would end up reducing the amount of the loan, based on prudent underwriting practices and prudent evaluation of the debt service capacity.

And if they did that, even under the Frost commitment, we think that there would be insufficient funds. The solution is for us to fund them more funds.

But that's outside of the arena of this application. Our recommendation has been for them to come back during the open CHDO cycle. Come back and let's do this the right way.

MR. SALINAS: When would that be?

MR. GOURIS: When would that be?

MR. GOURIS: I'm sorry?

MR. SALINAS: When would that be?

MS. CARRINGTON: That open CHDO cycle is going to be happening within the next several weeks.

MR. SALINAS: Wouldn't that be the best idea?

MR. GOURIS: Yes.

MR. SALINAS: For them to come back and reapply?

MS. CARRINGTON: Yes, sir. We believe that that would give them an opportunity to work on a financing commitment that would be conditional upon TDHCA's funding that would have a debt coverage amount.

Right now, the Frost commitment says 1.25- and that's when Tom indicated that there would even be additional money that was needed if Frost was going to stay with their 1.25-. So I would imagine that probably given the next couple of months, that more of the financing structure might be in place on this transaction and the open cycle is just what it says it is.

It's a first come, first serve. So once we make it available, then applicants can apply for that fund.

MS. ANDERSON: Other questions?

MR. CONINE: In our underwriting guideline -- this is a generic question. Is there any case where you would allow a sponsor or an entity to allow payroll in this manner? And I say that because I -- well, give me an answer to the question, first.

MR. GOURIS: I believe there would be. I believe we try to be as flexible as possible.

But the only instance that I can think of off the top of my head where they had a case history of it, a rural development deal that may have had two or three projects that are right next to each other and they share a management company. I could imagine that we would see that history and allow lower operating expense for payroll.

If we've got some experience with doing that for a particular transaction. Also, it would probably be fair to note that would probably be an RV transaction, closely monitored and had a whole different set with regard to what the debt service is, and the one percent interest rate reduction issues.

There's a whole set of issues that could come into that which would allow us to say yes, in that circumstance, we might use a lower payroll than that.

MR. CONINE: But you're saying that that doesn't apply here. Is there a -- how far is the other project that they manage from this, proximity-wise?

MS. CARRINGTON: Well, Raymondville is 25 miles and it's under construction.

MR. CONINE: Okay. Again, as a generic comment, I think we need to, in the rules, in the underwriting guideline, or wherever the spot might be, think about the case of, in this case, a nonprofit, but even a for-profit, you would think, of being able to come in and dodge the bond process, dodge the tax credit process, because of perceived brain damage, and the cost of doing that and be able to put HOME funds or Federal Home Loan Bank funds along with conventional financing.

And if the one key thing is sharing the cost of a property manager or the cost of the maintenance man, we need to have some feel for that, especially as to the number of units, you know.

Maybe 50 units is the right number. Maybe 30 units is the right number. I don't know what the right number is.

But I can see a case where that it might make some sense and we could get more housing in some of these areas, especially the rural areas where just a small number of unit where they can't stand the whole hit of a cost of a manager, but if you could allocate across, then you could get a higher debt service. We need to think through that. This is close to that in my mind.

MR. GOURIS: Right. I wholeheartedly agree with that thought process. I think we also at the same time need to be considering how our funding sources are going to be, if they are going to be repaid or how they are going to be repaid.

In this case, we are just talking about the primary debt. We aren't even talking about repaying our debt at all. So we need to be thinking about how flexible we really wanted to go understating that argument, too.

MR. CONINE: Okay.

MS. ANDERSON: Other questions? I have one quick question. Even if we accept their payroll numbers of $17,000 and up and we underwrite based on that, then am I correct in understanding that that makes the debt coverage ration 110, which is still well below what their letter from Frost Bank says the debt coverage ratio has to be? So even if we accept the payroll number, we still don't have enough coverage at what Frost says they need coverage at to make the loan.

MR. GOURIS: That's my understanding.

MR. SALINAS: What interest rate does Frost have?

MR. GOURIS: They have indicated a rate that is tied to an index. They gave for example a rate of 6.86 percent but the rate is tied to an index that I don't have the current rate on to know.

I ran some numbers at 6.86 although I don't thing that's the actual rate they'd be using. I think it would be dependent on –

MR. SALINAS: Can they go to another financial institution to get a lower interest rate?

MR. GOURIS: 6.86 would be a very good rate, I think today for this type of project.

MR. SALINAS: I think there's something better out there, somewhere.

MR. BOGANY: Tom, I'm a little confused. I thought the main issue was the 17 thousand, the 32- and that was the reason they didn't reach that threshold that you were saying when you started off earlier.

And now you are saying that even if we accepted the 17-, and I understand the 32- if it comes back to a lender, that's probably what it's going to cost them to run that, but if it was at 17-, I'm under the impression that when you talked earlier that the 17-, if it wasn't for that, we could make this deal work. And now I just heard you tell Ms. Anderson that even if you accept the 17-, it still doesn't reach what their bank lender is saying that they need to go with it.

MR. GOURIS: The 17- would allow the transaction to meet our guidelines of the 110 and we would say that if that had been the finding in the beginning, we would have said okay, we think that maybe a lender might go that route.

But the last commitment that we received from Frost, which came after the board met and all that, that commitment indicated a 125 debt coverage ratio, which raises some questions in my mind, whether they had loaned the full million-eight. And I think they would loan a bit less, which would bring us to a gap issue again.

MR. CONINE: Okay. Thank you.

Madam Chair, I'm going to move we deny the appeal for Star Village CHDO development application number 2003-0320.

MR. BOGANY: Second.

MS. ANDERSON: It's been moved and seconded to deny the appeal. Is there a discussion among the board?

MR. SALINAS: Well, only that we will go ahead and try to consider them in the next cycle, maybe two weeks from now.

MR. CONINE: Yes. Bring them on.

MR. SALINAS: And get the staff to try to help them out. One of the biggest needs we have, especially in that area of San Benito is housing.

And I think that our staff should work with them and try and see how they can try and work with them and help them in the next cycle.

MR. CHAVIRA: Ms. Anderson? May I be allowed to comment?

MS. ANDERSON: Not after the board begins debate. I'm sorry, sir.

Any other discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we're ready to vote. All in favor of the motion, say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. The appeal is denied. The next item on the agenda, we have several multi-family mortgage revenue bond and 4 percent tax credit deals to consider today and there is request for public comment on those. We'll take that now. Item 4(a)(1).

Gary Dugger?

MR. DUGGER: Good morning. I'm the superintendent of Kennedale ISD Schools. And I just wanted to bring some information to you all that you might not have had in reference to the project.

First of all, let me give you a little brief background of the school district. We're a small school district with about 2,900 students. Our boundaries overlap into Arlington city limits and that's where all of our growth is coming from. We're in the approximately 50 to 55 percent of our students are from Arlington which we have no control over, as far as the development is concerned.

We have met with them constantly, I've even had personal meetings with the mayor to try to get them to understand our problem. And they at this time will not help us or work with us.

This particular development is coming in today, is in a situation where there's four other apartment complexes, one to the north -- well, two to the north and one to the northwest of it because right across the street from it is another development in the City of Arlington which is 150 units of duplexes. And all of these students will be coming into our district.

And at this present time, we do not have the capacity to deal with that number of influx. Three years ago when I took this district, we had $90,000 in fund balance. We had $900,000 deficit. We had a letter from TDA, saying that if we don't get that under control, they will.

Which to me means, they are going to take over our district. So for three years, we have been working under those stipulations. We have done a reduction in force. We have raised our tax rate to the top.

We can't go no further. And you all are familiar with the state funding, as our funding goes up, the state funding goes down. There's no new money. We're praying and hoping that at this legislative session that has come up this spring will offer some help to us and everybody else.

We are not here to say we don't want these kids. But if you look at our results, we have high results with all kids in our district.

Every one of the kids in our district are very important to us. What we're trying to say is, it's not fair to our kids to put these kids in our district. It's not fair to the kids that are coming in to put them in our district. Most of our high school classes are 35:1, 35 students to one teacher. Every place where there's a law, 22:1, we are practically at the maximum.

This last board meeting we rearranged our zoning. We had to move 200 students from one building to another building just to accommodate the students we have right now.

We are at capacity. We have no room for growth. We are working on a bond election. We don't know about if people will accept it or not. We are looking at adding on to every one of our campuses. We are looking at building two new campuses. That is three to three and a half years out before it can be used.

We do not have the capabilities to address the needs of the students that will be coming in from all these developments. We have no control over it though.

And I'm not against it, I just want time to be able to meet the needs of these kids. It's not fair to put them into a situation like that where they're not going to have the opportunity to get the education they deserve.

Thank you very much. I don't know if somebody from Kim Brimer's office is here or not, but they submitted a letter also.

MS. ANDERSON: There is. The next person.

MR. DUGGER: Okay.

MS. ANDERSON: Are there questions for the superintendent?

MR. DUGGER: There are also some legal

questions. I don't guess we have time to get into all that.

I can submit a letter to you. Our lawyer has been working with us on this and has looked at their application and one of the main questions is, they have not addressed the impact of what this would do to our schools and our lawyer said, and again, I'm not a legal person.

Y'all can probably answer that better than I can do, but as of September 1, that was supposed to be part of the application. And that is not part of the application as far as we can determine.

Also their quotes as far as local taxes are way off. I have two different apartment complexes right around them that show that they pay almost $400,000 in taxes and they are projecting $200,000 in taxes.

There's just a lot of issues there that I wish we had more time to address and bring forward to you all. But if there's any questions, I would like to try and answer them the best I can.

MS. ANDERSON: First, if I may, Ms. Carrington, would you address his comment about the rules that went into effect September 1? Clarify for the board what set of rules this particular development is subject to.

MS. CARRINGTON: This particular development is

2003 reservation multi-family private activity bonds, even though it is now '04, this was a reservation that was issued at the end of the year in '03. And so the QAP, the Qualified Allocation Plan, and the bond rules that this development is under will be rules that were in place at the time that they applied, actually the bond review board in November of '02.

MS. ANDERSON: Mr. Conine?

MR. DUGGER: Again, I might not have understood what she said, but my interpretation is that everything after September 1, 2003, come under the new laws that were passed by the last legislative session. That's not so? Is that what you are saying? I'm sorry.

MS. CARRINGTON: No, sir. It would come under the laws that were in place prior to September 1.

This application as is others that will be considered today have been in the works for about a year and three months. And so, when they applied originally, about a year and a half ago, they were going to be applying under the rules that were in place at that time.

MR. DUGGER: Okay.

MS. ANDERSON: Mr. Bogany?

MR. BOGANY: On this project, I have a question for you too. And this project, Ms. Carrington, they will be paying taxes? The apartment complex will be paying taxes, real estate property taxes?

MS. CARRINGTON: Yes, sir.

MR. BOGANY: Okay. I guess I'm concerned, Superintendent. If these were houses being put in here, would you have the same issue then?

MR. DUGGER: At this time, yes sir, very much so.

MR. BOGANY: So if this was single family homes, you would have an issue with this?

MR. DUGGER: I'm sorry?

MR. BOGANY: If this was single family homes going on these plot of land, would you have an issue with it. Because I hear you and I'm thinking, growing up, whenever you get more kids, you bring out temporary building and you just keep rolling because you are in the business to educate kids. And so, and I'm hearing you say this and I'm thinking okay, well, if you have housing there, would you have the same issue?

MR. DUGGER: We have been before Arlington numerous times in the 30 years that I have been there just to ask them to hold off until we can catch up. And we haven't said "just apartments" or "just duplexes." We've asked them for all development just to hold off or slow down, so we can catch up.

No, it's not and I might have made that

statement, but we're not opposing just apartments just because of the type of students that they are going to bring in. We're going to work with whatever type of students.

Our doors are wide open. And if these apartments are built, we are going to work with these students and like I said before, we've had a lot of success with all kinds of kids.

We are not opposed to that at all. But we are opposed to any more development until we can catch up financially, and facility and employment-wise. Every year that I've been there, we have had to reduce our staff because of financial restraints.

MR. BOGANY: So you don't think the extra tax money coming in from these apartments is going to make any –

MR. DUGGER: Their tax money will not cover the costs of the students. I really don't remember what their projection was. Two point three kids per door. I talked to Mansfield, which has some of these, which is a district southeast of us, and has some apartments of this type and they project .6 students.

What you are looking is about 150 or more students. Our district operates on about $3,300 of local money per student. You multiply that times 150, you are looking at $450,000. Their business is not going to generate more that $200,000 worth of taxes for us. Just us alone.

MR. BOGANY: Thank you.

MR. DUGGER: It will not pay for it.

MS. ANDERSON: Other questions for the superintendent?

(No response.)

MS. ANDERSON: Thank you, sir.

MR. DUGGER: Thank you.

MS. ANDERSON: Trent Townsend?

MR. TOWNSEND: Good morning. My name is Trent Townsend. I'm a representative with Kim Brimer's office. And Senator Brimer asked me to read a letter that he had prepared.

"My office recently received notice that Arlington Partners, L.P. is making an application for tax credits with your department for Addison Park Apartments to be located at the southeast corner of Balkan [phonetic] River Way and U.S. Highway 287, Arlington, Tarrant County, Texas. I have also been contacted by the Kennedale Independent School District regarding this matter.

"Kennedale ISD is opposed to this multi-family bond transaction for the Addison Park Apartments. The significant number of additional students being enrolled over a short period of time once the project is completed would have a negative impact on this small school district.

"This sudden increase in enrollment would cause a serious facility and staffing shortage. Kennedale ISD has a minimum tax rate cap at a $1.50, which leaves little room to recover for the substantial impact.

"The City of Kennedale and Kennedale ISD are located within Senate District 10, which I represent. After studying the facts, I concur with Kennedale ISD's opposition. I understand that a decision was made at the hearing on January 13, 2004 regarding this matter. I strongly urge you to decline this project.

"Cordially, Senator Kim Brimer." Thank you.

MS. ANDERSON: Questions?

(No response.)

MS. ANDERSON: Thank you, sir.

Cliff Bates?

MR. BATES: Good morning. My name is Cliff Bates. I'm with -- Developments, the developer for this proposed project.

This is our fourth tax-exempt bond deal here in Texas, but the first where TDHCA has been the issuer. We are, I guess, 110 days roughly, into our 120-day window. We diligently prepared plans, done all our due diligence, met with the City to submit our plans to the City.

They are reviewing them right now. We've got comments back. We're anticipating permits within the next week, hopefully.

The City is reviewing our plans based on the fact the property is zoned multi-family. And it allows the 224 units that we're proposing. And that's our view. We have concern for the kids, also. We're coming in, we're not seeking any tax abatement.

We're not partnering with a CHDO. We're paying full taxes, and the tax rate is what it is, and that's our view. And all we can do is pay what the tax rate is.

So we hope that you would consider that and if you have any questions, I would be glad to answer them.

MS. ANDERSON: Questions? I have one question. In one of the letters that's in the board book from the ISD there is a comment about the failure of the underwriting report to contain information about education programs for children. Would you explain what your intent is around supportive services for this development?

MR. TOWNSEND: We've got a nonprofit that we partner with that is their name is Mississippi Housing and Community Services. They are based in Mississippi.

But like I said, we've got four developments in Texas, they're all under construction. So once we get the first one up, we're going to have a regional office. We're going to hire somebody to coordinate those programs here in Texas. So although it is Mississippi Housing and Community Services, they will have an office out here in Texas.

MS. ANDERSON: And is that budgeted for in your operating expenses of your development?

MR. TOWNSEND: Not in this development. We've partnered with them in other developments where they've been co-developer and received developer fees and received cash flows. In exchange for that, they take those funds and provide services to our other developments.

MR. CONINE: What kind of programs do they do for the kids?

MR. TOWNSEND: We've got after-school care. We'll have a computer lab in the development. They do educational programs. They do drug awareness. We'll have health screening. They work with local hospitals to come in and provide flu shots, things like that.

MS. ANDERSON: I have one more question. During the past 110 days, what did you, did you reach out to the ISD and meet with them?

MR. TOWNSEND: We came into town for our TEFRA. We met with local neighborhood associations. We tried to meet with one of the board members, we couldn't work it out. We talked to them in the TEFRA hearing, but as far as actually having a meeting, no we never met with them.

MS. ANDERSON: To this date, also you have not had a meeting with the ISD.

MR. TOWNSEND: That's correct.

MS. ANDERSON: Okay. Other questions?

(No response.)

MS. ANDERSON: Thank you.

Michael Eaton?

MR. EATON: Good morning, my name is Michael Eaton. I'm an attorney in Dallas that represents Arlington Partners, L.P., the independent partner development the developers of this property.

I am certainly empathetic, sympathetic to the school districts budget constraints. But when we go out to develop quality, affordable multi-family housing in Texas, there are enough barriers as is, to get a deal to work.

There is a tremendous amount, as you know, of work, of money, of due diligence that is required to be in a position to be able to close a 4 percent tax credit deal, along with the bonds necessary to do so. If we add on top of that the additional underwriting constraint and concern of what the local school district's budgetary position is, it's just overwhelming.

It's frankly all we can do to say that we're going to be paying full tax on all these apartments. That is in fact, going to be about $200,000 a year. I think Mr. Bogany's comment or question was especially telling, because if this was single family development, while they may not be supporting it, I doubt that you'd be finding elected representatives writing letters of opposition about single family developers wanting to put up single family homes in that same neighborhood.

And yet if they did develop single family homes in that neighborhood at the kind of density that is typical of that neighborhood, you'd have about the same number of kids living in those single family homes and attending that same school district, that is projected that this multi-family development will have.

I've represented these folks before. They've done nothing but the first-class, highest quality developments and affordable housing in Texas. They've had great experience and success in other states. We believe the staff has recommended this for approval for a good reason, and that is that it is a quality outstanding project that is deserving of support and approval by the board. Thank you.

MS. ANDERSON: Thank you, sir.

Chip Triplett?

MR. TRIPLETT: Good morning. My name is Chip Triplett. I'm with Clark Development. I'm the president of Clark Development. And I'm here today just to let you know that we are sincere about what we'd like to do is to build affordable housing. We have built over 9,000 affordable housing units in eight states in the past nine years.

We do have three developments here in Texas, in Houston, Fort Worth and Tyler. Two of those have already started leasing up. And the after-school program, educational programs that we do with Mississippi Housing and Community Services, I think is a very good thing to provide for the communities.

In some states they don't require you to do that, but we have a residential services program in apartment management and they coordinate these services, with Mississippi Housing and Community Services and anything that we can do to provide information and education for the kids is what we try to do to make it a whole lifestyle approach to living. I'm here today just to ask for your support and answer any questions.

MS. ANDERSON: Thank you, sir.

Brian Wilson?

Do we want to take all of these? What is the board's pleasure? Do we want to take all these on all of these four, 4 percent? Take the public comment on all of them right now?

MR. CONINE: No.

MS. CARRINGTON: They said they'd wait for the action item.

MS. ANDERSON: One at a time. Okay. I believe that's the end of the public comment on Arlington Park. Did I miss anyone? Ms. Carrington?

MS. CARRINGTON: Thank you, Ms. Anderson. As we begin the discussion of the first of four applications for tax-exempt bonds and 4 percent tax credits, the discussion that you are hearing this morning is a discussion that this agency is getting involved in with the Texas Association of School Boards.

I'm pleased to say that Michael Lyttle and I before Christmas did have a meeting with two members over at the Texas Association of School Boards to begin a dialogue of how we accommodate the needs of communities for additional multi-family housing, yet working to understand the pressures that school districts in Texas are under right now.

And I think that Michael and I did a lot of listening when we went to that meeting which lasted probably about an hour, and hour and a half. Because mainly what we were talking about was that many school districts are at the cap.

They are assessed as much as they can be. Many of these school districts do send money to other school districts around the state. And where they are supportive of having multi-family housing, they have the financial issues that you have heard about this morning.

I will not tell you that we came away with any great ah-hah on how were are going to resolve this issue, but I think that we do feel very good about is that we are starting that discussion with the appropriate parties, with schools and school districts in this state, and I am sure that it is going to be an ongoing discussion.

With that, the first application for your consideration is an issuance of 2003 private activity multi-family revenue bonds, Addison Park Apartments, which would be located in Arlington, Texas. It's 244 units, and has already been brought up to you.

This is an application that has been in the pipeline for over a year. This application would have applied to the agency and bond review board actually a year ago in October.

And so these applications that you are going to be looking at this morning do come under the old rules for both the bond program and for the QAP, it would be the '03 QAP. It's a priority 2 transaction which means that both the rents and the incomes are calculated at 60 percent of area median family income.

This particular proposed transaction would be of one, two and three bedrooms and it is 100 percent low income. So all 224 units would be at or below 60 percent of area median income. The proposed bond issuance is 14 million. All of it tax exempt. There's no secondary financing on this. And the bonds are proposed to have a variable interest rate of 3.75 percent.

The real estate analysis division did underwrite this transaction at a 6 percent interest rate. Going perhaps to Tab 3, which is the housing credit report on this particular development, staff is recommending $620,571 in tax credits, which was the applicant-requested amount of tax credits.

At the bottom of the tax credit summary sheet, and also behind Tab 9, after the public hearing transcript, you do have a summary of the public comment from citizens, from legislators, or from local officials. And you will see on this summary, at the time, we did not have the letter from Senator Brimer that we do have now that was read into the record this morning.

Tab 5 is the underwriting report on this transaction. At the bottom of the first page of Tab 5 it lists the conditions that the department would be placing on this development as it relates to an allocation of credits and bonds.

And that is an explanation of how the Mississippi Housing and Community Services would be able to perform supportive services in Arlington, Texas, since they are in Mississippi. You have already heard that addressed by one of the speakers this morning.

It's likely that there is going to be a mandatory redemption of about 400,000 of tax-exempt bonds at the time it converts from construction to permanent, and our standard language that should any of these terms and conditions change, that at that point, the development would be reevaluated.

There is a map behind Tab 7 of the location of this proposed development in the Arlington area. And behind Tab 9 is a full copy of the public transcript of the TEFRA hearing that was held at the Kennedale High School on November 10.

The number of people who attended, nine. Opposed, five. Supported, two. Neutral, two. The number that spoke was three.

And then behind this tab also you have the letters of opposition or letters of support and you do have a letter of opposition from the state representative that has been read this morning. Also, the letter from

Senator Brimer that has been read this morning, along with letters from the school superintendent, and from the attorney for the school district that was also mentioned.

MR. CONINE: Move for approval of Addison Park Apartments and the resolution number is 04-03.

MR. BOGANY: Second.

MS. ANDERSON: The motion has been made and seconded. Discussion on the motion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 4(a)(2). The gentleman that is here for public comment on that item is here only really if the board has questions, so I'll ask Ms. Carrington to discuss Providence at Rush Creek.

MS. CARRINGTON: This is behind Tab 4(a)(2). And they are a little bit out of order on your recommendation sheet.

They are in the proper order in the board book. This is again a 2003 private activity multi-family revenue bond proposal.

It is a priority 2 transaction, meaning again, the rents and incomes would be at 60 percent. This transaction is also to be located in Arlington, Texas.

It is 144 units. 100 percent of those units would be low income units at 60 percent or below. This proposed development is all two- and three-bedroom units. The bonds on this particular transaction are proposed to be unrated and unenhanced. An interest rate of 5.375 during construction and then after construction and perm, 6.7 percent thereafter.

And real estate analysis did use 6.7 percent to underwrite the transaction. The tax credit allocation amount as listed on Tab 3 is $438,609, which is the eligible basis amount of the tax credits.

At the bottom there is a summary of support, opposition from citizens and also those who came to the public hearing and then any letters that we have received from legislators related to the transaction. The underwriting report is behind Tab 5.

On this one, a likely redemption of up to 100,000 in bonds at the time of stabilization and should any of the financing structure, should any of the debt change on this transaction, then it would be subject to an adjustment in the credit amount. Behind Tab 7, a color map, Mr. Conine, again.

MR. CONINE: Thank you.

MS. CARRINGTON: You are most welcome. On where this development would be located in Arlington, Tab 9 is a summary of the public, of the TEFRA hearing that was held at the Moore Elementary School in Arlington on December 3.

Again, number of people attended, opposed 15, supported three, neutral one. Number that spoke, three. And in this particular transaction, we did not receive any written correspondence to the Department either in favor or in opposition to this transaction. And staff is recommending both the issuance of the bonds in the amount of $10 million and the credits of $438,609.

MR. BOGANY: What school district is this?

MS. CARRINGTON: I think this is Arlington. I believe this is the Arlington school district.

MR. CONINE: Move for approval of the Rush Creek II Arlington, Texas project, resolution number 04-05.

MR. BOGANY: Second.

MS. ANDERSON: We have a motion on the floor. It's been seconded. Is there discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor of the motion say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. We do have some public comment on the next item, which is 4(a)(3) proposed issuance of multi-revenue mortgage revenue bonds for Providence at Veterans Memorial.

Mr. David Sepulveda?

MR. SEPULVEDA: Good morning, members of the board. My name is David Sepulveda. I am a civil engineer with Vierny [phonetic] Partners in Houston, and we are the civil engineer that has been contracted by the developer to do the civil site design for the project.

Others speak in favor of that project, and I just wanted to address a couple of issues relating to the drainage for this site. Number one this site currently is in the Hundred Year floodplain.

And as part of our design, we are required by Harris County, Harris County flood control and the state to raise the site out of the Hundred Year floodplain. All of the building slabs will be set 18 inches minimum above the finished floor, so there will be no chance of flooding within the multi-family units.

Additionally, as part of this project, we have created, where we have consulted with another engineer, to do a drainage analysis that will determine the impact to the adjacent body, which is Green's Bayou, which is just to the south of our site. And based on that report, which was prepared by Dodson and Associates, there will be no negative impact to the Hundred Year water surface elevation in Green's Bayou, as well as none to the ten or the 50-year water surface elevation.

Our site is -- one of the other requirements that we have, because we are in the Hundred Year floodplain is that we compensate with cut for any fill that is brought into the site. We are providing a series of detention and mitigation ponds along Green's Bayou that will offset the fill that we are using to raise the site out of the Hundred Year floodplain.

And that is also part of the way we are compensating for not impacting the Hundred Year water surface elevation in Green's Bayou. Our parking and our paving will all be in a maximum depth of six inches per the requirements of the Hundred Year floodplain, with the exception of at the drive connections to the adjacent roadways.

Where those roadways are as much as two feet under the Hundred Year flood. So we'll have to transition down. I think we have addressed all of the site's civil issues that been brought forward to us as part of this development. And if anybody has any questions, I'll be happy to try to answer them.

MR. BOGANY: I have one question.

MR. SEPULVEDA: Uh-huh.

MR. BOGANY: I am somewhat familiar with this site and location. What is going to happen with the surrounding housing, as far as flooding?

Because it already floods over there in that general area. So is it going to -- I know when the Beltway came, it created a lot of flooding in that area. And so with the new development, what are you guys doing to offset to keep the current residents from creating a problem for them?

MR. SEPULVEDA: That's what the hydraulic analysis done by Dodson addressed. For the immediate impacts, we provided the detention and mitigation ponds. But in addition to that, we had to do some modeling of what happens during the ten- and the 50- and the 100-year event storm, what that does to the Hundred Year water surface elevation at Green's Bayou.

And our study shows that there is no impact. In addition, we are doing some improvements, some minor channel improvements within Green's Bayou and that is what has helped us keep from impacting that.

MR. BOGANY: Okay.

MS. ANDERSON: Any other questions?

(No response.)

MS. ANDERSON: Thank you, sir.

MR. SEPULVEDA: Thank you.

MS. ANDERSON: Mr. Eugene Thomas?

MR. THOMAS: Good morning. My name is Eugene Thomas and I am the housing advocate for the Housing Advocates of the state of Texas. And also, I am here on behalf of two entities. One is bringing comments from Ms. Sheila Jackson Lee. She could not personally be here, but I do have her letter of support for this project.

I was asked to say something for her on her behalf. I am not going to read everything that she has in the letter, but I do want for you to make mention of it on record that she is in support of this project.

She is very concerned and very happy and excited about the fact that Veteran's Memorial is being done by Bill Fisher of Provident Realty. They have a proven track record of doing what they do best, and that's affordable housing.

I am also -- I am representing the -- not representing but I'm also mentioning for Ms. Coretta Crump [phonetic] who is the homeowners president of the Greenfield Village Homeowners Association. They're in the area which is adjacent to this project that is going up.

They are very much in support of this project also. I also have a letter from her and her homeowners association and her board of directors as to what those things are.

I do want to mention that both Ms. Crump and Ms. Sheila Jackson Lee and also Ms. Crump wanted to make sure that this project was very well funded and given it's total tax credits to make this development to be what it is supposed to be. They are very excited about it. They are happy about it. And they are looking forward to this development being here in the area.

Also, I want to make a personal note that thanks to this board and this staff, you do good work and I appreciate what you do. And I know that the people who are the recipients of these properties also appreciate you, and we thank you.

MS. ANDERSON: Mr. Bill Fisher.

MR. FISHER: Thank you Madam Chairman and board members. My name is Bill Fisher. I am here on behalf of the developer, Provident Realty.

I certainly want to thank the staff for their recommendation on the development as I think the record reflects, we began this development with a great deal of concern in the community about issues involving our development, particularly having to do with the drainage issues, which we've worked very hard to address, and the neighborhood, Mr. Bogany is referring to is Greenfield Village Homeowners Association over there is 500 homes.

They are the community that has had flooding challenges from Green's Bayou in our area, and we've worked very hard to involve them in this process to ensure that they were convinced that we would, if anything, improve the conditions out there. And that's been part of our written agreement with them.

I am asking for two things from the board today. First of all, is your approval of our tax-exempt bonds and tax credits.

But I am also asking for approval from the board for an original tax credit allocation request. We've, as far as the underwriting process and cost differences were identified, that we do not have an adequate amount of time and I think to address to the satisfaction of real estate analysis.

I think we've subsequently provided justification for that. The vast majority of those costs have come from working with the neighborhood association in putting in place items that they felt were important from screening to landscaping to improved exterior finishes, enhanced exterior finishes, which were really the cornerstone of the community support and these elected officials' support that are reflected in the records.

Our construction costs are well within the Department's guidelines. The current guideline is $62 a foot. Our construction budget for this brick exterior, townhouse-style product is only $58 at our request. The suggestions for remedying the difference between the department's current recommended credit amount and ours do not adequately fund the development.

It is as simple as that. The suggestions have been, Wait until next month's meeting after we have had some more time to address it. Our transaction will have closed and financing will be finite.

Wait until costs to get the additional development dollars, which basically provides a free ride for the equity investor and raises the risk in the development, mainly because the details in the document, although they generally buy the additional credits, they are really not legally obligated to, if they don't have the funds or something changes.

So we would ask you to do it the other way around, which is to properly fund the development up front at the cost we've asked for, and then to the extent that we do not meet that standard of costs, that our credits be adjusted at the time. Thank you very much, and I'll be happy to answer any questions you have.

MR. CONINE: You have provided the additional cost estimates to the Department? How long ago?

MR. FISHER: I have. I provided the exterior finishes, elevation changes, screening and there were some issues involving the floor plates, so they were underwritten at eight, and they're really to be at nine, so –

MR. CONINE: How long ago was that?

MR. FISHER: Well, really, the day after we understood that we had a cost difference. As soon as the Department said -- last Tuesday or Wednesday.

MR. CONINE: Okay.

MR. FISHER: But the most important thing, as soon as it was identified, we addressed it immediately.

MR. CONINE: And the clock's running on the bonds? Is that correct?

MR. FISHER: Yes, sir. The closing is two weeks from today.

MR. CONINE: Does that mean that the 120 days -- is it 120 or 150?

MS. CARRINGTON: 120 on these.

MR. CONINE: 120 on these. 120 days is getting close to expiring.

MR. FISHER: Yes, sir.

MR. CONINE: Okay. Thanks.

MR. FISHER: Otherwise, I would have waited until next month.

MR. CONINE: Okay.

MS. ANDERSON: Board, any other questions? I have one question. In the transcript, we hear from Mr. Gibbons from the MUD.

And his district engineer and comment in the record about the flooding issues result of 50 years of development without proper retention, et cetera. Now, I don't see Mr. Gibbons here today, but would you characterize for me any discussions that you have had with him, before or since this public hearing to work with the MUD on the flooding mitigation?

MR. FISHER: Yes. The municipal utility district has been at every meeting. There's actually a board member on the MUD district, who is also a board member of one of the surrounding homeowners associations, Copperas Creek.

And they have been copied and included in every step of the way here on what we've done. What they've basically told me, because Copperas Creek does not have any flooding and didn't even have flooding during Allison, was Greenfield Village, which they are the people that have suffered in this area from drainage related issues.

So anything that I have ever done with

Greenfield Village, Mr. Gibbons and Eric Goody, who is one of their board members have always been included. And I think Ms. Carrington knows from speaking with Mr. Gibbons, he would be here today if we had ongoing issues.

MR. CONINE: Okay.

MS. ANDERSON: That's my sense also. Okay. Thank you. Any other questions?

(No response.)

MS. ANDERSON: Thanks, Bill. That's the end of our public comment on that item.

Ms. Carrington?

MS. CARRINGTON: Thank you, Madam Chair. 2003 private activity multi-family revenue bonds, priority 2, rents and incomes at 60 percent, Providence at Veteran's Memorial, 238 units, 100 percent low income, two and three bedrooms. Two series of debt.

15 million tax-exempt at 6.6 percent. 1.3 million of taxable at 8.5 percent. The debt on this particular development is proposed to be unrated and unenhanced.

Real estate analysis used the 6.6 and 8.5 for underwriting purposes. In walking through the recommendations of staff, the tax credit amount that staff is recommending behind Tab 3, is $677,432 which is the eligible basis amount, which, as Mr. Fisher has said, is a reduction of approximately $75,000 in credits.

I would imagine that when I finish my presentation that you all will be interested in asking some questions to our director of real estate analysis, so if you want to hold them until then, he is indeed prepared to respond to those questions.

Public comment summary at the bottom of the page. Number in support, 20. One, opposition. And then at the public hearing, one, 19, and four. Also letters from legislators or local officials is indicated also.

Behind Tab 5 is the underwriting report from the real-estate analysis division. The recommendations down at the bottom on the tax credit amount. Uh oh.

(Cell phone ringing.)

MR. CONINE: Who is that? It's not you, Gordon?

MS. ANDERSON: Gordon, I thought you were raising your hand that it was you.

MR. ANDERSON: Huh-huh.

MS. ANDERSON: Well. It was me.

MS. CARRINGTON: Well, all right.

MR. CONINE: $100 to the Housing Trust Fund. We are happy to have you.

MS. CARRINGTON: No installments allowed on the Board Chair.

MS. ANDERSON: I apologize to you all.

MR. CONINE: We know you have your checkbook here, too.

MS. ANDERSON: I've learned my lesson.

MS. CARRINGTON: Tab 5 on the underwriting report, I do think, I would point out to the board that some of you all have memories about this transaction. This is on page two of the underwriting report behind Tab 5.

You all will remember if the board has looked at a transaction in the past that we note that to the board. And so we do have on page 2, review of previous underwriting reports.

There were four issues that the Department had with this proposed development back in 2002. And the application was declined by the TDHCA board in May of '02. Now the transaction has been reworked.

It does have a new owner. None of those who were involved in that transaction in 2002 are involved in this particular transaction. But the reasons for the Board declining the transaction are all outlined on page two of your underwriting report.

I did think that was important to point out. The issues with this transaction that show up in the underwriting report that have already been mentioned: the site is in the Hundred Year floodplain.

At least when this analysis was done, an estimate of the cost to implement the mitigation plan was provided but there was no documentation from Harris County as to whether that was going to satisfy their requirements or not. We have heard this morning that it indicates that those requirements do satisfy Harris County.

However, that was an issue for us at the time and also whether the costs were included in the site work for building these buildings at the level that is required. And our underwriting rules and guidelines.

So those were issues that staff did have in the underwriting process of this transaction. Behind Tab 9 is the summary of the public hearing. Those who attended, those who spoke. Letters received, opposition and letters of support. And those are included in the Board's packet also.

And I would like to ask Mr. Fisher -- I know, Mr. Fisher, at one point in talking with Mr. Gibbons, there was discussion of a second hearing, a second public hearing. And the one that was held of course, was the TEFRA requirement, which was required for the bonds. Did you indeed hold another hearing with the community?

MR. FISHER: Yes. We did a town hall meeting at the elementary school directly across from the closest proximity to the neighborhoods. Had an equal attendance.

Actually probably had three times the people there that we did at the TEFRA hearing. I did offer to Mr. Gibbons that we then come back a third time if necessary so that a record could be made and that was not necessary because by that point we really had some solid support with the neighbors.

MS. CARRINGTON: As you all noticed as you looked at your public hearing transcript, there was some concern on the part of the community that the notices had not been adequate and so this was in an attempt to address those issues.

Staff is recommending the issuance of tax-exempt bonds in the amount of $15 million, $1,300,000 in taxable bonds and tax credits in the amount of $677,432. Mr. Gouris? You want to come on up?

MR. CONINE: What's the story?

MR. GOURIS: Well, like most final transactions, most things come together kind of fast and furious at the end of the transaction.

We received on December 30 a revised site plan and revised cost breakdown and as of that date, that's the information that we were able to use to complete our underwriting report. Our concern at the time and still to some degree has been the site work costs and if they have been fully included.

And the applicant has assured us through their own conversations and through the information that they provided to their engineers that they have addressed those issues. Subsequent to our -- well, we got our report done and realized, hey, now with this new information that we have we're still out of sync by a considerable margin.

We didn't have time to get together on the costs because of how late we got the information and since we posted to the web, the applicant has provided us with a site plan and building elevations which reflect carports, nine-foot ceilings, which is a major adjuster in our cost methodology and substantially higher percentage of brick, which is also a cost adjuster.

They did not provide us with a new cost breakdown per se, but only used the one that was dated December 30 which had a different plan associated with it. I'm going long here, sorry.

My one concern is that it is difficult for us to determine if they had considered or contemplated the costs of the brick and the costs of the nine-foot ceilings in their December 30 numbers. They have indicated that they have.

I am pretty confident that they didn't include the carport costs, because there is a line item for carport is zero. So I have a little concern about that.

I wish we had a month to deal with this issue. When I ran the numbers, it looked like we could recommend the credit amount that we have and still be okay.

The transaction still works, if we can't come to agreement on it in the next month or so, to get that reconciliation. I'm not sure that they're going to give us more than what they've given us already as far as cost numbers, except move a little bit into the budgeted item for carports.

So I think they're going to give us basically the same information and then we'll be able to get to their costs. But there is that inconsistency that still is of concern to me, because of the timing. I would look to deal with the issue of credit next month.

MR. CONINE: Carports generally do not make up a $1.2 million difference.

MR. GOURIS: As I said, the big items are the nine-foot ceilings and the going from 20 to 30 percent brick to 80 percent brick. Those are the two items that are going to adjust our costs upwards sufficiently to get within 5 percent of their costs.

MR. CONINE: So what were the amount of the credits that the applicant had applied for?

MR. GOURIS: 750,577.

MR. CONINE: And you are saying that based on somewhat old information and not being able to take advantage of the new information that came after the agenda was posted on the website and so forth that there may be some cause for increasing that credit amount, but you couldn't do it under the constraints of time?

MR. GOURIS: That's right. We knew that there was a differential and we tried to go back and look at their other transactions also and glad that you mentioned that.

And got comfortable with the idea that their other transaction fell well within our cost range. Not within their cost range.

Again though, these two items, the three items, but especially the two, the nine-foot ceilings and the additional brick are things that are kind of extra –

MR. CONINE: And these are 4 percent credits, correct?

MR. GOURIS: Correct.

MR. CONINE: So, the universe is unlimited in theory.

MR. GOURIS: Yes, sir.

MR. CONINE: So, if we were to approve this subject to a range of credits, subject to TDHCA staff, further staff review and approval, would that give you sufficient time to give you a range of credits that would be, that would make the project more feasible? Would you feel better about it?

MR. GOURIS: Sure. Yes. And in the end –

MR. CONINE: If you get it on a range of credit size, there's no hurt to us that I can see.

MR. GOURIS: Right.

MR. CONINE: And if he still has to prove up the stuff to make you happy then as a board member, that makes me a little happier.

MR. GOURIS: And in the end, they are going to come back to cost certification and have to –

MR. CONINE: Yes. I understand. But it's the timing of the dollars, you get it on the front end or the back end. And if he doesn't achieve those costs, they've got to give them back. It's a two-way street. Okay. I'm done with the questions.

MS. ANDERSON: Any other questions for staff? What's the board's pleasure?

MR. CONINE: I would move for approval of the Providence at Veteran's Memorial, let me get the bond resolution number.

MS. CARRINGTON: 04-04.

MR. CONINE: 04-04, subject to tax credits of

$677,432 as a minimum and up to a maximum of -- can you give me the number?

MS. CARRINGTON: 750,577.

MR. CONINE: Subject to further TDHCA staff review with the developer and the resolution of the cost issues.

MR. BOGANY: Second.

MS. ANDERSON: We have a motion on the floor, it has been seconded. Is there any discussion on the motion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor of the motion, say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 4(a)(4). We have one individual available to answer questions on this item if we have any. I appreciate that.

Ms. Carrington?

MS. CARRINGTON: The last item for your consideration with TDHCA as the issuer is again 2003 private activity multi-family revenue bonds.

Priority 2. Rents and incomes at 60 percent. Humble Parkway Townhomes. 216 units to be located in

Houston.

One series of bonds $11,700,000. Underwritten at 6.6 percent, unrated and unenhanced bonds. A credit allocation recommended amount of $556,530, which was the amount that the applicant requested.

Behind Tab 3 at the bottom, a summary of letters of support, opposition. The transcript from the public hearing, which was held in December and very few people showed up at this public hearing.

There basically was no opposition at the public hearing to the transaction and staff is recommending the issue of the bonds of $11.7 million and credits in the amount of $556,530.

MS. ANDERSON: Thank you, Ms. Carrington. Does the Board have questions for Ms. Carrington or the staff on this?

(No response.)

MS. ANDERSON: What is the Board's pleasure?

MR. CONINE: Move for approval for Humble Parkway, is that the name of the project?

MS. CARRINGTON: Yes.

MR. CONINE: Resolution number 04-02. Again, I think we have an issue of our financial advisor purchasing the placement advisor for the bonds on this, and I would like to see us get a third-party opinion on any conflict issues that may arise there. So I would make that motion subject to our receipt of third-party conflict opinion.

MR. BOGANY: Second.

MS. ANDERSON: Thank you, Mr. Bogany. So we have a motion on the floor. It has been seconded. Is there discussion?

MR. CONINE: And we might want to know from Jana if she can work with Gary or not. I think that would be appropriate.

MR. MACHAK: I want to hear that.

MS. ANDERSON: Hearing no discussion, I assume we are ready to vote. All in favor of the motion, please say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. We are going to at this point, long overdue in some of yours mind, no doubt, take a break. Now I want to ask the Board's pleasure about whether we make this a lunch break.

I think we have little enough business left that if we just go take sort of a short comfort break and come back and conclude our business. Is that okay with everybody?

MR. CONINE: Fine with me.

MS. ANDERSON: All right. Great. So we will take a 15, ten? 12:00. Thank you.

(Whereupon, a short recess was taken.)

MS. ANDERSON: Come back to order, please. And with the Board's indulgence, the first thing I'd like to do is to present this $10 check from Gordon Anderson and this $100 check from Beth Anderson, no relation to Ms. Groneck for safe keeping and proper deposit into the proper accounts. I think that was good policy to set and so I fully support the full payment of fines, in full.

MR. CONINE: Mr. Hamburger thanks you. And the sons of Texas thank you.

MS. ANDERSON: Next item on the agenda is item 4(b). Underwriters for the multi-family bond program. Ms. Carrington, would you?

MS. CARRINGTON: Thank you, Madam Chair. As we start this afternoon, I would like to acknowledge Liza Gonzales who ran a marathon in Hawaii in December and finished and has a medal because I have been in her office to see it.

I don't know. For somebody who walks four and a half miles, you know the idea of running 26 miles just is kind of beyond what I can comprehend. Liza, congratulations.

Next item on our agenda is the approval or recommended approval of adding two more investment banking firms to our underwriters for the multi-family bond program.

The board, back in May did, April of last year, approved an RFQ for investment banking firms to add them to our list of multi-family underwriters. It's basically an open ended request for qualifications.

And so far, we have received two applications from financial advisory firms to be added to the list. They are First Albany Corporation as senior manager and Bank of America as senior manager.

And staff is recommending that both of these be added to the approved list. For the Board's information, behind your summery page you do have two pages. One page has the senior managing underwriters for multi-family transactions and the second one shows the existing co-managing underwriters for multi-family transactions. As I said, this RFQ remains open and as we have other applications, we will bring them to the board.

MR. CONINE: Move for approval.

MR. SALINAS: Second.

MS. ANDERSON: The motion on the floor has been seconded. Is there discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 4(c). Ms. Carrington?

MS. CARRINGTON: The next three items relate to the activities in our single family program. And the first item on the agenda is an update for the board on our taxable mortgage loan program.

This is a product that bond finance and single family and one of TDHCA's approved investment banks, Citigroup Global Market, are exploring the issuance or the development of a taxable mortgage loan product that would offer products that are currently not available through the department's existing tax-exempt program.

And we have listed down for you, there's basically five elements we would be working to achieve with this taxable program. Homebuyers who may or may not have previously owned a home, who require down payment assistance and seek minimal paperwork, so you would not have to be a first-time homebuyer to be eligible for the program, as in our existing single family program, you have to be a first-time homebuyer, first time in three years.

There would be a product conforming refinanced mortgage loans, right now the department does not offer any kind of product that provides for refinancing. This will give us that opportunity. We would be looking at refinancing higher interest rate loans or predatory loans. Subprime purchase loans with down payment assistance where we'd be gearing to borrowers at A- or B credit.

Who may or may not have previously owned a home. Subprime of refinance mortgage loans, again refinance not available to us at this point.

And then home equity mortgage loans, borrowers who would have A, A- or B credit. And on the second page, some very important information about this proposed product that under Citigroup's proposal that this product would not require the issuance of bonds.

So that the Department would not be issuing bonds to make these mortgage loans available. The loans would be made through sources that are available to Citigroup.

It would allow the Department to diversify if its products -- to offer a broader range of products. Also create some income for the Department, since we wouldn't be issuing bonds, we would also be eliminating the negative arbitrage and the interest rate and the origination risk.

With that, I would say that if the board has any questions, that Byron Johnson would be available to answer any of those questions. And what we want to do with this item is inform the board that we are moving forward with this and it is really an informational item for you all. So then really –

MR. CONINE: No action.

MS. CARRINGTON: No action is required.

MS. ANDERSON: Are there any questions of Ms. Carrington or Byron?

MR. CONINE: Let's get it on. I would encourage it.

MS. CARRINGTON: Okay. Great.

MS. ANDERSON: Okay, the next item is extension of certificate purchase period for Series 2002 A Program 59?

MS. CARRINGTON: Thank you. Program 59 right now, the termination, the loan origination period for this program is the termination period would be April of '04, which is coming very soon.

And what we are requesting with this item is to extend that origination period until April of '05. The original amount of lendable proceeds in this program was 40 million.

What we have at this point is $14.1 million of unexpended proceeds and we do believe that with this extension of the origination period, that we will be able to originate the remainder of this money.

MR. BOGANY: So moved.

MR. CONINE: Second.

MS. ANDERSON: We have a motion on the floor. It has been seconded. Any discussion among the board or questions for the staff?

MR. CONINE: This resolution 04-007?

MS. ANDERSON: Thank you, sir. Yes, it is.

MR. CONINE: James Bond.

MS. ANDERSON: Hearing no discussion, I assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 4(c)(3). Preliminary approval of single family mortgage revenue bonds, series 2004, series A.

MS. CARRINGTON: This last item under the single family bond area is to present the board our strategies in how we are looking at using our volume cap and volume cap that we have carried over for previous years.

So we have for your action approval of

preliminarily program 61, but also we have included material for you that would show our strategy for utilizing our volume cap for the remainder of the year and as Byron and I were talking about this yesterday, I do believe that as we look to February and our bond finance retreat that our strategies for using what we have preserved in our commercial paper program and unexpended proceeds and that discussion would probably be a very good discussion for us to have at our bond retreat.

What we are looking at initially is issuing up to, depending on market conditions, about $179 million for Program 61 A. If you all will remember that we did our commercial paper program at the end of the year last year, and that commercial paper program was to allow us to manage our volume cap for 2003.

The guaranteed investment contract, or the GIC, that we were able to receive to invest those proceeds actually expires in May of this year. So because of that, that's really the trigger.

That's our timing for getting Program 61 approved, getting the structure, getting it approved and getting those bond issued before the commercial paper program expires.

Bond financing staff is proposing that 100 percent of the bond proceeds for Program 61 be for assisted loans. So all of these loans would have down payment assistance.

We are looking at the program at the second half of the year, probably not having any down payment assistance but we do find that the down payment assistance at least initially is a real key to how well we originate proceeds and so we are looking at 100 percent of this having down payment assistance.

On the back of your summary sheet, you have basically a time line for what we believe will be reasonable for this particular transaction, 461, and we will have a closing, along about the end of April prior to the expiration of our commercial paper program. So with that, I know that Byron Johnson is available and anxious and would love to answer questions that the Board might have.

MR. BOGANY: So moved.

MS. CARRINGTON: Do you want Byron to answer questions, Mr. Bogany? Here he comes.

MR. CONINE: I'll second it just to get the discussion going.

MS. ANDERSON: Anybody have anything they would like to ask Mr. Johnson?

MR. CONINE: Why are we doing all 161 million at one time?

MR. JOHNSON: We have been enrolling our commercial paper now for about two years with the expectation that rates will go up. That's why we had to go out and extend the commercial paper program authority. We have seeded out $75 million and prepayments have continued to increase so we need to relieve some of the authority in that program.

Also, I am not an economist but from what I read, rates may remain stable or increase over the next year or so. So we are thinking that now is a good time to lock in rates. And that's why we are proposing or hedging ourselves by using assisted funds and delaying our issuance of unassisted funds.

Mr. Bogany?

MR. BOGANY: I have a question. In this, what are you going to do to market this money? You know, and that's my big concern is marketing it, and it seems that in our area in Houston, we are not using any of the bond programs, all right. I just got a report of this yesterday that 65,000 homes were sold in Houston last year. December had a 20 percent increase over the previous December.

And it concerns me that we are the most affordable city in the country and we are not using any of our programs to an extent that I would wonder to really make this work, you know we throw it out there. Sort of build it and they will come.

But to me, I think we need to market especially in the larger cities where you have other programs that you are having to compete with. And I'd like to know what we are going to do about that.

MR. JOHNSON: First, the thought is that we would try to structure these bond issues to produce very attractive rates that will draw the market out of a pull demand type of strategy. And Eric Pike, who is the director of single family production, is out today, but we have had discussions.

We are looking at increasing our channels. Talking to the mortgage brokers, bringing them into the loop. Looking at maybe engaging outside marketing expertise to help us with this.

And I think that Sue is here and Sue can come up and Sue works with Eric and she is the manager of the bond program from the lending side. I know she's been working with this also and she can speak at it too. The marketing plan.

MS. CAVAZOS: Hi. I am Sue Cavazos in single family finance production. We have been in discussion with various lenders and we do have, I think we do have good lender participation around the state.

I was looking at what we've done in our various bond programs to date and it has been a lot of Central Texas. We have had some in Montgomery County but it's been the majority is with CH Mortgage, our top producing lender in all of our bond program.

So, and in 59, we have Sterling Capital. They do a lot in Houston. They do a lot around the state. They had $4.2 million in '59. Hammersmith, I know they have locations in Houston. They have $1.2 million. CH Mortgage, of course, they did 11.2-. A lot of that is in Central Texas. They do a lot with Milburn Home.

They do have offices around the state. Rocky Mountain Mortgage in El Paso. They did $1.6 million. They did 26- in loans.

And then in the Valley we have Valley Mortgage. We have CDC Brownsville. I continually talk to them. We are talking to realtor groups. We are in the national. I've talked to the National Real Estate Council to get invited to their conference.

Unfortunately, we just missed their last annual conference. We are talking, going to TAR and actually trying to hire a marketing firm, not to have them do the marketing, but to give us some great ideas.

Also we have talked to Tim Olmquist with Countrywide Home Loans. They have a marketing area since they are a master servicer. They may have some initial ideas to give us.

And we are going to meet with them in a couple of weeks when we go up there in February to Dallas for that conference. We will also have a power breakfast, that we are going to meet more on getting the marketing and getting out there and getting the people more excited about our programs.

It was the rate that I think that hurt us this last year, but now they, I think this last bond at 4.99.

MR. BOGANY: See, my thoughts are is that the lenders made money, you know typically lenders -- the more, the higher the interest rate, the more money they make on the deal. And I'm a loan officer and I know I've to limited money I can make on a bond deal.

I'm not necessarily so sure that as they are going to recommend our bond program to that borrower knowing -- I mean, if we lived in a Pollyanna world they would, but that doesn't happen in the real life and that to me we ought to take it to the people who are going to use this program and the realtors who are going to use this program because I think that's really the key to marketing.

I don't think the lenders -- you can sign them up and do your little thing in getting them to sign up but to actually make this program work, you are going to have to get it to the realtor organization and some of them would take free articles from you, because in Houston, if you are in Houston you've got affordable housing. But if you're in Missouri City or Sugar Land, you may not have anything available to you, and that's why Montgomery County you had some.

But if you get in Harris County, you don't have any funds. So I truly would like to see some kind of plan on what we're going to do because we do make money off this, I am assuming. And so, we ought to put some money aside to market it.

MS. CAVAZOS: Yes. And we'll have some details next month when we meet.

MR. BOGANY: I would love to see them because I just find it horrible that we are not using this money and when I asked other realtors in Houston about it, they said I didn't know we had it. I mean, because that's where it's coming.

It's not coming from the lenders. And DR Horton which is CH Mortgage, they have affordable housing in Houston. Nowhere have I done a deal with DR Horton American Builders product did they mention the bond money to me or my client.

So that concerns me that in Houston, so many different programs, but I think it's a big need for this and I think you guys are doing a great job. I just think we need to have some money for marketing. I mean you could have the best mousetrap, but nobody knows about it.

MR. CONINE: Mr. Bogany brings up a good issue and I'm going to ask the question in a little different way if I might. In the issuance cost of these bonds, we've got money for everybody except for marketing.

Can we do a set-aside for marketing dollars in the issuance cost? Or do we need to be in our operating budget for marketing these products?

MR. JOHNSON: In the past we have included, I guess, a line item for department expenses, which includes marketing. And as long as the bond review board approves it, we can budget it into the expenses of the transaction.

MR. CONINE: Okay, as you go through this one, let's take a hard look at that. Obviously, it's not enough and in the past -- based on the feedback we keep getting from the industry. So we either need more in the issuance costs or to set aside something in the budget. But we need --

Mr. Bogany is correct. We need an increase in the level of the marketing we've been doing in the past and where we get it from, you know. It's not really my call. You all take a look at it. When come back with

Program 61, let's see if we can figure something out.

MS. CARRINGTON: May I comment on that?

MR. CONINE: Sure.

MS. CARRINGTON: At Mr. Bogany's recommendation, probably last year in some discussions with him, we did make contract with Texas Association of Realtors probably last year in some discussions with him. We did make contact with the Texas Association of Realtors, Penny McMahon called us, probably about three weeks ago, and TAR's midwinter meeting is in Austin, in February.

And the department has been asked to do presentations at three different sessions on their commercial investment division on Saturday, on Sunday is when their new housing initiatives committee is going to meet, and what they are interested in on that one is an overview of kind of everything that we have that might be of interest to realtors.

And then on Tuesday, in particular, our single family programs. And Mr. McMahon does tell me that they have 3- or 400, you all have 300, 400, 500 folks who show up at those meetings. So we think that this is a real opportunity for us to begin to do more work and outreach.

MR. BOGANY: And I think it will help and I especially think in Houston, if we could call Houston

Association of Realtors which has 20,000 members and say, hey, we'd like to come out and do a seminar for the realtors and explain our program, they will come.

And HAR will do advertising to promote and the realtors to come, because they're out here trying to make money. And then the lenders are going to just flock there because they've got the product.

But I think you just need to go to where who's help making the decision and it's really the realtor that determines what lender they go to.

MR. JOHNSON: Will do.

MS. CARRINGTON: Thank you. We will do that.

MS. ANDERSON: This is a very good discussion. I concur with Mr. Bogany and Mr. Conine. We off and on, and every few months, we've heard about marketing, as long as I've been on this board.

So I just want to formalize our request so that it is in the record and it is real clear what the expectations are. And let me know if I am not speaking accurately.

At the March meeting when you bring this to us for approval, in that board book, before the March meeting, we ought to have a written marketing plan. It doesn't have to be elaborate but it ought to consider things like, who are the audiences you are going to market to, what are the activities you are going to do to market it, the time line of the activities.

For example, if this money is going to be available, you know, you are going to price the bonds; you know the money is going to be available in May. Then what are you going to do in May around launching it? Because you will have done some preliminary conversation at the TAR meeting in March.

But then you probably need to go back to the TAR membership when it is officially available. So just, it doesn't have to be real elaborate but let's get real concrete about what we are going to do. Okay?

MR. JOHNSON: I promise you a graduate-level marketing plan.

THE COURT: It can be very simple but it becomes your road map.

MR. CONINE: Who's going to write it for you? Tough shot, I'm sorry.

MS. ANDERSON: So is there, are there other questions of staff? Other discussion among the board?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote on the motion. Everyone still remember what that is? All in favor, aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

MR. JOHNSON: Thank you.

MS. ANDERSON: Thank you. Item 4(c). Oh, that was it. Item 5(a) we do have some public comment on item 5(a) and it's hard for me to tell in some cases whether this is on Blue Lake or Wellington, so I'll just sort of do the best I can here.

Looks like all the comments is on -- actually, it looks like it's all on Blue Lake. So do we want to go ahead and take Wellington Park? Or do we want to take them together.

MS. CARRINGTON: Let's take Wellington.

MS. ANDERSON: Let's take Wellington Park. Okay. Great.

MS. CARRINGTON: Wellington Park is a proposed transaction in Houston. Tax-exempt bonds, new construction, family.

The Harris County Housing Finance Corporation is the issuer on this transaction, so the board will remember that when we are not the issuer then you do not have a copy of the public hearing transcript although we certainly do note comments from citizens and letters from citizens and legislators.

We are recommending a credit allocation amount of $640,989, which is the eligible basis amount. It's 244 units. It is 100 percent low income at 60 percent rents and incomes. And staff is recommending approval.

MR. BOGANY: So moved.

MR. CONINE: Seconded.

MS. ANDERSON: The motion is seconded. Any discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor of the motion, say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Blue Lake Marine Creek Apartments. There is public comment on this. Kennis Ketchum?

MS. KETCHUM: Good afternoon. I am Kennis Ketchum with Portfolio Development. I'll be the co-developer of the project. I actually have no comment but I am here to answer any questions.

MS. ANDERSON: Great. Michael Eaton.

MR. EATON: Thank you. I've got a couple of sensitive documents here. My name is Michael Eaton and I am an attorney in Dallas, Texas. I represent Blue Lake at

Marine Creek Limited Partnership, the development entity.

You will note that the determination item on the agenda has in the amount of zero down there. And if we go back to the eligible basis amount, the profile in the board summary, that amount is $464,937.

The reason that there is a zero is based in my understanding upon one issue and one issue only and that is the calculation of the capture rate for this particular project. Isper and Associates did the original market study and worked with staff and submitted some updated additional materials to staff in the week between Christmas and New Year's.

It is my understanding that his group was told that if there are any problems with the revised or updated information that he would be contacted. He was not.

And the next thing that we knew, the board book was published indicating a recommendation of zero dollars for tax credits. This is a private activity bond transaction with bonds issued by the Tarrant County Housing Finance Corporation.

One of the other speakers is going to present a letter from the financial advisor that just kind of substantiates both local support, governmental support, issuer support for this transaction. Charter Mac has agreed to purchase the bonds. One of the letters that is being distributed is a letter from James Pound of Charter Mac that delineates their particular calculation of the capture rate, indicating that for one-bedroom units the capture rate is 18.67 percent, well below the 25 percent maximum allowable rate.

For two bedrooms, it's 9.34 percent and for three bedrooms, it's only 2.25 percent.

Darrell Jack, I believe, is going to address you as well, after we learned that there was recommendation of zero credits because of this capture rate discrepancy, at which in my view is a technical problem with the calculation that was performed by the initial market analyst, was resubmitted.

It was only done after we learned of this problem, after the board book was issued. We kind of in the same position that Mr. Fisher was in that we got information, we got it to the agency, but we got it to the agency after the board book was published.

Mr. Jack's information and updated market study indicate a capture rate of 19.41 percent. In other words, the most recent updated and accurate assessment of the actual capture rate for this project, whether done by the bond purchaser, or done by Darrell Jack are all down below the maximum allowable and it's our understanding that the sole basis for the failure to recommend the credit for this transaction was the initial calculation that was in excess of the maximum allowable 25 percent capture rate.

The volume cap expires on these bonds February 3. Obviously, a large amount of money and effort has been expended in furtherance of this project.

You will see that one of the items that I distributed was the actual updated market information that has been distributed to the agency. Mr. Jack can probably address those issues more specifically than I can. But we are asking for board approval of credits in the amount of $464,937.

This project is in the city of Fort Worth. It is supported by the county commissioner in whose district it is in. It is supported by the city councilperson whose district it is in.

We've had no opposition from any homeowner group. We've dealt and met with all of them. They are supportive and cooperative. It has every opportunity to be an outstanding affordable housing development for Tarrant County. And we would ask for your approval of credits, again of $464,937.

MS. ANDERSON: Thank you, sir.

MR. EATON: Thank you.

MS. ANDERSON: Kelly Hunt?

MS. HUNT: I'd like to defer my time

MS. ANDERSON: Tammie Goldston?

MS. GOLDSTON: The same.

MS. ANDERSON: Ted Stokely?

MR. STOKELY: I'll defer to Mr. Jack.

MS. ANDERSON: Darrell Jack.

MR. JACK: Good morning. My name is Darrell Jack and my firm is Apartment Market Data. We do a number of market studies for the department around the state. And I want to take just a moment to compliment the staff that I have had the opportunity to deal with, really on at least a monthly basis, if not weekly.

The fine government employees that are as dedicated as Mr. Gouris, Mr. Onion and the others that they work with is outstanding and I think a rarity in today's environment. In regards to Blue Lake Marine Creek, we were engaged last week to review the market and to review the capture rate calculation.

The capture rate is a fairly complex calculation that it doesn't fit exactly a particular mold. And what I mean by that is that the way that the capture rate is applied by many, it assumes that the renter tenure or the percent of renters in the market is the same at each individual income band.

To simplify that it says that people making $10,000 a year rent at the same propensity as people making $150,000 a year. That's the way that historically, the state has applied the capture rate methodology.

I think we can all understand that people in lower incomes don't have the same ownership opportunities that people at higher incomes do. And until just recently, we haven't arrived at a good weighting system.

Unfortunately, the Census data that we obtained from our outside providers and the Census questions, they don't ask what the percentage of renters is at any particular income band. So the state has applied it as a blanket across all income bands.

What I've been working with, and started working, sending proposals to Tom for approval, was the weighting system. And we actually started this back in December, some conversations to account for lower incomes having a higher propensity to rent.

Assuming some data that came out of a different data source, called the American Housing Survey, periodically, the Department of HUD does this survey. It comes up with renter tenure for a specific income band. For some cities, it's more current than others.

For Houston right now, we're dealing with data that was collected in 1998. In fact that data was used to help the cash rate threshold to be met for the project you just voted on, Wellington Park. Originally, that project was being denied.

The market analyst in Houston called me right at the end of the year to see if I had any additional data that might help with his capture rate and that data was approved through underwriting. Again, in Houston, we're dealing with data that was collected in 1998. Fortunately for this project, Fort Worth and Dallas were just updated in 2002.

What we've figured is that the capture rate for the renter tenure within this trade area that was designated by Isper and Associates. The renter tenure was 31 percent.

If we look at the income bands that this project is going to serve, all of those income bands have renter tenure of over 50 percent. It's quite a difference in the numbers that we calculate for the turnover demand. Using the latest demographic data, and the state's methodology, we came up with right at 4,100 income qualified renter households within the market.

Using the weighting system, for Fort Worth, we came up with a renter tenure, with income qualified households of 8,200 renter -- I'm sorry, income qualified renter households and applying the turnover rate and household size, that number, that 4,100 is now at 6,200. So for income qualified renter households, this project would serve.

As we went through the calculations, and accounted for four other projects, that either haven't been stabilized for the twelve months or in the planning and construction period, we came up with the capture rate of 19.41 percent. The capture rate isn't the tell all, but it is a threshold item for this department.

MS. ANDERSON: If you would wind up your testimony.

MR. JACK: In conclusion, the capture rate for this project, using the weighted system and applying it to this project, just like it was the Wellington Project in Houston, is now under the 25 percent. Overall, the occupancy for affordable projects is over 94 percent in this trade area and in our opinion, the project meets the states requirement and has a likelihood of success. I'd be happy to answer any questions.

MS. ANDERSON: Questions of Mr. Jack?

Thank you, sir.

Clifton Phillips?

MR. PHILLIPS: Good afternoon. I just wanted to simply go over the support level that Mr. Eaton has already addressed.

I have a letter from First Southwest that I'll hand out that simply states, without reading it into the record, in the essence of time, that there was no opposition at the TEFRA hearing.

That Unified Housing went and met with all the homeowners in the area, the homeowners associations, had productive meetings, got their support. We also made a presentation to the city council and had no objection there and also met with the school district, who was in support of the project. We've also received inducement from the Tarrant County Housing Finance Corp and they are ready to move forward on the project.

And as you see in the last point, they just say that the tax credit purchaser is ready to move forward, too, and has done their own market analysis. I believe that the capture rate is below the 25 percent. I'll open up to any questions. Thank you.

MS. ANDERSON: Questions?

(No response.)

MS. ANDERSON: Thank you very much.

May we have the staff presentation?

MS. CARRINGTON: Blue Lake at Marine Creek, to be located in Fort Worth, Tarrant County Housing Finance Corporation is the issuer. The credit allocation that was being requested was $474,683.

The staff's recommendation is that there not be a credit allocation to this development and it is based on the underwriting report on most specifically, pages four and five of the underwriting analysis and while we understand and appreciate this tremendous amount of public support for this transaction, our staff's recommendation is based on the capture rate calculation as outlined in our underwriting rules and guidelines.

And based on that, and you will note on pages four and five, the original report was received. The original market study that was received on this transaction.

And then an update from the same market analyst and a third study as Mr. Jack was just referring to, that came in quite recently. So staff's recommendation is based on we believe it does not comply with our underwriting rules as adopted by this agency.

MR. CONINE: Even though they just testified that it did?

MS. CARRINGTON: I'd like to bring Mr. Gouris up.

MR. GOURIS: Tom Gouris, Director of Real Estate Analysis. They testified to several things, one of which is based on Mr. Jack's revisions to Mr. Ipser's market study, the transaction now met our requisite capture rate and the way Mr. Jack modified the original market study to get there was to add new information to this American Housing Survey, which is a valid source of information, and also just the turnover rate from the original, before it was at 35 percent and then it went up to 48 percent and now in Mr. Jack's most recent documentation, this is suggesting a 76 percent turnover rate. That piece hasn't been justified.

To be honest with you, the final revision Mr. Jack provided is deficient in the fact that it's just a revision to Mr. Ipser's studies and not a study in itself. We have to assume he's using all the same market area and assume he's using all the same data, when I did my calculations from the American Housing Survey, I came up with slightly different numbers.

I got to about where he was with that and assuming his higher turnover rate, I could get there, but I couldn't justify his higher turnover rate either. The most that I could find was a IRA report that suggested turnover in that area of 70 percent.

So there's still a lot of unanswered questions, and it wasn't a full-blown market study that he provided. I can answer some more questions or I can give you some more comments about the comments that you've heard so far if that would help.

A couple of comments were that they were only notified of this information during the Christmas week and of course timing is everything with these transactions and we're always having a hard time getting there. But our first notification to the original market analyst was December 10th.

We sent a letter then December 12 to the applicant, informing him of that issue and several other issues which he did address. Then on the 15th we sent the second letter. The market analyst had already repaired, or had attempted to repair his first report by expanding the market area to include all of Fort Worth. We informed him on the 15th that that was not going to be acceptable.

And then on the 19th we informed both the applicant and Mr. Ipser that his third version was not going to make it because he did not include two transactions that were in that market area. And at that point, we told him that we were going to be able to make an affirmative recommendation.

I'm not sure how the timing got miscommunicated but looking on it, I understand how it could, because of the holidays, but we try to have a pretty good record of that. With regards to the Charter Mac documents that they provided, that only includes the proposed property.

It doesn't include the other transactions that are in that submarket. So it doesn't qualify at that capture rate.

I think it's a more conservative method of calculating it if they had included our transactions in the area. And if they had, they would have come up with still an 18 percent capture rate for the one-bedroom units but a 69 percent capture rate for the two-bedroom units, and a 62 percent capture rate for the three-bedroom units in the market.

So it surprises me that they provided this, in that one of the other transactions in that submarket that hasn't come out of the ground yet is theirs. I would have thought that they would have included that in there. But they didn't.

And the way we calculate capture rate, we utilize all the unstabilized product in the area to calculate that capture rate. Let me think what else was mentioned.

The biggest element in the appeal -- and that was, they need to -- that timing is everything. They need to make this appeal today. But we had determined the methodology that was used by the market analyst.

We has provided a lot of flexibility to market analysts to do that. We opine on it. In fact in this case we thought he understated it. Our own calculations suggest that he understated it as well.

We calculated a higher number. Still we

couldn't get there with our number. He couldn't get there with his number in the original study.

In this most recent study or the piece of it, it looks like he got there, but it's just a piece of it, so it's difficult for us to find that the whole study would be okay.

MR. CONINE: When is the 120 days? Is this another case where given some time –

MR. EATON: February 3.

MR. CONINE: February 3.

MS. ANDERSON: Mr. Bogany?

MR. BOGANY: I have a question. And I hope, Ms. Chairman, I hope I can ask Mr. Jack a question. Have you provided this information to Mr. Gouris?

MR. GOURIS: We got it yesterday.

MR. BOGANY: Is it possible for you to provide this in a timely manner to him where you got your numbers from?

MR. JACK: Absolutely. I got into this with request with the client very late. Like, it was late Thursday, last week.

And you know, Mr. Gouris and I have had conversations related to this kind of issue over the past month. I'd be happy to sit down with him as soon as tomorrow morning.

Bring the data up from San Antonio and actually go through it with him if we can resolve this. To answer on of the other questions that Mr. Gouris had with regards to the turnover rate, the rate that we used was taken from the 2003 IRA book of income and expenses.

It also is really the only source other than actual data from actual sites to give us a turnover rate. So there can be some variance there but I think that we can get there. Tom and I have worked extensively in the past and I think we can prove to him that the capture rate works.

MS. ANDERSON: Anybody else on the board have a question, or Ms. Carrington?

MS. CARRINGTON: I'd like to ask Mr. Gouris to remind the board, or to just refresh the board's memory of some action that was taken last month.

MR. GOURIS: Thank you. I neglected to mention that this is not the first time that this situation has occurred. We have had, we had a transaction last month, in fact, that came to us with, I believe it was four versions of a market study by two different market analysts and while the last version was within our tolerance levels, it was one of those, how many times do you have to recraft this to make it work kind of situation, and we recommended against it.

And I think I made that presentation to you all and you all went that direction with this and approved denial. I believe that was a transaction where we were the issuer.

MR. CONINE: Yes. I was getting ready to ask that question because we control a lot of our destiny when we are the issuer. But here, we've got a local issuer involved here on this one, which obviously supported the project.

MR. GOURIS: And I don't mean to debate them that issue of the turnover rate and I haven't seen the 2003 IRA figures yet, but there are other sources and in fact that's what the Isper said to use a different source. They used a different source relating to the Census information. There is some arguments to be made about whether that's considered proof or not.

MR. CONINE: Do you think you two can get together and get comfortable between now and February 3 or not?

MR. GOURIS: I think if you asked me to do so, I would.

MR. CONINE: I mean, either you can or you can't. One of the two.

MR. GOURIS: If you ask me to do so, I will definitely do so.

MR. SALINAS: Would it change anything?

MR. CONINE: He doesn't know until he sees the information.

MR. GOURIS: It's possible. It's possible.

MS. ANDERSON: I have a question. Not about the market study but about the rent analysis. I'm really surprised to see no difference here.

We're talking about providing a tax subsidy that is a revenue cost to the federal government for a proposed development where the proposed rents are no different than the market rents.

Now, am I confused about what the purposes of these bonds and this housing tax credit program are for? I mean, why are we in a situation where the market rents and the proposed rents are the same?

MR. GOURIS: This is a priority 2 transaction which means that for last year -- in the past it meant that 60, rents be targeted to 60 percent incomes and 60 percent rents. And in this market, what that indicates to us is that there is a softness to the market.

MS. ANDERSON: So the market is already affordable by the 60 percent definition?

MR. GOURIS: Yes, ma'am.

MS. ANDERSON: And we have a market study that has been resubmitted three times where we still have substantial doubt about based on a market study, demand for additional housing in the area.

MR. GOURIS: That is correct.

MS. ANDERSON: Thank you.

MR. GOURIS: And there's several transactions that are --

MS. ANDERSON: In, under what?

MR. GOURIS: In unstabilized. In that transaction. There is a difference between this and Wellington, where there's only one transaction. This one there's four other transactions that are unstabilized.

MS. ANDERSON: Other questions for Mr. Gouris or the staff? What's the board's pleasure.

MR. CONINE: This is a 4 percent deal. Right? 4 percent credit.

MR. GOURIS: Yes, sir.

MR. CONINE: Again, I look at, of course there's softness all over the state, and this is a 15-year transaction. There will be a time when market rates will way exceed what rents these things we've viewed.

And I know there's a timing issue here, which creates a problem. You've got local issuers involved and people involved. I put a motion on the floor that we approve the Blue Lake Marine Creek Apartments in the amount of whatever it was. That ought to make it

$464,937, but subject to a couple of things.

One, Tom Gouris and our TDHCA staff getting comfortable with the capture rate presented at the last minute. Between now and the time the bonds need to be issued and for staff to report back to the chair on how they got comfortable and so forth. That would be my motion.

MR. BOGANY: Second.

MR. SALINAS: What if they don't get comfortable?

MR. CONINE: Then it wouldn't be approved.

MR. SALINAS: Okay. Is that okay with you, Ms. Carrington?

MS. CARRINGTON: It's at the board's pleasure.

MR. SALINAS: Okay. But you know it comes back to you.

MS. CARRINGTON: Yes, sir. Staff made their recommendation.

MR. SALINAS: But you would have to be comfortable with what they are going to do here.

MS. CARRINGTON: Yes, sir. And we either will, or we won't.

MR. SALINAS: That's okay, that's what I want to hear. If you decide you are not comfortable with it then it's died. It won't go through. Right?

MS. CARRINGTON: Yes, sir.

MR. SALINAS: Okay.

MS. ANDERSON: Any other comments from the board? As chair, I would like to make a comment. I agree with Mr. Conine that we look all across the state at its soft market.

But at least all those other deals are able somehow, someway in their market analysis and our review of it to clear the bar. This deal after three attempts has not cleared that bar.

I question the public purpose. With all due respect to the local HFC, the public purpose of this program and how it is achieved when we have proposed rents which are the same as market rents, which is a reinforcement of the softness of the market.

I think the motion is proposed, while good, in its good faith attempt to try and get the replacement market analyst to come to terms with the underwriting department, it puts a great amount of pressure on the underwriting department. We rarely see deals at this level that they don't support and when I see one come to me that they don't support, I pay a lot of attention to that.

MR. SALINAS: But it's still coming back to them. And if they are not going to be comfortable that I want them to know that it is just not going to go.

All I think that Ms. Conine is saying that we look at it again, see if they can make it work. If it's not, then they won't be comfortable with it, then it's not going to happen.

MR. CONINE: I think we've had a history of market studies being subject and questionable and we've got another one involved now that obviously has a long-term reputation with the department and if you can't make the staff happy, you can't make the staff happy.

It's very simple for me and if it had a lot of local oppositions, if it had a lot of other stuff that this one doesn't have, other than a technical definition of capture rate in a market study. That's pretty slim pickings for me.

MR. SALINAS: Just giving it another shot at it. I agree with Mr. Conine.

MS. ANDERSON: Other discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: All opposed, no. No.

MS. ANDERSON: The motion carries. Let's see. Item 5(b).

MS. CARRINGTON: What the board is being asked to consider on the first item of 5(b) is a request for a wavier of the 2003 qualified allocation plan requirement that there not be any four-bedroom units in the '03 round of tax credits.

In July of 2002 there were seven developments that were granted forward commitments of '03 credits. They applied in 2002 but the Board, we had insufficient credits for '02 so they received forward commitments for '03. So those applications, of course were under the '02 qualified allocation plan.

It came to our attention when we received a request for an amendment from Bexar Creek in San Antonio that that particular development had four-bedroom units in it. Well, the '03 QAP doesn't allow four-bedroom units, so what we did then is go back and look at all seven of the forward commitments from 2002 to see if we had any others that had four-bedroom units in it.

And what we did find is that three out of seven of those developments do have four-bedroom units and so we have given the board, in the second paragraph, I think what you would be interested in, and that is the ability to use discretion to waive a portion of the QAP to allow these four-bedroom units.

It's in the middle of paragraph 2. "The board in its discretion may waive any one or more of these rules in cases in which the board finds that compelling circumstances exist outside of the control of the applicant or development owner."

And it certainly was outside the control of the applicant when they didn't receive an allocation in '02 and the board put then on the forward commitment list for '03 and so staff is recommending and requesting that you do grant this waiver for these three particular transactions. Bexar Creek, Mission de Valle and Arbor Woods.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: Don't I remember some discussion?

MR. SALINAS: That is just this three.

MR. CONINE: I know. You just ask the questions.

MR. CONINE: Don't I remember some discussion about when the debate when we put the on the forward list about which QAP they fell under. And I was -- I think though that anything going forward, go under the new rules and it's always meet the criteria.

Now we're hearing that it doesn't. And my recollection and Brooke is not here. So my recollection may be a little fuzzy.

But I remember having a discussion about which QAP they fell under. And we made the argument initially that it was the old QAP, because when you make an application, that's the rules you are under. And then the last couple of rounds, I know that we've been told that if we go forward, they've got to come in under the new rules, not the old rules.

MS. ANDERSON: I remember the discussion.

MR. CONINE: I can't remember the exact way that it worked out. But what I'm hearing is --

Tom, can you cast some light?

MS. CARRINGTON: Chris will be the one to respond to this and as he is coming up, Mr. Conine, I believe what we have finally sort of settled and determined.

If you do a forward commitment, as you well know, those credits are not out of the year in which they applied. They are out of the, in this case, 2003 allocation.

MR. CONINE: Correct.

MS. CARRINGTON: So that is how we have finally determined what QAP will apply. Not the year in which they applied, but the year in which those credits are allocated from.

MS. ANDERSON: But if I understand Mr. Conine, he's talking about a conversation where this was discussed and so my question is have we looked at the record to try to locate that conversation? Or should we before we consider this?

MR. SALINAS: We discussed it. I remember.

MS. ANDERSON: I think we did too, but I certainly don't remember any of the details. So, it would involve going back to the transcripts, of the minutes. Maybe he's been doing it?

MS. ANDERSON: I think it's worth sharing our conversation with Tony Friedman about this issue.

MS. WITTMAYER: That had to do with bonds. That was a different issue. I just wanted to answer the question.

I am confident that Brooke Boston would, if she was here, and that is yes, the forwards are under the new QAP, in this case the '03 QAP and thus they were restricted from four bedrooms. What we're asking here is simply that we waive that requirement.

They're still under the '03 QAP, four bedrooms are not permitted. But the board has discretion to waive that requirement, should it choose to do so.

Now as to whether or not this was discussed with the applicants at the time that they were being offered the forward commitments, I have not checked the record as to that.

MS. CARRINGTON: Mr. Conine, we certainly can. There is no urgency on this today. We can go back to that meeting, I will imagine, two years ago and look at the transcript and refresh our memory on that conversation to see indeed if we are telling the board something different now than what we told you all two years ago.

MR. CONINE: What stage are these projects in? What construction and/or completion?

MS. CARRINGTON: They are well on the way, since they were forward commitments of '02, that meant that in January of '03, so a year ago, they basically got their commitment and they should be well under construction.

As I said, one of the reasons this case up was because of Bexar Creek, who was asking for an extension of their -- no, they were asking for an amendment to their original application because we required them to bring in a development partner.

They were requesting a material change on their application and so that's what raised this to our attention in the first place. I mean we could have probably gone another year and not noticed that we had 3 developments out of the seven out of the '03 allocation that had four-bedroom units.

MR. CONINE: Then, I would prefer to have the knowledge of the transcript information. I would move to table this.

MS. CARRINGTON: Okay.

MR. SALINAS: If you have a motion, I will withdraw my second. If Mr. Bogany --

MR. CONINE: Oh, I'm sorry. If there's a motion --

MR. SALINAS: Well, I can understand the conversation, but we did not allow for that.

MR. CONINE: Not that we can do much about it.

MR. SALINAS: Yes, I know.

MR. CONINE: And I understand the practical reality of it. But I'd just like the information before I vote.

MR. SALINAS: Yes. I can understand. Maybe they are already built. But the question you just said, well, what's the construction date on it.

MS. ANDERSON: With unanimous consent the motion is tabled.

MR. SALINAS: So, we'll table it.

MS. CARRINGTON: And then we have one amendment related to a development that is affected by this. And the first one on your lists is Castle Garden. And Castle Garden is being deferred.

MR. CONINE: Did we go to 5(c)? Is that was we just did?.

MS. CARRINGTON: Yes, sir. We were at 5(b). Sorry.

MR. CONINE: Thank you.

MS. CARRINGTON: 5(c) Castle Garden in Lubbock is being withdrawn, deferred until the February board meeting. Now the next one, and these developments were requesting material changes.

We have these two that were requesting, this one is requesting material changes, and then we have some extensions. But Bexar Creek is the next one that is requesting a material change.

MS. ANDERSON: And we have public comment. Mc. McMullen.

MR. MCMULLEN: Good afternoon, Madam Chair, honorable members of the board. I do not wish to make a presentation, just to make myself available should there be any questions. Thank you.

MS. CARRINGTON: When the board made this award, made this forward commitment, one of the conditions was that the applicant procure an additional development partner because the staff felt like there was not sufficient development experience and they have done that. They have secured an additional development partner.

When they brought in that partner, the partner did ask to change the design of the proposed development and increasing the buildings from 10 to 18. Made some minor changes in the square footage of the units and also in the common area.

We have looked at the both '02 and '03 QAPs and the points would not have been affected through either one of the QAPs because the site did stay the same and staff is recommending that this request for a material change be granted.

MR. BOGANY: I have a question. Considering that Bexar Creek was tabled about waiving the four-bedroom units, is it appropriate to vote on a material change or does it really matter whether we vote on it or not? I would assume they go hand in hand.

MR. CONINE: Although, obviously, it's not under construction.

MS. CARRINGTON: Maybe you need to ask Mr. McMullen that questions?

MR. SALINAS: I'm hoping not.

MR. CONINE: Where are we at?

MR. MCMULLEN: I've got my building permits and hope to start construction later this month or the first part of February.

MR. CONINE: Is the construction loan closed?

MR. MCMULLEN: No, sir. It's later this month or the first part of February. We're right at that cusp. We're ready to go. But I do have the building permits in hand.

MR. CONINE: This doesn't address the number of X-bedroom units in the re-do. Tell me how that changed.

MR. MCMULLEN: It did not change.

MR. CONINE: So we had the same number of -- do we have any ones?

MR. MCMULLEN: No, sir. Twos, threes, and fours.

MR. CONINE: The same number of twos, the same number of threes, the same number of fours, just different sizes.

MR. MCMULLEN: That is correct.

MR. CONINE: And configuration and building types.

MR. MCMULLEN: That's correct. That's all we did. We're keeping all of our set-asides of the apartment, all our promises. We're just changing the architectural design a little bit and the site plan that goes with it.

MR. SALINAS: Does it have four bedrooms?

MR. MCMULLEN: Sir?

MR. SALINAS: Does it have four bedrooms?

MR. MCMULLEN: Yes, sir. We sure do.

MS. CARRINGTON: But the four bedrooms were in the original design when they applied in 2002.

MR. SALINAS: This is why they were asking for the waiver?

MS. CARRINGTON: Yes, sir.

MR. CONINE: I'm okay with letting them.

MS. ANDERSON: You don't see a need?

MR. CONINE: I don't see a need. No. I think there's going to be enough cloud over the lender to try to hold it up anyway. But the other decision now, I would be okay with at least granting the change in the -- because it was a requirement, a condition of approval from us.

MS. ANDERSON: Correct.

MR. CONINE: And it seems that if they brought a partner to the table who had done business with us before and probably had a particular building style is likes.

MR. SALINAS: What if we do not approve the waiver on the four bedrooms? I mean I hate to complicate things, but the issue is still behind us.

MS. ANDERSON: So there is a motion? Right.

MR. CONINE: Is there a motion on the floor or not. I don't think there is? There's not a motion on the floor. I move to approve.

MR. BOGANY: Second.

MS. ANDERSON: The motion is seconded. Is there a discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed?

(No response.)

MS. ANDERSON: The motion carries. Little York Villas as has already been mentioned, has been withdrawn and will come to the board meeting for their request in February.

The last two items on the agenda, extensions for commencement of substantial construction. The first one is Lakeridge Apartments in Texarkana. The second one is Valley View Apartments in Pharr.

Both of these applications have a deadline of November 14, 2003, for the start of substantial construction. The first one, Lakeridge Gardens, did file late. However, they did receive a credit allocation at the very end of the year.

They came off the waiting list and based on what the Board did in December in granting two extensions of the start of substantial construction for applications or for appeals that were filed late, staff is using that as a precedent and we are recommending approval of the current request for the extension which would take Lakeridge out to January 13, 2003.

The second one, Valley View, did file on time. Their deadline was January 14. They have requested March 14, 2004. Fourteen of their 20 slabs have been poured and so they are well under construction. Staff is recommending also the extension request for the start of substantial construction.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MS. ANDERSON: Discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we are ready to vote. All in favor of the motion, please say aye.

(Chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Executive director's report?

MS. CARRINGTON: Thank you. As the board has requested, we are reporting to you on the occurrences at the end of the year relating to the Housing Tax Credit

Waiting List for 2003.

You may remember that you all had asked that we come back to the board anything that came off of the waiting list. We did have some activity toward the end of the year. We did receive also $687,000 in national pool credits.

We had one transaction that you all had partially funded and that was Reserve II at Las Brisas. We had Northline Apartments -- Northline Point Apartment in Region Six. They returned their credits and basically, what all happened was that Las Brisas did receive a full allocation of their credits.

We did have about 214,000 left in Region Six. And we offered that 214,000 to everybody that was left in Region Six. And that was a much smaller amount than what any of them needed, because they were 800,000, million-dollar transactions.

So no one was interested in the 214,000. Then on December 22, Suncrest in Region 13 returned credits in the amount of $1,273,664.

There were two transactions that received the benefit of that return. Both of them were $636,832. We took some of that 214 and we filled the gap and we still ended the year with $145,032 in credits that went unused, but having that small amount of credits left did impact our ability to access the national pool, which we had done earlier in the year.

And so that amount of credits is rolled over into the amount that we will have available for 2004. Any questions about what we did and how we did it?

(No response.)

MS. CARRINGTON: Okay. At the December board meeting, Mr. Conine, you had asked us to come back with you, come back to the board with a report on some discussion with Ability Resources, Inc., 811 funds and how we underwrite that.

And we are working with that applicant, moving forward, and we will have a report to the board next month and my last item. In an ability to not only market the agency and market our programs but also provide an opportunity for the department to have visibility around the state, and around the country, I have a list between now and the end of February of nine different engagements, open houses and SMP conference, Homebuilders Conference, the Dallas Housing Summit and Economics Summit in Houston that we have been invited to.

Also the midwinter conference of the Texas Association of Realtors. We are going to participate three different times and in Austin, an African-American legislative conference at the end of February. With that,

that is the end of the Executive Director's report.

MS. ANDERSON: And with that, that's the end of our business today, I believe.

MR. CONINE: I'd like a chance to, Madam Chair, I'd be remiss if I didn't express my gratitude for the support not only of the staff and the other fellow board members, but other folks in the audience for my year as president for the 2003 National Association of Homebuilders.

It's been a tremendous and rewarding experience for myself and I'm proud to say that this country set a new home sales record of close to a million-one units. We've never had over a million and we got dangerously close to a million-one.

And single family starts across the country were right at 1.5 million units and to preside over a trade association that deals with creating dreams for the American people and specifically for Texas people, it has been my privilege.

And Texas plays a large part of setting the new home sales record and this agency played a large part and for that I'm grateful for all the support and grateful to be involved and just glad to be on this board and thank you very much.

MS. ANDERSON: And we are glad you are going to be with us for a long time.

MS. CARRINGTON: I would like for those of you who are left, the board meeting in February will be in Dallas, not Austin.

It will be in Dallas. It is going to be on a Wednesday. And I think that is going to be February 11. The National Council of State Housing Agency is having a homeownership summit in Dallas and so we are tying our board meeting in with those activities.

MS. ANDERSON: Any other comments from the board members? Do I need a motion or do I just --

MR. CONINE: I move we adjourn.

MR. BOGANY: Second.

MS. ANDERSON: Any opposition?

(No response.)

MS. ANDERSON: We are adjourned.

(Whereupon, the meeting was adjourned at 1:20 p.m.)

C E R T I F I C A T E

MEETING OF: TDHCA Board

LOCATION: Austin, Texas

DATE: January 13, 2004

I do hereby certify that the foregoing pages, numbers 1 through 133, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

01/19/04
(Transcriber) (Date)

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