TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
OFFICE OF RURAL COMMUNITY AFFAIRS

JOINT BOARD AND EXECUTIVE COMMITTEE MEETING
STATE OF TEXAS 2004

Wednesday,
July 7, 2004

Room 437
Waller Creek Office Building
507 Sabine
Austin, Texas

TDHCA BOARD:

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SHADRICK BOGANY
NORBERTO SALINAS

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SAM TESSEN, Executive Director
BILL JETER, Chair
CAROL HARRELL, Vice Chair
MICHAEL WATERS
DAVID ALDERS
JERRY HILL, General Counsel

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P R O C E E D I N G

MS. E. ANDERSON: I want to thank you all for being here this afternoon. We will convene our public hearing and joint session with the executive committee of ORCA and some of the membership of the Board of TDHCA. Again, I thank you all very much for being here.

We are here to do several things today, one of which involves taking formal action on the part of either of our departments. But really this is an opportunity to solicit public comment and public input, and for the board members of the two respective agencies to have some discussion really focused on the Housing Tax Credit Program and the rules and the operating procedures under which we jointly operate that program.

Begin by calling roll for the TDHCA Board. Beth Anderson is here. Shad Bogany?

MR. BOGANY: Here.

MS. E. ANDERSON: Mayor Salinas?

MR. SALINAS: Here.

MS. E. ANDERSON: We have from TDHCA three present and three absent. So we do not have a quorum, but that's not an issue, because we're not here to take action today. Mr. Jeter, do you have any opening comments you'd like to make?

MR. JETER: No, we're just glad we're having the meeting. And do we need to take roll? Jerry?

VOICE: You're posted, you've got a quorum, and --

MR. JETER: Please. Mr. Waters?

MR. WATERS: Oh, Ms. Chairman, I'd be glad to call roll. Mr. Roberts?

MR. ROBERTS: Here.

MR. WATERS: Chairman Jeter?

MR. JETER: Here.

MR. WATERS: Doctor Klussman?

MR. KLUSSMAN: Here.

MR. WATERS: Vice-chairman Harrell?

MS. HARRELL: Here.

MR. WATERS: And Mike Waters is here. Mr. Alders?

MR. ALDERS: Here.

MR. WATERS: We have six out of nine. We have a quorum, Madam Chair.

MR. JETER: Let's get started.

MS. E. ANDERSON: Ok, great. We have several agenda items. At the department here, we typically take public comment at the beginning of the meeting, and then we give people the option of making public comment also at

the agenda item.

It's my understanding that we have no witness affirmation forms at present, so I'm going to draw the conclusion that we have no public comment at the beginning of the meeting, and we'll proceed then to consider the following action items.

Item 1 is a presentation and discussion of the 2004 Housing Tax Credit Recommendation List that was approved by the TDHCA Board on June 28. And I believe Brooke Boston is going to make a presentation to us?

MS. BOSTON: Okay.

MS. E. ANDERSON: Thank you, Brooke.

MS. BOSTON: My name is Brooke Boston. I'm the director of the multifamily finance production division, and we're in charge of administrating the housing tax credit program.

(Pause.)

We are required by our state legislation to state our tax credit recommendations twice. We take them once on June, at the end of June, and this year we did that on June 28, and then we take them again, this year we'll take them on July 28.

So the June recommendations that our board approved are preliminary. We still have outstanding

underwriting on a lot of the development, there are still scoring fluctuations going on, there are a lot of appeals going on.

I just want to -- I'm kind of giving a presentation similar to what our board heard on the 28th, so that both executive committees can also understand kind of the iterations that we went through in getting here.

Essentially, we had provided our board on that day, I believe y'all have the handout of this. It was a list, a recommended list. We, for 13 state service regions, were required by our state law to divide each of those regions into a rural and then an urban/exurban plat.

I think y'all are pretty familiar with that. I know as we've been going back and forth on the memorandum of understanding with your executive committee, that there's been dialogue about that pot of funds.

Then on the sheets that you will see, and I seriously, I'll have this right, the handout that was from the June 28 meeting. Just a copy of it was of the board's summary.

MS. E. ANDERSON: Like this? Behind like the second piece of yellow paper.

MS. BOSTON: Yes. So what we have done is we have two different set asides. We have a nonprofit set

aside. We're required by federal law to make sure that 10 percent of all of our credits go to nonprofits.

So what we do is we take all the applications that have come in, we evaluate them for threshold, and then scoring.

Our program operates almost purely on points, and so once everyone has been evaluated for scoring, we come up with the final score, which may be different from what they requested, and then we, for the nonprofits, we put those state-wide. We put them all on a list, then we sort them from highest to lowest, and basically go as far down that list as we need to, to make sure we've met the 10 percent requirement.

Obviously those developments are in a given geographical area. And so we then can attribute them to that region. So for instance, if the highest-scoring nonprofit development in the state were in Rural Region 8, it would kind of be allotted to Rural Region 8. So we're both meeting the set aside and it's attributed to the right geographic place.

Then, at the level of each of the 13 regions, we have another two set asides that we take care of. The first is the at-risk set aside: that's a state legislative set aside of 15 percent. We're required to

make sure that 15 percent of the region's allocation goes to at-risk.

And for us, at-risk means it's an existing property, and it is at-risk of losing its affordability within the next two years. And going, basically going to market-rate.

So what we do is we go through each of the 13 regions, we take the highest scoring at-risk, and usually just taking one will meet the 15 percent. In a few of the regions, we would have to take two. But, yes, we say it's based on the credit amount requested, and we'll take however many we need, based on their score, to satisfy the set aside.

Again, for instance, if we're talking about Region 6, if that at-risk development is in the urban/exurban pot, it's attributed to that pot, as we, you know, go through and come up with the amounts of money that we've allocated.

The other one of interest is a USDA allocation, and it's 5 percent of each region. And interestingly, it's not 5 percent of the rural pot of the region.

So for instance, we make sure that it's, well, basically we made sure we worded it that way as we generated the 2004 QAP. It gives a little bit more money

than if you just took it out of the rural pot, because you're making sure you're applying that figure to the full credit amount.

So again we will go through, find the highest-scoring USDA applications that are competing under that set aside. We will award them until we've met the 5 percent requirement for the region, and then attribute it to the proper kind of pot, so to speak. In this case, obviously, since they're USDA, they would all be attributed to the rural portion.

We then go back at that point, now that we've kind of met our set asides, so to speak, and for each of those areas make sure we take the highest-scoring deals that are still competing, and kind of do it until we run out of money in each of those 26 pots, which of course is the 13 regions split into the urban/exurban and rural.

We had done that in preparation for the board meeting, for our board's meeting on June 28. We put up a board book on June 21.

One June 23, I believe, we got a ruling from the Attorney General regarding our scoring criteria, and based on that ruling, we quickly made some revisions to our scoring structure to accommodate and to become totally compliant with that Attorney General ruling.

That created a revised list, and that was something that was not in our board book because at the time the board book went up we did not know that, but we did have it as a handout at our board meeting, and that is what you have in front of you that looks like this.

That first page shows the, the out of the changes between the board book that we sent our board, and the list that our board approved, what changes transpired and how that impacted each of the regions, and as you can see in here, only eight of the 26 pots or allocations actually had any impact based on us changing scores for the Attorney General opinion.

Essentially at the end of the day. our board approved a new list, which is what is in your handout. And as I mentioned, as I introduced to this, this list will still change somewhat before we take a recommendation list again on July 28.

An ORCA staff member was involved in our -- we have what we call a EARAC executive board review advisory committee meetings, which is the, basically the means by which our staff makes recommendations to our board. And that committee is required to approve all recommendations, and we make sure that because there are tax credit issues that relate to the rural allocation on those agenda items,

that we have ORCA staff members present.

They will also be present at the meeting that we have at staff level, before we put up our final, July 28 board book.

Any questions?

MS. E. ANDERSON: Brooke, I understand that the rural allocation was very well subscribed this year. Would you comment on that a little bit and talk about how that might compare to prior years?

MS. BOSTON: I could try. I don't have specific figures, but I can say that you're definitely correct. The rural set aside usually was either undersubscribed or just subscribed almost one-to-one in terms of credits, and usually by the time we got through financial feasability reviews, which occasionally developments who may appear as though they would be able to go forward based on their score, but ultimately can't because we find them infeasible, once those are backed out, each year they've tended to be pretty much we had to do almost every rural deal.

In this case we definitely were oversubscribed. In some regions more than others. There are a few regions where we're having to do every single rural application, but that's pretty uncommon now, which I see

as a good thing. We definitely feel like that the more competition there is, that means we're getting the better deals, they're doing more amenities, and things that we find to be positive features in the property.

Let's see. I think there may only be one region that was either undersubscribed or subscribed equally, which, let me be sure, is Region 8. And then Region 7 also did not have rural applications, but that region was somewhat of an anomaly: our board, at their last July awards, had made forward commitments, which means they gave out this year's credit last year. They had done that in Region 7, and one of those basically used up the rural credit. And so there is, technically, a development going in for this year in Rural Region 7, but it was already voted on last year, and so because the applicant community knew that, they did not submit any applications in Region 7.

But definitely I think it's a positive. I know we've been doing quite a bit of outreach. We've been working with ARCIT, Donna Chatham's group, and the Rural Rental Housing Association, Sox Johnson, to try and beef up applications.

Another thing that I'd like to tell y'all about, which isn't necessarily a comment on the June 28

recommendations, but is definitely relevant to this, is we have created what we called a rural rescue program, and I think we had chatted with y'all about that in the past. And it was a mechanism by which a development that was at risk of foreclosure or default through USDA, who didn't get their application in for a 9 percent credit by the March 1 deadline, wouldn't basically lose out on the opportunity to get credit.

Timewise they couldn't have waited until the next year, and so we created what we called a rural rescue program, which means they could apply any time during the calendar year in '04, and would basically be getting '05 credits, because we have the authority to forward allocate those credits.

We had created the program for the first time last year, and did not have any application submissions, although we did have interest, and I'm happy to say that as of today we have four of those in house that we're reviewing, and will probably be bringing to our board in August or September. So we're real excited about that.

MR. ALDERS: Brooke, I have a number of questions, but I just want to make sure that I understand that all that you've been discussing thus far has been relevant to the housing tax credit program?

MS. BOSTON: Correct.

MR. ALDERS: And we discussed this a little bit earlier, but you went over it faster than I could process it, because we deal with this, you know, once or twice a year and not every meeting.

But let me back up a little bit. In years past, I remember when we first started this joint administration, we had I believe, about 15 percent, what I thought at the time at least was a statewide percentage that we allocated to rural housing, or rural communities as defined by the appropriate definition. But now we're, I think this year, at 23 percent. Is that correct?

MS. BOSTON: That's my understanding, as well.

MR. ALDERS: What we were wondering is if that, and I think you touched on this, I think the answer is both, but, I still want to ask you, maybe clarify for me: is that percentage a derivative percentage from your regional allocation or is it, in what sense is it a statewide percentage that you try to impose upon the system?

MS. BOSTON: Okay. The 23 percent is a cumulative percentage of the state ceiling, so our state ceiling this year is about $40 million, so it's 23 percent of that figure. However, it's not divided up equally

between the regions. Based on our regional allocation formula, which I'm not an expert in that to explain exactly the formula behind it, but it's based on need and poverty and other factors besides just population or dividing equally.

But once we apply that formula, some regions, for instance, may have 50 percent of the region's credits are going to rural, and it's because in that region there's a lot of need in the rural areas. And then for instance, another region may only have 10 percent going to rural, and it's because in those regions, the need formula shows that the bulk of the need is in the metropolitan areas.

But cumulatively at the end of the day, 23 percent of the credits will be going to the rural areas.

MR. ALDERS: That's not, no, what I'm trying to drive at is whether that's, whether that just comes out as a derivative percentage, or whether you go into the process wanting to allocate 23 percent of your total, you know, monies available.

MS. E. ANDERSON: Brooke, could we maybe have Sarah, the empress of the regional allocation formula speak?

MS. BOSTON: Sure.

MS. S. ANDERSON: And actually I planned out this to, if I may, go into some of the details. And I think if I understood -- well, for the record, Sarah Anderson, director of the TDHCA housing center.

We don't go in with any preconceived notion of what percentage we want to come up with. It is derived using census data and poverty figures, and what the formula derives at the end is generally -- was a surprise to us. So it definitely wasn't a number that we set -- backed into.

MR. ALDERS: Okay, well that was my question. It seems to me that in years past, and it's not all that material, but I think we kind of went at it from the standpoint of wanting to have 15 percent of it devoted to rural areas from the beginning of the process back three or four years ago. Is that correct?

MS. S. ANDERSON: Yes, it was a set aside that had been long-standing for several years, and determined through public comment.

MR. ALDERS: But now, and I guess, the way you're doing it now, you correct me if I'm wrong, but the way you're doing it currently, the percentage is going to be more fluid from year to year and I'm assuming that the oversubscription or lack of oversubscription is going to

be pretty well balanced between urban/exurban and rural?

MS. S. ANDERSON: I'm not sure I can speak to oversubscription, just because that will be, you know, based on the -- driven by the market in the development community of who chooses to make a business decision.

But I would say that the allocation between the urban/exurban side and the rural will be fluid, not so much on the demographics side, but on the second side of the formula, and I think I've had my staff members speak to you in the past on, about how the formula is derived, so I'm not going to go too far into it.

But you have two sides where it's: one is need based side, based on census data. The other side is any other available funding where we are supposed to sort of equalize the funding, where if some areas are receiving a lot of other funding from federal sources that we're supposed to try and redistribute out of fairness.

And so because each year that amount will changed based on the bond money that goes out, there will be some fluidity to it, although I wouldn't necessarily expect there to be huge changes at this point.

MR. ALDERS: Do you attribute -- and I don't know who to ask this to, so whichever of you want to take it: do you attribute the increase in that percentage, my

understanding is you're getting higher quality rural applications, rural developments being proposed, than you have in years past, and you mentioned working with ARCIT and Sox Johnson's group.

Do you attribute that, you know, better quality percentage of applications that are coming in to that greater capacity building that's perhaps going on now among developers who are interested in the rural market?

MS. BOSTON: Well, I think to clarify, I think what I said, in the fact -- I'll clarify if this isn't what I said, is that because there is more competition, the ones that are getting awarded are ending up being the higher quality applications, and I don't mean to imply that some of the applications aren't quality, but, you know, for us, we, through our scoring criteria, define quality as higher points.

We've said, you know, we think being really strong financial feasability, a lot of local support, having really good amenities, having a good cost per square foot: those are all things that we think make a more solid deal, and those are things that we give points for, so the higher the points, the better the deal.

Because of the competition that's now occurring in the rural areas, the deals we're recommending and

getting approved through the board are indeed better, higher quality deals, but I can't, I wouldn't categorically say that all the submissions have increased in quality.

MR. ALDERS: I understand that. But something's making the points, making that process more competitive. So the cream's rising to the crop -- rising to the top, somehow or another and you're allocating a greater percentage to rural areas. And I'm just trying to figure out why that is.

If it's because of a greater capacity in those rural communities or I'm assuming that there's not been any change with regard to the numbers of units that developers are interested in. I mean, you're not seeing, or is there, are there changes like that?

MS. BOSTON: Actually in the 2004 QAP, we did adjust it. It used to be that for the rural areas you could only do 76 units, and this year we allowed that you could go above that, as long as your market study supported it. And so people were able to do a little bit bigger deals, if they thought that was applicable.

I think one of the other things that's been a dynamic over the past couple of years: we've been encouraging a lot of joint partnerships and joint

venturing. Particularly in the rural areas, we have a credit cap, a legislative credit cap, per applicant.

But in the rural areas, we've said if you're going in and doing a joint venture or a joint partnership, we'll kind of pro rate that credit cap, so that the person coming in as the new partner or the experienced partner doesn't get fiscally penalized for the full deal, even though if they were doing it in a metro area they would.

And so I think that's another, you know, we've been trying to come up with ways to incentivize and encourage more submissions in the rural areas.

I know, I can think of a couple specific ones. I know Grant Works has been, this was one of their first years doing more submissions. Some of the folks who historically only did USDA are starting to venture into the other side.

So I think it's been a little bit of everything. The marketing from ORCA staff obviously, and then, you know, when people call, we're definitely very encouraging. We, whenever we get calls from rural applicants who are interested, we ask them to come in, meet with us, talk through their ideas. We have them meet with our underwriter to be sure they understand how the financing would need to work.

So I think it's all around.

MR. ALDERS: And what's the minimum number of units that you're seeing in those rural areas?

MS. BOSTON: Our minimum unit size is 16. It's very rare to see anything quite that little. The 30's, maybe like between 25 and 35 would be a very small --

MR. ALDERS: Is there any provision for an aggregation of projects, so that they rise to your minimum level? If the community needs only, you know, 15, 16 units, is there any provision for aggregation of units, or projects?

MS. BOSTON: It's not so much that they definitely can't, financially; it's much more challenging for them to package it and then sell it to an investor or syndicator. We have had a few people over the past, maybe two or three years, who'll either do scattered single family, and so let's say that across two small towns they may do 30 single family homes and package that as one deal. But it is pretty rare. But it's not precluded.

MR. ALDERS: I've got a few other questions, but I'll turn it back to the chairman. I think he wants to ask a question.

MR. JETER: I have a question. On this percentage, this fluid percentage that's up to 22 or 23

percent -- some definitional problem there. Is there a floor to that percentage? Would there be -- conceptually there is no floor, so it could go to ten?

MS. BOSTON: Conceptually, I guess. I don't know if Sarah wants to try again.

MR. JETER: That may not be practical, as a result, but it could go to ten, the way we're doing it now. Is that fact or fiction?

MS. S. ANDERSON: I suppose conceivably, but I don't see a way that that could happen. The majority of the formula is driven by census data, and poverty figures makes up such a large portion of it, and because it will be static, you're not going to see that much movement.

The other side, which has to do with other funding, the majority of that funding is already done by formula and based on need, so we're not seeing much shift in that.

The only wild card, as we've done this several years now, is the bond funding, which is by lottery, and that primarily goes to three, maybe four of the regions, and they tend to -- so there isn't much movement. So I just -- I don't ever foresee a time, unless we did a complete overhaul of the formula, that anything like that could happen.

MR. JETER: One of the things that we noted earlier today when we were discussing this, is that there was a difference in the QAP definition of rural from how we define rural.

MS. S. ANDERSON: Sure.

MR. JETER: And we have asked our staff to kind of figure out, gee whiz, is there really a difference or not? And Brooke, you must have the answer, as you're smiling.

MS. BOSTON: Actually, we've had a working group going on for the first six months of the year, and they, I think, would like to suggest a new rural definition. I don't think --

MR. JETER: Everybody's got one, so you might as well suggest it.

MS. BOSTON: Well, interestingly, ours is legislated, and so short of -- I mean, actually, at the staff level, we can't -- we have no control of that. So for this next year's QAP, we're kind of --

MR. JETER: [indiscernible]

MS. BOSTON: And I'm not sure what they are recommending. I think they have started to pursue a lot of kind of permutations and running a lot of data trying to figure out how it would look, but then because we

realized that, you know, as we confirmed that it was legislated, then definitely it was beyond our revisionability. I think we've kind of stopped pursuing that.

MR. JETER: One of our queries in our agency is that we feel that there's more than just yours -- definitions of rural -- it would be neat if we all got on the same page and defined it the same way.

MS. BOSTON: That would be neat.

MR. JETER: I don't know with all the government entities involved that could be done, it might take a major task force and a special session, but nevertheless, it seems to us that sometimes we've got stuff spread all over the board.

MS. BOSTON: Yes, I think one of the observations we hear a lot from the Rural Rental Housing Association is, Sox Johnson is the executive director, and he's made the comment he almost feels like he's got two constituencies now: he's got the truly rural, really small, you know feasability issues, scoring issues are totally different for them.

And then you've got these kind of bigger rural, which are almost to the point of being exurban areas, and

they can deal with the feasability issues, they can definitely have larger number of units, they can use more credits, they're just able to compete more and I know he's been definitely challenged with that issue, as well.

MR. ALDERS: That is a good segue into another question that I had. I think we sensed that, as well, that there are two rural Texases out there, and we represent entities obviously, that fall in both. But I think our concern is for those communities that don't have a lot of capacity -- leadership capacity and other capacities to develop their communities economically and infrastructure and various ways. So -- and looking at the map, and seeing where the projects are, pinpointing where those projects are, and the, I guess the 2004 projects probably are the ones that we saw mapped earlier, and it's obvious that most of those projects at least are going to that, that second tier of rural Texas, not that base tier rural Texas.

So I think we're probably least concerned. We have to deal with this in all our programs, as well. It's not something we're uniquely concerned about with this program.

But, and I guess my comments, Beth, are as much to y'all's board as to Brooke, but I think, I personally

have concern that perhaps there needs to be more capacity building or at least try to find out what the needs are out there in that first tier of rural Texas and see if there are some housing needs there.

I suspect that the housing needs are greater in those communities that are not too distant from urban areas. They're still defined as rural, but there's a real need for housing in those areas and that seems to be what we see on that map.

I have kind of a modest proposal for the TDHCA board that maybe would help that fundamental level of rural Texas, the ones that are, you know, more distant from urban communities. And that would be that if we have dollars left over, administrative dollars left over -- and I know this is a very presumptuous proposal, because I'm dealing with somebody else's budget -- but, so I apologize in advance.

But if there are dollars left over in the administrative section of our budget for joint administration, would it be possible for those dollars to be spent, with your approval, in developing training in this capacity building in those real rural communities that may have housing needs, but don't have the ability to access the, you know, the resources?

MS. E. ANDERSON: You know, while we're really here talking about the housing tax credit program today, you know, our programs serve rural Texas in a variety of ways. And we do have, well, actually, we have capacity building, notice of funding availability that's either on the street or proposals have come in. I have a personal view that, you know, some of those grants have worked better than others. And what I, one of my discussions with staff from time to time is how can we make the capacity program really work, because I'm not convinced that it does on a very consistent basis.

But we actually fund those out of the housing trust fund, which is the, you know most of our funding is from federal sources, but the housing trust fund is the state appropriation for housing. And we have several mandated legislative purposes for that.

But we do take some of that money, typically, and put it in capacity building. It's not very much money, so it's not very many awards, and we do regionally allocate that, so it does, you know, we do get to spread it out some.

But I think it would be very helpful for our staffs to, you know, take a look at, you know, how we could do this. And the other, and perhaps the other way

that we serve the first group of rural Texas is with the HOME program, where we, you know, where we really are focused. We focus 95 percent of those, and that's again about $40 million a year; 95 percent of those dollars go into rural Texas, and just remembering the grant, the list of awards in prior -- they're very small communities, that get a lot of that funding, and they perhaps have less need for new housing stock. What they want is owner occupied rehab more than they do new construction kinds of things. So I think you're absolutely right that the needs are different.

MR. ALDERS: Yes, I see that on the HOME program here that 70 percent of those dollars apparently go to the rural areas.

MS. BOSTON: And actually, right now we have three different HOME activities that are purely rental based, that would kind of be more in keeping with the general concept of the tax credit program. Two NOFAs are out right now. They're open cycle, so someone can apply whenever they want. Those are purely rural. We don't even do a small percentage in urban on those, on two of those. And so we have been trying to encourage more participation in those programs, because they're great for smaller deals.

And I guess the only other comment that I would want to make is that I think we can do a lot of capacity building, but that doesn't make an investor want to come in and invest in a really small deal. For them, it has to obviously be feasible, they have to believe that the operating of the property is worth it for them. I think that may be one of the challenges that we face almost more than building the capacity of the development community in those communities.

MR. ALDERS: I agree. There are a number of hurdles that we see, and the one question, or one of the other questions, not the one, one of the other questions that I had relating to all your programs, again if I could continue in this presumptuous vein, are there any of them that allow for infrastructure development, rather than just actual housing units? Or is there-- We, you know we have such an unlimited amount of demand, and very limited amount of resources within our program for infrastructure development in rural Texas, and that's where we see the huge need. But that doesn't mean that we can get it done, obviously.

MS. S. ANDERSON: Unfortunately, you guys have the main program for that.

MR. ALDERS: Oh, and we appreciate CDPT program

but --

MS. S. ANDERSON: Right, unfortunately, and then with the other --

MR. ALDERS: And we just need to stretch those dollars a few times.

MS. S. ANDERSON: Right. I just wanted to clarify something, because I know we had sent some information about the HOME program. And something that Ms. Anderson said about -- there are really two overlapping issues with the HOME program and the administration to the areas.

We have one rule, by law, that says 95 percent has to go to non-participating jurisdictions, and 5 percent, the left over 5 percent can go into participating jurisdictions, as long as they're going to serve people with disabilities. Layered over that, we also have a regional allocation formula that says, Thou shalt administer the HOME program with an exurban/urban pot and a rural pot.

And so what we have found is that the percentage that you stated, that was about 70-something percent that's actually going to our definition of rural, well, whatever is left over there is going to non PJ, but also not quite rural. So we're splitting up our money in

a lot of different ways and it gets a little bit confusing.

So I don't know if you have any questions about any of those clarifications.

MR. ALDERS: Well, I do have one more question --yet one more question on the housing tax credit program. We talked a little bit about this earlier today and it slipped my mind until now. When those dollars that are allocated to a particular region are, let's say you have the Lubbock region, which you know, is almost 50 percent rural, I think. The dollars that go there are not spent on a rural housing development. Does the overflow -- do those dollars then stay in that region, in the urban area?

MS. BOSTON: They do.

MR. ALDERS: Okay. What would you say would be the incidence of that? Where there is in an aggregate, how many dollars statewide, even, would go from the original designation to the -- or from the rural to the urban?

MS. BOSTON: I would say for this year the incidence would be very low because we only have one region where there's not enough rural applications to support it, and that, let's see, in Region 8. And they're

actually, the one application that is there, is only kind of under the allocation by $4 thousand. So perhaps if that one is underwritten, it might be a little smaller. But I think it's going to be very, very minimal this year.

And definitely after our July 28 meeting, if you like, I can run that and get it to y'all.

MR. ALDER: If it was a big number, a significant number, I'd personally have an interest in it, but if it's relatively insignificant, it's not a problem. Don't do it for me.

MS. BOSTON: Okay.

MR. JETER: From my recollection, Mr. Alder has only asked for a blood oath only one time.

MS. E. ANDERSON: While we're at a pause here, I want to recognize and thank three guests for being with us today: Lisa Gonzales is here from the governor's office, Beau Rothchild is here from the urban affairs committee, and Scott Sims is here from the speaker's office. Welcome to you all. Thank you for being here, as you frequently are, and we appreciate your involvement in our activities.

Other questions?

MR. ALDERS: Madam Chair, I do want to mention before, at least certainly before adjourning today that

our staff has indicated that they have a great working relationship with staff of TDHCA, and that they have warm and growing relations with this staff. We really appreciate the opportunity to provide input to this process. Our constituency obviously appreciates any development that occurs out there in rural Texas. Want to thank you for allowing us to come by.

MS. E. ANDERSON: We are, this board hears the same thing about the working relationship between the two staffs, so I think that's very -- a good sign, and if we had more of that across more state agencies, we might get more done everywhere?

Okay, Item 2. Are there any other questions?

MR. WATERS: I have a question. I have a couple of questions more of a general nature, Madam Chair, on the, these -- the credits are granted to -- who receives these credits, generally? Is it a consortium, is it a contractor, is it an entrepreneur, a prospector? Who generally receives the credits?

MS. BOSTON: It's a limited partnership, and generally in that partnership, the general partner is a developer slash applicant, who primarily kind of takes on all the risk. And then there's a limited partner who, they historically have been large banks: Bank of America,

Sun America. They come in as a limited partner, and basically infuse the equity into the development, and in return they get the credits, and then the general partner, you know, gets some developer fee and gets some profit.

MS. E. ANDERSON: So the developer doesn't actually take the credits off their tax return the next ten years.

MS. BOSTON: Correct.

MS. E. ANDERSON: They sell them, in effect, to this syndicator, big insurance company, big other capital organization, at what, 82 to 85 cents on the dollar?

MS. BOSTON: Yes, from 78 to 82 cents.

MS. E. ANDERSON: And that's how they get the money up front then, instead of over ten years, to put immediately into the development.

MR. WATERS: I asked this question when we met last year, so I think I know the answer, but I'll ask it again, because I think it's important to all of us. Your criteria does not include any provision for preferential treatment for Texas domiciled limited partnerships. Is that correct?

MS. BOSTON: That's correct.

MR. WATERS: It appears to me that every dollar that's spent in Texas, that can stay in Texas, turns over

in Texas and helps Texans. And I would hope that that could be included in the future. I think I know the answer to that question, but I want to make a statement or ask -- or make that comment.

MS. BOSTON: Well, I think I'd just also like to point out that the total development cost is in Texas, of course, I mean all the construction costs and -- I mean the money being spent, the people being hired, you know, generally are Texas businesses. So it's not -- I guess I would, you know, point out that it's not that all the money's leaving the state, just because potentially the developer and/or the limited partner are located out of state.

MR. WATERS: Do we know, do you track the ultimate location of the tax credit?

MS. BOSTON: No, but very --

MR. WATERS: Do we know where it may end up?

MS. E. ANDERSON: I think -- Ms. Phillips?

MS. BOSTON: Well, I mean, because the tax credits go to the syndicator or investor, I mean ultimately those are a small handful of businesses.

MR. WATERS: I just wonder where those end up. I realize this is federal money also, but --

MS. PHILLIPS: Well, actually,

MS. E. ANDERSON: Would you remind us who you are?

MS. PHILLIPS: Suzanne Phillips, the director of portfolio management and compliance. The syndication group that we're talking about, the 99 percent group: they actually own the property. They not only get the credits, the only way you can have the credits is to own the property. So whoever owns, it's like velcro: the credits are velcroed to the owner. So the -- when, each year, at the end of each year, the general partner and their accountants, they get together and they decide, at the end of the year, how many units of that property were occupied by low income tenants, by eligible tenants, at the right rent. And if, out of 100 units, only 90 of them were eligible, they can only claim 90 percent of the credit that was allocated to them.

And then the accountants then send a K-1 to all of the investors, and so the investors, through that K-1, get to claim credit only on the percentage of units that are occupied by eligible tenants.

So this is not automatic. You know, while we give it to them at the beginning for that up front period, each year they have to establish that all the things that they represented are true.

Not only do they have to represent it to the department, there are a list of things that we look at that they have to comply with. If they have social services, we make sure that they have social services contracts.

If they said that they are going to have a special group of 0 to 30 percent tenants, we make sure there's 0 to 30. Then we send our report directly to the IRS, and the IRS knows unit by unit which ones were occupied by eligible tenants and which ones weren't.

There's a list of 13 major violations they can come up with, and at the end of the year, if they've not corrected those violations -- eligible tenants aren't there, there's no full time students living there, all those things -- they can't claim the credits.

And then it all comes out on the K-1's: the partnership returns.

MR. ALDERS: Which are spread all over the United States.

MS. PHILLIPS: Yes sir. So you know, it's the investor that gets to claim the credits. But it all goes back to: was there an eligible unit, client, at an eligible rent.

MR. ALDERS: I assume on these, the, I'm

looking at page 4 of 16, and then page 29 in the bigger book. It lists all of the criteria. It would be very nice if Texas had preferential treatment.

MS. PHILLIPS: Well in the QAP, there's two preferences, and -- I'm sorry: not the QAP. Section 42 of the tax code. They basically say what our selection criteria and our preferences first must be. And it's to the tenants. And it's to the project.

MR. ALDERS: Sure.

MS. PHILLIPS: And anything that we stack on top of that is up to the state of Texas. But their big idea is, you know, at the -- what can -- what is going to -- what are the priorities and the preferences to the tenants? And then how we deal with it as a business matter beyond those preferences and selection criteria, is up to the legislature and up to the board and the department.

MR. ALDERS: Sure. I just --

MS. E. ANDERSON: I hear you. I think you've raised, and I think I do remember you raising it last year, and I'd like to ask the staff to do something I didn't ask last year. At the end of this round, after July 28, after you finally get to rest for a few days, I think it would be interesting to see the -- before we do

the QAP, the domicile of the developer. Is that something --

MS. BOSTON: Actually, we did do this for you last year, and I think I emailed it. And I want to say I think I may have actually even provided it to ORCA, at least at the staff level back in response to this meeting last year. And I want to say it came out that maybe 10 or 15 percent, and I don't remember the number off the top of my head, but --

MS. E. ANDERSON: Okay. I didn't think it was a significant number. I mean, there are some developers from other states. Just like we are developers, we don't want protectionism that shuts them out of other states, and I would say that if it was out of whack, if 80 percent of the deals were being done by non-Texas companies, than I would question what in the world we had done to our own affordable housing market in this state to drive our developers away.

As it is with -- I think we have to balance the need with Texas domiciled companies against what we also want is very healthy competition for these credits. I mean, we had two -- $180 million dollars in submissions for $40 million in credits, and to me that's not a problem. That indicates we have a healthy market in

Texas, and only the best deals are going to get done.

So it's sort of a balancing act between all these things. But it would be interesting to look at that number again, and I'll try to pay more attention to it this year, because it's something that certainly bears watching.

MR. ALDER: May I ask one other question?

MS. E. ANDERSON: Yes, sir.

MR. ALDER: Thank you very much. You mentioned the bond program a while ago. I know our -- we are supposed to be discussing the tax credit program, but someone mentioned the bond program a while ago. And we did notice, this morning in our workshop that we had prior to this meeting, and I believe the person that mentioned it, mentioned the multifamily bond program, and we did note that there were $150 million funding, and 0 percent of that went to rural areas, and I think that was under a lottery. Is that right?

MS. BOSTON: Correct.

MR. ALDER: And it seems almost just to make a point, obviously when rural comes up with 0 percent, it's going to catch our attention. So --

MS. E. ANDERSON: Would you explain kind of why that is?

MS. BOSTON: Yes, and actually, I'd like our director of real estate analysis -- he's really strong at explaining, because it's all about the financial structure of the development.

MR. GOURIS: Tom Gouris, director of real estate analysis for the Texas Department of Housing and Community Affairs. The issue with bond transactions isn't that they're just unlucky and they didn't get good lottery numbers. It's that there aren't very many developers who can make transactions in rural areas work with lottery transactions.

In fact, arguably there aren't any that would work, because the financing structure requires a project of sufficient size to cover all the bond finance costs in order to -- you know, it's kind of a fixed amount of costs associated with doing a bond transaction.

In addition, the rent levels on bond transactions usually aren't enough, don't have enough -- they aren't high enough in rural areas to sufficiently satisfy the amount of bond that's necessary in order to get tax credits that are associated with it.

In the bond transaction, at least 51 percent of the total development costs, the good costs, if you will, have to come from bond proceeds. And to get a debt of

that size, you'd need some significant rental income to support that transaction. So they just don't mathematically work.

MS. E. ANDERSON: They don't work in mid-size cities, either. I mean, they really only work where the incomes are highest.

MR. GOURIS: That's correct.

MR. ALDER: Issuance expenses, primarily.

MR. GOURIS: And the rent covering the debt.

MR. ALDER: I have one other question, Madam Chair. And it's more of a comment. And we do appreciate the relationship we have with your agency, and we like this room. If we -- if this room is available when we have our meetings, may we use it?

MS. GRONECK: Yes, and we have offered it to your staff in the past.

MS. E. ANDERSON: Yes.

MR. ALDER: Good, because we like it very much, and it's right next door to this nice new hotel, and so Mr. Chair, Mr. Gouris, would certainly -- this end of the table at least, we like the room if it's available. Thank you very much, Madam Chair.

MS. E. ANDERSON: That's not a problem. Right?

MS. GRONECK: No, no, and we do, because of

some of the space deal, we let any state agency that wants uses it. The lottery uses it; other people come in all the time. The only people that have preference over you is our board because they do pay the rent.

MS. E. ANDERSON: Other questions?

MR. JETER: We used to pay those rents, too.

MS. E. ANDERSON: We're ready, I assume, to go to Item 2, which is discussion and presentation and public comment possibly on the 2005 tax credit program qualified allocation plan, which has been the subject of work by working group for several months, and I believe that draft QAP comes to this board in August.

And Brooke, are you presenting on this Item as well?

MS. BOSTON: Sure. Hi, again. We, basically, for the tax credit program, we have a document called the qualified allocation planning rules, and it is the state rule that governs the program.

It actually governs both the 9 percent credits, which is what we tend to always talk with y'all about, because that's where we have the set asides and the allocations, but it also governs our 4 percent credits, which are the credits associated with bonds.

Each year, for the past couple of years, we've

created what we call the QAP working group. This year, they started convening in February, and they met five times from February through June, and they created subcommittees.

And I guess, first, composition of the group itself. We -- it was open, and so anyone could join; however we go out of our way to try and make sure we had a good diversity. We wanted lenders and syndicators as well as just applicants and developers. Within the development community, we wanted nonprofits and for profits; we wanted rural and urban, new and old.

We also made sure that we had members of the housing advocacy community: people who represent tenants, people who represent neighborhoods.

Also we had the industry groups TAAHP, ARCIT, you know, we have a couple other -- let's see, Rural Rental Housing, Affordable Housing Congress, so we kind of just made sure everybody that we could think of was invited. And then above and beyond that it was open for anyone else who wanted to come along.

Basically, after they had their first meeting, they decided to structure themselves into subcommittees. There were nine subcommittees. They included scoring, which governs purely the 9 percent side, public input and

local involvement, special needs and populations, financial feasability definitions, regional allocation and affordable housing need, rural and rehabilitation issues, threshold and streamlining, and then compliance and utility allowances. And those were the nine committees.

What they did is, between each -- we met once a month, and so between each meeting, the committees would get together either by emails, conference calls, I think a couple of them met in person, but that was pretty uncommon -- faxes -- and would work on issues that we had identified as a group.

We had first come up with a list of things that we said, here's what that committee is supposed to work on. We did that in our first meeting. Obviously if other issues came up, they would pursue it.

Ultimately, at the May and June meetings, each committee had a facilitator, and that facilitator got up and made presentations to the larger working group, and we actually voted -- I didn't, but the committee voted, or the working group voted -- to approve or obviously not approve whatever the suggestions of the committee were.

The working group report should be out next week, and in the report it actually, we handled this as we had majority and minority opinions, and so, interestingly,

we could have it where a committee recommendation, the majority of the committee or the entire committee thought some things should be one way but when they presented it to the larger working group, the working group denied it, and so it ends up being the minority opinion, not the majority opinion.

And that's the kind of thing that's represented in the report. What we do with that report is obviously we take all of their input, we've also had two round tables, that we had Monday and Tuesday of this week, which was an opportunity for maybe people who didn't want to participate in the working group, or just got bogged down with other things to do, or who have been participating in the '04 round, and maybe thought they're -- well, I'm talking to myself. Sorry.

One of the drawbacks of the working group going on first half of the year is they're making observations and input when the cycle for a '04 QAP has not finished out, and so interestingly, the last meeting of this group met before our board had even approved a June 28 list, and so that's somewhat problematic, because they can't see exactly how it all falls out yet.

So that was helpful for the meetings on Monday and Tuesday. People were able to come and say, Well,

since that last meeting, here are some other things that we wanted to give input on.

We take all that and obviously have to balance it with what we know is what's right for the state of Texas, what's right for the tenants, what works administratively for us, and ultimately that is how staff generates our recommendations to the board.

As Beth said, that's coming before our board at the August board meeting, and then they'll approve a draft for comment, and it then goes out for comment. We're holding 13 hearings across the state in September and October, and then a final QAP goes back to the board in November.

I have boarded out eight or nine items that are the kind of more rural relevant issues in the QAP, and not so much what they are for '05 because we don't know that yet.

I don't know if you want me to get into that level of detail or not? It's up to y'all.

MR. ALDERS: Do you have it listed in our books anywhere?

MS. BOSTON: No.

MS. E. ANDERSON: I think while we're together, unless anybody has any objection, while we're together,

it's worthwhile to do that.

MS. BOSTON: Okay. It'll probably only take like five minutes. And these are things that as you're looking through your QAP, you can just look at and obviously if you have thoughts or suggestions after today, please let me know.

The first is in Section 50.2: we address coordination with rural agencies. The tax credit program obviously coordinates not only with ORCA --

MR. ALDERS: What page is that on, Brooke, I'm sorry?

MS. BOSTON: You know, I don't even actually have it -- I do have it.

MS. E. ANDERSON: 2 of 56.

MS. BOSTON: We also coordinate with the US Department of Agriculture, and so we just have a section of our QAP that addresses that. There hasn't been much change to this: it just kind of codifies the relationship that's in legislation.

The second item is the definition for rural area and rural development. As I mentioned earlier, it's legislated, so there's not a lot of room for flexibility on that, but I do want to point it out. And that's on page 8.

Another interesting thing, one of the observations that we've been coming across is, you know this past legislative session whenever 264 was implemented, and while there are not things that we can change, there are definitely some things that were implemented that had impacts that we had not necessarily foreseen, and I thought it would be interesting to point one of those out to you.

On page 10 of 56 of the QAP. 50.5(a)(7) is a legislative requirement that says we cannot award credits in a community that has more than two times the credits per capita -- and I never can say this very articulately. Basically, that has more than twice the state average of units per capita from credit and bonds.

Interestingly, what happens in this, is when we ran a list of these, they're primarily small rural communities that become ineligible under this, and it's because they have small populations, so even if we've only done one or two credit developments over the history of that community, it pans out that that's a high amount per capita.

And there is a requirement in here -- or excuse me, a waiver that does allow that as long as the governing body of that local government allows -- let's see, it

approves a resolution and indicates that they support it that this can go forward.

We've had a couple of deals this year who weren't able to get the resolution. They feel like that that is, you know, that people are opposed to low income housing, and it wasn't -- they really felt like they should have done these developments, and so I just wanted to mention it. It's been an interesting dynamic, and it's a good thing to know.

MS. E. ANDERSON: And the rule was really that, or the reason this came up in the legislation was actually an urban area that felt like it had too many things in a small area, and so the state rep put this in, and it's an example of great intentions and the sometimes unintended consequences.

MS. BOSTON: Yes. Definitely.

MR. ALDERS: If that hasn't happened -- did that happen in a rural community or has it happened in a rural community, specifically that issue?

MS. BOSTON: Yes. I think it's Corrigan.

MS. E. ANDERSON: Corrigan.

MS. BOSTON: Corrigan actually had an appeal for this issue at the last board meeting. Unfortunately for us, because it's legislative, we can't waive it in any

way, so --

And I can get y'all a list, if you'd like. I mean, definitely the list of communities on there are predominantly rural.

MR. ALDERS: So the city, in that case the city commission or the county commissioner's court, did not give a resolution?

MS. BOSTON: Correct.

You know, and I would hope that in most cases they could get them, but in the cases where they can't, that's affecting it.

The next item is the credit limit, which is at 50.6, in the bottom of page 12, it's 50.6(d) and I already mentioned this to y'all, which is that when we're dealing with a credit limit which is $2 million per applicant, that we specifically set up language that permits a proration on that credit limit, instead of taking it at its full value, in the instance of rural joint ventures.

This, the '04 year is the first year we've done it, and I haven't gotten a chance to run the statistics to see how many applicants took advantage of this and how much it helped rural development. I'll probably be able to have that by late July or early August, but I just wanted to point it out, just because it's one of those

ways we're trying to beef up capacity.

The next one is at 50.6(e). It's at the top of the very next page. And this is, I just, again, wanted to mention the 76 unit cap. Right now, it still is worded on the '04 QAP that it would, it can exceed 76 units if there's a market study to support it.

The working group, and I cannot recall the exact unit number, but the working group is recommending a change on this. They are recommending that we increase the number of units that would be permissible, but that you couldn't get a market study to go above and beyond it.

So -- and I want to say they're recommending around 96 or 100, but pretty much it wouldn't matter what the market analyst said, they wouldn't be able to go above and beyond that, no matter what.

So -- and I'm pretty sure that that came from the rural committee, and that primarily is made up of rural applicants and rural advocates and Donna, and so they know this is going on.

Let's see, the next one is at 50.7(a) and (b), which is on page 13 and 14, which just deals with the allocation formula, and basically is where in the QAP we set into language the allocation formula that Sarah has described to y'all and that we were talking about earlier,

+but --

At 50.8(c), which is where we have the pre-application, so that's the bottom of page 14, I just wanted to point out we do not require our USDA applications to participate in the pre-application process.

The whole idea behind our pre-ap process, it is legislated but we feel like it's been a huge success, and it's because we get some basic information about each application in January, we use that information to release the list, and then the applicants can make a financial business decision whether they actually want to go forward and hold their land for longer or whether they want to hire a market analyst and an environmentalist, which usually is like another, you know, at least another $20,000 of expenses.

If it looks like they're not going to be competitive in their region, they don't have to go forward.

However, because the USDA deals tend to, get a small amount of the credits, and as long as they're feasible they tend to be awarded because they don't tend to be undersubscribed. We don't feel like they needed to try and do all of this two months ahead, so I feel that's

been a success; we haven't had any complaints about that, from rural folks or non-rural folks, so.

And then last is just another kind of interesting consequence that we've come across. One of the new legislative items for us this year was the inclusion in our scoring structure of quantifiable community participation, which is getting, giving points for letters from neighborhood organizations that give input.

And one of the types of feedback we've gotten from a lot of the applicant community is that because in rural areas there don't tend to be neighborhood organizations structured the same way, and they tend to be more community-wide organizations, that they feel like they're less eligible or less able to compete for these points.

From the staff side, obviously, we aren't into lobbying or doing anything on this, but I know from listening to the development community, I think they're hoping to get some broadening of the term neighborhood organization so they feel like it would include things that would make these points more readily competitive for rural areas. I just wanted to mention that to you.

That's it.

MR. ALDERS: I do have one question, Madam Chairman, I don't know that there -- Madam Chairwoman -- Madam Chair, I guess is the proper way to say that.

Now I've thrown my -- that relates to the -- and I should have asked this earlier, I guess, and I don't know if specifically related to the QAP, but -- assisted living centers. Are they eligible -- have y'all done assisted living projects? Must be a history here. They qualify?

MS. BOSTON: Kind of yes, kind of no. I don't know.

MS. PHILLIPS: I can answer that.

MS. BOSTON: I know Suzanne Phillips, our director of compliance, has more familiarity with this. I know that they're messy, to say the least. If you want to comment?

MS. PHILLIPS: One of the bottom lines, and I guess the easiest way to describe it, is that you can't do a nursing home-like facility. There are some very specific things that are excluded from, in Section 42 of the Internal Revenue Code that you can't do. And anything that looks like, smells like a nursing home, or a dormitory, is basically exempt. Transient housing is exempt.

So we have a very difficult time doing a combination of units where you want to have some that provide transitional housing. There are some very specific tax code that describes what type of transitory housing there can be. So they try to make this program very market driven, and not specialty housing.

I know across the country, different states are trying to do specialty housing, like artist's lofts. And, you know, really creative things, but, you know, and it looks great when they put it together and the market studies look great, but when it moves into operations and they move into trying to actually claim credits and trying to distinguish what is rent and what is not rent and the people actually write their checks out, it really gets to be a mess.

And at the Section 42, the tax code is very specific on how that project has to operate for 30 years. And there are some very specific compliance requirements, and it's just really hard to shoe in assisted living facilities.

I know there are some states who have those Medicaid or Medicare waivers, and things like -- that just try to induce that type of development, but it's very difficult with tax credits.

MR. ALDERS: Well, our demographics, obviously, in rural Texas are, I'm guessing, more elderly than they are in urban Texas.

MS. PHILLIPS: And elderly is a specifically eligible property. One of the things that we potentially can run into is that if you focus too much on elderly, then you run the risk of excluding households with families in a program, and then you run into a potentially difficult problem from the federal side, because this is a state agency. We have to keep in mind that our, the forefront is affirmatively furthering fair housing. And if we develop a program that excludes protected classes -- families with children -- then there's a question is whether or not we're fulfilling all of our duties.

I know there's one state, and I won't say who it was, they actually tried to set aside all of their entire program for a group of people who fell outside of a protected class, and they wound up not having a valid QAP.

So, you know, we, at the -- while we know that there's segments of the population that we have to help, we need to help, we want to help, we have to make sure that we put the right funds, the right programs together, to make them work.

MR. ALDERS: The retirement living communities

are eligible, I assume?

MS. PHILLIPS: Absolutely. And there are some very specific requirements that they have to follow. They have to follow the Fair Housing Act and the rules related to 55 and over and 62 and over, and a percentage of the households, there's like a safe harbor, so that if you've got an elderly family that have custody of their grandchildren, or that lucky 55-year-old woman who has a baby.

MR. ALDERS: You say "lucky."

MS. E. ANDERSON: And they have to have elevators if they're more than two stories, and blah blah, you know.

MS. PHILLIPS: Oh, absolutely. You know, one story buildings are the best. If you have two stories for elderly, it adds, you know, $20,000 or $30,000 per building for an elevator, unless it's a single building facility, so you know you really have to be careful in developing just for elderly, because you've got to walk that -- both that construction side and understanding what that does to the face of that local community when you no longer have growing families and children, and you know, constructions workers and teachers that you need to house, and then also taking care of your elderly population.

MS. E. ANDERSON: But developers do elderly housing --

MS. PHILLIPS: Oh, yes, ma'am.

MS. E. ANDERSON: Both the bond program and the 9 percent program. Market driven, you know, there are elderly deals in this set of stuff we -- but they're not assisted living; they're not step up facilities, although they may have as a supportive service, they may, the developer or the manager of the property may contract with Red Cross or someone to come in and do blood pressure checks monthly or something like that.

MS. PHILLIPS: Well, we do require, especially if they have that social service point, that they have something really of value -- not Meals on Wheels, not something that is available to anybody in the community, but that they actually provide a special facility.

I've seen elderly properties that had a facility in the community room for doctors to come in to do real medical examinations, hairdressers that come in two to three days a week. Most of them own their own buses, so they can provide transportation. You know, some real solid, wonderful programs for the elderly. And would do the same thing for families.

MR. ALDERS: That would open up single family

opportunities that, for families, I mean, for young families with children, if in rural communities, older people had a chance to move out of their -- or you know, situations, like an alternative situation, they could vacate the house they're presently in. That doesn't allow them, you know, some of the amenities they may need.

MS. PHILLIPS: One thing that's really important for the development industry is that they look at a community and understand what that continuum is. What is missing in that continuum of housing? Are there migrant workers that need housing? Are there young families with children that need housing? You know, are there elderly? Are there people that are homeless? And try to find the niche market. And this is something that is their responsibility, but it's also our responsibility in how we go about scoring. But, you know, we give them the ability to bring in the type of housing that they need to do.

MR. ALDERS: Has -- there's been a retirement living type community built in a archetypical kind of rural Texas community, I assume?

MS. PHILLIPS: Oh, bunches of them. Bunches of them. We've seen some phenomenal structures. There's a conversion, a hotel was converted in Amarillo. And,

downstairs, it's wonderful: retail, a pharmacy. Upstairs are the apartments. You know, and it's just, a wonderful, wonderful living condition, so we've seen some phenomenal elderly facilities.

And I would imagine, just off the top of my head, and I really hate to do this: I would imagine at least 25 percent of ours. And we could certainly get that, rather than me making it up. Because I hate to make up stuff.

MR. ALDERS: I have no questions that escape me -- I'll save for later.

MS. E. ANDERSON: Other questions about the 2005 QAP? The process, kind of where we go from here?

(No response.)

MS. E. ANDERSON: Okay, Item 3 is a presentation and discussion on the possible underwriting criteria that will govern the 2005 tax credit program. And Tom Gouris is going to lead that.

MR. GOURIS: Hello, again. On that last question about elderly, if you look at your recommendation sheet, the target population is listed there as an F or an E, so that --

MR. ALDERS: Family or elderly?

MR. GOURIS: Yes, family or elderly. Okay. I

think you have the 2004 underwriting rules, starting with section -- top of 10, Texas Administrative Code, Sections 1.31 through Section 1.36.

The underwriting rules -- we call them the underwriting rules -- they actually encompass several pieces. The underwriting piece, which is primarily under Section 1.32, and then rules that pertain to the professionally provided documents, third party documents that we use to help us in our analysis. Those are the market study, the appraisal, the environmental site assessment, and the proper condition of sales.

I wanted to point out to you all that we will be having a round table on the 26th of this month to discuss all of those rules, and then we will have a couple of special round tables, particularly for those last group of rules I was telling you about, for those professionals that do those rules.

So we'll a round table just with market analysts and appraisers, and we'll have a round table with just environmental site assessment providers, and proper condition assessment providers, so we can get their feedback directly, independently -- the group feedback from the industry, which we'll take on the 26th, before we draft any new regulations.

And I just wanted to point out three areas that we provide special, I don't know -- if you take into consideration the rural transaction may be slightly different than we, or with particular emphasis on the special nature of a rural transaction, we obviously have to underwrite to a certain code or standard that is going to be roughly the same, regardless if it's rural or urban. It has to be financially feasible.

But there are three areas, at least, that we look at. A little bit more specifically, one is with regard to operating expenses. We'll look at our database of operating expenses that are specific to smaller transactions in the region in which the property is located, so we can get a better feel for what that regional operating expense would be, and then we also go a little bit deeper, usually, with those transactions, and we look at other transactions that are -- that we have historical operating expenses for, that are either within that city or county that the project that we're looking at.

So that's one way where we take into consideration the individuality of a transaction as we underwrite it.

Another way is looking at development costs.

When we're looking at development costs, we also look at the development costs for that region of the state, and we look at the development cost for other transactions that we may have recently, that may have recently been completed. And we look at those costs and compare them to the transaction that's coming in for analysis to see if there's something particular about that region that makes the costs be higher or lower.

The final major area that I was going to mention to you, is in the area of market studies and market analysis. And in that area there are a couple of things that we do to specifically look at rural transactions a little bit differently or with a little bit more consideration.

And that is that one: we allow the market study provider, the professional who provided the study, to determine what the market area is going to be. And in many cases, in a rural transaction, it's going to be a market area that's much larger than it would be for a urban/exurban transaction, where we might see a market area that amounts to roughly a three-mile area, under a three-mile radius in an urban area, we'll see a rural transaction have a market study that'll encompass the entire county. And that way they can see the need for the

entire county, and bring it into the city, or the specific location that the property is at, but looking at demand for the entire county.

The other thing that we do with market studies, is in what we call the inclusive capture rate. And in inclusive capture rate, we're looking to make sure that we don't oversaturate a particular market or submarket. To make sure that, you know, we don't put so many properties in a particular area that provide oversupply, if you will.

And in a rural area we allow that capture rate calculation to go up to 100 percent of the demand, and that demand is going to include turnover from existing properties, as well, so we provide a lot of flexibility to try to encourage development in the rural areas, whereas in an urban/exurban area that limit is 25 percent of the market demand.

So those are the areas that are key, I think, to how we underwrite maybe slightly differently or take into special consideration rural areas.

I would be glad to go through more specifically how we go through the underwriting process or take your questions or comments about the underwriting rules.

MR. WATERS: What's your source of data on that? Is that an ongoing study, or do you outsource it,

or how do you do your analysis?

MR. GOURIS: We collect information from every property that we have funded in the past. Some of that information is voluntary, because early on we didn't have the requirements set up to force that information to come to us. But all of our transactions now are required to provide on an annual basis -- new transactions are required to provide on an annual basis their operating histories, and something called the owner's financial certification, and they provide that on an annual basis.

So we collect that and then we review it and I guess digest it in a way that summarizes it for a region in a subgroup size, and then we keep that information on a project-by-project basis, so we can compare specifically to other properties in that community.

MR. WATERS: So is it more a look at history, or is it predictive for you?

MR. GOURIS: It's a look at history. So right now we're actually using 2002, year end 2002 data to predict 2004 projects. And actually, you know our developments, we underwrite them today, and they may not actually hit the ground until late next year, or even early the following year.

MR. WATERS: So you really don't "spend" any

money on research, and that is just data that comes in from the program itself.

MR. GOURIS: Well, I mean, to the sense that we're reviewing those and making sure that the information we're getting is making sense, to look and compare across a region or across a city, or across project type, to see that that is the reasonable figures, we do spend a lot of time and energy and a lot of resources internally.

We also get information externally from time to time through market studies and appraisals that give us that sort of information, but they're relying on the same sorts of things. They're relying on the historical data to determine what it should cost to operate a property.

MS. E. ANDERSON: How does our database relate sort of as a reference point to this Marshall and Swift thing I see written about in the reports?

MR. GOURIS: Marshall Swift is just a database for development costs. It's an estimate --

MS. E. ANDERSON: It's a commercial database.

MR. GOURIS: It's a commercial tool that's used for construction costs. We are working on a database for construction costs through another mechanism. What we were talking about was the operating expense database, which is comparable in the outside world would be the IREM

database, and we sometimes use that as well, and there are a couple other databases.

But quite frankly, our database has a lot more Texas properties in it by leaps and bounds than the IREM database does, and our database is specific to the types of things that we fund, not anything that IREM might pick up. So I think our database is pretty comprehensive, is what I'm saying.

MR. KLUSSMAN: Do you look at effect on surrounding development? Are you making a positive contribution to the community from a real estate standpoint or a negative contribution from a real estate standpoint?

MR. GOURIS: To the extent that that can be, you know, captured in a model or into a model, it's considered, but frankly, that's a pretty difficult thing.

If you're asking do we take into consideration that an elderly development is going to be built there, and therefore it's going to have an economic boost to that economy, generating employment and need for additional housing units in and of itself, that's a pretty tough thing to calculate out.

What we're looking at is the financial feasibility of the transaction as it is, and so we're

taking in information about what other economic things are going on in that community, to see if there is support for the transaction.

MS. E. ANDERSON: We really need that issue, too -- we really put a lot of faith in the private sector developers, because without them we don't have -- none of this gets built.

MR. GOURIS: Absolutely.

MS. E. ANDERSON: We really look to them to place their -- I mean, they can option land anywhere. Right?

MR. KLUSSMAN: Say, this fits our community, is in the local --

MS. E. ANDERSON: Right.

MR. ALDERS: I have a question. What's the income? I assume it's household income that HUD is using to determine whether a project is low income, accessible, whether it's appropriate for the housing tax credit program? Is it household income they use?

MR. GOURIS: Yes. There's household income and then there's rent levels that are based on household income. They're the two --you'll hear these two percentages tossed around, and --

MR. ALDERS: Is there a one-size-fits-all

income threshold nationally?

MR. GOURIS: The tax credit program requires transactions to be either at 60 percent of the area median income, or at 50 percent of the area median income, at a federal standpoint. At the state level we provide incentives to go lower than that, all the way down to 30 percent.

MR. ALDERS: So that increases the scoring?

MR. GOURIS: Provided -- yes, it's part of the incentive.

MR. ALDERS: But in your underwriting I would think there would be a little bit of a conflict there, where in underwriting you would want the income to be as high as possible?

MR. GOURIS: Yes. That's true. There are natural conflicts between scoring priorities and underwriting priorities. We want financial feasibility, and the higher the income, the more financially feasible it is. But we also, at the department, want to meet the lowest income thresholds that we can, and try to do that in a way that's financially feasible.

But on that first statement with regard to we want projects to be as financially feasible as possible, that's not an absolute. We also want to allocate our

funds efficiently, and so we don't want it to be so overwhelmingly profitable that we are putting too much money in that transaction, when we can actually reduce the amount of funds there and use them in another location, and provide funding there as well.

So we have what we call a service cap that we apply when we do our analysis, to ensure that they're not getting more funds than are necessary.

MR. ALDERS: In your underwriting decision, do you make an allowance for wealth, assets of the target constituency versus income? Does the asset base and wealth base matter at all?

MR. GOURIS: Are you talking about the underwriting of the transaction or are you talking about the tenant?

MR. ALDERS: Tenant.

MS. PHILLIPS: My deal. Suzanne Phillips.

Earlier I talked about the preferences in selection criteria. From the federal side, one of the things that they require is that in our program that we figure out a way to serve the lowest income tenants for the longest period of time.

And that presents a problem for Tom, because he's looking for proof that when we fund a property, that

it stay economically feasible, and have a positive impact on the real estate market, that we're not building the slums of tomorrow today.

And it's very difficult. We've got various structures of income levels that the feds allow us. What they basically say is that, at a minimum, everybody on that property -- figure out the best way to explain this. There's two different structures they allow us to choose: 60 percent of median, or 50 percent of median. And at a minimum, they say 40 percent of the units that we construct have to be affordable to people who make no more than 60 percent of the area median family income.

What that means is that in a community, you have an income range. And right in the middle is the median: 50 percent of the people in the community make more than that, and 50 percent of the community make less than that.

You have places like Austin that get very skewed by the techno rich, and then you've got other communities -- Starr County -- that get skewed by the people who are very, very poor, so the median drops considerably.

What the IRS has established is a floor for those very poor communities. And they say no matter how

poor that community is, you don't have to reach people below this amount, and I'm sorry I don't have my figures in front of me of those charts, but we can certainly send this board, and the ORCA board -- we send our board a folder of all the communities and all of our different programs, the maximum rents and the maximum incomes.

MS. E. ANDERSON: But the developer -- I mean, the manager of the property is the one, as someone comes to try to lease the property, that gathers the income documentation on that person.

MS. PHILLIPS: I love the way you put me on target.

So basically what happens is the onsite manager has an intake process. They have to determine immediately how many people are going to be in the household, what are all of the household member's incomes, and then make a determination based on some guidance that we give them, what income to count, what income doesn't count.

For instance, if there's a 16 year old that has a paper route, that doesn't count. If there's a parent who has a disabled child, that's treated differently; if a woman has, or a man has a child care expenses, that must count. So there's a litany of things that they count and they don't count.

If they have assets, they certainly can have those. So a elderly couple or a disabled person who has a large bank account, what we do is there's a formula where we actually impute income off that account. So if they have $100,000, I think the percentage that we use right now is either two-fifty or two twenty-five. So that percentage of that entire asset is included in their income.

If they have retirement accounts, there's many of those that don't count, so it's very generous to the -- it's generous and fair.

We use the methodology of determining income consistently for all of our subsidy programs, HOME tax credits, multifamily bond, everything except our single family bond. And they use a tax return program, that basically says bring the two years worth of your tax returns, and let's see what your income has been over the past two years.

In our housing subsidy programs, we look forward, only. So what they make today, times, if it's a monthly salary, times 12 is what their income is. If they earn an hourly wage, it's their hourly wage times 2,080.

So then they have to determine, make sure they've gotten all the household members, and then sign

statements that they've done all the research -- the tenant has to sign.

I have 20 people who do nothing but do on sites to verify housing quality standard, eligible tenants, and eligible units. We look at about 200,000 units a year to make sure that we're serving the right people at the right income.

MR. ALDERS: Let me just paint a little hypothetical here real quickly and you tell me if it's true: a very ag-based rural community, with retired farmers who have considerable assets in land but let's say limited income because perhaps their children are receiving the income from USDA or off the farm commodity. Would that score quite nicely for a retirement community or retirement living center?

MS. PHILLIPS: They're very well and very potentially income eligible.

What we've seen that maybe a community that wouldn't be good is perhaps a prison community where the prison workers often make more than the income limits allow. Also, a lot of military positions make more than our income limits allow.

But the people with assets, people who are land rich and cash poor, absolutely would qualify.

It's all in what checks do they get in every month. We don't ask anybody to liquidate their assets or anything like that. It's what actual cash do you have.

If they have a huge bank account, if they've got $50,000, $60,000 in their checking account, they still may be eligible, because that may be the only $50,000, $60,000 they have in their entire life, and have no more potential for earning.

So these standards are set out by HUD. They're reviewed on a routine basis, and we participated with HUD on a national basis when they rewrote those standards. Some of them I liked, some of the I didn't, but those were the ones that we'll be using.

MS. E. ANDERSON: No questions about underwriting? Mayor?

Okay, Item 4, and maybe we've covered this; I see Ms. Boston's evaporated. Item Number 4 is presentation and discussion on the possible 2005 housing tax credit program, the threshold scoring and underwriting criteria. I think, Ruth, you indicated that she maybe was going to cover this all in Item 1.

MS. CEDILLO: Yes, her intention was to cover Item Number 4 with Number 1.

MS. E. ANDERSON: Do we have any witness

affirmation forms?

You know, one of the reasons we're having this meeting today, and it's sort of irrelevant to tell it to those of you all that are gathered here, because it's the people that aren't here that really ought to sort of hear this. But we've had these joint workshops before, and the department was asked in January to provide an opportunity for comment on the upcoming, yet to be released in draft 2005 QAP, because some in -- particularly in the development community felt like there weren't enough opportunities to have input.

So I guess we wore everyone out with the QA working group since February, but that was really one of the key reasons for this meeting was to give both departments, governing boards an opportunity to hear public comment before the draft came out, while there's still time to sort of influence the draft, so everyone must be very happy, because, either that or they're still on their July 4 holiday.

But we're grateful to those of you that are here as keen observers, and also very grateful, obviously, to the TDHCA staff that's here and making these presentations and answering our questions.

Did you cover Item 4, Brooke? So we feel like

we've talked about threshold an scoring et cetera?

Yes.

MR. WITTMAYER: Chris Wittmayer, the department's general counsel. The last thing we might do in Item 4, consistent with our memorandum of understanding between TDHCA and ORCA, is to use this opportunity to hear from the ORCA executive committee as to Items -- to get your input on our QAP rules and underwriting rules.

If you have any input, I'm sure our board representatives would like to have this opportunity to hear any input you have.

MR. ALDERS: Well, Chris and Beth, I think it would be my interest to see our memorandum of understanding just kept as current as possible. So that's referred to in our QAP, I believe, the MOU, but we very much value the -- speaking for myself, anyway -- we very much value the opportunity to jointly administer this program, as I mentioned earlier. And I think it's most appropriate that we keep that MOU current in the year that we're operating in.

We regret dealing with the MOU and the year's 80 percent over, for example. We think it would be better if it was more current.

MS. CEDILLO: Something else I might add, that

you will have several opportunities to comment on the 2005 QAP, and Brooke posts information on our web site regarding the QAP working group meetings, so if you can stay posted to our web site, you will get up to date information.

MS. E. ANDERSON: Other comments? Questions? Discussion? This is, you know, this is sort of a public hearing so, you know, we can -- as long as our general counsels don't jump up and down, we can --

MR. JETER: We don't allow our general counsel to jump up and down, because he, generally speaking, wants to tell a joke. It's more than we can handle.

MS. E. ANDERSON: Well, that probably wouldn't be out of order in this meeting.

MR. JETER: You haven't heard his jokes.

MR. ALDERS: Yes, it would be.

MS. E. ANDERSON: Okay.

MR JETER: We love you, Jerry.

MR. HILL: I can tell.

MS. E. ANDERSON: Well, we appreciate the opportunity to spend the afternoon with you and, speaking for myself, I learn a lot from listening to the questions that you answer, and kind of centers my perspective a little bit, you know, being a Dallas gal, to hear the kind

of questions that you answer -- that you ask, you know, focused on issues that you're most keen about, so that's very helpful to me.

MR KLUSSMAN: You know I speak -- I'm sorry, did someone else? I'm sorry, I just wanted to make my favorite comment, that I make often as a part of this board, Madam Chairman, and that is, speaking to ourselves, the ORCA board, we really need to be cognizant of the fact and do everything we can in our efforts to make everybody, legislators, elected officials on down, that the viability of rural Texas is inseparable from the viability of urban Texas. We cannot have one without the other.

If rural Texas is not viable, and we do not have a good quality of living in rural Texas, we will eventually not have a good quality of living in urban Texas, because urban depends on much that we do in rural Texas, whether it be recreation or food. It comes from rural Texas, and they are inseparable, I think, economically, and I think probably the place where we need to do most of that education is a few blocks over in the Capitol, as to the importance of rural and urban interplay and interrelationships.

MR. JETER: A small aside -- I think that, something we talked about this morning in a policy

meeting, it seems to me that, first of all, we're pleased that we're having the meeting together, we've had, it seems like one before, that we've had some questions before, but this is good for us. But I think that moreover as we've talked about our staffs working together is the most significant thing.

We've found in the last two or three years, since we were formed, that the interactions with agencies and with various committees that we interact with has really helped in moving the ball down the field. Oftentimes there have been "turf differences" between agencies, and I think on behalf of us, who are volunteers, you know, if we can mitigate a working relationship that helps not only our staffs work together but each other work together, I think we really accomplish something for the state. That's what volunteers bring to the table, is not only a fiduciary responsibility, but ability to bring a different point of view to how we operate agencies and how we serve our constituencies.

In our case, of course, as Wallace pointed out, we're concerned with the rural community, but only -- we're concerned with them because we believe it's a, as Wallace points out, a holistic look at what the state of Texas is in the aggregate.

I think when we can have a free exchange of ideas as we've done today, and we get prepared for these meetings, actually on our executive committee, because we know they're of great interest to our constituencies in rural Texas.

But I think as we do that, you know, we service, you know, the state better, we service our staffs better, and I think in the long run, you know, we can do something different for the state of Texas. It's not business as usual; it should be a look at the new way to do business and efficiently use dollars that we have.

We're all limited by funds that are being curtailed for one reason or another, and that is life and that is what it's about. So for us, these kinds of things help us all work together and say, How can you use dollars really effectively and efficiently get to the people who need them, and I think this bodes well for it, and we appreciate your openness and we appreciate our staff working together.

It's a real good thing for us and we hope that we can continue that.

To echo one thing that Dave said about the memorandum of understanding, we'd like to expeditiously get to that so that we can have a deal in place or have an

understanding in place that we all work together with in the next year, and really accomplish some great things.

So thanks for inviting us and letting us work together. I think it was good, and we appreciate it.

MS. E. ANDERSON: Thank you Mr. Chairman.

Mr. Mayor?

MR. SALINAS: Well, I just want to thank you all for sharing this meeting with us. I know that I don't speak very much, but, not today --

MS. E. ANDERSON: You feeling poorly?

MR. SALINAS: Yes, well, I just drove in from the Valley. I just want y'all to know that we really do work together as -- for the state.

One of the things that I didn't agree with with the state legislature, was when we wanted to have the QAP say that local elected officials would count in our QAP, and having three points from our county commissioners, our mayors, and our city council. Somehow those people didn't allow that to happen. And they got to understand that this starts at home, and I don't know why they do that and why they did that, and I wish somebody would tell them that I'm going to criticize them every day, when I don't see them letting the local county commissioners court decide what they really want in their home town.

Getting back to Corrigan, who mentioned that new community?

MS. E. ANDERSON: Corrigan.

MR. SALINAS: Corrigan? When you have the county commissioners court and the city council not allowing that community to have housing, it's pretty bad, so -- we need to have very much the -- I think the ex-mayor was here, I believe this last time. And it feels very bad that they would be able to help a community that needs housing, simply because maybe they didn't want them right next door.

Somehow they didn't have the support of the commissioners court or the city, but you that represent the rural areas should talk to your county commissioners that the state legislature is not allowing them to be able to comment on what are the real needs in the community. It really comes down to the court and to the city.

Some of these guys that represent us in the state House and in the Senate, they don't really know our community. And then for them not to allow us to, for our people to go to the city council member, the mayor or the county commissioners court to be able to present a letter of recommendation for their community is plain wrong, and I don't think the Governor agrees with what they did, but

I don't speak for the Governor, but I am a great supporter of the Governor, so --

I know I mentioned it to him the other day, when he was in the Valley, and he agrees with us, but you know the legislators, they do the wrong things, and they change the rules every time they feel like it. So I'm just glad that I'm able to help the government and help the state of Texas in that form.

MS. E. ANDERSON: Do you understand the issue? That they could still write a letter but no score associated with it?

MR. KLUSSMAN: Yes, absolutely.

MR. SALINAS: I'm sure it's worse in the rural communities, because not too many people voted there, and they really don't. But for us it means a lot to represent, especially in rural communities.

MR. KLUSSMAN: The government is run by those that show up.

MR. WATERS: Yes, Madam Chair, just to comment, I don't know, you may know that every other meeting we have, we have outside of Austin. And we have them in rural communities. And in December, we're going to Rio Grande City and have our meeting down there.

Most of the places we go and have these

meetings, it is the first time that a state agency has ever had a full board meeting in these small communities. And you might want to consider that, Madam Chair. If you want to see some smiling faces, go out to one of these small towns and have your board meeting sometime.

MS. E. ANDERSON: We do travel some, but we have not traveled into small communities.

MR. KLUSSMAN: And you have to be prepared for the questions.

MR. WATERS: You bet.

MR. KLUSSMAN: Who are you and what do you do?

MS. E. ANDERSON: Well we ought to be prepared for that question, shouldn't we?

Mr. Bogany?

MR. SALINAS: Well, Starr County is a good place to go to. They're real conservative people and I went to school there. And I graduated from Rio Grand City, so I love that community, though I haven't been back. But we've been ribbon cutting on a housing project in Roma, Texas. I think they have some new ones coming into Starr County. I think they're going to have one pretty soon.

MR. WATERS: Madam Chair, I think we will be at the community center in Roma, won't we, Sam?

MR. TESSEN: Right, the one that was bought with CDBG money.

MR. WATERS: Yes, sir. It was built with the CDBG funds, and Mayor, you may want to slip over there and say hello to us, but we're going to have our full board meeting there. In December.

MR. SALINAS: I'll be more than glad to go. If somebody would just let me know, I'll make a trip over there.

MS. E. ANDERSON: Delores, will you keep up with that?

MS. GRONECK: Yes, do you know what day that is in December?

VOICE: It's in the first, the first Thursday and Friday in December.

MS. GRONECK: Gotcha.

MR. KLUSSMAN: It's our annual Christmas meeting.

MS. HARRELL: I want to thank you for the opportunity to come today. I've learned a lot, listening. I haven't done any talking. Absorbed a lot.

But one comment I would like to make, is I continually hear that the really rural, very small communities are still not being served as adequately as

they need to be. And this is an issue, coming from a very small, rural area: there is a critical need for housing. You know, five or six units in a small community are just as serious as 20 to 30 to 75 in a larger community.

So somehow we need to work together to address that issue, because it is critical. Again, thank you very much. It's been very informative for me today, and I appreciate the opportunity to work with you.

MS. E. ANDERSON: Thank you.

Mr. Bogany?

MR. BOGANY: I think I'm quiet today, just kind of absorbing, myself. It's a great opportunity to be with you guys and see the other side of it. The thing about the rural areas that I like especially is that nobody is up here protesting that they don't want them in their community.

But it's something that we may at some point in time need to look at the development community and find out what it's going to take to put more of them in their community, what do you need to make it work for you? And then try to work the QAP to that point, and sitting down, okay, we need to have this many units to do, we need to have this much tax credit to make it profitable for us to go in and do it, and at some point I'd like to see us

maybe zone in on that.

Unfortunately, I know last year a lot of calls I got were a lot of rural communities saying, We didn't get our tax project; why didn't we get our project? And I think we're trying to get better at that, and I think 2004 was a jump forward to try to get more out there.

I don't think we're there yet, but I do believe we have the staff, and with the working group here with the two organizations, we should be able to achieve that goal. I am so happy to know that nobody from -- is here protesting, that we should --

MR. WATERS: You have some of those?

MS. E. ANDERSON: You bet.

MR. JETER: You know, just on that point, Beth and I were talking about it earlier, maybe it takes us working together to come up with some type of incentive capital to get those smallest of projects in the poorest of towns that will have because of those projects an ability to grow. And I differentiate that between those that cannot. But if you could take where that housing is most needed, in those most needed communities, that have that ability to grow, and if we could put a pilot project together, somehow to put a project on the ground that says, here's what would happen if we added some extra

ingredients that perhaps aren't available in all the existing programs that we have, although we have from time to time, we can carve out some types of capital to do it. It may take several of us working together.

But it seems to me that those are the kind of things that if we could proceed and see a project like that or develop a project either our staffs working together or something like that, and develop a pilot project to accomplish something like that, we will have accomplished something in terms of whether finding out if it will work or if it won't.

Because if it won't, then we should know that. And if it does, then we should know how to go about that in a subsequent way, and that way we could possibly go to the legislature and say, Hey, here's a way to do something really positive. And I don't think you can do it by going to the legislature first and saying, Here, fund this project. I think you've got to do it the other way. I think you've got to figure out how to do stuff that you're going to do. You know?

MS. E. ANDERSON: We've been having program committee meetings. We have created program committees, a subset of the board, and it's met almost every month this year, and we've looked, and it's given the board an

education in depth about all of our programs and sort of what the nuances are, and what you can and what you can't do and so forth.

We've had a lot of discussion about the HOME program and also the housing trust fund program. And so I would, again, as I said earlier, the HOME program, although it has real administrative problems that I fear would be very burdensome for a really small community, I also think it's a legitimate funding source for this kind of thing if we could find some creative source of additional soft money somehow. So I'd like to challenge our staff to work with Sam and his team to try to come up with something that we could do with deobligated HOME funds, or you know, because our deobligation policy gives us some flexibility to do some things. So I'd like to, you know, sort of charge you all to try to come up with something.

MR. JETER: Super.

MS. E. ANDERSON: Any other discussion?

Am I supposed to formally -- I didn't really formally call us to order, but, I'd say we have concluded our business. It's been a very productive afternoon. I thank you all for being with us.

(Whereupon, at 4:00 p.m., the meeting was

concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Board and ORCA Executive Committee Meeting

LOCATION: Austin, Texas

DATE: July 7, 2004

I do hereby certify that the foregoing pages, numbers 1 through 93, 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.

07/20/04
(Transcriber) (Date)

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