TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE MEETING

11:19 a.m.
Tuesday,
August 21, 2001

Room E1.012
Capitol Extension
1400 Congress Avenue
Austin, Texas

COMMITTEE MEMBERS:

C. KENT CONINE, Chair
MICHAEL JONES

STAFF PRESENT:

DAISY STINER, Executive Director
DAVID ALDRICH
BILL DALLY
BYRON JOHNSON
ROBERT ONION
DELORES GRONECK

A G E N D A

P R O C E E D I N G S

MR. CONINE: We call the Finance Committee meeting to order for the Texas Department of Housing and Community Affairs on August 21, 2001, at 11:19 a.m.

The first item on the agenda is to call the roll.

Mike Jones?

MR. JONES: Here.

MR. CONINE: Kent Conine is here.

Vidal Gonzalez?

(No response.)

MR. CONINE: Absent.

Currently, we do have a quorum.

Next, I have one public comment sheet. Is there any other public comment that needs to come before -- witness affirmation form that needs to come before the Finance Committee?

(Pause.)

MR. CONINE: Any other public comment?

(Pause.)

MR. CONINE: All right. The first thing, I guess, would be to call on John Henneberger.

For your public comment, sir.

MR. HENNEBERGER: Mr. Chairman and members, my name is John Henneberger; I'm the co-director of a nonprofit organization here in Austin, the Texas Low Income Housing information service, and I've come before you today to speak about some of the items under Tab 3 of the Finance Committee's agenda, specifically with regard to the proposal to do a bond refunding as a part of issuing single family mortgage revenue bonds.

I have a number of concerns regarding the proposal that's being considered by the Board today. Specifically, the legislature has enacted Rider Number 24 to the TDHCA appropriations bill, which I've addressed -- I've included a copy of that in the letter which I've given to you.

Rider Number 24 provides that the proceeds or funds from any bond refunding which the department undertakes be utilized to fund the Bootstrap Housing Loan Program. As you're aware, the Bootstrap Housing Loan Program is a zero -- is a 3 percent to zero percent loan program which makes home mortgage money available to new homeowners who build their homes under a program approved and administered by TDHCA.

The senate finance committee held a hearing on March 5 at which the content of this rider was discussed. And at that time, senior TDHCA staff represented to the finance committee that there would be no bond refundings by the Agency during the next biennium because of fiscal constraints and because of the status of the -- and the condition of the various -- of the bond indenture which is out there.

Despite that fact, the legislature went ahead and enacted, anyway, Rider Number 24, requiring that the proceeds or the funds generated from bond refundings be used for the Bootstrap Housing Loan Program.

The bootstrap program, as I mentioned, is a self-help program which serves extremely-low-income families; generally, these are homeowners whose incomes are at 30 percent of median family income and below. This is a population which is both a priority of TDHCA and the legislature, as well.

My concern is that -- I believe that TDHCA is moving forward to do a bond refunding for the purposes of generating cash to credit-enhance these bonds and to provide down-payment assistance on single family mortgage bonds. That is a program which, by definition, assists people whose income is up to 120 percent of median family income.

I believe it is prudent housing policy and prudent fiscal policy -- and I believe it also would be compliant with the intent of the legislature -- if the Board instead would use proceeds from the bonds -- the refunding bonds for the purposes envisioned in Rider

Number 24, that is to say: For the purposes of funding the Bootstrap Housing Loan Program.

If the TDHCA decides not to fund the Bootstrap Housing Loan Program with the bond refunding money, then the department will, nonetheless, be required to appropriate a minimum of $3 million a year from other sources of funds, specifically, from the HOME Block Grant, the Housing Trust Fund or other funds available to the department, in order to carry out the Bootstrap Housing Loan Program.

I've been in touch with TDHCA staff regarding this issue and expressed my concerns, and they've very kindly given me some information, including a letter from Vinson and Elkins, bond counsel, which has enumerated some reasons and some conditions on the use of this bond -- of these bond refunding monies.

In essence, as I read the Vinson and Elkins letter, which is attached to the letter which I've given you here today, I believe that Vinson and Elkins is telling us that money, per se, cannot be transferred from the bond funds to an account to fund the Bootstrap Housing Loan Program, but, very specifically, permissible is the use of the bond refunding in order to generate no-or low-interest-rate loans, which is the very thing which the Bootstrap Housing Loan Program is composed of.

My recommendation to the TDHCA Board is that you use the refunding authority in order to generate no- or low-interest-rate bond funds and carry out the Bootstrap Housing Loan Program as directed by the legislature.

I'll be happy to answer any questions. I've outlined in detail my concerns here, and included the letters which I've mentioned.

MR. CONINE: Any questions?

(Pause.)

MR. CONINE: I think we'll -- I'll save mine for the agenda item.

MR. HENNEBERGER: Thank you.

MR. CONINE: All right.

Okay. Item Number 1, Presentation, discussion and possible approval of the minutes of the Finance Committee meeting of May 30, 2001.

MR. JONES: I move they be approved as presented.

MR. CONINE: And I'll second it.

Any other discussion?

(Pause.)

MR. CONINE: All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: Aye. And they are passed.

Second, The presentation, discussion and possible approval of the Fiscal Year 2002 TDHCA operating budget.

Ms. Daisy Stiner?

MS. STINER: Thank you, Mr. Chairman.

2001 and '-2, Bill, or is it just 2001?

MR. DALLY: It's --

MS. STINER: Anyway, you'll get it straight.

Bill Dally is CFO.

MR. DALLY: It will be Fiscal Year 2002 --

MS. STINER: 2002.

MR. DALLY: -- which begins September 1, 2001.

MS. STINER: '-1? Okay.

MR. DALLY: That makes it confusing.

MS. STINER: Yes. Okay.

Bill -- William Dally -- Bill Dally, the CFO for the department, will make the presentation, Mr. Chair, for Item 2, as well as Item Number 3 --

MR. CONINE: Okay.

MS. STINER: -- on the agenda.

MR. CONINE: Great.

MS. STINER: Joining him is David Aldrich, who's the Budget Manager of the department, as well.

Good morning, David.

MR. ALDRICH: Good morning, Daisy.

MR. DALLY: First of all, I've got some handouts, and I want to be sure that you have the second or the -- what's titled the Final Draft, August 15, of the budget.

MR. CONINE: I do.

Do you?

(Pause.)

MR. CONINE: That's it.

MR. DALLY: And then I prepared and sent you earlier in the week a copy of a letter sort of outlining some background on this budget and then talking about various experiences. If you've got copies of that -- I think I've got some extras. It's dated August 16.

MR. CONINE: A letter from you?

MR. DALLY: Yes.

MR. CONINE: Is it a love letter?

MR. DALLY: Delores, I've got handouts. I've got extras.

MS. GRONECK: Okay. I made extras, too.

MR. DALLY: Okay.

(Pause.)

MR. CONINE: Okay.

MR. DALLY: You should have a -- one page that is a breakout on salaries for the coming year. Okay? And then I have -- there is an organization chart. We made an error in this book on page 31. We copied the department-as-a-whole's organizational chart twice, and we've got a substitution for that for manufactured housing division, page 31.

MR. CONINE: Okay.

MR. DALLY: And then, in addition -- this will be the first time you've seen this, but we -- Anne Paddock [phonetic] prepared something that is a summary of the General Appropriations Act for '02 and '03, and I've provided that to you. I think you can read that after I present my budget and stuff, and it will kind of give you a little big of background on the topics.

MR. CONINE: Okay. I'm sufficiently covered in paper. Let's go.

MR. DALLY: Okay. If you will, turn to page 2.

MR. CONINE: Of the budget?

MR. DALLY: Yes. That is a comparison of last year's budget and this year's budget. And then we have a variance column, where we show increases and decreases off of that budget, and then "Percentage changed." The -- just to hit the highlights of this, the top two expenses are salaries and payroll-related costs: 56 percent and 10 percent of the budget. So 66 percent of the budget is at payroll -- salaries and our payroll-related costs.

The next five objects -- professional fees, rentals and leases -- professional fees are 9 percent; rentals and leases, 7 percent. Travel amounts to 3-1/2 percent of the budget. Capital outlay is 3.2 percent; materials and supplies is 2.2. That then gives you a sum of about 91 percent of the budget. And then communications and utilities and temporary help -- those next two -- are 95 percent of this budget.

If you go to the variance column, you'll see that, in total, bottom line, the new budget is 31,180,370, which is an increase of $3,181,347. And that's made up of -- the two largest items again are the increase in salaries of $1-1/2 million -- that's 48 percent of that increase -- payroll-related costs of 425,000 -- that's another 13 percent. So that's 61 percent of the increase.

The next three items -- capital outlay increased significantly this year. It's now at $698,000, or 22 percent of this budget. Rent increased $300,000 across the board, 9 percent. Materials and supplies of 179,000 -- that's another 6 percent. Those five items make up 98 percent of the $3.1 million increase.

To go back to that first item, salaries, if you will look at that salary breakout page. There are -- one, two, three, four, five -- six columns.

That very first column is the salary listed by all the various divisions, coming to a bottom line of

$16,617,764. That is where -- budgeted salaries will start September 1. And so that's where you see the increase of 4 percent across the board for all employees, plus some merits that occurred over this last year.

The next columns are proposed amounts in the budget for actions in the coming year. So you have -- that first column is "Merits and promotions," which is about 2 percent of our salary. So that's the pool of funds we would have over this next fiscal year to give merit raises to employees.

The next column is a reclass. We'll have instances where employees will have an expansion of duties and stuff and we'll need to reclass them. And that's $224,000.

That fourth column is a state thing; it's called "Longevity Pay." And that, too, increased this last biennium. Instead of every five years getting $20, it has been lowered to three years. So every three-year increment will be $20. And so that added some to our budget. So the longevity and --

MR. CONINE: Wait a minute. $20 what, a day? A month?

MR. DALLY: A month. I'm sorry.

MR. CONINE: A month? Okay.

MS. STINER: I wish.

(Laugher.)

MR. DALLY: For your --

MR. CONINE: For hanging around?

MR. DALLY: For hanging around, for your service, you -- it used to be that every five years, you can get an extra $20. Now it's going to be every three years.

MR. JONES: For our services?

MR. DALLY: No.

MR. CONINE: No.

MR. DALLY: Employees'.

MR. CONINE: You and I both will be gone in three years.

MR. DALLY: I believe you're just expenses.

(Laughter.)

MR. CONINE: All right.

MR. DALLY: We haven't gotten to that phase yet.

And then there -- that last column "Cost-of-living Adjustment" -- that is in particular to the Washington, D.C., representative. And it's an extra stipend for living in Washington, D.C.

And so you add all those together, and that's the $17,427,467, which is that first line on salaries for 2002.

Then, if you'll -- are there any questions so far?

MR. CONINE: No, sir.

MR. DALLY: Okay.

MR. CONINE: Not from me.

How about you, Mr. Jones?

MR. JONES: No.

MR. DALLY: If you'll flip to page 3 --

MR. CONINE: Okay.

MR. DALLY: -- the same budget but different look. You're comparing -- in that left-hand column are all the various divisions, beginning with "Executive," "Financial Services", "Compliance Monitoring," and so forth, showing comparison of their two budgets and the variances between the years.

And then, out in the far right-hand column, you'll see there are some shifts in FTEs, not major, but among divisions. And that will also impact each one of their individual salary- and payroll-related cost lines.

And then, at the bottom of that page, what I'd like to point to you is the method of finance for this entire budget. And the percentages are not on there, but I went ahead and calculated. General revenue makes up 18 percent of this budget. The systems benefit fund is half-a-percent of the total. Federal funds are 27 percent.

Appropriated receipts are 49 percent of this budget.

MR. CONINE: Bill, would you define that right quick for me?

MR. DALLY: Appropriated receipts are those funds that come out of our bond programs, our compliance monitoring, our tax credit fees --

MR. CONINE: Actual fees? Okay.

MR. DALLY: -- manufactured housing titling fees -- it's all the fees that are set by the Board.

MR. CONINE: Got it.

MR. DALLY: And then earned federal funds make up 6 percent.

On the topic of appropriated receipts, what we've done in this budget is make a projection of our best estimate of the fees that are going to be generated from the housing program and manufactured housing. And this includes both collected-fund balances that we have now and what we project over the coming year.

Now, this is subject to the economy. And if things slow down and -- then these fees may curtail, at which point we've got two choices. We can trim the budget or we can raise the fees. But that will be a Board decision that we'll have to come to in that event. But I just wanted to let you know.

Half our budget is supported by these fees.

And should we have slowdowns and stuff in their coming in, then we'll have to make a decision as to whether we trim the budget some or raise fees.

MR. CONINE: That would be that new manufactured housing board probably.

MR. DALLY: Well, yes. And they will have a say on their side of things.

MR. CONINE: They'll be able to, yes?

MR. DALLY: Yes.

MR. CONINE: Okay.

MR. DALLY: I do want to say we do have system benefit fund in here calculated as a method of finance. We did have a discussion yesterday with the LBB and PEC. There's not total agreement yet that there are any administrative funds appropriated to the department to administer the system benefit fund. We will get $7.1 million of weatherization money this current year and then 10 million the next year.

And so you might want to comment on this, Daisy.

But I think we're still in discussion on that. Let me give you some statistics. We've got 153,000 budgeted in here. That's roughly 2 percent of $7.1 million. We were -- it was our assumption -- and under the PEC rules that were issued not this last session but the session before, when Senate Bill 7 came out, there was an assumption there would be 10 percent administrative fees.

Typically, what we've done in that program is we -- the department has taken 5 percent and we've passed 5 percent on to our subcontractors for their administration of the funds. But right now, that's in question. So it could be that we will -- may need to come back and amend this method of finance, pending their final disposition. But it's -- roughly, what we have budgeted in here is 2 percent of that $7.1 million.

This budget, unlike what we've had in previous years -- I think we've brought our budget in August and it has been approved and that has been the end of the story. This year, because of the fact that we'll be -- one, we'll be having two new boards come on board -- well, this is a pool of assets that really is eventually going to be for three different groups, and as such, we will have to amend this.

As those boards come on, we will make presentations of the budget for the manufactured housing division, and we will also be identifying assets that will actually transfer and resources that will transfer to the Office of Community and Rural Affairs when they're on board.

And so, as such, I see us coming back and revisiting the budget and saying, Okay, this went here; this went here; And now here's what we have at the end of the day for TDHCA, so that at the end of the year, we'll see three distinct budgets.

But at this time, since the boards are not in place, we need to go ahead and get started with this budget. And then, as those boards come on board and we subdivide this, we'll have to come back and revisit it. But it won't be the last time we'll have to come back and revisit this budget -- probably several times. And two other boards will deliberate over portions of it.

Another impact is -- I know we've come to you during the last year with several different waivers. I want to give you an update.

The waiver for capital expenditures for our move and stuff has been withdrawn. What has happened? We've met with the governor's office, and they've identified some space for the CDBG program to move to, but they will still need to be in our building for another three months. And we have talked to the landlord and secured that next three months.

So at the end of November, they will be moved to their new spot, and all of our folks on the third floor will be moved up to other floors. And we will not be paying rent on that third floor come December.

The only outstanding waiver that we do have for -- is the FTE waiver. We requested it related to the Sunset Bill. We requested 27 FTEs. That's currently under deliberation, and I'm meeting with a member of the governor's office on Thursday to make our case for that.

MR. CONINE: Twenty-seven additional?

MR. DALLY: Right. And those are not -- the monies and those FTEs are not in this budget, you know, until they're approved. And to what level they're approved, that would be an amendment or an addition to this budget.

MS. STINER: Mr. Chair?

MR. CONINE: Yes?

MS. STINER: May I just add that those 27 are -- will be a net gain to TDHCA, but TDHCA is also transferring --

MR. DALLY: Right.

MS. STINER: -- 48 --

MR. DALLY: Forty-eight.

MS. STINER: -- plus another -- four or five, we don't know which amount yet. So there's a potential of losing, at a maximum, 53 positions for TDHCA. So the 27 would be a request for TDHCA to carry out SB 322 once CDBG is transferred and local government services is transferred and part of IS is transferred and manufactured housing will be administratively --

MR. DALLY: Sort of subdivided, yes.

MS. STINER: -- subdivided among us. But those would be positions for the TDHCA to implement SB 322.

MR. CONINE: And those aren't in the budget, Mr. Dally, at this point in time?

MR. DALLY: Which?

MR. CONINE: The 27.

MR. DALLY: No. No, not at all. And within this budget are the 48 and all of those various, because we're still a -- you know, a whole --

MR. CONINE: Yes. But they're going to --

MR. DALLY: -- group until they're subdivided.

MR. CONINE: You know, they're going to look at it as a percentage shrink, so to speak. And if what we're saying is that staff has evaluated the effects of the 322 and it's going to take 27 more people to do what was requested in that bill, I think that's a significant number that needs to be pointed out -- and, I'm sure, has -- by the request. So all right. I just wanted to understand.

MR. DALLY: Okay. That's -- I'll stop here unless you want -- have got specific questions on things that you want to address.

MR. CONINE: No. I appreciate you hitting the high points. I think -- unless Mr. Jones thinks differently, I think a lot of the discussion will take place at the Board meeting this afternoon.

What's your -- any comments, Mr. Jones?

MR. JONES: I don't have any comments, and I agree with you.

MR. CONINE: Can I get a motion to move it up -- move it on up?

MR. JONES: Yes. Why don't we move it up for consideration by the Board.

MR. CONINE: Okay.

There's a motion on the floor to move the Fiscal Year 2002 operating budget on to the Board meeting for its consideration. I'll second that motion.

Any other discussion?

(Pause.)

MR. CONINE: All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: All opposed, nay.

(No audible response.)

MR. CONINE: Motion passes.

MR. JONES: And I make the same motion with regard to the Fiscal Year 2002 Housing Finance Division Operating Budget.

MR. CONINE: 2001, or '-2?

MR. DALLY: It should say '-2. It's a clerical error if it doesn't.

MR. JONES: It says '-1 right here, but let's go --

MR. CONINE: We're going to this --

MR. JONES: Okay.

MR. DALLY: -- revised budget.

MR. JONES: 2002.

MR. CONINE: So there's a motion on the floor for the Fiscal Year 2002 Housing Finance Operating Budget to be moved on to the Board for its consideration. I'll second.

All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: And all opposed, say nay.

(No audible response.)

MR. CONINE: Motion carries.

I think --

MR. DALLY: Am I done?

MR. CONINE: Yes. I think we're done with you for right now. Thank you.

MR. DALLY: All right. Thank you.

MR. CONINE: Thank you, very much.

MR. JONES: But you will be back.

MR. CONINE: You will be back.

Item 4, Presentation, discussion and possible approval of a proposed issuance of Multifamily Mortgage Revenue Bond for the Greens Road Apartments, Houston, Texas, in an amount not to exceed 8.6 million, and other related matters.

Ms. Stiner?

MS. STINER: Thank you, Mr. Chair.

Robert Onion, who's the Director of Multifamily Bond Finance, will make the presentation on Items 4, 5 and 6.

MR. CONINE: Okay.

MR. ONION: Thank you. Good morning.

MS. STINER: Good morning.

MR. CONINE: Good morning, Mr. Onion.

MR. ONION: The first project that we have before you today is the Greens Road Apartments located in Houston, Texas -- northeast Houston, Texas, just south of the intercontinental airport.

The structure that is in front of you is a publicly offered transaction credit enhanced by Fannie Mae. The amount of the bonds will not exceed 8-million-6. The borrower is Greens 14 Partners, Limited. The principals are Richard Wilson and Gerald Russell; they both are market developers and, as such, do not have a compliance history with the department.

On the issuance team, I did want to give a clarification. We indicate that Sun America will be the interim lender. What Sun America will do is provide a guarantee to a bank acceptable to Fannie Mae who will then provide a letter of credit to Fannie Mae. And so that clarification is there.

We did hold a TEFRA hearing; there were several people that did attend. I would categorize their comments as concerns about the development and wanting to know if it will have proper drainage and how it will affect the neighborhood, traffic, et cetera. And so I wouldn't categorize them as any complaints with regard to the proposed development.

At this time, I'd like to open it up for any questions that you might have with regard to this development. I would point out that the applicant developers are here today; if you have any questions of them, please feel free to call them up.

MR. CONINE: Okay. Thank you.

Any comments, Mr. Jones?

MR. JONES: I would move that we recommend approval of the issuance of Multifamily Mortgage Revenue Bonds for the Greens Road Apartments, as presented in our book, to the Board.

MR. CONINE: Do we need to put the resolution number on that?

MR. JONES: That sounds good to me.

MR. CONINE: Let's see. I've got 01-30 in front of me.

MR. ONION: Correct.

MR. CONINE: Okay.

I'll second that motion. Any other discussion?

(Pause.)

MR. CONINE: All those in favor of the motion, say aye.

(A chorus of ayes.)

MR. CONINE: Aye. All opposed, say nay.

(No audible response.)

MR. CONINE: The ayes have it.

Item 5, Presentation, discussion and possible approval of a proposed issuance of Multifamily Mortgage Revenue Bonds for the Meridian Apartments, Fort Worth, Texas, in an amount not to exceed $14,310,00.

Mr. Onion?

MR. ONION: The project before you today is the Meridian Apartments in Fort Worth, Texas; it's located northwest of Fort Worth. It's composed or -- will be composed of 280 units. The bond amount will be in three series: 8,130,000 for Series A-1, tax-exempt; 3,315,000, Series A-2 taxable bonds; and the third series, which is 2,865,000, B tax-exempt, subordinate bonds.

The borrower on this transaction is Brisben Meridian Limited Partners; Brisben Companies is the principal of that partnership. I did want to point out on the compliance history that Brisben Company has an extensive compliance history with our department and their score is seven, which is substantially below the material noncompliance of 30.

On the issuance team, I wanted to make a clarification. We have down here Legg Mason Wood Walker as the underwriter. Kilpatrick Pettis is also sharing in that responsibility in the capacity as a borrower's financial advisor; no additional cost is associated with that. And we wanted to make that clarification. Kilpatrick Pettis is -- also will be the subordinate bond purchaser.

The -- a TEFRA hearing was held. There was -- other than the borrower's representative, there was no other people in attendance.

And if you have any questions, I'll answer that at this time on this project.

MR. JONES: Mr. Chairman, I'd move that we recommend Resolution Number 01-31 for approval to the Board.

MR. CONINE: I'll second that.

I have one quick question. The uniqueness of the blended rate when you've got taxable and nontaxable and subordinate -- did underwriting come up with what they thought that the overall blend would yield in a debt service calculation?

MR. ONION: Yes, sir. And that's --

MR. CONINE: They probably did, but I --

MR. ONION: That's in the underwriting reports. And I can see if I can find that now if --

MR. CONINE: No. Let's just do it -- give me the answer between now and the Board meeting.

MR. ONION: Okay. All right.

MR. CONINE: Okay.

There's a motion on the floor to approve Resolution 01-31. All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: All opposed, say nay.

(No audible response.)

MR. CONINE: Motion passes.

Item 6, Presentation of possible approval of Multifamily Mortgage Revenue Bonds for the Wildwood Branch Apartments in Fort Worth, Texas, in an amount not -- I just did that one, didn't I?

MS. STINER: You just did a different --

MR. CONINE: Oh. Okay.

Wildwood Branch is the next one. Right?

MR. JONES: Right.

MR. ONION: Yes, sir.

MR. CONINE: Okay. -- "Fort Worth, Texas, in an amount not" -- the 14 million got me because the two of them are so close together -- 14,365,000, and other related matters.

Mr. Onion?

MR. ONION: Okay. Wildwood Branch Apartments is also located in northwest Fort Worth. It will have the same structure. Ambac [phonetic] is credit-enhancing the tax-exempt and taxable bonds. The amount of the bonds is: 8,920,000 for Series A-1 tax-exempt, senior; 2,570,000, A-2 taxable senior bonds; and the subordinate bonds, 2,875,000.

The borrower on this transaction is Wildwood Branch Townhomes Limited Partnership. The general partner is Brisben Hickory Bend, Incorporated. Brisben Companies is the principal behind that.

Again, the same compliance history as what was previously mentioned, a score of seven, which is substantially below the compliance -- material noncompliance threshold of 30 basis points.

The same would hold true for Kilpatrick Pettis acting as borrower's financial advisor and sharing with Legg Mason Wood Walker the underwriting fee.

We did have a TEFRA hearing on this particular project. One person did show up. It was a neighbor who owned two apartment complexes in the general area. I'd categorize his comments as curious; he wanted to know what was being developed in his neighborhood and what potential competition that might mean for him.

Other than that, if you have any questions with regard to -- oh. One other thing I did want to mention: In your package, if you will, look under the site plan. You will -- look at this particular site. It does have some topographical challenges to it.

I ask that you just put a bookmark in that. I think we will bring that up when we talk about tax credits and eligible bases, but I want to -- did want to bring your attention to that at this time.

MS. STINER: Which of the sites -- under Tab 7?

MR. ONION: Under --

MS. STINER: Tab 7?

MR. ONION: It would be -- yes, where it says "Location Map," et cetera.

MS. STINER: Okay.

MR. ONION: Basically, I can explain to you. The site basically has a ridge that runs right down through the middle of it, a lot of fall-off on either side of that.

Also, there's a drop from the front of the property to the back as it overlooks Lake Worth; as a result of that, there's a lot of additional site work with regard to retaining walls and concrete for the foundations, which add to the overall cost.

(No audible response.)

MR. CONINE: Go ahead.

MR. JONES: I move we recommend for approval Resolution Number 01-32 to the Board.

MR. CONINE: I second.

Any discussion -- any further discussion?

(Pause.)

MR. CONINE: All those in favor of the motion, say -- signify by saying aye.

(A chorus of ayes.)

MR. CONINE: Aye. And opposed?

(No audible response.)

MR. CONINE: Motion passes.

MR. ONION: Thank you.

MR. CONINE: Thank you, Mr. Onion. We appreciate that.

Item 7, Presentation, discussion and possible approval of resolution approving documents relating to the issuance of Residential Mortgage Revenue and Refunding Bonds, Series 2001A, 2001B, 2001C, 2001D, 2001E, and other related matters.

Ms. Stiner?

MS. STINER: Thank you, Mr. Chair.

Mr. Byron Johnson is here -- who's director of Fund Finance. He'll come forward and make the presentation. And I also know Mr. J.C. Howell is here representing Dain Rauscher, if the Committee has any questions -- as well as Ms. Rippy, from V&E.

Mr. Johnson, will you make the presentation, please?

MR. JOHNSON: Good morning.

MR. CONINE: Good morning.

MS. STINER: Good morning.

MR. JOHNSON: All right.

MR. CONINE: Barely.

MS. STINER: We've got five minutes to go.

MR. JOHNSON: We -- let me direct your attention, first of all, to the write-up that talks about Program 57. Matt is in the process of handing out the revised write-up.

There were a few typos in there. Primarily, the fourth line down, the convertible option bonds will close in July 2002 -- will be replaced with "July 2002," not "July 2001." Down in the table --

MS. STINER: Thank you.

MR. JOHNSON: -- the 2001D Bonds will actually be 2.8 million, which would be tax-exempt new money. And the 2001E Bonds will be the 54,300,000, or thereabouts.

MR. CONINE: Are both of those new monies?

MR. JOHNSON: The 2001D is new money. The 2001E will be a convertible option bond. What we're doing is -- well, why don't we -- I think Delores just passed out to you a handout that looks like this.

MR. CONINE: Okay.

MR. JOHNSON: That's a brief presentation on what we're doing with this transaction. If you take a look at the first page, the cover page, it says, A steep yield curve plus no money means a complex bond structure.

The department doesn't have a whole lot of money. Short-term rates have declined dramatically. Long-term rates have remained high or have increased somewhat. So that difference between the short-term rates and the long-term rates creates negative arbitrage, or another cost to the transaction.

And if we were to do our bond deal the way we've always done it, one big transaction in one deal a year, the department would probably have to come up with about $4 million to cover interest and negative arbitrage.

So what we had to do was come up with an option or alternative way of issuing the bonds to, you know, try to save the department some money.

On page 1, you'll see that we're recommending convertible option bonds with a note optimization strategy, which was something brought to us by Salomon Smith Barney.

On page number 2, we're talking about COBs which will allow us to warehouse some of our volume cap this year, and we're also talking about using the note optimization strategy, which will allow us to retain more earnings that we generate through that warehouse facility. And those earnings would be used to help offset the negative arbitrage and, you know, keep the rates consistent.

What we're going to do -- on page 3, as we discussed, we're going to create two tax plans. We're going to try to obtain the most feasible mortgage rate, we're going to try to minimize negative arbitrage, and we're going to try to retain more positive arbitrage through the second issuance.

We create two tax plans by doing two separate pricings. The first pricing will be mostly all long-term bonds and refunding bonds, and the second pricing will be the warehouse issue and a very small piece of long-term bonds.

On page 4 -- and I touched upon this briefly before. What are the current fixed-income market conditions? Well, we're racing to get into the market because the State of California is planning on doing a $13 billion issue; they're going to flood the streets with a lot of bonds, and that could hurt a lot of other issues as they come to market.

As we discussed earlier, the Federal Reserve Board has reduced short-term rates by about 275 basis points over the past year; more Fed easing's expected based on what we're reading in the research. The yield curve is very steep, at least 145 or -50 basis points, between short-term rates and long-term rates. And that creates the negative arbitrage.

Let's -- what is negative arbitrage? Let's try to calculate it. Let's lay it out on the table. Let's assume we do a deal that has about a $121 million in bond proceeds and we originate about $10 million a month; the average balance over about a year is about 65 million. Assume that negative arbitrage is about 145 basis points. Monthly, that costs the department like $80,000. And on a daily basis, that's like $3,000.

So the point here is: As money sits in the account waiting to be originated, daily, it's costing us

$3,000 to hold onto that money whereas, in the past, previous years, we were in the opposite environment, where we would actually break even or were earning money.

We took a look at over 20 scenarios. The analyst at Salomon Smith Barney -- when he heard my name, he would scream and run in the opposite direction. And we examined -- one item was to -- as we said earlier, one-time bond issuance. We would have to put up about $4 million to cover negative arbitrage and Cap I or interest during the origination period.

We took a look at step coupon bonds. And at the time we took a look at this, it didn't generate the optimal results. And over the long term, it didn't produce the residual wealth that, you know, we would like.

We took a look at subordinate bonds, but they're somewhat cumbersome to issue because of certain state regulations, and then zero coupon bonds; once again, it placed a lot of stress on the indenture, so we discounted that option.

And now, on page 7, this shows the breakdown of the transaction. Series A, B and C is the first tax plan, and Series D and E are the second tax plan. Series A is new money; that's part of the volume cap from this year. Series B, we're taking a refunding, commercial paper, which -- we use a commercial paper facility to recycle old prepayments. And then we're refunding under Series C old bonds, 1989A and 1989B.

Series D is just a piece of long-term bonds we attached to the COB in order to try to mitigate another problem, which is called yield drag. Just because we're using the COB, we'll drag down the rates somewhat and minimize what the department could earn, so we attach a little piece of the long-term bonds to the short-term bonds to drive the rate back up.

MR. JOHNSON: Oh, it's -- we're refunding '88A and '89A. I apologize.

MR. CONINE: On Series C?

MR. JOHNSON: Series C, correct.

MR. CONINE: On page 8, the 2001 transaction is split into three parts. Part One is Series A, B, and C: Tax Plan One. Part Two will be Series D and E; that's Tax Plan Two. Part Three will be the COBs which will warehouse the volume cap. And next year, we will convert that short-term money into long-term bonds and make mortgages next year.

On page 9, we're talking about the timing. We're planning on pricing the long-term issue September 11 -- which is Series A, B and C. We're planning on pricing the warehouse issue, which are Series D and E, October 3. And we anticipate closing both issues on

October 18.

And, also, you'll find attached or in that packet a memorandum from Salomon Smith Barney to the Bond Review Board which outlines the current interest rate environment and somewhat explains why we selected this plan of finance.

In this transaction, we anticipate using premium bonds to fund down-payment assistance. The down-payment assistance will equal 4 percent of the mortgage amount, and we're restricting the down-payment assistance to borrowers with AMFIs of 60 percent and below.

During the period of time that I've been with the department, we've always provided down-payment assistance note to borrowers with incomes of no more than 80 percent. So now we're taking another step, and we think we can move the money.

We've made changes to the programs -- the previous programs using first-come, first-served. So we think we can originate the funds and incorporate a 60 percent cap on the down-payment assistance.

We really don't have a firm handle on the rates right now, but we anticipate that we will offer a low rate, an unassisted rate, which will equal 5.95 to 6.25. And we will offer a down-payment assistance rate, which would be in the neighborhood of like 6.75 to 7 percent.

And I would welcome any questions you would have.

MR. CONINE: It sounds like you guys have done some yeomen-creative work here. And I appreciate that and would, I guess, open it up to Mr. Jones.

Do you have any --

MR. JONES: Yes.

MR. CONINE: -- questions?

MR. JONES: Well, my question goes really to the comments of Mr. Henneberger. Do you want to address those?

MR. JOHNSON: Sure.

MR. JONES: Thank you.

MR. JOHNSON: I think we need to clarify some matters before I really address the issue or his comments. He insinuated that, I guess, staff -- high-level staff -- I don't know -- I guess, lied to the Finance Committee members.

MR. JONES: No, I don't think he did.

MR. JOHNSON: No?

MR. JONES: No.

MR. JOHNSON: Okay.

MR. JONES: I think -- but let me frame my question better --

MR. JOHNSON: Okay.

MR. JONES: -- because I don't interpret it that way.

MR. JOHNSON: Okay.

MR. JONES: You know, basically, he's looking at Rider Number 24 and just saying that we're not complying with Rider 24 to our appropriations bill --

MR. JOHNSON: Okay.

MR. JONES: -- by this. And I guess my question to you is: Obviously, you have a different opinion. Right, Mr. Johnson?

MR. JOHNSON: Yes.

MR. JONES: Okay. And explain that to me.

MR. JOHNSON: Okay. Well, I think that the advocate is focusing on refundings in the form of excess arbitrage to borrowers. Actually, the excess arbitrage, not bond proceeds, must be passed to the borrowers in the form of a subsidy.

I think the advocate is focusing in on zero percent mortgage loans, mortgage forgiveness or very-low-mortgage-rate loans. But he -- when he read V&E's letter, he, I think, didn't read the paragraph in its entirety, and he didn't really consider the sentence following that excerpt.

Federal tax law and the indenture limit the use of any savings that result from this type of refunding, which is an economic refunding. What we're doing is transferring mortgages, and we're limited by the Tax Code to 1.125 percent over the bond yield. The mortgage rate of the new mortgages cannot exceed the bond rate of the new bonds by 1.125 percent.

So when we transfer those mortgages over, any excess arbitrage, excess interest earned, must be passed on to borrowers in the form of zero percent mortgage loans, mortgage forgiveness or very-low-rate mortgage loans.

Now the indenture comes into play because it then captures that money and limits the use of those zeros to very specific uses, those being that the loans must be zero percent, they must be first-lien, they must be insured -- in other words, FHA or whatever-type insurance -- or they have to be eligible for GSE securitization. In other words, the loans have to be eligible for packaging or pooling into Ginnie Mae- or Fanny Mae-type securities.

The loans must be secured with a note and deed of trust. The property acquired must be a single-family residence. The money can't be used just to acquire land; it has to be used to acquire land and build, you know, or construct a home.

And unless it's located in a federally

designated target area, the borrower must not have owned a residence in the three years preceding the purchase of the property with the special loan. And then there are certain other requirements that may require the loan to amortize.

So for these reasons -- and, also, additionally, the bootstrap loans, based on my understanding in talking with the other professionals in the department, are nonconforming loans; that is, these borrowers do not necessarily qualify for FHA, VA, Fanny Mae or Freddie Mac loans.

What we're talking about here is using this excess arbitrage in combination with those types of loans; therefore, you know, by definition, bootstrap loans don't qualify for these types of subsidies.

MR. JONES: So we can't do what he's asking us to do?

MR. JOHNSON: With this type of refunding, correct.

MR. JONES: Have --

And could I --

MR. CONINE: Fine.

MR. JONES: -- before we leave that question, Mr. Chairman?

Ms. Rippy, since your letter seems to be the justification for the explanation here, could you just very simply say that, yes, we can't do what Mr. Henneberger's suggesting in light --

MS. RIPPY: Yes. I'm Elizabeth Rippy, with Vinson and Elkins, bond counsel to the department.

And I think the simple explanation is: As long as the funds are entrapped under the indenture and they haven't been released free and clear of the lien of the indenture to the department, we have a contractual obligation to the borrower -- to the bondholders from whom we borrowed the money -- they still view it as their money -- too meet certain credit quality standards that -- we made representations to them when we borrowed the money that the loans made with the proceeds of their money would meet those standards. And yes, I think, ultimately, that's kind of the crux of the problem. The --

MR. JONES: So you agree, and it is the conclusion that you come to, that we are in no way violating Rider 24 of our appropriations bill? I take it that's --

MS. RIPPY: That is my conclusion. The question is whether the funds are made available to the department, and that means without contractual obligations and the kind of restrictions that are involved while they're still under the indenture. Now, that's not intended to be a technical -- it's not a technicality; these are the bondholders' funds.

MR. JONES: I understand. Thank you. That was my question.

MR. CONINE: I have a question for Ms. Rippy on the last sentence in her letter, which says, To the extent that funds would become available in the future on this particular REFI, we'll put the stipulation in there that the funds be transferred to the Housing Trust Fund.

Has that been done on this proposed issue?

MS. RIPPY: Yes. And I mean that is my understanding of what the requirement of Rider 24 is: That if we do have money that is released to the department, it -- the rider's clear that --

MR. CONINE: So the next --

MS. RIPPY: -- it gets used for this program.

MR. CONINE: The next wonderful holders of these bonds will understand that when the issue comes up --

MS. RIPPY: No --

MR. CONINE: -- because of that language in the indenture?

MS. RIPPY: The holders of these bonds will be on notice that when funds will -- and, actually, this is the department obligating itself that when funds are released from this indenture that result from savings from this refunding, they will be used for this purpose, as instructed by the legislature.

MR. CONINE: Great. Thank you.

MR. JOHNSON: Thank you.

MR. CONINE: Continue with your presentation, or are you finished?

MR. JOHNSON: And, to piggyback what Elizabeth just stated -- Ms. Rippy -- whenever we -- there are additional stipulations in the indenture. And, once again, we're talking about people loaning us money. We have to enter into certain covenants. We agree not to release money from indentures -- not just the RMRB indenture, but the single-family and a couple of other indentures -- not until certain assets tests are passed.

So I think that the advocate is confusing this type of refunding, an economic refunding, with what we did last year, which was a replacement refunding. We took old mortgages, sold off the certificates and produced surplus cash. And we then, I guess, allocated that cash to the colonias for a contract for deed conversions. And it -- this is a completely different animal.

And what was represented on March 5 and -- you have a copy of a report that we prepared and gave to the Finance Committee members which outlines the funny --

which outlines the idiosyncracies of refunding housing bonds. Refunding housing bonds is not like refunding a whole lot of other municipal bonds; there are a lot of stipulations.

MR. CONINE: Is that report we issued to them on March 5 -- would the action that we'd be proposing to take here be consistent with that report?

MR. JOHNSON: Yes.

MR. CONINE: I'm going to move that we approve Item 7, approving or, at least, passing it on up to the Board to consider the resolution on documents relating to issuance of Residential Mortgage Revenue and Refunding Bonds Series 2001A, 2001B, 2001C, 2001D and 2001E, and other related matters.

MR. JONES: And I'll second the motion. I think it's Resolution 01-33.

MR. CONINE: Thank you. I'll accept the amendment.

Any other discussion?

(Pause.)

MR. CONINE: All those in favor of the motion, say aye.

(A chorus of ayes.)

MR. CONINE: All opposed, say nay.

(No audible response.)

MR. CONINE: Motion passes.

Now, moving on to Item 8, Presentation, discussion and possible approval of Senior Manager and Co-Senior Manager underwriting firms for detailed research and preliminary structuring of Mortgage Revenue Bonds secured by certain subprime mortgage loans, and other related matters.

MR. JOHNSON: Okay.

MR. CONINE: Are you going to do this one, too?

MR. JOHNSON: Yes.

MS. STINER: I'm sorry. He also will do Items 7, 8, 9, 10 --

MR. JONES: A clean sweep.

MS. STINER: -- and 11. He's up here for the rest of --

MR. JONES: He gets a clean sweep.

MS. STINER: -- it.

MR. CONINE: All right.

MR. JOHNSON: In January 2000, staff started doing some research and study on its own of the subprime market, and contemplating whether or not this was an area that the department should move into. In May of 2001, certain legislation was passed authorizing the department to offer feasible subprime mortgages to low-income residents of the State of Texas.

MR. CONINE: I'm going to interrupt you --

MR. JOHNSON: Okay.

MR. CONINE: -- for the sake of time.

MR. JOHNSON: Yes?

MR. CONINE: We're going to make a quick motion here. And --

MR. JOHNSON: Okay.

MR. CONINE: And for the sake of duplicity or lack -- wanting to have the lack of it, I think we're going to make a quick motion here and get this thing over with and move on to the Board meeting.

MR. JOHNSON: Okay.

MR. JONES: I would just move that we go -- with regard to Items 8, 9, 10 and 11 that we just go to the full Board with those items so that Mr. Johnson will just have to make his presentation once.

MR. CONINE: I'll second that motion.

Is there any other discussion?

(Pause.)

MR. CONINE: All those in favor of the motion, signify by saying aye.

(A chorus of ayes.)

MR. CONINE: Aye. All opposed, say nay.

(No audible response.)

MR. CONINE: The ayes have it.

Any other things to come before the Finance Committee?

(Pause.)

MR. CONINE: We stand adjourned.

MR. JOHNSON: Thank you.

(Whereupon, at 12:15 p.m., this Committee meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Finance Committee

LOCATION: Austin, Texas

DATE: August 21, 2001

I do hereby certify that the foregoing pages, numbers 1 through 50, 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.

08/29/01
(Transcriber) (Date)

On the Record Reporting, Inc.
3307 Northland, Suite 315
Austin, Texas 78731