# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

## BOARD MEETING

Thursday, February 10, 2005
Waller Creek Office Building
507 Sabine Street, Room 437
Austin, Texas

BOARD:

KENT CONINE, Vice-Chairman
SHADRICK BOGANY
NORBERTO SALINAS
VIDAL GONZALEZ
PATRICK GORDON

STAFF:

EDWINA CARRINGTON

# A G E N D A

P R O C E E D I N G S

MR. CONINE: Let's get started, if we might. I want to welcome everyone to the monthly board meeting, the February board meeting of the Texas Department of Housing and Community Affairs, starting at ten after 12:00. Sorry we were late. We get a little long winded in the Finance Committee meeting.

We want to I guess recognize the fact that Ms. Anderson, our chair, is not here today, and hope she gets back soon. That way I don't have to keep doing this. I don't have a roll sheet here, but I know everybody is here. Mayor Salinas?

MR. SALINAS: Here.

MR. CONINE: Mr. Bogany?

MR. BOGANY: Here.

MR. CONINE: Mr. Gonzalez?

MR. GONZALEZ: Here.

MR. CONINE: Mr. Gordon?

MR. GORDON: Here.

MR. CONINE: Kent Conine, we're all here, wherever the sheet is. Thank you. We have got five of us here; that is a quorum. If you haven't signed a public comment card, or witness affirmation form, we need you to do that, if you want to speak on any particular item. The practice of the Board is typically to allow people to either speak now or at the agenda item, as it comes up.

It looks like most everybody is targeted to a particular agenda item. So, and due to the volume of witness affirmation forms I have, we want to limit our comments, I think, to three minutes. Will that be all right today?

Let's do three minutes and see how it goes. And if you could be succinct in your presentation and wrap it up. I know some of us have, some board members have time deadlines we are trying to meet and so forth. So thank you for that help.

Item number one is the -- well, let me first call on State Representative Jose Menendez. He wanted to speak. So Representative Menendez, would you come on up?

MR. MENENDEZ: Thank you, Mr. Chairman. I hope to only take only one or two of the three minutes that have been allocated. First of all, let me say good morning to you and the Board and Ms. Carrington. It is an honor and privilege and pleasure to be with you all this morning.

My reason for being here this morning is quite simple. There is an item on your agenda; the developers and citizens of San Antonio who are working on this development had originally scheduled or planned to have on the March agenda. And then due to a change, someone at the AG's office, in their thought process on when, after they reviewed the transaction, they told that they probably wouldn't be able to approve the sale of these Tier 3 bonds without the credits from TDHCA committed prior to the bond closing.

And so they encouraged them to change their meeting to February and ask for a 60 day to grant a waiver of the 60 day filing requirements. So that is my only reason for being here, is to ask you to please look at the fact that you do have the ability to grant this waiver on very specific cases such as this one.

As the staff recommendation for denial was based solely on the late filing, as my understanding is everything has been turned in, and there isn't anything left. And if that is not the case, please let me know.

But I am just here to say that this is a project that has the full support of the City Councilmen for the District. It is in my District. It has got the full support of myself, and I haven't heard anything from anybody in the community that would be opposed.

And you know, in this day and age, it is kind of hard to get these 100 percent supported, by the community projects. And we look forward to working with you to get more of them throughout the state. And so we'll see what we can do to get more funding for affordable housing throughout the State.

So if there are any questions, I will try to answer them. If not, I know you have got a lot on your plate today, and I will move my way back to the Capitol. But I hope that you can grant the waiver and approve the requested credit allocation to allow this project to move forward.

MR. CONINE: Any questions for Representative Menendez?

MR. GONZALEZ: Which project is the one? Is that Item 2?

MS. CARRINGTON: This is Item 2(b) on your agenda.

MR. GONZALEZ: Okay.

MS. CARRINGTON: It is the Willow Bend Apartments in San Antonio.

MR. MENENDEZ: Sorry for not identifying that. Appeal number is 04612 and sincerely, I am sorry. I guess I assume since I am the only one from San Antonio. Anyway, in any event, if there is any questions, let me know.

And we look forward to working with you, all of you all on urban affairs and on the Sub-committee for General Government. I know we had a general overview this morning that I wasn't able to attend. But I look forward to working with you all one on one, and as a whole. So thank you very much.

MR. CONINE: Same for us, Representative Menendez. We thank you for your service to the State of Texas and for working with us. And we look forward to getting through the session with you.

MR. MENENDEZ: It is going to be a tough one, but I think together, we can make it happen.

MR. CONINE: Thank you. Does anyone else want to speak now at the public comment period or do you want to wait until the agenda. Come on up. Just tell us who you are, and we'll facilitate your schedule.

MS. HORAK-BROWN: Thank you very much. I am Joy Horak-Brown. I am the Executive Director of New Hope Housing, and NHH Canal Street Apartments, Inc., in Houston, Texas. As you may recall, we develop and operate single room occupancy housing for adults who live singly on a very low income. 30 percent of median is typical. And typically, our residents have -- a very high percentage have special needs, have been literally or marginally homeless.

And I am here today to thank you very much and tell you how proud we are to be a partner with TDHCA. We broke ground in October on 134 units of single room occupancy housing in Houston's Second Ward East End. It is a largely Hispanic area. And our project is located just next to Mama Ninfa's Original Mexican Restaurant. It is a wonderful location right there by a Houston landmark.

And also to update you on the project in a more specific way. Our construction contract is with Camden Builders, Inc. They are a Houston-based construction company that has built more than 19,000 apartment homes and 3,400 student housing beds in the State of Texas.

When you come to see our property, you will realize it bears more resemblance to a commercial grade college dormitory than it does to multi-family housing. We greatly value Camden's experience and their cost consciousness. They have helped us value engineer approximately $600,000 from the project to date.

That said, we do have a bit of a funding shortfall, and we are talking to the Department and to some other funders about helping us with increased construction costs since we first began envisioning this in 2001. In October 2005, with your help and the advice of Camden, we will open a very high quality property that we can all point to with pride. We thus far have $1.2 million in the project; $445,000 of that is in construction draws from the Department.

And I want to particularly thank David Danenfelzer and Lucille Trevino who have been very helpful to us in working our way through the first time through the requirements of the State. We hope to partner with you again. Thank you so much.

MR. CONINE: Thank you, Ms. Brown. Any questions for her?

(No response.)

MR. CONINE: Thank you very much. We appreciate your kind words. Anyone else wish to go now versus later? Speak now or forever hold your peace.

(No response.)

MR. CONINE: Okay. We'll close the general public comment session of the board meeting and I think most of the rest of them, we have specific agenda items on. Moving on to item number one, the presentation, discussion and possible approval of last month's minutes of our board meeting.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: Motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 2(a), adoption of an amendment to the 2005 QAP. Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chairman. This is requesting approval of final housing tax credit program Qualified Allocation Plan and rules for 2005. On November 12, the Board did approve the 2005 Qualified Allocation Plan. On December 1 of last year, the Governor rejected the plan.

There were some modifications and amendments made to the Plan, and that came back to the Board on December 13. What you all did at that time was to approve an emergency Qualified Allocation Plan for 2005, because we were in the beginnings of the pre-application process. So you approved that emergency QAP, but then we also put that revised QAP out for public comment.

On December 17, the Governor did approve the

QAP with one modification. On December 31, the emergency amendment and the proposed identical amendment were put in the Texas Register for the required 30 day comment period. January 31 was the end of the comment period.

There were no additional comments on that QAP that we are presenting to you for your consideration. And so, we are requesting that you adopt the amendments to Title X, Part One, Chapter 49 of the 2005 Housing Tax Credit Qualified Allocation Plan and Rules.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: Motion and second on the floor. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor of the motion, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 2(b), we have some public comments on this particular. Well, at least one public comment on this particular item. Why don't you go ahead and do the staff presentation and then we can hear the comment and act accordingly.

MS. CARRINGTON: Thank you, Mr. Chairman. This is a consideration of a request for a waiver of the 60 day rule requirement which is in our 2004 Qualified Allocation Plan for an application that is a tax credit and a tax-exempt bond transaction. This is the one that you did just hear Representative Menendez speak to.

This particular transaction did receive its reservation from the Bond Review Board on October 8, 2004. It is a Priority Three transaction. Our rules in the QAP say that the Department must receive at least 60 days prior to the board meeting at which the decision to be made to issue a termination notice -- that there is a variety of documents and requirements that we need 60 days prior to the board meeting.

The 60 day for this particular development would have been December 12, 2004. The Department received volumes one and two of the tax credit application on January 5, and then the remainder of the application was received in the Department on January 10. Both dates well past the deadline.

We have included for the Board's information even with the information we have received by January 10, there were several items that were outstanding. And so we have presented to the Board the deficiency letter that we did mail to the developer.

The difficulty, of course, for staff in not receiving the information at least 60 days prior is that we cannot properly review the application, look at the market study, look at the environmental, and then allow us to do a writeup and do a timely submission to the Board. For those reasons, the staff is recommending on this particular transaction that the waiver of the 60 day rule not be granted.

MR. CONINE: Okay. Michael Eaton?

MR. EATON: Thank you. As Representative Menendez said, I want to put this in a little bit of perspective, timing wise. I certainly agree with everything Ms. Carrington just said in terms of the necessity of the 60 day time period in order to allow staff adequate opportunity to review the application and supporting materials and do their own underwriting.

At the same time, I want to emphasize that it was intentionally planned from the outset in this particular transaction as a tier three transaction that the volumes would be submitted when they were. The original plan on this transaction was because there was seller financing involved for the land, and because that land closing happened in late 2003, that we could not use bond proceeds to pay for that land. Consequently, the plan was to close the bonds and allow the seller note to be subordinate to the bonds.

Issuers' counsel, Fulbright and Jaworski and Bond counsel Fulbright and Jaworski agreed with and approved that structure. The issuer and the issuer's financial advisor agreed and approved that structure. And we proceeded under the assumption that that structure would be approved by the Attorney General's Office as well.

It was only in the time between the first two volumes being filed with the Agency and the third volume being filed with the Agency, that the Attorney General's Office informed Jim Plummer at Fulbright in San Antonio that no, they were not going to approve that structure, and they were going to require that there be a reservation of the credit, or an approval of the credits prior to their final approval of the bonds. We are not trying to establish a precedent to allow anybody to come in and say we don't want you to have 60 days.

We are simply saying that you do have the right, and you do have the authority to grant a waiver. And this is one of those circumstances when the developer had done everything they were planning on doing, and had worked closely with the investment banker involved, and with the issuer involved. And everybody was on the same page when yet another branch of government, the Attorney General's Office came in, and basically changed the rules in the middle of the game for them.

Now, even though it is a technical truth that a Priority Three transaction can close without having tax credits because of the timing of the purchase of the real estate involved, we are now faced with the possibility that without this waiver, that the Attorney General will not allow us to close the bonds without those credits at all. We spent a lot of time and a lot of effort trying to find other ways to be able to fund that, to have this gap.

There is about a three day gap between the date that the bond reservation expires and the time that you all would be in place to have your March meeting to approve the credits. We are certainly aware and not arguing at all the fact that this clearly did not meet the 60 day requirement. But we do feel this is one of those circumstances that is extraordinary, in that the developer has done everything he intended to do, and should have done under the plan that was laid out and agreed to by all partners and members of the development team.

Lastly, I'll just point out the approval and support by both Representative Menendez, the City Council member whose district it is located, as well as fund support by the issuer. And we'd ask for approval of the project.

MR. CONINE: Questions?

MR. BOGANY: I have one question.

MR. EATON: Sir?

MR. BOGANY: Are you saying, I thought I heard you say that you always knew you were never going to meet the 60 days?

MR. EATON: No. We had never intended to present this at the February hearing. We had always intended to present this at the March hearing, because it was the plan of the development team that the credits would in fact close and be funded after the bonds had closed. But it was because no bond proceeds could be used for the land payment, and we were going to subordinate that note to the seller, to the bonds, that the AG informed us no, you are going to have to move up and get those credits approved before you close the bonds instead of afterwards.

MR. BOGANY: So originally, the seller finance was not involved in the transaction? It came afterwards?

MR. EATON: No, sir. It has always been

involved. The only thing that changed was that in the second week in January, the Attorney General told us we couldn't use the structure that everyone had anticipated we would use. Which would mean closing the bonds at the very end of February, or the first couple of days of March. And then actually closing and funding the tax credits around the 10th or 11th of March.

MR. BOGANY: So I guess my question is, I think the deadline of December 12. So what kept you from submitting on December 12?

MR. EATON: The plan had never been to submit for December 12. The plan had been to submit in anticipation of the March meeting deadline, which was, in fact, met. It was only after the filings that we were told we had to move from March up to February.

MR. BOGANY: Okay.

MR. CONINE: Ms. Carrington?

MS. CARRINGTON: I think what is very unusual and different about this transaction, as Mr. Eaton has said, this is a Priority Three transaction. And the Bond Review Board has Priority One, Priority Two, and Priority Three. And typically, what we have been looking at have been Priority One and Priority Two transactions, which absolutely require the developer to apply for and receive an allocation of tax credits.

In a Priority Three transaction, the way it reads, I will look to my counsel here, is basically they can do a bond issue and it does not require, at least the legislation doesn't require an allocation of tax credits. So I think what Mr. Eaton is saying, they really had probably planned to go ahead and get the allocation of the bonds through the San Antonio Housing Finance Corporation and then come to TDHCA in March for the allocation of the credits.

But what the Attorney General's Office has said is, you will not close the bonds without having the allocation of the credits. So at that point, it moved everything up. Their reservation expires on the 5th or the 7th of March, I think, the 7th of March. And our board meeting, I believe, is scheduled for the 10th of March. So basically, it compressed everything.

MR. GORDON: When was that determined? When did you find out?

MR. EATON: The second week in January.

MR. GORDON: Okay. After December 12.

MR. EATON: Yes, sir. It was between the time the first two volumes were submitted and the time the third volume was submitted.

MR. GORDON: Okay. So it was after the December 12 deadline?

MR. EATON: Yes, sir.

MR. SALINAS: Will they be able to get the tax credits if we do the waiver? Is there anything wrong with us doing a waiver?

MS. CARRINGTON: You have waived the 60 day rule in the past for extenuating circumstances. And we have put this on the agenda in a two step process. What you would be doing with this item is approving or waiving or not waiving the 60 day rule.

And then on your agenda, as the next item, they are requesting the allocation of the tax credits. So it will be a two-part action on this particular development.

MR. SALINAS: Will we be in the law? Giving them the waiver is acceptable?

MS. CARRINGTON: You have, the Board. Staff does not. The Board does have the ability to waive the 60 day rule for good cause.

MR. SALINAS: And they have the tax credits that they are going to be given in March?

MS. CARRINGTON: No, sir. Their application for tax credits is item 2(c) First Development. So should the Board grant the waiver --

MR. SALINAS: Will they get the tax credits?

MS. CARRINGTON: Then the next item is for consideration of the tax credits.

MR. BOGANY: Are these circumstances extenuating, in your opinion?

MS. CARRINGTON: Yes. I don't know that we have seen this kind of situation before.

MR. SALINAS: If they have all this support in the community and they have the support of the State Representative, wouldn't it be in the best interest that we do a waiver and help this project?

MS. CARRINGTON: The Board does have the ability to grant that 60 day rule.

MR. CONINE: I don't see a copy of the notification from the Attorney General's Office that you couldn't stack the debt.

MR. EATON: They didn't give us a written ruling. That was in a conversation between Lynn Steck at the Attorney General's Office and Jim Plummer of Fulbright. And Jim is the one that informed everybody on the development team to that effect.

MR. CONINE: So statutorily, Priority Threes don't have to have credits. How do --

MR. EATON: I don't know that it was

specifically because of the fact that it was Priority Three. My understanding was that she was taking the position that she would not allow the seller note to be subordinated to the bonds. That she would not approve the bonds if there was the existence of this seller note.

She wanted the seller land note to be cashed out, and that land to be fully funded at the time the bonds closed. And the plan all along had been to close the bonds and then three days later when there were an allocation of credits, to use that equity to pay off the seller note, which for that brief three day gap would be subordinated to the bonds.

MR. CONINE: And I assume an unsecured note in a situation like that would not solve the problem, or would create the seller issue?

MR. EATON: It creates a seller issue.

MR. CONINE: Counselor, have you had any dialogue with the Attorney General's Office on this particular issue?

MR. WITTMAYER I think Elizabeth Rippy can speak to that one.

MR. CONINE: There she is. There is the person I have been looking for. Good morning, Ms. Rippy.

MS. RIPPY: Good morning. Elizabeth Rippy with

Vinson and Elkins. I did speak to Lynn about this issue. Lynn Steck is the head of the Public Finance Section at the Attorney General's Office.

And the AG's concern is with closing. Because they have this long list of people that are applying for volume cap, they don't want to use the State's volume cap for a project that has as big a contingency as this one, that possibly would not be built. Because once you close, that is it. The volume cap is used.

If something happened, if they didn't get the tax credits, they don't have enough money to build the project that they are proposing. And so what is going to effectively happen here, is that the lender is going to hold all the money at what is technically the closing, and not let them use any of that money until they get the tax credit approval.

And Lynn's concern is that if something goes wrong, the money just gets used to call bonds. And basically, the State has wasted that amount of volume cap. It puts them in a -- they don't typically approve deals with those kind of contingencies.

MR. CONINE: Okay. That now creates a couple of more questions for you. One, I understand that the seller likes the security of having the collateral being the land. Another avenue, versus the unsecured route would be a security interest in the partnership that owns the land. And I wondered if you have explored those capacities?

MR EATON: We have. We have explored everything that I can think of and probably more than I could think of, with the seller and they are -- I guess the best way to put it is very traditional in their approach to wanting a secured mortgage on the real estate, even if it is a subordinate mortgage, because of where it is.

And they understand the support. They have heard about the support for the project. They don't understand what the problem is. This isn't a case of a sophisticated development group saying: okay, yes. We'll take an assignment and pledge of a membership interest in a general partner for example or something of that nature.

And approving the waiver, and granting the credits would solve all of the issues and answer all of the questions all at one time. And that is why we are here.

MR. CONINE: I would suspect that our underwriting people are going to tell us they haven't had time to really look at it. So we have kind of got the cart before the horse here. On the 60 day thing, I would like to hear from I guess item 2(c) before I really make a determination on what I want to do on 2(b), personally.

MR. EATON: Okay.

MR. SALINAS: Can we do that?

MR. CONINE: I think we can do it with a motion to table 2(b) until we finish 2(c).

MR. SALINAS: I move we table 2(b).

MR. GONZALEZ: Second.

MR. CONINE: Okay. Motion to table. If no discussion, all in favor to table, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Let's move to item 2(c), and hear about the Willow Bend Apartment on the tax credit side.

MS. CARRINGTON: Okay. There are two of them for your consideration behind Tab 2C. When you turn to that tab, actually Willow Bend is not first, even though it is listed first. So you want to go behind the blue page and find the --

MR. CONINE: You are making this difficult, Ms. Carrington.

MS. CARRINGTON: I didn't mean to make it difficult, Mr. Conine.

MR. CONINE: Behind the blue page. We ran out of colored paper? Okay.

MS. CARRINGTON: Actually, I am sorry.

MR. CONINE: It is the first thing.

MS. CARRINGTON: It is just not listed first.

MR. CONINE: Okay.

MS. CARRINGTON: Okay.

MR. BOGANY: It is the first one?

MS. CARRINGTON: Yes, it is. I am sorry. And you will note as we usually tell you, it is a Priority Three transaction. You will also note when you look at the summary that comes from the Housing Tax Credit program, we have a zero as a recommended eligible basis amount, because of course at the time your board books went out on Thursday of last week, we did not have all of the necessary information in-house to be able to underwrite this transaction. So therefore, the note that says pending final underwriting report, and you turn over to the next page, pending final underwriting report. Now I have spoken to Mr. Gouris, and Mr. Gouris should be making his way up. Because he can tell you how much of the underwriting Real Estate Analysis has completed on this transaction, and if indeed staff is ready and prepared to make a recommendation on the amount of credits.

MR. GOURIS: Tom Gouris, Director of Real Estate Analysis. Good to know where I am from. We have not completed the report and finalized the report. So we don't have a printed copy today. We received the last bit of information that we think we need on Tuesday. Based on the information that we received, it looks like we would be able to make a recommendation. But we haven't finished the report, and I haven't thoroughly reviewed it. So we are in that spot. The concerns that we had, going into Tuesday seemed to be addressed with the information that was provided.

MR. CONINE: Questions?

MR. BOGANY: I have a question. Is it possible, because we are not going to meet again, is it possible that if we chose to approve it, and with a caveat that if you reviewed it and you found it was not a good project, you would have the Board permission to go ahead and kick it out? Is that something we could do?

MR. GOURIS: I think we have in the past.

MR. CONINE: I don't know if I want to make Mr. Gouris, giving that decision to him. We might give it to Ms. Carrington.

MS. CARRINGTON: Yes. That would be -- and in the past, you have approved transactions with a number of conditions. And your direction to staff has been: if the conditions are satisfied to staff's satisfaction, then move forward with the transaction.

If not, then the transaction would not move forward. I think, you know, probably what makes this a little more difficult is that right now, we don't know what those list of conditions are, and there may not be any. We just don't know.

MR. SALINAS: Can we make a motion that we go ahead and authorize the tax credits subject to the approval of the Executive Director looking at the project.

MR. CONINE: With such conditions as she deems relevant?

MR. SALINAS: Yes. So moved.

MR. CONINE: I think you just did. Is there a second?

MR. BOGANY: Second.

MR. CONINE: Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor of the motion, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: I perhaps have one procedural question.

MR. CONINE: Yes?

MS. CARRINGTON: Are we required to specify an amount for credit. Should we say in an amount not to exceed? Because the Board does, they are required to allocate the credits.

MR. SALINAS: Not to exceed $521,000.

MR. CONINE: My number says 592.

MR. BOGANY: Mine says $592,607.

MR. CONINE: Yes. On the agenda, it says a different number than on the application.

MS. CARRINGTON: I would suggest that maybe we take the highest number.

MR. CONINE: And these 4 percent credits are always adjustable at the turn anyway. So pick a number, Mr. Gouris. Which one would you like.

MR. GOURIS: The last requested amount that we had was $592,607.

MR. CONINE: Okay. Do you want to go ahead and move that we append that to the motion?

MR. SALINAS: Yes, sir.

MR. CONINE: Is there a second?

MR. BOGANY: Second.

MR. CONINE: Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, say aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Now, let's go ahead and why don't we go ahead and remove from the table somebody, item 2(b).

MR. SALINAS: Move to remove item 2(b).

MR. CONINE: Move for reconsideration. Is there a second?

MR. BOGANY: Second.

MR. CONINE: Any discussion?

(No response.)

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

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Now, would someone like to make a motion on the 60 day rule?

MR. SALINAS: So moved.

MR. CONINE: For waiving it?

MR. SALINAS: For waiving it.

MR. CONINE: Is there a second?

MR. BOGANY: Second.

MR. CONINE: There is. Any discussion?

(No response.)

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

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Now, we are going to move to the second item under 2C, Oak Tree Manor.

MS. CARRINGTON: Oak Tree Manor Apartments, Harris County, Housing Finance Corporation is the issuer on this particular transaction. This is a Priority 1A transaction, which has units and rents capped at a combination of 50 and 60 percent of area median and family income.

This is an elderly transaction that would be developed for the elderly. And the annual credit recommended amount on this transaction is $645,983. And you will note that there are relatively few conditions on this particular transaction.

MR. CONINE: Is there a motion?

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 2D, Ms. Carrington.

MS. CARRINGTON: 2D for the Board --

MR. CONINE: And I do have some public comment, I believe. Go ahead.

MS. CARRINGTON: For the Board's consideration, requests for extensions, two extensions to commence substantial construction. The first one is Reserve II at Las Brisas Apartments. This is a 2003 allocation of tax credits. It is located in Irving. The date for the start of substantial construction was the 13th of October, I believe. Is that correct? They have a current deadline -- no I am sorry.

The current deadline was November 12 of '04. The deadline they are requesting is March 15 of '05. They have paid their fee for requesting this extension. You will note, as we noted, that the request for the submission or the request for the extension was submitted two months late. And we are working with our developer community to make them more sensitive to these deadlines and get them to be submitted on time.

We have included in the Board's packet the rationale and the justification of why they need an extension for commencing substantial construction, and it basically relates to rain and muddy days for October, November and December, which the Board will see in their books. And staff is recommending that the extension be granted. And this would take them out to March 15 of '05.

MR. CONINE: I have a couple of witness affirmation forms. Randolph Brown and Cynthia Bast, I think, on the same item.

MS. BAST: Mr. Conine, I am available to answer question if needed.

MR. BROWN: Same, sir.

MR. CONINE: Okay.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion to approve the extension was made with a second. Is there any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: The second item on the extension request for the Board's consideration is The Manor at Jersey Village Apartments. This is located in Jersey Village, it is in Harris County. This is actually a second extension request.

The owner has been advised that the City has not issued -- well, the City hasn't issued building permits yet, and they wouldn't be ready at least until December 29. And as of February the 1st, the building permits still have not been issued. This request did come in fairly timely. I think it was only three days late.

And they are requesting a new deadline of March 14, 2005. And staff is recommending that their request for an extension be granted. And again, there is backup from the developer on the justification for the request.

MR. BOGANY: So moved.

MR. CONINE: A motion. Is there a second?

MR. SALINAS: Second.

MR. CONINE: There is a second. Any discussion?

(No response.)

MR. CONINE: Hang on just a second. I do have another witness affirmation form, Ms. Bast. Again, are you available for questions, I guess?

MS. BAST: Yes, sir.

MR. CONINE: Okay. Any questions of Ms. Bast or any other discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor of the motion, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Moving to Item 2d or excuse me, 2e.

MS. CARRINGTON: Right. Item 2e are request for amendments to Housing Tax Credit applications involving material changes. And there are eight of these for the Board's consideration.

Just to remind you that these requests must come to the Board in two instances. If there is a significant modification of the site plan, or if there is a significant modification of the architectural design. So under those two conditions, these kinds of amendments do come to the Board for your consideration.

The first for your consideration is Sterling Grove Apartments, which is located in Houston. And the applicant is requesting approval to change the unit mix of the development by converting 40 one bedroom units into 20 three bedroom units. This is actually a tax credit development that has allocations from two years.

It has an allocation in 1989. It also has an allocation in 1994. And the owner is now requesting approval to convert 221 one bedroom, 109 two bedroom, and 16 three bedroom units which is a total of 346 units to basically a new unit mix which gives them 326 units. Staff is recommending the approval of the change in the unit mix, as we always do.

We go back and take a look to see if these amendments or changes would have affected this development in receiving an allocation of tax credits. And it would not have adversely affected this applicant in being selected. And Real Estate Analysis has determined that the conversion would actually be likely to improve the financial analysis on this transaction, or the financial feasibility on this transaction.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: The next one, The Residences at Diamond Hill Apartments. This is located in Fort Worth. The applicant wants approval to add two buildings. You would still have the same number of units. The changes were necessary to fit into the site in a desirable manner, and staff is recommending approval.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: For the Board's consideration the Park Stone Crossroads Apartments, located in Wichita Falls. When the application was put together, the amount of square footage on the common area was erroneously listed as 3,371 square feet. It should have been 3,871 square feet.

And actually, they have come back with even a different square footage, which is 3,457 square feet. It is a reduction of 414 square feet. That is what makes it come to you. Staff is recommending approval. It would not have impacted their selection.

MR. CONINE: I have a public comment on here. Randy Stephenson?

MR. STEPHENSON: I'll just be available for questions.

MR. CONINE: Okay. Thank you.

MR. BOGANY: So moved.

MR. CONINE: Is there a motion? There is a motion.

MR. SALINAS: Second.

MR. CONINE: A second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: The next is Creekside Townhome Apartments. And this is located in Burnet. And the applicant is requesting approval to change the rent structure.

And on this one, if the Board has any particular questions on the rationale behind this, I know I had staff that worked with the owner on this. We have come to an agreement on how many units we have at 50 percent and 60 percent. But if you have any particular questions, you might ask one of my staff.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion to approve, with a second. Any discussion?

(No response.)

MS. CARRINGTON: We are still getting the same number of units.

MR. CONINE: The same number of units we are getting.

MS. CARRINGTON: It is just a little bit different configuration in the number of units at 50 percent, and the number of units at 60 percent. And there are two market rate units in there.

MR. CONINE: All right.

MS. CARRINGTON: And I do see Dennis Hoover in the audience if he wants to bail me out.

MR. CONINE: And I have got a witness affirmation form from Mr. Hoover. Would you like to come speak to the issue?

MR. HOOVER: Only if you have a question.

MR. CONINE: Well, you are a smart man. Any other discussion?

(No response.)

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

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. I am the one that is supposed to be slow today, not you.

MS. CARRINGTON: The next one for the Board's consideration is Valley View Apartments. This is a transaction that is located in Pharr. And it is a transaction that the Board considered in December of this year. We are bringing it back for your reconsideration.

You may remember what they are requesting is increasing the applicable fraction from 95 percent to 100 percent, and the justification for this would be to increase the financial feasibility of the development. And also allow the developer fee to be paid out over a seven year period of time as opposed to a 15 year period of time. Staff has evaluated this request.

We do feel like that having the low income units that are restricted, 100 percent of those low income units outweighs the value of having market rate units in this transaction. And it would have impacted the score, but this development would have been recommended anyway in that region for an allocation of credits. And staff is recommending that they be allowed to increase this applicable fraction from 95 to 100 percent.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: There is a motion and a second to approve. I have got two witness affirmation forms. Robert Johnston and George Littlejohn.

MR. LITTLEJOHN: Members of the Board, Ms. Carrington. My name is George Littlejohn. I am a CPA with Grover Graddick [phonetic] and Company LLP. We represent the client.

We just want to emphasize what has occurred in this transaction is because of the drop in the tax credit percentage over time, the project has not been able to justify its overall credit allocation. And with bringing in the project on time, and on budget, has caused it to face the prospect of a $577,000 loss of equity. With the change of adding the 5 percent extra units, the loss in equity would only be $177,000, which means a $400,000 drop in the equity, which could severely impact the non-profit developer's ability.

This will make the project stronger, and help provide for them to fulfill their continued mission of providing affordable housing in the Valley. If you have any questions, I am available.

MR. GORDON: What caused the drop in equity?

MR. LITTLEJOHN: Effectively, what happened was, when the project was allocated credits in 2002, the credit percentage used for underwriting was 8.44 percent. At the time the project was placed in service, the two months period it was either 7.91 percent or 8.06 percent.

So it is a fairly large drop in the interest rate that they use to calculate the credits. Unfortunately, by bringing in the project on budget, there were no cost overruns or other additional costs that could help mitigate the loss in the percentage.

MR. GORDON: Mr. Gouris, is the project still financially feasible?

MR. GOURIS: Yes, it is. Yes.

MR. CONINE: Any other questions? The Board may remember I had a little problem with this last go around, but I have been convinced that we need more affordable units down in the Valley more importantly than we need market rate. And so my arm has been appropriately twisted, and I support this particular item. There is a motion on the floor and a second. Any other discussion?

(No response.)

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

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Is there another one? Go. There is one more. Go ahead.

MS. CARRINGTON: The next item for the Board's consideration is the Villas at Leon Valley Apartments. This relates to a change or a reduction in the common area square footage also. When the application was originally approved, the area around the elevator was going to be heated and cooled.

The City then required that area to be open, not included as heated and cooled space, and so it reduced the area in the common area by a little over 1,300 square feet. However there have some other areas within the development that have been increased in the way of square footage. And this would not have negatively impacted this development and their recommendation for credits. And so staff is recommending that this amendment be approved.

MR. BOGANY: So moved.

MR. CONINE: A motion.

MR. SALINAS: Second.

MR. CONINE: And a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: The next one is the Commons of Grace Apartments. This is located in Houston. This an '04 allocation of credits. The applicant is requesting a reduction in land area from 5.99 acres to 5.5046 acres.

When they placed their application with the Department, this was the parcel they were going to be using. It was part of a larger parcel of land that was bought. And so they had to estimate the amount of acres, and now they know the exact amount and so they are requesting an amendment to the amount that was originally stated at 5.99. Staff is recommending this amendment. It would not have negatively impacted the application.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: A motion and second to approve. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MS. CARRINGTON: And the last one for the Board's consideration, Wildwood Trails is kind of just the opposite. That we are increasing the land area in this particular case from 4.50 acres to 5.035 acres. There was a right-of-way that was eliminated and so it actually became part of the land for the subject property.

This particular property is located, or will be located in Brownwood. It is an '04 allocation. And the modification would not have negatively impacted the transaction. And staff is recommending approval.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: A motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Okay. I had Vernon Young. Where is Vernon? Vernon is not here? Okay.

MS. CARRINGTON: He had one of those amendments.

MR. CONINE: Okay. I could never figure that. That number didn't ever correspond with anything I had. So not a problem. Let's move on to item 2F.

MS. CARRINGTON: Item 2F is the consideration of an allocation of 2005 credits for one rural rescue transaction. The Board approved a policy in 2004 to allow transactions that were financed through rural development that were going to be going through foreclosure, that were going to be posted for foreclosure, to come to the Department and receive an allocation that was actually out of the cycle.

And the reason you all developed that policy of course, was because some of these move very quickly, and it would allow us to meet our mission of preservation and you have previously approved three rural rescue transactions. Those total $154,715 in credits. I will remind you that if this is approved, it will come out of the '05 tax credit allocation and it will also come out of the rural area or the rural region or the rural allocation of this particular region.

And this one is located in Snyder, Texas. The development was built in 1987. It is 40 units. It has 100 percent rental assistance. And the amount of credits that staff is recommending is $30,463.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: A motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item three, the presentation of our multi-family bond program inducement resolution for a couple of projects. To you, Mr. Gonzalez. And you'll probably turn it over to Ms. Carrington.

MR. GONZALEZ: Yes.

MR. CONINE: Go ahead, Ms. Carrington.

MS. CARRINGTON: Okay. Thank you. You will remember that we are doing this now about every month, and that is developers who are interested in using the Department as an issuer for the '05 private activity bond cap. And the reason this is available this year, and was available at the end of last year is because it really is not oversubscribed at the Bond Review Board.

So basically, what these applications are doing is applying to us, and then they will, as we say, sit at the bottom of the waiting list. Marquee Ranch in Pflugerville is being withdrawn for this month. We may see it back. Part of this property is located in Williamson County and they did not, according to my staff, did not get all of their notification. Well, they didn't get the Williamson County notification out. They notified the Travis County folks, but they didn't get notification to Williamson County.

So actually, what we are asking you to do today is remember, not approve the transaction, but just agree to allow it to go to the bottom of the waiting list and that would be the Lafayette Chase Apartments, which is located in Houston. New construction would be a general family transaction. And the amount that they will be requesting from the Bond Review Board is $12,500,000 in private activity bonds.

MR. GORDON: So moved.

MR. CONINE: Motion to approve. Is there a second?

MR. BOGANY: Second.

MR. CONINE: I hear a second. Let's get the resolution number into the motion.

MS. CARRINGTON: 05010.

MR. CONINE: Okay. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item four, moving on to 4A, which is the Finance Committee. Mr. Gonzalez?

MR. GONZALEZ: Why don't you go ahead and present, yes?

MR. CONINE: You want Ms. Carrington to start?

MR. GONZALEZ: We want to start on it.

MR. CONINE: We have some public comment, I know. Why don't you just go ahead and introduce the topic, since we have a new audience.

MS. CARRINGTON: Okay. The first topic for the Board's consideration is the approval of the criteria and the methodology recommended for the selection of senior managers in conjunction with the sale of TDHCA single-family mortgage revenue bonds. As we told the group that was here this morning, this is a tool, an instrument we used in 2001 to select senior managers.

And then we did some revisions to it, and we used it in 2003 to select co-managers. We actually have six senior managers and twelve co-managers and what staff is recommending or looking for input from the Finance Committee and the Board is to review this rating tool to review this instrument, and then we would go out -- we wouldn't go out. We would evaluate the performance of the six senior managers, using this evaluation instrument that the Board would approve today.

And we would come back to you in March with the recommendations. And staff, the writeup in your book, staff's recommendation was to reduce the number of senior managers from six to three. Staff's recommendation did not address co-managers. And of course, that was a discussion that the Committee did have this morning.

MR. CONINE: Co-managers and co-senior managers.

MS. CARRINGTON: Thank you.

MR. CONINE: All right. I do have some witness affirmation forms, so let's hear from these folks. Joseph Tait?

MR. TAIT: Good afternoon. My name is Joe Tait. I work for UBS Financial Services, Inc. I very briefly just wanted to suggest that since the Department's bond issuances have continued to use additional amounts of variable rate debt that you might want to consider as a criteria that something like the amount of variable rate debt that a particular bank manages over time.

For example, since we have variable rate debts and we are setting that rate on the variable rate debt for you on a weekly basis, I think it is probably a very important criteria for you going forward that you will have senior managers that demonstrate an ability to market that debt for you at the lowest rates possible. Typically, the criteria used is the book for the size of the variable rate debt of a single firm. That's it.

MR. CONINE: Any questions of the witness? Mr. Johnson, do you have any comments on that?

MR. JOHNSON: No, sir.

MR. CONINE: All right.

MR. TAIT: Thank you.

MR. CONINE: Thank you. Nick Fluehr?

MR. FLUEHR: Thank you, Mr. Chair, members of the Board. I am Nick Fluehr. I head the housing group for Citigroup, which was referenced to the Finance Committee Meeting would be considered the Goliath firm. I like to think of ourselves more as an army of Davids, actually, battling the present economic conditions which are the Goliath.

But just with reference to the criteria that Byron and others have established, we went through them. I think that virtually all of the investment bankers here in the room go through these review processes periodically, looking at the criteria. I agree that they do seem to be very objective criteria.

And from in terms of looking at those criteria, I would think the Agency and the Board at the bottom, at the end of the day, you want to be bench. You want experienced professionals. You want innovative ideas on both the program side and the financing side. You get those having managers that have a wealth of experience.

The other side of the coin is marketing. And obviously, you want to achieve the absolute lowest interest costs. And I do believe that the criteria established, looking at both retail sales and institutional sales will get you there.

In terms of the number of managers, we represent a variety of different HFAs across the nation, from small ones like North Dakota to the largest ones like California. California has four rotating senior managers. North Dakota has one. And I do endorse, I think three is the appropriate number for the volume that Texas does. So I would be happy to answer any questions.

MR. CONINE: Any questions? Thank you for being here today. I appreciate it.

MR. FLUEHR: Thank you.

MR. CONINE: Peter Weiss?

MR. WEISS: Peter Weiss with Bear Stearns. Thank you for the opportunity to address the Board, Ms. Carrington. I will stay away from Biblical references or analogies.

MR. CONINE: Hoping for divine intervention?

MR. WEISS: It wouldn't hurt. But no, I think the staff and their advisors have done a terrific job in laying this out. And I endorse a number of things that have been said up here. A couple of things that I would ask, I think, especially as it pertains to housing, and even more specifically single-family housing -- it is a very complex and intricate discipline within municipal finance.

And I think you would want your senior managing underwriters to have as large a breadth of experience with comparable agencies around the nation. And that is specifically at the state level. So that they are bringing to you all of their experiences and all of the different types of transactions that they see. And the criteria laid out here, I think it was number five, the bankers that focus specifically on housing.

And then on to numbers ten and eleven talk about the number of state HFAs that they work with. The state HFA bond transactions over the last three years really are important things to focus on. Capital as well. Important, but not nearly as a number. It really has to be sure there is a lot of capital there, but is the capital being used and being put at risk for the benefit of the Department and the State.

Sales force, I think it was said earlier that Fannie and Freddie have been buying quite a bit of the Department's bonds over the last few years. Two or three years ago, Freddie wasn't buying a lot. This year it is expected that Fannie will probably buy less than they have in the past. You need a deep -- you need your firms to have more than three or four institutional sales people.

They need to be covering a large breadth of the market.

And then finally, the discussion was about earlier, about derivatives and the experience with derivatives and swaps. And I think it is very important to focus more on derivatives and swaps as it relates to single-family housing. Again, it is very complex. And it is important that the swap be integrated into the cash flows, into the assets that these liabilities are being issued against.

And just to something that came up in the Finance Committee was that competitive versus negotiated, it is very important that your senior manager, even if you ultimately choose to do competitive swaps, which you may be surprised to learn, I am not advocating, even if you do choose to do that, your senior manager needs to understand these instruments and the potential structures that are out there, so that they can be integrated appropriately into the transaction. I would be happy to entertain any questions.

MR. CONINE: Any questions of Mr. Weiss?

(No response.)

MR. CONINE: Thanks for being here today.

MR. WEISS: Thank you.

MR. CONINE: I think if my count is correct, we have heard from four of the six firms. Are the other two firms represented in the audience? Would you just like to stand up and say Hi? If you want to come to the podium and speak, I have got to get you to fill out a form. I would be more than happy to let you do that.

MS. BEST: Good afternoon. I guess I am the David. So you know, I sat there and listened.

MR. CONINE: Would you tell us who you are?

MS. BEST: Oh, sure. My name is Carmen Best, and I am with Seibert Bernard Perchank [phonetic] and Company.

MR. CONINE: Thank you.

MS. BEST: And actually, I am new to the firm, but I bring a lot of experience in the public finance side. Actually, I ran the debt management program of the City of Houston. So I understand the importance of trying to establish the criteria that works in the best interests of the entity involved.

But at the same time, speaking from both sides, I do feel that sometimes you can limit yourself. But you want the best. So with all that being said, you establish the criteria that meets your goals. But at the same time, you have to add some diversity.

And I think your original pool did accomplish that. And three firms seemed appropriate for your Agency. I had some talks internally with we have brought on an experienced housing banker and so three firms seem appropriate, but that senior pool, you know, I guess my comment would be that is the pool that you need to try to establish some diversity as far as regional and small business enterprises. Because they will work with those large firms to help you meet your goals when you are selling the bond sale.

And overall, I think the criteria is sufficient. So I really didn't have a whole lot of comments. Just that you know, we would appreciate the opportunity to work with you guys and to continue that relationship.

MR. CONINE: Any questions?

(No response.)

MR. CONINE: Thank you. Would you mind filling out one of these little forms so I don't get in trouble with somebody?

MS. BEST: I have one. I just held on to it.

MR. CONINE: Thank you. Just hand it to Ms. Penny, and she will take care of it. Thank you very much. Anyone else? Guy?

MR. YANDEL: Hi Ms. Carrington, Board. My name is Guy Yandel. I am with George K. Baum, the sixth of your six senior managers. I just kind of want to take a moment, if I could, to just speak to the process.

MR. CONINE: Sure.

MR. YANDEL: You have had on your website the announcement that you were planning on making this change for I think over about two years now. I mean, it is not a surprise that you were anticipating changing your team from six to three.

As a result, we had many opportunities to share our visions and our strengths and our thoughts on which way we could best help TDHCA with your staff. Throughout that whole period, I think that they have always been open. They have always listened. And as a result of that, there were no surprises to me when the grading sheet came out about the criteria that were going to be emphasized for the selection process.

Now, I may have my own opinion as to what the weightings may be. I may have my own opinions as to how the different components measure up against each other. But I have had two years to make those positions known to your staff.

And I think that they have done a good job of homogenizing the viewpoints that they have gotten from all of your team to produce the document that they have produced right now. So if you have any questions for me, I would be happy to answer them.

MR. CONINE: Any questions?

(No response.)

MR. CONINE: If you too, would fill out a form.

MR. YANDEL: I would be happy to.

MR. CONINE: Thank you very much. We appreciate again, you being here, and your interest over the last several years that the Department has been doing these mortgage revenue bonds. Mr. Bogany?

MR. BOGANY: I have a question for the financial manager.

MR. CONINE: Mr. Machak?

MR. MACHAK: Gary Machak. RBC Dain Rauscher, financial advisor.

MR. BOGANY: Mr. Machak, what happens if we move forward and we pick three. We had six, and then we have about ten or twelve others. Does the three that we pick as senior managers, what happens to the other three, and the other people involved? Do they just go away? Do they become an advisory group? What happens with them? Do they have the ability to still do business with the State?

MR. MACHAK: They, in most cases, as well as I know investment bankers, they are going to be continued to bring ideas, and continue to work with the Department. They are still going to be involved. To the extent that they do bring some great ideas, they can be maybe considered for a co-senior manager position.

The senior manager pool that you are maybe putting together, that you are contemplating putting together is not forever. It could be changed at any time in the future. You can set a prospective date, or we can just say we'll review it at a certain amount of time.

So there is still going to be the ability for other firms, whether they are large or small, whether they are boutique or have some specialties to come to you with ideas that can save you money. Possibly get you into to do markets or to do better things for the State of Texas. We are not shutting the window on them.

MR. BOGANY: Okay.

MR. CONINE: The question is to process, though, I think. Either you or Byron can answer the question. We discussed in the Finance Committee meeting about doing the co-senior managers, I guess. Maybe even developing a new matrix for them, and doing that next month, and then having that the following month after that.

I don't know necessarily the process. But I would like to explore the specifics of that particular group. Have you thought about it since the Finance Committee meeting?

MR. JOHNSON: A little bit, yes sir. And I am thinking, as you mentioned earlier, those three firms we do not select would just be in the pool. And the firms that over the past three to four to five years have brought ideas to us, and have produced, I guess benefit for the Department will receive consideration.

And what we will do is just schedule out exactly what transaction or idea they brought to us. And of course, if they brought an idea to us that actually worked and was closed upon, that was executed, that would weigh greatly in our recommendation to you.

MR. CONINE: Let me ask the question in a little different way. Would the matrix look any different if you were going to pick three co-senior managers out of the 15 that are currently doing business with the Department?

MR. JOHNSON: I haven't given it that level of thought at this point.

MR. CONINE: My hunch is, it would.

MR. JOHNSON: It would be very similar, I would think. I agree with you.

MR. CONINE: And I guess, if I could feel comfortable that that would be and, Ms. Carrington, we haven't talked to this about anybody. I am thinking off the top of my head. What are your thoughts on that? Because if I could feel comfortable that that is the process we might go through to evaluate them, rather than being too subjective. I want to be as fair and as open with this thing as I possibly can.

MR. JOHNSON: That process would also, while being a little bit more subjective than the matrix we have, also promote the smaller and the minority firms and give them the opportunity to participate in the senior pool. I mean, if a firm with -- I don't know -- with a dollar in capital brought in an idea that generated a million dollars from a bootstrap program, then should we give them consideration? Maybe yes.

So for that analysis, I would say we could stray away from that matrix a little bit, and actually take a look at what their contribution has been, and kind of combine the two. That is kind of the way I think we are going.

MR. CONINE: Your thoughts, Ms. Carrington?

MS. CARRINGTON: I think there would be some differences if you decided to do the co-seniors and the rest of the team as a second step or a second part of this, that we would, as staff, need to think about it. And as Byron has indicated, I think there would be some factors that would be different than what you see on the seniors.

And we certainly could do it in a two step process. Come back to you all in March with the recommendations for the seniors. And then we could review in March the analysis, the spreadsheet, the format if you will, for reviewing the performance of the co-seniors and then approve those in April.

MR. CONINE: You guys okay with something like that?

(Chorus of yes.)

MR. CONINE: I think I could feel a little more, I guess, better about what we are doing here if that were to occur. I just for the record, I don't agree with the equal weighting, because I think some things are more important than others, especially when it comes to issues and firms such as important as these.

But I can sit here and monkey with this thing for the next hour, and I am not too sure, and do it off the top of my head. And I am not too sure that the win, place and show would come out any different. And so based on the way the thing has been built from the ground up.

And we have heard plenty of testimony today that everybody is pretty comfortable with having a couple of years dialogue, and a dog and pony show for a couple of years. That the process has been open and fair. So I am not going to monkey with it. I am going to leave it alone. Is there a motion? Do we have motion?

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: Any further discussion?

(No response.)

MR. CONINE: All in favor of item 4A on the agenda, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Thank you, Mr. Johnson. Good job.

MR. JOHNSON: Thank you, sir.

MS. CARRINGTON: Don't go too far, Mr. Johnson. The next item for the Board's consideration is preliminary approval of our next single-family mortgage revenue bond program. We are always working on that next program.

This one would be our 2005 Series A variable rate and then 2005 Series B variable rate and this would be program 62 for the Department. And you have a chart that shows you where these proceeds would be coming from. TDHCA's allocation under the '04 private activity cap was a little over $165 million and we issued part of that and then we also put the rest of it in convertible option bonds.

So you see $88 million, and that is the refunding of the convertible option bonds from 2004. And our bond description would be variable rate demand bonds on that. The second part of this transaction would be $12 million, which was refunding a personal paper. Both of the purposes would be to provide tax-exempt funds from below market interest rates. Mortgages, we do anticipate that this structure will also include a swap component.

We are recommending for this structure Bear Stearns to lead the transaction, and also for Bear Stearns to be in the role of the interest rate swap provider. The co-managers for this transaction would be Bank of America Securities, Loop Capitol Markets, Merrill Lynch, Morgan Keegan.

And at the bottom of page 3 in your board book, you do see a time line and estimated time line and table for the culmination of this transaction. So what we are asking for today is preliminary approval of this structure with this team for program 62A.

MR. CONINE: Questions?

MR. BOGANY: I have a question.

MR. CONINE: Sure.

MR. BOGANY: On the down payment assistance, is that 80 percent of median?

MS. CARRINGTON: Does this one even have down payment assistance? It doesn't have down payment assistance.

MR. BOGANY: Am I looking at the wrong thing?

MR. JOHNSON: This particular program, we were not going to include document assistance.

MR. BOGANY: Okay. But we don't know what the rate is going to be at all.

MR. JOHNSON: Once again, with respect to the program, we are targeting 4.99 percent. We are trying to achieve a sub-5 percent rate. So we are estimating it is going to be about 4.99 percent.

MR. BOGANY: Okay.

MR. CONINE: I assume we have representatives of the team?

MR. JOHNSON: Yes, sir.

MR. CONINE: Can I have a show by the wave of hands? Thank you. Is there a motion?

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: Do we need to reference a particular 62? The motion is to approve 62A. Is that right?

MS. CARRINGTON: Yes.

MR. CONINE: Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. 4C?

MS. CARRINGTON: The next item, 4C. Sort of switch gears. This is a market rate program and does not involve the issuance of bonds, tax-exempt or otherwise. This is a program that the Bond Finance Division of the Agency has been working on for probably two years. And in January of '04, a year ago, we presented the concept to the Board.

And basically, this market rate program would allow us to do two or three things that we currently cannot do with our tax-exempt programs. First of all, it could serve borrowers who were not first time homebuyers. It would also allow us to do some refinancings for borrowers who were in higher interest rate loans. It would also allow us to change maturity of loans. And we see this product achieving two or three priorities of the Department.

Many members of the Legislature and the Department are very concerned about the high incidence of sub-prime lending and predatory lending. So this would allow us to have a vehicle where we could address that in some markets around the State.

We have also been working with the Governor's Office on some initiatives for military housing. If we had this product available, then we certainly could be making loans out of this product for military personnel who may very well not be first time homebuyers. The Governor's Office, we have been working very closely with in putting together some policy priorities. And this is one of the policy priorities we did put together for the Governor's Office.

And for the predatory lending part of this, we will be going down to census tract data to look at those census tracts around the state that have high incidences of predatory lending, and look to target lenders in those particular areas to see if we can't begin to address that problem in Texas. It is Citimortgage that we have been working with on this transaction. They would be confirming first lien mortgage purchase loans at basically market level interest rates.

What would make this competitive with other market rate programs out there was that there would be 6 percent down payment assistance on these loans, or available on these loans. On pages 1 and 2 in your board book, we do have the draft term sheet for this program. And what we would be looking at, starting out with, would be 22.5 --

MR. JOHNSON: $22.5 million.

MS. CARRINGTON: $22.5 million, okay, would be the amount that we would be starting out with, with this program. And we are requesting your approval.

MR. BOGANY: What is the interest rate on that?

MR. JOHNSON: That is one of the features of the program, working with Citimortgage. Eric Pike and myself, who is the Director of single-family finance production, and possibly Sue Cavasos will get together and work with Citigroup on pricing the product based on market rates. We will actually be using a rate sheet and determining what level of I guess premium or discount to the market we would want to set the rates at.

MR. BOGANY: Do the people have to pay the 6 percent back?

MR. JOHNSON: There is a second lien mortgage.

MR. BOGANY: So do they have to pay it, or is it just --

MR. JOHNSON: Yes. That is amortizing mortgage.

MR. BOGANY: And so as amortized, is there no interest or with interest or you haven't determined that?

MR. JOHNSON: It amortizes, I believe the last quote was 7 percent.

MR. BOGANY: Okay. So they would have their first, and then this $6,000 at 7 percent?

MR. JOHNSON: If it was a $100,000 mortgage, yes.

MR. BOGANY: Okay. And Edwina said that you are going to target sub-prime areas. Are you saying that you are going to try to re-finance people under this program who have sub-prime loans?

MR. JOHNSON: We are going to try to identify those borrowers and re-finance them out of higher interest rate loans. One problem we may encounter is that some of those higher interest rate loans may have a prepayment component.

MR. BOGANY: They all do.

MR. JOHNSON: So we will be looking at that, in terms of do we have another source of funds we can use to maybe combine with this first lien refinancing. Now, the second lien would not be available for the refinancing component. It would be available for the purchase component.

MR. BOGANY: Okay.

MR. JOHNSON: But we might be able to come up with something internally to try to help folks with the prepayment penalties.

MR. BOGANY: And I guess my last question, what would be the income limits on this program?

MR. JOHNSON: Currently, there are none. We can set the income limits at whatever level, or the Board may set the income limits at whatever level you deem appropriate.

One of the other initiatives of this program was to serve moderate income Texans, I think, single-family production has been working with the Texas Association of Realtors and they did express that sometimes the income limits may not work with them in certain areas. And so this would be another shall we say cafeteria style product that they could come to and use for those type of problems.

MR. BOGANY: Okay. And my last question, as I am reading the draft program, you can do adjustable rates with this also ARMs could be done with this programs?

MR. JOHNSON: Yes, sir.

MR. BOGANY: Okay. Well, I know in Houston, we truly don't have a program anymore. So we would love to have a program that we can put some people in houses. Because it has stopped the market dead in its tracks down there. So we would welcome something like this. It really would help.

MR. CONINE: This is preliminary. The idea would come back next month with the final?

MS. CARRINGTON: In the next month or so.

MR. JOHNSON: We wanted to ensure that the Board approved of the concept of the program before we went down the path of getting the legal documents done and whatnot. So I would say within 30 days, the next board meeting, we should be at that point.

MR. CONINE: Okay.

MS. CARRINGTON: Would the Board like staff to recommend some income limits for your all's consideration as we work on the documents, or would the Board like to give us some direction on what you all believe those income limits should be.

MR. CONINE: Well, I see a category, top of page 2, second or third bullet there that creates a couple of parameters.

MS. CARRINGTON: On FHA loans.

MR. CONINE: 115 on FHA loans and conventional first would be 120.

MR. JOHNSON: I believe we put that in there as a suggestion or recommendation. But the program itself doesn't have those restrictions. Is Danny Gardner here?

MR. GARDNER: I am.

MR. JOHNSON: Danny is with Citimortgage. And I think he can confirm that we can set the income limits at whatever levels we wish.

MR. BOGANY: Can I ask you a question real quick?

MR. GARDNER: My name is Danny Gardner, Vice-President of Special Programs with Citimortgage.

MR. BOGANY: Danny, my question to you in regards to the 115 and 120. If you are talking about going into the target census tracts, and areas that the City is trying to revitalize and get people in, in this type of program in the past have you guys recommended limits?

Because if I am buying in an area of the City, and I just happen to make more money than the typical person makes, I would like to have some incentive to go into that area to be able to help revitalize. So if I am making $80,000 a year, I would not want to be shut out of this program when I am taking on risks and going into an area of high crime or whatever.

MR. GARDNER: I understand. Actually, for a point of clarification to the proposal, we have proposed this program subject to FHA and Fannie Mae guidelines. The Fannie Mae guideline is a term of their products called My Community Mortgage. That actually does include an income limitation of 120 percent. However, per the conversation that you had just brought up, there is also a caveat in Fannie Mae called Fannie [phonetic] Neighbors. So in areas such that you are suggesting, they tend to be within metropolitan areas. You may go into those areas, and exceed those income limits. Essentially, there is no limit established by Fannie Mae, should you choose to buy a home in that area.

MR. BOGANY: Okay. Is it a price limit on a house?

MR. GARDNER: Well, no sir. It would be a price limit on the loan amount, pursuant to Fannie Mae conforming loan guidelines. But we would be able, actually in the same vein as going outside of a tax-exempt bond issue. We could also help develop other products that we could exceed that loan limit should it be necessary in certain markets.

MR. CONINE: Any other questions of either of these two gentleman or Ms. Carrington?

MS. CARRINGTON: May Ms. Carrington comment.

MR. CONINE: She may, please.

MS. CARRINGTON: We are really very excited about this program. I would like to congratulate Mr. Johnson. He had worked on it for quite a while with not a whole lot attention to it, and then over the last two or three months, we said: you know, this really does add another product that would be of great value to the Department and does, we believe, begin to address some of the issues that we have, and the Legislature has. So we are very excited about it.

MR. CONINE: Do I have a motion or not? I don't remember whether I do. I don't think I do.

MR. GONZALEZ: So moved.

MR. BOGANY: Second.

MR. CONINE: There is a motion by Mr. Gonzalez. Second by Mr. Bogany to approve item 4C. Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. If I could mention to the Board, the staff, in their wonderful concern about our physical well-being has brought in some sandwiches over here. So if you guys get hungry, go grab a quick bite to eat as we progress through the rest of this meeting. I just want to make sure you knew it was over there. Item 4D please.

MS. CARRINGTON: 4D, we are asking you to approve a resolution 05012 that would extend the certificate purchase period for our single-family mortgage residential revenue bond program 59. Right now, the purchase certificate period will terminate on April 1 of

'05.

And we are requesting an extension to May 1 of 2006. And we are have provided you a chart that shows how much we have loaned, how much is left. And we do believe that this extension will allow our lenders to originate all the proceeds.

MR. CONINE: Is there a motion to extend program 59, I believe?

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: And a second? Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 2E please. 4E, excuse me.

MS. CARRINGTON: The next item for the Board's consideration is the approval of the first quarter investment report. And this is when I get to say here comes Mr. Dally.

MR. CONINE: Oh, boy. The question I always like to ask Mr. Dally, is do we have any money in the bank?

MS. CARRINGTON: And he can answer that question for you, Mr. Conine. And tell you how much cash and how much securities.

MR. DALLY: Good afternoon, Mr. Conine, Board members, Ms. Carrington. There is a cue card here that says I need to work 50 into my script. And I believe I do have that instance in my investment report. I am going to go ahead and depart from some of the dry statistics, because I think it is relevant to talk about a big picture view of this set of investments.

We had a hearing last week in Senate Finance, and the topic of funds outside the Treasury came up. And the LBB had put request to us to see what were our funds outside of Treasury? What fees did we have related to our housing programs that were outside Treasury? And that figure, once we put that together dwarfed the appropriations.

To put that in context, when you took our balance sheet of our cumulative bond issuances and then the issuances of about $160 million in single-family and well over 100 in multi-family each year, and put that in a biennium, it amounted to 88 percent. It was $2.3 billion. Our appropriations for the next two years are $328 million. So that is 12 percent, whereas what we borrow in the market, in the private market far exceeds it.

We are still in the process of kind of educating the Committee and bringing information to them as they request it. But I wanted to lay out that our appropriations for housing programs are $60 million each year, within the appropriation. And that, if you subtract the $10 million in Section 8, that leaves you about $50 million in HOME funds and Trust Fund funds to develop housing.

On the opposite of that, we are out there borrowing $160 million each year for single-family mortgages and then borrowing money for multi-family mortgages. Well, that is coming from a private market. The other thing I want to say is, this is debt that is not debt to the State. It is an advantage to the State that we are able to go out under our statute and borrow private capital and the sole repayment of those borrowings have to come from those assets and revenues that are associated with that borrowing.

And I think that is a huge advantage, given that our appropriations are fairly small. But to address our housing needs, we have a larger. But now to get to the 50. The good news, on our mortgage purchases in this last quarter, is we had $53 million in mortgage backed securities. Last quarter, it was $51 million. Previous to that, the four quarters before that, in sum, it was only about $71 million. And I think we have come to you with issues of we needed to buy down some rates and get competitive and based on these results, it looks like we have.

But that $1.4 billion, that got Senate Finance's attention of our investments that is outside of Treasury; we went out and borrowed that in the private market. And the other thing I want to add is our statute very specifically states how our funds and where they are to be deposited. And our statute currently reads those funds are appropriately in the Treasury, and those funds that we raise on the private markets or with third party trustees are with Safekeeping Trust Company within a trust indenture.

And that, I just kind of wanted to get a big picture view. The other thing I want to say is this set of investments is completely a byproduct of bond financings. The GIC rates that we have got in there, the rates that we find in the market when we are out there price, that is what the rates are in this portfolio. The mortgage backed security passthrough rates are as we have issued over the years, what those rates were in the market.

So it is not an investment portfolio that we buy and sell and trade or whatever. It is a byproduct of the bond financings. The cash flows are built to work and pay off the debt. The other thing, I think to remember is that when you look at appropriations and the appropriation process -- and maybe why this hasn't been part of it in the past -- is that appropriations looks at a two year window, and some sum certain funds.

What we do is create a balance sheet of obligations that are going to go out 20 and 30 years. And so the sets of assets and those obligations kind of dwarf what might be appropriations in any one biennium. Any questions?

MR. CONINE: Any questions?

MS. CARRINGTON: What Bill has so succinctly explained to you all is something that we have really been struggling with over the last month or so. In finding some terminology that explains to the Legislature what we do. I mean, sometimes we think, well gosh. Don't they know that we issue bonds?

But when the first thing they see is that we have $2.3 billion that is outside the Treasury, then they of course are thinking, how can we get that. You know, how can we capture that.

And our first up at Senate Finance before the session started, we sort of stumbled on the answer. We have been working on it, and think now that we have an explanation that will work very well. And hopefully, they will begin to understand a little bit more about our business.

MR. CONINE: Anything? Do we need a little action to approve your investment report? Is this an action item for us?

MR. DALLY: It is a report item, yes. Typically you approve.

MR. CONINE: Can I get a motion?

MR. GONZALEZ: So moved.

MR. BOGANY: Second.

MR. CONINE: And a second. Any further discussion for Mr. Dally?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MR. DALLY: Thank you.

MR. CONINE: Thank you. Good job. The new big man on campus. Item 4F.

MS. CARRINGTON: The next item for the Board's consideration is to review the investment policy. There is a requirement that you all review this investment policy annually, and to approve any amendments. We had submitted a copy of the investment policy to you.

There were, I don't believe we made any amendments or any material changes to this policy. And so we want to comply with the Public Funds Investment Act that requires you to do this on an annual basis. Yes, Mr. Johnson?

MR. JOHNSON: We only made one change, not that material. Under scope, we added a statement that we created and adopted a separate interest rate swap policy. And for guidance, regarding the use of management of interest rate swaps.

MS. CARRINGTON: Thank you.

MR. CONINE: You just keep at it, don't you? Do I hear a motion?

MR. GONZALEZ: So moved.

MR. CONINE: Second, anyone?

MR. SALINAS: Second.

MR. CONINE: There we go. Okay. Motion to approve the TDHCA Investment Policy. Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. You are done, Mr. Johnson.

MR. JOHNSON: Thank you, sir.

MR. CONINE: Item five is the report from the Programs Committee. And we did meet this morning, and have discussion regarding an SOP on a new asset management committee. And I will let Ms. Carrington relay the information to the full board.

MS. CARRINGTON: We created, back last fall, we created an ad hoc committee that involves multiple divisions of the agency that are all involved in either the awarding of funds to applicants, the Legal Services area. The Real Estate Analysis division and Portfolio Management and Compliance. It is work that we were doing within the Agency, the work being monitoring assets to determine, to look for signs that might mean that the asset is in trouble.

That might be foreclosure. That might be tax liens. And so we have formalized this process, and we have a standard operating procedure in your board book. And Tim Irvine was elected unanimously by the group as the Chair of that committee.

And of course, what they look to do is those early warning signs on transactions that have the highest risk to the Agency, and those would be ones that were funded with HOME funds while we were the first lien lenders. So this was an informational item for the Board.

MR. CONINE: No approval needed? No approval needed. Okay. Moving on to item 6A, the final adoption of the Housing Trust Fund rule amendment to Section 51.5. Ms. Carrington? I tried to drag it out as long as I could, to get you a chance to chew on it some.

MS. CARRINGTON: Thank you, sir. On November 12 of last year, the Board approved, with some amendments the 2005 Housing Trust Fund rules. You also approved an additional amendment that was posted to the Texas Register and was made available for public comment. No public comment was received regarding the change to this rule. We have included the language for you. It was a section under eligible activities. So we were just very specific about what Housing Trust Fund money could be used for. And we are recommending the final adoption of the amended language.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: Motion and second on the final adoption of Housing Trust Fund rule amendment to Section 51.5. Any further discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed? Nay. The motion carries. And for the record, Mr. Gordon is getting ready to leave the room. Have a safe trip home. Thanks for being here.

(Whereupon, Mr. Gordon left the meeting.)

MR. CONINE: Item 6B.

MS. CARRINGTON: I have got to get you a quorum. Hold on.

MR. CONINE: Time out for a quorum break.

(Whereupon, a short recess was taken.)

MR. CONINE: We now have Mr. Gonzalez back in the room, and we are back to a quorum. And item 6B please.

MR. GONZALEZ: Sorry about that.

MS. CARRINGTON: The item before the Board for their consideration is forgiveness of the repayment of a Housing Trust Fund predevelopment loan. And actually, in the writeup, we are requesting that the Board approve a portion of the loan to be forgiven. And then also demand payment on a portion of the loan.

On the second page of the writeup, we are recommending that you grant forgiveness in the amount of $22,207 to Accessible Communities, Inc., for Phase Two of the development, because Phase Two was not able to move forward. So it has typically been our procedure with Housing Trust Fund that if we fund them for predevelopment loan and the development does not move forward, that you forgive that. They were able, however, to get the first phase done.

And so we were not requesting or we were not recommending forgiveness of the whole Trust Fund loan, but only a portion of it. And then we would still be demanding payment on the $10,080 that is left, because that was attributable to Phase One. And Phase One was actually completed. And this was, this loan or this line was to Accessible Communities, Inc., which is a group that is located in Corpus Christi.

MR. CONINE: We have some public comment on this particular agenda item. Judy Telge? Thank goodness I didn't butcher it too bad.

MS. TELGE: I am Judy Telge, and I am Executive Director of Accessible Communities, Inc. It is now d/b/a Coastal Garden Center for Independent Living. I want to say that I appreciate the opportunity to plead my case, beg forgiveness, whatever the appropriate term is, in requesting forgiveness of this loan. And I appreciate the staff that has worked with us quite thoroughly in trying to work out some kind of a situation that is agreeable to everyone. We would like to request forgiveness of the $10,000. And our reason for that is, basically, we don't feel that that Phase One was ever completed. And it was because we did build it. We did renovate it with both city money, as well as predevelopment loan money. However, we received a federal grant in 2002, it was the Center for Independent Living, and that precludes us from doing any managing of housing. We can't do any residential activities. So it was basically a choice between either offering housing for very low income people coming out of nursing homes or closing the doors, as far as operating. So our choice had to be to be to basically look for another non-profit to take over that housing activity. There was none that was interested. We had to create one. One has been created. It is in the process of getting its 501(c)(3) and hopefully, within the next month, it will be receiving that 501(c)(3) designation. The only way that could be paid back would be from revenue generated by those transitional units. So there is no way to do that at this particular point in time.

MR. CONINE: Any questions?

MR. BOGANY: I have a real quick question. Are you saying that you received a federal grant, and the federal grant that you received said that you could not manage housing?

MS. TELGE: Right. This is a federal grant under the Department of Education Rehab Services at for Centers for Independent Living. You cannot do residential.

MR. BOGANY: Okay. I have a question.

MS. TELGE: And we didn't know that. We did not know that when we applied for them.

MR. BOGANY: Okay. That goes along with my question. Why would you accept that grant, if you knew you were in a housing project that you were trying to complete, and then you get involved, and you kind of get kicked out. And I guess my thought would be, what was more important? Trying to get this project complete, or getting that housing education grant that you got?

Because now you are asking us to forgive you for the $10,000. But our project was first and less completed. And I am just trying to get some sort of sense of understanding why should we forgive it when somebody had to read the rules of it, and the qualifications for that grant money.

MS. TELGE: Well, I guess if you were faced with a choice of accepting $1 million over five years and $32,000 payback in a two year period --

MR. BOGANY: And I don't have a problem with that. But can't you pay that out of that million dollars, pay our ten back.

MS. TELGE: No.

MR. BOGANY: Why not?

MS. TELGE: Because we are precluded from doing anything with residential activity.

MR. BOGANY: Okay.

MS. TELGE: However, the new organization that we created, and it has taken two years to do such can't.

MR. BOGANY: Okay. All right.

MS. TELGE: Once it is up and running.

MR. CONINE: Ms. Carrington, did we look at maybe an assignment of the ten back to the new entity and maybe granting them a little more time so that the matching of cash flows coming in and the repayment of the ten would be a little more aligned than what it currently is?

MS. CARRINGTON: Who in my staff would be appropriate to answer this? Ms. Boston?

MS. BOSTON: Brooke Boston. Director of Multi-family Finance. This is all new information. David and I were just like, this is the first we have heard of this. We could definitely table it, if you would like to revisit it, so we can look at that a little bit more.

I would just like to point out however, that I mean, they got an award of HOME funds from the City for these two units, and that funded the rehabilitation. And so the predevelopment costs should have been requested and reimbursed at that point, regardless of this other federal grant coming in.

MR. CONINE: Do I hear a motion?

MR. BOGANY: I move that we table.

MR. CONINE: Table 6B. Is there a second.

MR. GONZALEZ: Second.

MR. CONINE: Motion to table on the floor. All those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 6C? And we I guess, tabled to next month's meeting, so you guys can work this out a little further.

MS. CARRINGTON: For your Board's consideration, approval of contract amendments on contract amendments for the States of Bridgeport Phases One and Two. There is actually three actions that are being requested of the Board this afternoon. The first is to increase their -- they have a HOME CHDO award. These phases have a HOME CHDO award previously, and also a Housing Trust Fund award.

And so what they are coming back to us is requesting additional funding in the amount of $183,000, both from the same entity, Affordable Housing of Parker County. The first request that the staff is recommending is to increase the HOME CHDO funds by $91,707. The second item is to increase the Housing Trust Funds by $92,174. And then, this one also has a component of a payback and also a forgiveness.

And what we are saying is that we are requesting a payback, a repayment of $40,000 on the Housing Trust Fund and to forgive $10,000 in predevelopment on the Housing Trust Fund. And the rationale for the $10,000 was that the development did not move forward on the site that had been planned, and that was out of the control of the Affordable Housing of Parker County.

MR. SALINAS: I move for the recommendation.

MR. BOGANY: Second.

MR. CONINE: Motion and a second to move the staff recommendation on this item. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item 6D.

MS. CARRINGTON: E.

MR. CONINE: E? Oh you did them both. Excuse me.

MS. CARRINGTON: Yes.

MR. CONINE: Going to 6E.

MS. CARRINGTON: Yes. 6E. This is for a new award, and this would be an award of HOME funds that would come out of the CHDO set-aside. And it would be for rental housing development. You will remember that we have had an open NOFA, Notification of Funding Availability that has been available for quite some time on our website.

This application did come in as a result of that open NOFA. The entity is located here in Austin. This would be to develop, the entity is the Community Partnerships for the Homeless. And actually, the Board looked at this maybe about a year and a half ago, two years ago. The concept was presented to us. It was not funded.

And so they have come back. And we are recommending. It is 30 units of single-family rental housing, and it is targeted to very low income single heads of households and persons with disabilities who were formerly homeless.

So a very specific kind of population that this would be serving. And what staff is recommending is $1.5

million out of the HOME CHDO funds and then also $144,000 in CHDO operating expense funds that would be available to the community partnership for the homeless for this particular transaction.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: There is a motion and a second to approve. And we have several witness affirmation forms. The Army is here to talk to us, if they need be. Tom Stacy, David Stallcup, Laura Russell, Jennifer Rowell, and Larry Schramm. Anyone want to come speak? Come on, Tom.

MR. STACY: Chairman, thank you all for letting us come see you again. As you mentioned, we were here one or two years ago. It seems like it has been a long time. We have been working every day on this project, and kind of got all the deficiencies that the Board and staff pointed out to us before, and this is a very important project for the community.

And we are very pleased to be able to be recommended for this. And we want you to know it has our full attention, and it is an important project, and we appreciate your looking at it. And we have enjoyed working with staff. And I look forward to working with them on some of the finality of the budgets that they have pointed out with us. But we appreciate your diligence and I ask you that you approve it today.

MR. CONINE: You enjoy working with all of our staff?

MR. STACY: Every single one of them.'

MR. CONINE: Motion to approve. Any further discussion? Anybody else want to speak? Oh, I am sorry. Okay. Who is next? David Stallcup.

MR. STALLCUP: That is me. Hello, my name is David Stallcup and I live in the Commonwood West Subdivision, a subdivision that is adjacent to the land that Cottage Community purchased in July 2003. On October 9, 2003, the TDHCA Board denied an appeal by Cottage Community to grant them requested funds. It is my sincere hope that the TDHCA Board again denies any funding to Cottage Community today.

First and foremost, I believe in helping people, no matter what form it takes, I believe that it is in our best interest to help those not as fortunate as us. I believe that the current program of housing homeless veterans that Cottage Community maintains is indeed a noble effort. But I also believe that this new venture is a very misguided one as best.

A few other things that I believe. I believe that if a company buys land on the cheap, then there is the definite possibility that that same company will find other financial shortcuts as well, I believe that there are more cons than pros on this project, as is stated in the application listed in today's board book.

I believe that if Cottage Community had informed the Austin City Council that they had bought the land with Stratos Property monies, the City Council would not have been so hasty to grant them their variance request, given the contentious history the City Council has had with Stratos Properties.

I believe that a certain perception can be created if an individual promises in writing to give monies to a company and then becomes the TDHCA case representative for that company. I believe that if a company includes as asset in their list of asset that is not yet a firm asset, and that they are counting on any assets before they have them firm, well, that sounds to me like a financial house of cards that would easily collapse in a stiff breeze.

I believe that I don't want Stratos Properties or Cottage Community building anything on that property. I believe there is a better, more suitable piece of property just two blocks north on Dessau. One that is A, bordered on two sides by two very wide streets, making it easier to plan a community that doesn't involve a one way circular 15 foot wide street, B, is flatter and contains fewer trees to cut down. C, is much closer to the nearest Capitol Metro bus stop, and D, is located at what has historically been a much safer intersection than at the crash prone area that they are currently planning to build on.

I don't believe that Cottage Community would risk creating a street that intersects with Dessau at a downhill blind curve section of a high speed road adjacent to a bridge. And I don't believe that just because the City government labels this as smart housing, makes it smart in the way you or I would define the word. I believe that it is not S as in safe. And there is very little T as in transportation to speak of. So this project will simply mar the landscape.

And that is the biggest point I want to make, the biggest impression I want to leave with you today. I believe that with all the traffic zooming on this particular stretch of Dessau, the mothers and children living in this planned community will not be safe. They will not be safe from the noise of the traffic, and they certainly will not be safe from any potential traffic accidents that might occur there.

There have been some very bad accidents at that particular place of Dessau in the past, and I would not want to put anyone in harm's way by having them live there, or god forbid, building a daycare at that very spot. I believe this is a recipe for disaster. I believe that I would hate to be right about this. I believe that my time is up. Thank you.

MR. CONINE: Thank you, Mr. Stallcup. Any questions for the witness?

(No response.)

MR. CONINE: Okay. Next, I think it is Laura Rowell? Let me make sure I get the name right. No, Lance. Excuse me. Boy did I mess that one up bad. I'm sorry about that.

MR. ROWELL: I've heard it before. My name is Lance Rowell. I also live in the Commonwood area, actually just three houses down from where they are planning to try to build this property. I just heard about it a couple of days ago, so I am going to try not to be too emotional or angry about it.

But the main point I would like to make about it, is that by building this there, it is going to totally destroy any property values that we have in that area. I have took a long time to try to be able to buy a good home for my family and two years ago, I found this neighborhood and moved into it, knowing that it was very nice. People there own their homes. They took good care of them, very good care.

It is a very nice neighborhood. A very nice middle class neighborhood. It may not be as nice as Westlake or something like that, but people if this happened there, they would call in the lawyers and have it stopped quick. But we don't have that kind of money, but it is nice.

So anyway, if this came about to be that this was built, these homes that would be in there, would be resided in by rental people. This is designed to be rental property. And no matter what study you look at, rental property is going to bring down the value of the community of that neighborhood.

The people who live there now own their homes, they take care of them. When you have rental properties, these are by nature transient people. They come in, they live there for awhile, they leave. It is designed to be that way. Those people would have absolutely no vested interest in their property. They are not going to take care of it. It is going to fall into ruin.

And by doing so, they are going to be part of our neighborhood. And when that happens, our neighborhood is going to go down as well. So we are going to lose all this. I tried to build some equity, tried to build a home for my family. Maybe I won't live there forever until too long, but I want to be able to use that property to maybe even get something even better.

If this happens, I will lose all that. It is all gone. Trashed all the equity that I could possibly have in that property, and along with everybody else in this neighborhood.

So like I said, I'm trying not to be personal about it, but this I have an eight month old son that I want to raise in this neighborhood. It is a lot of reason I moved there. Because it is a nice neighborhood, and I wanted to raise him there.

So if this comes about, I will have to move. Because I am not going to raise him in that neighborhood with this travesty of a dog that goes into place there. I can't let him live there. I'll have to move.

So I hope that you will take into account the other people in the neighborhood, our values, of the property and please consider that when you sit and decide what you are going to decide. Thank you very much.

MR. CONINE: Any questions?

(No response.)

MR. CONINE: Thank you. Jennifer Rowell?

MR. ROWELL: That is my wife. She had to get back to work. But I think she would agree.

MR. CONINE: Thank you. And Larry Schramm?

MR. SCHRAMM: Hi. My name is Larry Schramm. I am the president of Commonwood Homeowners Association. It is difficult to approach a project like this for all of its obvious good things that it is attempting to do. We do have a few questions.

The lack of experience of the Cottage Community organization in running a project like this. This is not like placing a few homeless veterans in single homes throughout various neighborhoods. This is bringing in a complete development that backs right up onto our neighborhood. We have a lot of questions about traffic safety that David raised.

We have questions about the proposed child care center that is in this, and what the traffic patterns will be through our neighborhood. The only way in and out of this is either down Dessau, which as we have stated is, we think it is probably an unsafe place to enter and exit. The alternative is up and down our main street, which is not really designed to have an extra 150 trips a day.

We have questions about the property value. A question that Lance raised. And there is questions about you know, the viability of building middle class communities east of I-35, which is this is one of the first ones in a long time. We built there.

As soon as they built it -- the community is three to five years old. As soon as it was built, there was a restricted income senior housing apartment complex put directly west of us, and now we are going to put a restricted income housing project directly east of us.

I would think that this would probably discourage anyone else from buying middle class housing east of I-35, just in view of what will probably happen to you. Those are pretty much our objections. Thank you for your time.

MR. CONINE: Any questions of Mr. Schramm?

(No response.)

MR. CONINE: Thank you. Okay, I recall that there is a motion to approve on the floor with a second. Any further discussion?

MR. BOGANY: I have a question.

MR. CONINE: Mr. Bogany.

MR. BOGANY: I have a question of Mr. Stacy, if he could come back up. I guess one of the questions that came up with one of the previous speakers was about long term stability of this particular project, and your experience of managing it. What kind of management setup?

A lot of these tax credits programs, they may have -- see what word I want to use -- they may have people do background checks on the people that are coming in. What is the management style? Give me a little bit more idea how this community is going to what you picture in this community.

MR. STACY: Sure. The purpose of the community is to find housing for single head of household families. To be a single mom raising children, single dad raising children, or grandparent raising grandchildren; so that is the population. The population that we have the most experience with is a much tougher population to manage from a purely daily management standpoint, and that is the formerly homeless Texas veterans.

These folks, their families will be living in this. We have a handbook with us, in fact, that has the criteria for the families to live there. They have to be between 30 and 50 percent of the median income. Other criteria that has to be met, there are rules and regulations they have to meet as far as the way they conduct themselves in the community.

It is designed to have a real neighborhood community for children to grow up in, where normally otherwise they would not. We will have on-site management of the project. We have a lot of experience in that, where we received, for instance, the Met Life award, one of three non-profits in the United States that have received the Met Life award this year.

We have got a stellar record of achievement with HUD, VA, all of various funding sources and we have a lot of experience in dealing with very difficult populations. This is a great opportunity to provide some housing for single head of household families that work in town and don't have to live in Hutto or Taylor and want to work in town.

I can answer some more specific questions. But in fact, we have our information in our handbook with us today, as far as the qualifications to get in; the way they have to conduct themselves, no alcohol, drugs. All the things that we are going to be watching out for, and if they violate the rules of the project, they will be in default of their lease and will have to leave.

MR. BOGANY: Okay.

MR. CONINE: Mr. Stacy, these are 30 single family residences, is that correct?

MR. STACY: That is correct.

MR. CONINE: It is not one building with 30 units in it. It is 30 individual homes.

MR. STACY: Right. Single-family homes.

MR. CONINE: Single-family.

MR. BOGANY: He mentioned about the traffic in that area. What is your thoughts on the traffic patterns right there at that corner?

MR. STACY: We have had meetings with the neighborhood in the past, and talked about the entire project. We enter through the neighborhood, and also have the option to exit on Dessau if we choose to, from the daycare.

But the traffic meets the guidelines of all the governmental agencies, the city and the county. And we meet that criteria, and we don't think that is an issue.

MR. BOGANY: And the people that you are proposing that is going to live here, those single families, do you propose they are coming from other areas that move here, or are they already in the community and they just need an affordable place to live?

MR. STACY: Yes. They are already in the community. There may be some that come from other areas, but there is a huge demand within our community. People that are working here now and need a place to live that is close enough in and most of them work in towards the center of the City.

And we think that there is a huge demand for the people that are already here. Not to say that there might not be others that come from another area and would be able to have housing here as well.

MR. BOGANY: And it is going to be single-family with their garages, houses?

MR. STACY: They are single unit houses. It is in a community that has parking alongside the house, and also some designated parking areas. There are not garages. They park beside the home. They have a backyard.

And that is what we are trying to do. Create a pedestrian friendly neighborhood that has sidewalks, and people walk. And it is a typical neighborhood and we in fact believe that certainly property values will not decrease. We think that they will actually increase because of the quality of the workmanship and the design that we have planned to do.

As you can see that Allison is holding up, it is a beautiful development. It is as pretty as the neighborhood, and that is why. We want it to blend in with the neighborhood and enhance values of the neighborhood. Tom Hatch is the architect that has a long experience in developing single-family units of this nature. He did McKinney Falls for LCRA. Great architect.

MR. BOGANY: So you are hoping, and they look really nice. But I guess my question is, you are hoping they just blend into the neighborhood? Just another section of that particular area?

MR. STACY: It is another section of that neighborhood. We particularly don't want them to feel isolated, even as an apartment complex. It will be, we really and truly are as attractive as any home in the neighborhood.

MR. BOGANY: Okay. Thank you.

MR. STACY: And the neighborhood is very attractive.

MR. SALINAS: The City has given you its blessing on this?

MR. STACY: It has. We have. We have funding from them for about $500,000, not in hand, but once we get the very last piece after this. We have raised, we have about a half million dollars from Federal Home Loan Bank in Atlanta. Other sources of that nature. The City is in full support of the project. And in fact, we had a previous mayor here to speak at another meeting with us.

MR. CONINE: Any other questions?

MR. SALINAS: How much is every house? What is the cost of each house?

MR. STACY: The project is about $4 million for the 30 units and the childcare.

MR. SALINAS: That's a pretty expensive project. How much?

MR. STACY: The cost of each home, I think the true construction costs, we have gotten that down to $85, in that range for the hard construction costs. There are a lot of development costs for the site. The site is very interesting. It does have trees and it has a creek in one area of it.

MR. SALINAS: So it is the cost for the development and building the home.

MR. STACY: The $4 million is the complete, that's all in cost. Soft, development of the land, the streets, the concrete streets. There will be low maintenance streets.

MR. SALINAS: And of course, the houses.

MR. STACY: And the houses. That is correct.

MR. SALINAS: Okay.

MS. CARRINGTON: Mayor, in our underwriting report, the total cost per unit, and that does include site works on cost is $116,955. $117,000 per house.

MR. BOGANY: And the neighborhood that you are building in, what is the market value over there? Do you have any idea?

MR. STACY: I would say in the area right next to us, any maybe some of the neighbors may speak to that, I would say 130 to 160 range, 170 range.

MR. CONINE: Any further questions?

(No response.)

MR. CONINE: If not, we'll call the question. All those in favor of the motion, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MR. STACY: Thank you very much. Thanks.

MR. CONINE: Item 6F.

MS. CARRINGTON: The last item on this programmatic agenda is to approve three 2004 HOME awards for tenant based rental assistance under the Olmstead set-aside. And these three awards will total $749,372. As you know, this has been under an open NOFA also.

And we have funded several tenant based rental assistance awards. We have three more that we are requesting. And then this will be the end of this. We will be rolling these '04 HOME funds into the application cycle for '05.

On the second page of your board summary, this all for tenant based rental assistance, so that is the two year rental assistance for families and individuals with disabilities. That is what the Olmstead set-aside had to be about, and there are eleven units proposed for Hidalgo and Cameron Counties. Three units for Dallas, and then one for the Lubbock area.

And it is $749,372 in actually project funds and then a total of $44,962 in admin funds. And if the Board approves these today there will be a balance of about $1.1 million that was left out of this Olmstead HOME set-aside, and we will be rolling that into the '05 HOME single-family cycle.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: Motion and a second. Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. We go on to item 7A. The audit committee didn't have a chance to meet this morning, and this will be 7A is the board resolutions related to the Audit Committee responsibilities and possible approval of additional resolutions. Ms. Carrington, or Mr. Gaines? You are up.

MS. CARRINGTON: Mr. Gaines?

MR. GAINES: Good afternoon, Mr. Chair, members of the Board, Ms. Carrington. I know it has been a real long day today, especially for those of you that started at House Appropriations at 7:00 this morning, so I will try to be brief. Having said that, Mr. Chair, if I am too fast for you, or if I need to speak up, please let me know.

MR. CONINE: I will be glad to do that. I am getting a little older here.

MR. GAINES: Before I begin, I would like to first introduce Lori Lopez. She is the newest member of our audit team. Lori, wave to everybody. Lori came with us. She just graduated from University of Texas San

Antonio. She is planning on taking her CPA exam in the short future, if she hasn't changed her mind in the last couple of months.

We are real excited to have her. And I know after I have worked with her a little bit, she has a lot to say and if I can just get her to speak up a little bit, everyone else will know too. So glad to have you, Lori. And with that, let's go on.

MR. CONINE: Are you breathing a little better now that you have got that filter on your nose? Go ahead.

MR. GAINES: I'll save the story for that until later. First agenda item, behind 7A, is the discussion of board resolutions. These are board resolutions relating to the responsibilities of the audit committee. The original resolutions were passed in March of '97. And there are some proposed changes to those.

I won't really go into the original resolutions and those responsibilities, but I will touch on changes to those. Our proposed amendments to those resolutions. They relate to an Executive Order released by the Governor's Office in June of 2004. The Executive Order requires that agencies develop a program to prevent, detect, eliminate fraud, waste and abuse.

And that at a minimum, this program incorporate components developed by a workgroup that was assigned by the Governor's Office. The workgroup identified three component areas. One of those areas being establishing an appropriate oversight process, which would include establishing systematic and periodic process by which the Audit Committee evaluates the management's efforts in developing this program.

Proposed resolutions relate to the responsibilities associated with this Executive Order. They are highlighted there in front of you. Specifically, it is for the Audit Committee to systematically and periodically evaluate management's identification of risk, implementation of prevention and detection measures, and the creation of an appropriate tone at the top for appropriate control culture within the Department.

The proposed resolutions also deletes the requirement that the Committee meet at least three times annually, and instead will meet as needed, as called for by the Chairperson, the Board Chairperson, Committee Chairperson or the Executive Director. And with that, I would be glad to answer any questions. Otherwise, it is up before the Board for approval.

MR. BOGANY: So moved.

MR. GONZALEZ: Second.

MR. CONINE: Motion and second to approve the Board resolutions regarding the Audit Committee. Mr. Bogany, are you ready to take these on?

MR. BOGANY: Uh-huh.

MR. CONINE: Okay. All those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries.

MR. GAINES: Tab 7B relates to the Internal Audit charter. And my purpose today is just to make the Board aware of this. It has been a couple of years since it has been brought up. It defines the responsibilities of the Internal Audit Division and the authority of the Division. I can go into those responsibilities.

We have been through this. You have been privy to this before. I would be glad to go in to elaborate, or if it is the pleasure of the Board and if you are fairly familiar with the charter, I will just encourage you to acknowledge your awareness and confirm that you are satisfied with that.

MR. GONZALEZ: Motion to approve.

MR. CONINE: Motion to reconfirm.

MR. BOGANY: Second.

MR. CONINE: Any discussion?

(No response.)

MR. CONINE: Seeing none, all those in favor, signify by saying aye.

(Chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: The motion carries. Item C.

MR. GAINES: This item is a series of report items that has resulted from the Department's most recent financial statement opinion audits of the Department. Mr. Bogany and I met this morning with the managing auditor in charge of this project, Tracey Guidry with Deloitte and Touche spent a few minutes with us, in summary.

The financial statements are for the Department's financial statements as a whole, and for the Revenue Bond Funds. Unqualified opinions, that is what you want to hear. There was no material adjustments, which means the financial statements were presented to the auditors in good shape. There was no disagreements with management, no reportable conditions relating to internal controls.

Ms. Guidry was very complimentary of the

Staff's professionalism and knowledge of the responsibilities. And I don't believe this takes any action. It is a report item for your information.

MR. CONINE: Mr. Bogany.

MR. BOGANY: Meeting with Ms. Guidry, she was just really beaming about how good our audit was. Everything was in order. The staff was very cooperative in the process and I asked her, was there just any issues at all, and there wasn't any. And it was so good to see that we didn't have any issues.

But she complimented David and the staff was being very open and being able to come in and get the information she needed to be able to give us a good report. So she felt we were doing everything was moving in the right direction.

MR. CONINE: Getting downright boring, isn't it, Mr. Gaines?

MR. GAINES: She said she didn't know what she was going to talk about.

MR. CONINE: Moving on. That is a report item. Moving on to item D.

MR. GAINES: 7D. This is a monitoring report based on a review, a HUD review of the Section 8 program. This was conducted in September. For the most part, the review was a follow up from a prior review conducted in July of 2003. The results of the review are positive.

In summary, HUD congratulated the Department on its continued efforts to administer a successful Section 8 program. No responses or corrective actions from the Department were necessary. Any findings noted during the course of the review were corrected while the monitors were on site. Any questions with this agenda item?

MR. CONINE: Another winner. Way to go.

MR. GAINES: Another winner. Tab E, I'll keep on a roll here. This is SECO, or the State Energy Conservation Office. SECO funds administered by the Department. The purpose of this review is to determine the Department's effectiveness in accomplishing the objectives of the programs funded by SECO.

The monitors, again, last year the prior review, there was several problems noted. The monitors concluded this year that the Department had solved some of the problems, and the program seemed to be running smoothly. The Departments records received to date match those of the State Energy Conservation Office and the well-documented policies, personnel policies and procedures provide assurance of EEO compliance. Those were the objectives of the review.

Now, while they were satisfied overall, they did note there were some questions relating to contractor match, which is required dollar for dollar for each program dollar. They resolved and were satisfied with those match records; however, they did recommend that the Department reconcile the match records with those of the SECO office to ensure accuracy and completeness.

The staff has worked with the SECO office to arrive at a satisfactory conclusion relating to match reporting. I also noted that we rely exclusively on the inspector reports and don't do field monitoring visits on occasional basis.

In that respect the Department has agreed and thinks it is prudent and reasonable to conduct those inspections as we would any others within the Department. And that will be done in the portfolio management class division.

Tab 7F. Status of prior audit issues. Of the six issues currently being tracked, two of them are being reported as implemented. Another two are in HUD's court, and further action by the Department is contingent upon action or a response by HUD. These relate to documentation for soft costs that has been submitted to HUD and also approval of an indirect cost rate for the

Department.

This information again, has been provided to HUD. Those are in a holding pattern pending response from HUD. Another one is also kind of in HUD's court. This relates to the Department developing a family self-sufficiency program. And while a plan is in place for that program, there has been a request made to HUD pertaining to Section 8 vouchers assigned to their area over the Brazos County Housing Authority.

If HUD approves that request, then the Department will request an exemption from this family self-sufficiency program. And again, we are waiting to hear from HUD. The last issue is the issue referenced on 330 on page 2.

And this relates to the need for more useful management information for the tax credit program, especially as it relates to the inspection function, construction inspection function. And while the Department has been looking for full development of the central database as the final solution to this issue, during the interim periods, spreadsheet databases have been used.

And the issue continues to be reported as in process of implementation as the construction function processes are under review and as improvements are being made to the spreadsheets there that are being used until this is incorporated into the central database. Any questions on prior audit issues?

(No response.)

MR. GAINES: Tab 7G is the status of central database. And before I discuss the materials in front of you, I would like to first discuss the significant change that has occurred since the last time we brought a status report to you. And that is a change to the composition of the central database Steering Committee.

The revised Committee includes the Director of Real Estate Analysis, the Director of Multi-family Finance Production, the Director of Single-family Finance Production, the Director of Portfolio Management and Compliance, the Director of Policy and Public Affairs, the Director of Office of County [phonetic] Initiatives, and either the Executive Director or Deputy Executive Director. And these members, the reason I am bringing this up, they are the key stakeholders.

I have been very pleased with the Committee and how it has operated since its inception which was early November. They have been -- the Committee as a whole has been very engaged. Questioning approaches and status.

Making tough decisions on strategies and priorities for moving forward.

They are generally expecting more out of the project teams. This is very important. I just believe the more involved the key stakeholders in senior management are, the more successful we are going to be moving forward on this project.

Having said that, I would like to just turn your attention to the materials. I would like to focus briefly on work recently completed, work currently in progress, and the planned direction of the project. You will note on the first line of the report that the fiscal year 2004 CMTS enhancements have been recently completed. This work was reported to you throughout 2004 and again, it is now considered complete.

Work currently in progress relates to the next three major areas listed on your report, which are the 2005 CMTS enhancements, the Program Monitoring Module, and the Multi-family Module. The 2005 CMTS Contract Management Tracking System enhancements are contracted services funded by the Capitol Budget Appropriations for enhancements to the client system. And lines 7 through 20 of your report will give you further details on that. And I won't go into that. The target date for this work is estimated to be August 31, 2005.

The next two major line items, the Program Monitoring Module, and the Multi-family Module will be worked on simultaneously. The purpose of the first line item, the Program Monitoring Module is to provide portfolio and management staff with a system to track program monitoring, risk assessment data, scheduling of program monitoring activities and review functions, as well as to track and manage single audits.

The software development on these modules began also. This module is estimated for completion at the end of this fiscal year, August 31, 2005. For the Multi-family Module, I notice that this has been broken into two phases. Or they are referred to as releases on your report. The first release or phase includes development of approved data entry screens. The technical team has begun work on this. The estimated completion date is August 31, 2005.

Concurrently with this work, the project teams also scheduled two work sessions later this month to address the business sponsors' concerns about the remainder of the design specifications for the Multi-family Module. While these design specs were confirmed last month by the business users, they did have additional concerns and exceptions, additional requirements they would like to see addressed.

Based on the results of these meetings, the project team will begin a detailed project schedule for the multi-family Release Two module. This module will include functionality for anything entering post-reward multi-family data, but aligns with the uniform application, capturing data at different phases of a project, such as reward, carryover and cost certain. Setting up property profiles, which automatically create the building and unit data and tracking rent, costs, and expense schedule data.

We are on an estimate of August 31, 2006 as indicated on this phase of the project. This is contingent on those detailed plans being worked. It is not real reasonable to come up with a date until you work through the detailed plans to get there.

Any questions on planned strategies approach to the project, and the current progress, the current status? The remainder of these materials under the central database relate to the status of different issues facing the central database. The status of available funds and a summary of maintenance efforts since the last report to the Audit Committee. These maintenance efforts relate to components of the central database that are in production and this is brought to you merely for informational purposes. It is another use of our limited IT resources.

The last agenda on your Audit Committee is the status of internal-external audits. It is behind Tab 7H of the last document there, behind that tab. And pursuant to Mr. Gordon's request at the last Committee meeting, I have provided the stage of the various projects and target dates for completing these stages to give you some idea as to our status and plans, to kind of put a clock on that so it will be easier to follow.

I will say that it is, as everybody knows, difficult to come up with estimates on these projects, as it is for a lot of these projects. For example, it has been real difficult estimating our contribution to a particular project.

I would like to highlight there the project referring to Executive Order RP36. This was the executive order we were referring to in the Board resolutions. Internal Audit has been facilitating this effort, helping management work through this. And since we got involved with the project, we have developed or assisted in developing a kind of a risk assessment of the Department's overall attitudes towards controls, standard operating procedures relating to the program, methodology for assessing risk of the Department, formats for monitoring plans to monitor controls and formats for action plans to develop controls where necessary, tools for facilitators that are moving this forward to work with management and staff and using the methodology or the monitoring plans and action plans.

We have developed evaluation forms to assess the usefulness of the process and improve it where possible.  Status reports and formats to track progress in moving forward.  We have had a demonstration with executive management actually using the methodology for one of the business processes.  We have had two other rollout assessments using live Department processes for the directors and managers in an effort to promote knowledge, awareness and buy-in of the program.

We have currently, we have done another two assessments besides those.  If we are very successful over the next six weeks, we are going to have a total of 17 assessments completed.  And the reason I mention this is since we began this, Internal Audit has spent over 725 hours on the project, which began in mid-August.  Of course, this takes time from other projects.

And I mention this again, because I just don't believe there is any way you can estimate something like this; a project that you have never been involved with, and not real sure what all is involved with it. Having said that, the Department has identified, management has identified 117 high-risk processes and 151 medium risk processes.

And the only way we are going to make a meaningful date in the overall number of processes assessed during the current year is to really have much greater staff participation, as facilitators, again, we are training facilitators throughout the Department to help cascade this throughout the Department. As they are trained, and the Department assumes greater ownership of the risk management program, we should be able to start moving forward on a more rapid clip in this respect.

Our goal is to basically turn this project over to management completely at some point, but we don't want to rush it. We want to make sure it is fully ingrained in the Department's programs and the processes, and that management and staff fully understand the methodology, the purpose of the program, the purpose of the project, and the tools necessary to successfully implement the program. That was kind of a mouthful, but this is real important.

It is something in my perspective, even though it is not pure audit work, we may actually get more bang out of the buck for this. It is developing approaches to identifying these fires before they start and mitigate those risks, get controls in place. Get processes to monitor the effectiveness of those controls and that is the ultimate goal of audit in the first place. So we are excited about it. I think management, certainly senior management is excited. And I believe that it is filtering through the Department.

It takes a while to get it up and running. The remainder of internal projects are pretty much ongoing projects. Our projects are scheduled for later in the year. I do specifically want to point out the peer review project you see there.

The director of Internal Audit at the State Comptroller's Office has asked that I participate in a review of that office. And as you will note, it is scheduled between April 1 and May 31, with the actual time is estimated to be between 60 and 80 hours, so it is not near as bad as it looks. I am looking forward to that, and maybe I can pick up a few things along the way.

And I would like to conclude with the status of external audit, which is the last page of your materials. You will notice the audits that have been completed recently and I have spoken to those in one respect or another. I also specifically want to mention the KPMG Federal Single Audit. This work is performed by the Department at the State Auditor's office. A draft report has been issued, and management's responses have been drafted. We are in the process of releasing those.

You may recall an e-mail you received a couple of days ago. We interfaced you with that response, as the Governor's Office has asked us to interface them. As we send something like that over to the Governor's Office, we certainly want you to be aware of it. And that was the purpose of that e-mail. We anticipate this report to be released by the end of the month, and it will be brought to you at the next Audit Committee meeting.

And finally, I want to point out, also the State Auditor's audit of the HOME and Housing Trust Fund programs. This project was originally anticipated for completion in time for the current legislative session, or actually before the session began in January. And as I was saying, sometimes it is difficult to estimate these things when there is competing priorities and sometimes you are dealing with complex subjects. But the audit has been delayed for some time now.

The most recent status is that the auditor's are resuming their work this month, with plans of completing their understanding by the end of the month. Their report and the estimated release date at this point is in June of 2005. And I will be glad to address any questions you might have, or entertain a motion of adjournment.

MR. CONINE: No, not quite yet. Any questions of Mr. Gaines?

(No response.)

MR. CONINE: I heard for the first time this morning, that the Department is going to relocate its offices, probably at the end of the year. And in the spirit of trying to get in ahead of the curve, I would be curious, not that you need anything else to do, but I think there is certain inherent risks associated with picking up and moving 350 people or however many it is.

And at the next time we get together, maybe whenever you report next, if you could give us a little snippet of any thoughts you might have along that subject matter, I think, as we move toward a December move. Just to make the Board aware of any thoughts or risks you may perceive that might be out there.

MR. GAINES: What I would like to suggest is this was brought up at the Director's meetings fairly regularly. I think we have some very competent people working on this. They have been through it before during New Year's Eve, speaking of high risk.

I would like to suggest, in trying to keep my plate not overloaded, that we bring forward the Director and his support staff of administrative support. I feel real good, based on there has been a lot of dialogue and interaction with staff. It would take me a while to catch up with those folks.

MR. CONINE: Well, granted we have got a fine competent staff, and I have no issue with that. But as you know, you report directly to the Board, and we like to hear from another source occasionally, which we just heard a nice long report. And I just would be curious as to your feelings. I am not asking for a full blown audit, I just want you to spot check around and come back and touch on that subject the next time we get together.

MR. GAINES: This might be a real good subject to subject to this new methodology for assessing risk, part of our risk manager program. We'll subject that process. I would like to suggest we probably do that in a day's time with help of the people directly involved and get a lot of information.

MR. CONINE: We have been here longer than I have been around.

MS. CARRINGTON: Ten years.

MR. CONINE: And I have been here longer than most. And when you start moving databases and files and desks and information around, it is a scary thought sometimes.

MR. GAINES: I appreciate your concerns. Yes, sir. We'll do that.

MR. CONINE: Any other comments for Mr. Gaines?

MR. BOGANY: Just a long piggyback behind Mr. Conine, because some of the outstanding issues that we have in the audit process, database issues and all that, it would be nice to have that finished before we moved.

MR. GAINES: Well, the database project, we are at this point targeting December of this year for our move, and we have phases beginning after that.

MR. BOGANY: Well, and I guess my thought is, if you move, then you have I can't find that, it was here. It is no longer here. And I think that whatever is on them, the incompletion, that we have got incomplete, that we ought to have is almost all complete before you move.

MR. GAINES: Coordination of the movement itself and the information systems and the data is going to be real important. I appreciate your comments.

MR. CONINE: We are all, I am tickled to death with the progress that the audits have made, just in general. It is sounding really good. HUD is getting back on our team, and it sounds like.

MR. GAINES: I'm sorry?

MR. CONINE: HUD is getting back on our team, it sounds like. At least we have got at least one good letter out of them. That is good.

MR. GAINES: Yes, sir.

MS. CARRINGTON: But I think as Mr. Gaines and as you all know, you did have a draft of an audit by response to SAO earlier this week, and there are indeed some additional findings related to activities in our Section 8 program. As we will be addressing very quickly.

MR. BOGANY: Okay. So once we, because I read through those, so once we get back from the Governor's Office, then we implement what we have got.

MS. CARRINGTON: Then it is due to SAO, I think we promised, either today or tomorrow afternoon. Actually, and it is already back from the Governor's Office. They did not have any comments to our response. Actually, it may have already gone over to SAO.

MR. GAINES: No, ma'am.

MS. CARRINGTON: It's going today or tomorrow.

MR. GAINES: Put that off to the last minute.

MR. CONINE: Okay. Thank you, Mr. Gaines, we appreciate your report. Next, the Executive Director's report. Ms. Carrington?

MS. CARRINGTON: Since I am the only thing that stands between chocolate cake and singing birthday to you --

MR. CONINE: And Penny, by the way.

MS. CARRINGTON: We have our Department's outreach activities for January. We have been very busy. We have the composition of the House Committee on Urban Affairs. We do have three new committee members. It is a seven member committee, and we have three new members. One of them is Alma Allen, who is from Houston. Roy Blake from Nacogdoches, and Eddie Rodriguez who is from Austin.

And we have had a meeting. We had a meeting on Tuesday of this week, an organizational meeting. I know as you all got notice of, and we are very pleased about, there were five awards given to outstanding women in Texas government, and we have got a list of them, and I am one of them. So if you can come to the luncheon --

(Applause.)

MS. CARRINGTON: If you can come to the luncheon on March 18, Delores is coordinating all of that, and we have had a series of hearings. We will be continuing to have a series of hearings. And I would like to thank both Mr. Conine and Mr. Gordon for attending our 7:00 a.m. subcommittee on House Appropriations this morning.

So we appreciate the time you all give to TDHCA and I know that you all are in and out of town, and so we will always keep you apprised of hearing schedules. And if you can possibly come by to the hearing, we will certainly always introduce you. And I think it does make a difference, and it does make an impression on the Legislators when they see some board members in the audience. And Mr. Conine, did they ask you to say anything this morning?

MR. CONINE: No.

MS. CARRINGTON: So you can just come. And with that, Mr. Conine, we have a lot of staff that would like to wish you happy birthday and help you share your chocolate cake.

MR. CONINE: Well, thank you very much. I appreciate everybody on the Department and the staff and everybody recognizing my birthday. It is a momentous one for me, turning 50. You leave your forties, it is a little different thought process every morning. And I have a new set of wheels to drive back to Dallas with.

And again, I have loved the opportunity to be on this Board and continue to be on this Board. And hopefully, I won't get too old and senile to figure things out as we move forward. Any other business to come before the Board? We stand adjourned. Thank you.

(Whereupon, at 2:55 p.m., the meeting was concluded.)

C E R T I F I C A T E

IN RE: TDHCA Board

LOCATION: Austin, Texas

DATE: February 10, 2005

We do hereby certify that the foregoing pages, numbers 1 through 137, 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.

2/16/2005
Transcriber (Date)

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