TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING

Thursday, February 1, 2007
Capitol Extension Auditorium
State Capitol
1100 Congress Avenue
Austin, Texas

PRESIDING OFFICER:

BETH ANDERSON

BOARD MEMBERS:

SHADRICK BOGANY (Chair)
C. KENT CONINE (Vice-Chair)
NORBERTO SALINAS
GLORIA RAY

STAFF:
MICHAEL GERBER, Executive Director

AGENDA

P R O C E E D I N G S

MS. ANDERSON: Good morning. I want to welcome everyone to the February 1st meeting of the Board of the Texas Department of Housing and Community Affairs. We appreciate you being with us this morning. I will call the meeting to order, and I will call the roll. Vice-Chairman Conine?

MR. CONINE: Here.

MS. ANDERSON: Mr. Bogany?

MR. BOGANY: Here.

MS. ANDERSON: Ms. Ray?

MS. RAY: Here.

MS. ANDERSON: Mr. Flores?

(No response.)

MS. ANDERSON: Mayor Salinas?

MR. SALINAS: Here.

MS. ANDERSON: We have five members. We do have a quorum. Before we begin public comment, in just a minute, we have some recognition for two Department employees that really have made outstanding contributions to the Department, and have earned their sort of just retirement, in moving on to new opportunities that couldn't possibly be as much fun as what they enjoyed at the Department. So I will turn this part of the program over to Mr. Gerber to make this public, very well deserved public recognition.

MR. GERBER: Thank you. If I could ask Trish Randow and Stephen Schottman to come forward. As they are coming forward, I hope people can hear me. Let me start with Trish Randow. She is retiring after 11 years of service with the Department. She heads up our staff services and facilities function.

She is a really key part of our Department. It keeps the trains running smoothly, and is just a tremendous source of help to all of our Department. And she encouraged the team doing this ordinary job, and they are really all the time unsung heroes. And Trish has really taken on a tremendous amount over the last two years. She facilitated our move 507 Sabine to that really unbelievable building over at 200.

(Simultaneous discussion.)

MR. GERBER: We lost about half our space, but Trish made it more than a --

MS. ANDERSON: And saved the State a lot of money.

MR. GERBER: A lot of money. And has done just an extraordinary job. We would like to present Trish with a certificate of appreciation in recognition of her outstanding contributions and service that she has provided to the Texas Department of Housing and Community Affairs and to the State of Texas. Thank you and best wishes.

(Applause.)

MS. ANDERSON: We are going to miss you, Trish.

(Applause.)

MR. GERBER: Mr. Schottman; what will we do without Mr. Schottman? Each year, the Department generates reports that pretty much from the floor to about here, are needed for the Legislature, HUD, for our Strategic Plan to our annual report, to our consolidated plan.

Many of the reports and critical data that we rely on, much of that is generated by Steve's research and planning section within the DPPA. Steve had done an extraordinary job, serving the Department for ten years. And we are very grateful for all that he has done, the contributions he has made. They have been invaluable to helping this Department understand the needs of low income people throughout our state.

We also have a certificate of appreciation for Steve, and it also says, in recognition of the outstanding contributions and service that you have provided to the Texas Department of Housing and Community Affairs, and to improving the lives of low income persons across the State of Texas. Best wishes to you. We also have a flag that was flown over the capitol for you. And thank you.

(Applause.)

MS. ANDERSON: Thank you, Steve.

(Applause.)

MS. ANDERSON: As I said earlier, good morning. This Board and this Department welcomes public comment about the Department's programs, policies, rules, issues, priorities, and so forth. We take public comment, both at the beginning of the board meeting or at the witnesses' option, when the agenda item is presented for consideration to the Board.

So at this time, we have a number of people that want to make public comment here at the beginning of the meeting. And the first witness is Representative Deshotel.

MR. DESHOTEL: Thank you very much. I am not sure if my mic is on, so I will get on the recording. Okay. Thank you very much for the opportunity to speak with you all this morning. Just two issues that I want to address.

Item 3 which regards the $428 million block grant for Hurricane Rita recovery. One of the concerns of the Southeast Texas Regional Planning Commission, and you have a letter there that kind of lays those out. And we also, when Mike was down in Beaumont, took testimony similar to the position I had today, that we have, or the Regional Planning Commission has qualified several hundred families for these dollars.

And the people are really highly stressed. They have filled out FEMA forms. They have filled out state forms. They have filled out county forms. They have filled out these forms. They still haven't gotten any money to get their houses repaired or replaced.

And we hope that the contractor that ultimately is hired will recognize the validity of the applications and screening process that these people have already been through, prequalified through the Regional Planning Commission. Because we would hate to go to these individuals with yet another stack of papers, who are already very discouraged and very stressed.

So it is very important that we ask you to consider that as part of your contract negotiations that you allow the certification that has been done on these several hundred people to be the certification used by the contractors. And also, we are asking that we can continue down there the certification process for about 1 percent of the total grants. Two grants, totaling a little over $500 million dollars. About 1 percent, we can continue to certify the people down in Southeast Texas, because we can work with the faith-based organizations.

We know where the areas are with the most need, and we think you would make it much more expeditious and much easier for the individuals, they would feel much more comfortable, because they are used to working with their own pastors, or other organizations in the area. So we ask you to really consider that.

The second item is Item 4, and 4B. Those are dollars that have already been appropriate to bid on original appropriations by you to build 36 houses down in Jefferson County. What the amendment would do is reduce that to 32 houses.

And the reason is, it wasn't enough money for the 36 houses to be built to the quality that they would have to be built. But by reducing it to 32 houses, then that money is redistributed over those 32, and then you can have a better quality home, and it will be more likely that you would be able to complete the construction of the homes.

So that is basically the essence of 4B. And it is just a redistribution of the dollars you have already appropriated. I really thank you all for your time. I know you get a lot of calls, a lot of comments. But you are always willing to listen, and we appreciate that. Thank you very much.

MS. ANDERSON: Thank you, sir. Any questions? Thank you. Mr. Granger McDonald.

MR. MCDONALD: I had a prepared rant, but I'll save you from that. As Dennis probably used to say, that is my opinion; I could be wrong. But anyway, the items that I would like to get to see you all put on the March agenda would be a discussion of the penalties that are being assessed now on developers that come to the Department for an amendment.

Currently, the opinion of the Department is that should you come to the Board for any type of amendment, you will be docked 5 points on your 9 percent application for two years, or eliminated from the bond program for one year. And that seems to be highly counterproductive to the mission of this Board, and it is something I would like to see discussed at the next board meeting.

And I would also like to involve TAP with involving, with the staff to discuss it between now and then. Also there is a penalty that is being assessed at $500 days for efficiencies on bond programs and why I understand it as such, to try to get documentation in on bond programs.

It just sets the wrong tone for what we are trying to do to get affordable housing for the citizens of Texas. And, you know currently, it is not effective, because there is bond funds going wanting right now. If someone is going to get assessed $500, he could just pull down his application and reapply the next day.

So it is pretty toothless, it is. I just think it sets a bad tone. And I would like to see this on the March agenda, if possible.

MS. ANDERSON: Thank you, sir. Unless there is other thoughts from the Board, I would like to suggest that we do have staff work with TAP around this whole penalty issue and bring a report, or an action item or whatever you all determine is an appropriate vehicle for discussion at the March meeting.

MR. GERBER: Yes, ma'am.

MR. CONINE: Did that end up in the QAP, or is in one of the rules?

MR. GERBER: It is in the QAP.

MR. CONINE: It is in the QAP. Okay. Thanks.

MS. ANDERSON: Thank you. Emily Heller.

MS. HELLER: Hi. My name is Emily Heller. I am with Freddie Mac. And I know you have a busy agenda, so I will keep my comments brief. I just wanted to introduce myself, and make a few comments.

Our mission at Freddie Mac is to help promote liquidity, stability and affordability to the mortgage market. And we do that using our mortgage portfolio. I buy all of the housing bonds from state and local agencies for Freddie Mac.

And as you know, last year we made a billion dollar commitment to buy bonds from HFAs who have areas affected by Hurricanes Katrina and Rita at below market rates. So we contacted TDHCA, and worked out, worked very closely with the Agency and ended up buying the entire 2006 A, B, and C issues, 105 million of which was specifically for the GO Zone. And from what we understand, that program was very successful.

So last week, I was here meeting with Mike and Matt and Eric and others at the Agency to talk about how we can continue to build on this partnership. And we would like to work closely with the Agency this year, both on the bond purchase side, but also, we think we have a lot to bring to the table on your program side.

So with that, I would like to turn it over to Sophia Guerra, who works -- who is a colleague of mine at Freddie Mac, in our single family side to say a few comments about how we hope to help the Agency on that respect. So thank you for your time.

MS. ANDERSON: Thank you.

MS. GUERRA: Good morning. And thank you for your time, too. But I do want to stress that we want to be partners with you. We want to be able to leverage what we are doing.

It is not just buying the bonds. But also work with training, education and marketing and outreach. And that is what I do. I am in expanding markets. I strictly work with affordable housing agencies and lenders, so we can bring more lenders to the table.

We can provide capacity support for outreach and education and we really want people to get into homes. But we also want them to stay in homes. So we do have some very comprehensive foreclosure prevention programs that we can do, and we would love to partner with you and your staff on that. Thank you.

MS. HELLER: Okay. Thank you.

MS. ANDERSON: Thank you. We appreciate you all being here today, and we appreciate your -- and the residents of Southeast Texas certainly appreciate your tremendous act of buying those bonds in the Rio [phonetic] GO Zone. So we are grateful for the partnership, and very interested in having you work with Eric and others in the Department to figure out additional ways we can work together to put more Texans in homes that they can not only purchase, but stay in, as Ms. Guerra suggested.

That concludes the public comment for this portion of the board meeting. And I do have other witnesses that will testify as the agenda items are presented. So then we'll proceed to Item 1, which is the consent agenda.

MR. BOGANY: So moved.

MR. CONINE: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 2 is a series of items from the internal auditor and the Audit Committee. Mr. Bogany?

MS. ANDERSON: I would like to bring Mr. Dally up to discuss our financials.

MR. DALLY: This morning, we have representatives, Julia Petty, partner with Deloitte and Touche brought our opinions together on our particular audits. There are several audits here. It is the basic financial statements. There is also an opinion rendered on the Revenue Bond program financial statements. And then they do what is a unique report to the Department and that is the computation of the unencumbered fund balance. And in addition to that, at the last of your package is a management letter where they have gone in and given their suggestions on what they thing would improve our operations here at the Department. At this time, I would entertain any questions that you might have on those reports.

MR. GERBER: Mr. Dally, and Madam Chair. I am sorry. I would advise my staff that cell phones, even those that are on vibrate are causing feedback. So for those of us who have new Blackberries or those who are also in the room that have their cell phones on vibrate, if you could go ahead and turn them off if you are near a microphone. Are there any questions with regard to the report, the financial reports or the management letter.

MR. CONINE: Do we have any money in the bank?

MR. GERBER: Yes, we do. I will make these brief remarks. We have sufficient cash flow to meet all of those long term obligations that we have, those outstanding bonds. We also have in the near term, we have the short term cash flow to support our operating budgets, if that is appropriate.

MR. BOGANY: And we did get a very clean audit from Deloitte and Touche. So we are very happy to get a very clean audit from them. And it looks like we are moving in the right direction. Any more questions for Mr. Dally.

MR. CONINE: Do you like your new hairdo?

MR. DALLY: I do.

MR. CONINE: It looks good.

MR. BOGANY: I would like to bring Mr. David Gaines.

MR. HAMBY: I am sorry. Technically, because you accepted this as a board item, the Audit Committee meeting without the second, but because it is an official Committee of the Board, the Board needs to accept the audit as well.

MR. BOGANY: Okay. I would like to move that we accept our official audit from Deloitte and Touche.

MR. CONINE: I will second it.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

MR. GAINES: Good morning, Chair, members of the Board.

MR. CONINE: Good morning.

MR. GAINES: I have several agenda items here. For the most part, they fall in the report category. I have one action item relating to the Audit Plan for the year. Unless the Board wishes otherwise, the materials under the report items are fairly well summarized, and I will just pass those completely off, briefly mention what they were.

But the first item is the Audit Plan for the year. That is behind Tab 2(b). The Texas Internal

Auditing Act requires we develop a plan, and in proposing that plan, we solicited the information from the management, and the external auditors, Deloitte and Touche, KPMG, State Auditor's Office, solicited the information from the Governing Board.

And while the large significant risks that were identified during the planning process, management does have formal processes in place to assess those risks, and to mitigate those risks or consciously deal with them otherwise. Accept them, in cases.

The plan being proposed to you is to -- was provided to Executive to solicit their input. So in addition to the Plan you see in front of you, there were also a couple of items that Executive would like to see in the Audit Plan, and I will discuss those momentarily.

Phase One on the Audit Plan, page 1 of 3, the first project relates to CDBG hurricane disaster relief, disaster recovery program. And a review is being proposed that we conduct it in three phases.

The first phase is to review the controls, systems, policies and procedures in place to obtain an understanding of those controls, and to test whether they manage the significant risks associated with the program, specifically processing payment requests from the subrecipients and subrecipient monitoring. When I speak of the risks associated with subrecipient monitoring and what I am really referring to -- excuse me. Trying to talk over this buzz is obnoxious.

But as it relates to risks associated with insurance subrecipients are in compliance with relevant laws and regulations. The contract performance statements are being achieved. And on your audit plan, there is a series of bullets. And those bullets are the risks that we are currently identifying as the high risk areas we'll be focusing our audit on.

As we move into the audit, and we gain a better understanding of the program, those risks may change. We might see that some of them aren't that significant. There might be others that we want to pursue further, so that there is a possibility that those bullets might change as we move forward -- it is just this energy I project. What can I say?

(Applause.)

MR. GAINES: Phase Two will be test of the controls to assess the operating effectiveness, and Phase Two relates specifically to the draw processing function. Requesting funds by the subrecipients. Phase Three likewise will be testing the operating effectiveness of the controls we reviewed in Phase One. In that case, it will be the controls over subrecipient monitoring. Are there any questions relating to CDBG hurricane relief project?

(No response.)

MR. GAINES: Okay. In that case, the next proposal, the next category or job there is a planned follow-up on projects, on prior audit issues. This is independently verifying the status of prior audit issues.

The status for the most part has been reported by management as implemented. This will be to follow up and provide independent verification of that. You will notice five projects we have identified as needing to be followed up on at this point.

The Plan also includes completion of two carryover projects from last year. One relates to the Energy Assistance subrecipient monitoring function. And the other is now in the Manufactured Housing Division's Homeowners Recovery Trust Fund or HRTF.

The Energy Assistance audit scope was limited to the Weatherization Assistance Program subrecipient monitoring and we completed that project. That is included in your report materials. It was released in

December. The remaining tasks on HRTF in partnership with the Executive Director of Manufactured Housing Division, we have identified several significant improvements to their processing under the HRTF program. They have taken corrective actions on that.

Since there has been delays for other reasons, the Executive Directors asked that at this point, if I would go in and verify that the corrective actions they have taken are appropriate and satisfy our concerns. So we have agreed to do that in connection with that project.

Other project is tracking and recording of prior audit issues versus independently following up, as I just spoke of. Developing the Audit Plan for the year, and then the 2007 Internal Audit Report, which is required by the State Auditor's Office, an annual summary of our activities. Immediately following the Plan, you will see a letter from Mr. Gerber. And this is a request for your consideration of two additional projects that they would like included in the Audit Plan.

One is of the Housing Tax Credit program. In this Plan, it anticipates reviewing the significant phases of the 2007 tax application cycle. And the purposes of the review will be to identify risks associated with the awards process, and if adequate controls are in place to address those risks. The project will also consider whether the Department has complied with all significant requirements applicable to the tax credit award cycle.

The second audit is of the HOME program procedures. And with the newly reorganized HOME program, and considering the significance and complexity of the program as well as other responsibilities that the newly created division will be assuming, management has requested an audit, a review and analysis of their operating procedures from a risk mitigation perspective.

The procedures adequately addressed the significant risk. In connection with that, management also requested that in next year's plan, we just kind of put it on our reminder list, add it to that plan, and review at that time to determine if these procedures we are reviewing in this phase are being complied with by management and staff.

And I am in agreement with both of these projects. They are both relating to highly visible, high interest program areas, complex subject matters. And with that, I am in agreement with the proposal to the plan. Having said that, and we discussed earlier, there are some resource considerations I am somewhat concerned about.

I really don't have a good feel at this point for exactly what it might take to work through those projects. In that respect, I suggested to the Audit Committee and to the Board that we just review with regular status updates, as we move forward on where we are at on those projects, and what we are needing, and dates for completion.

MR. CONINE: So you will think the inclusion of those two things will knock anything which you originally intended out of the process?

MR. GAINES: Well, based on my perceptions of the concerns of the Board and of Executive, the hurricane relief project will certainly probably be our priority. And we really need to ensure that that is on the front burner. And during the course of any audit, you do have on and off times.

So we will take advantage of any of those off times to pursue these other areas. As well as, we will certainly need to block out chunks of time to address those projects. But I wouldn't say these would bump that project.

MR. CONINE: Okay.

MR. GERBER: Madam Chair?

MS. ANDERSON: Yes, sir.

MR. GERBER: I would also just want to comment or share with the Board that we would also, from management's perspective, be committed to providing Mr. Gaines with additional staff resources that he is going to need to get the Housing Tax Credit audit done successfully.

MR. GAINES: And of course, that audit, while though the design elements and other work that will be undertaken prior to the conclusion of the cycle, the bulk of that work will likely start, fair to say, mid-summer. After the cycle is over. August, September. And run until late as well.

MR. GERBER: If the opportunity presents itself, they might even review some of the more significant milestones in the tax credit cycle as those are completed.

MR. GAINES: You know, as the pre-app is over with, if the opportunity presents itself, go ahead and address that phase. You know, and then we'll go after the most significant phases of the cycle.

MS. ANDERSON: And Mr. Gerber, do I understand that you and Executive are prepared to assure that the staff people that need to provide information to internal audit in the course of doing these audits, that you will assure that they give that appropriate priority?

MR. GERBER: Yes, ma'am. We will. This program has not been audited in at least six years. And we think that given its high profile nature and the fact that it hasn't had an audit in that length of time, warrants including it on this Audit Plan.

MR. GAINES: And I would like to say that Mr. Gerber recently suggested that he and I meet every other week. We have set up recurring meetings for the purposes of discussing audit status, audit progress. And I certainly appreciate that.

And it is something that I have tried to do off and on with varying levels of success anyway. So that is something I certainly value and appreciate you suggesting that.

MR. CONINE: So how much of the Executive Director's budget are you giving to the internal auditor's office? When you said resources, do you want to be a little more specific?

MR. GERBER: We have a little bit of room in staffing and salary, and we would be prepared to put an additional FTE that would be of sufficient caliber to take on this complex undertaking. We are also glad that David has just -- and David, you might want to introduce --

MR. GAINES: And as we talked about that, the first thing on my agenda that is not on your book is Greg Magness, who joined us today. Stand up, Greg. Excuse me for that.

The moment we talked resources, I thought before I took on any new FTEs, I want to fully absorb Greg. I don't think that is going to be real challenging. He has a certified internal audit. He is a Certified Internal Auditor. He is a certified government auditing professional. Both those certifications are well respected and issued by the Institute of Internal Auditors.

We are real excited to have Greg. He has got experience in federal funds over six years at the Workforce Commission with a steady progression of responsibilities and positions. He has for the last year been with HHSC, Health and Human Services Coordinating Commission in the Office of Inspector General. So I am just real excited to have Greg as we again, merge him in with the rest of us.

To the extent that I feel there is significant resource needs to move forward, we will revisit those projects, revisit the value, based on our understanding in what we are seeing. And we can talk about that.

MR. CONINE: Well, we have got him on record now.

MR. GERBER: I have got Bill on record.

MR. GAINES: It sounds like it is on record. And just about as important is Ms. Anderson's comments. So much of audit is involved with working with staff, requesting the information, spending time developing and understanding of the subject matter, and that, as much as anything can certainly stretch out an audit; trying to coordinate schedules and peoples' availability.

MR. GERBER: Madam Chair?

MS. ANDERSON: Yes, sir.

MR. GERBER: If I could just add, you know, I give a very high priority to the work that our internal audit function does. And we have impressed upon our management team at all levels of our team, and throughout the staff, that they are to cooperate fully with our internal audit function. And we have tried to give David and his staff as wide of a berth as is provided by the Board to explore areas of risk for the Department. And David has done, I believe, an exceptional job in that regard. And it is a strong partnership, acknowledging and understanding the importance of that independence. We would like to come back to the Audit Committee and to this Board and report as we move forward with the 2007 Audit

Plan, if there is additional need for staff, which I suspect there probably will be, we will be having those conversations. And if there is additional needs to amend or to tweak the Audit Plan in ways that enable the job to get done. Because these are very complex issues that we are looking at. I mean, we are talking about, you know, creating a new HOME Division, you know, which is reconstituting the HOME Division, and doing business in that area, in a different way. We have never done CDBG disaster recovery and so we are going into unchartered territory. And so that is going to require some different skill sets. And management is very much wanting to be supportive and helpful and will do what we need to do to make sure that David is appropriately resourced for that.

MR. GAINES: Thank you for those comments.

(Simultaneous discussion.)

MR. BOGANY: I have a question. I am just going to just ask if there was any more information so we could move on to approving our 2007 TDHCA Audit Plan.

MR. GAINES: I would encourage that motion.

MR. CONINE: I move for acceptance of the Plan with the two additions put forth by the Executive Director.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

MR. GAINES: The remainder of the agenda are report items. Had this good discussion on a report we released on the Energy Assistance Weatherization Assistance Program. And prior audit issues status of internal external audits and recently released quality assurance review of the internal audit function. I will be glad to go into any of those, if it is the pleasure of the Board. And I have provided one-page summaries, maybe a page and a half for each of those agenda items immediately behind your tabs.

MR. BOGANY: David gave us extensive reports in the Audit Committee and we have talked -- heard about what he was saying and the things they were going, and the progress that we were making. And some areas that have been weak in the past. And if there is not any more information that would be in our audit report.

MS. ANDERSON: I just have a couple of comments I would like to make. On the weatherization subrecipient monitoring, I feel like I must go on record that I am concerned to see repeat findings. I am concerned any time I see repeat findings in an audit. And there are -- I mean, there are some pretty important findings in general in this audit. And some repeat findings that, you know, this Board member will be watching with interest how Community Affairs works through those issues to strengthen the standardizations, standard operating procedures to strengthen the integrity and consistency in our administration of that program. With regard to the external quality assurance, I think that report done by a committee of David's peers in other departments is a very strong endorsement of the operation of internal audit at the Department and I want to commend David and his team for that very positive report. And then I want to just commend the Department staff in general, because, you know, many years ago, this status of prior audit issues used to be a big thick book. And we have, over the past several years, made a lot of progress with it. So management attention to audit issues, which I think this Board has made a priority, it shows in the reduction in the number of open audit issues that we have. So thanks to all of you all for that.

MR. GAINES: Thank you that we have that motion, and the vote and approval. Thank you.

MS. ANDERSON: Thank you.

MR. CONINE: Counselor says we are good to go.

MS. ANDERSON: Agenda item 3 is approval of the partial Texas Action Plan for Disaster Recovery, the CDBG funding to assist in recovery of distressed areas related to the consequences of Hurricanes Katrina and Rita and Wilma in the Gulf of Mexico in 2005. Mr. Gerber.

MR. GERBER: Madam Chair and Board members, this is the final draft version of the disaster plan to be submitted to HUD for approval before any funds may be expended. A lot of time and effort has been spent on this plan. One even forcing an employee into retirement, Steve Schottman, who worked extensively on it. This plan has been changed since it was originally presented to the Board in December, but in limited but meaningful ways as a result of the public hearings that were held throughout the region. Key among those changes is that we have altered the language to require an outside contractor to plan for the casework and application process that is already begun in the region by the COGs, non-profits and faith-based groups. We do not want to recreate the wheel. We want to use the existing case work structure. That has been made clear by this Board, and we will insist on that by our contractor. We have also made some changes to the funds being used in Sabine Pass in response to some comments from that area. The general intent however, is the same, and we have just simply clarified some of the language. We have clarified the dates of when some secondary uses of funds will be available, and we have increased the targeted amount for special needs recipients from 10 percent to 20 percent at the request of local leadership. One area that still is generating some discussion is the first come first serve nature of the infrastructure program. We did add in language that demonstrates that additional qualifications may be placed in the NOFA if the amount of funds requested exceeds the amount of funds available. That would provide ranking in the event that we receive more requests than are funds available. Overall, however, we believe that the plan has community support and believe that you can comfortably approve this for submittal to HUD. I know that we and the community at large are anxious to begin the process. Internally, we are already identifying the specific actions that will need to be taken to operationalize this program once it is approved by HUD. And we would be happy to answer any questions you have about it.

MR. BOGANY: I'd like to make an amendment, a very small one. On page 15, the paragraph that says recommendation was made and approved by TDHCA by and through its Governing Board, will negotiate with the parties to develop a cost-effective kind of process for administrating all of these funds in the City of Houston and Harris County. What I would like to see done is to strike what follows that, administer these funds in the most appropriate manner and just strike that. The proposed amendments are just two issues. They clarify that HUD could be designated but the City of Houston has kind of administered its portion of funds. The amendment clarifies that should HUD choose not to designate either the City of Houston or Harris County to administer the 60 million authorization should the region that TDHCA will work with the region to determine the appropriate and an affordable process for administering the 60 million allocation in the Houston region. I think it is a very small amendment on that.

MR. GERBER: We support this amendment and believe that it would -- that certainly, our fervent hope is that HUD will accept Houston and Harris County being direct administrators of these funds. Should that not be the case, we would want to empower Houston and Harris County as best we can with monitoring and reporting requirements. Although we would still have some responsibilities incumbent on us, we would have to work on them with Harris County and Houston, and will do so. But I think that amendment, that suggestion, sounds very appropriate and reasonable.

MS. ANDERSON: Did I hear a second to the amendment?

MR. SALINAS: Second.

MS. ANDERSON: Thank you, Mr. Mayor. Now, while we have this amendment pending, we have -- and we can go and vote on this amendment at the Board's pleasure. We do have public comment. So before we -- we might want to hear this public comment at some point. So I am happy to vote on the amendment, this amendment right now, if that is the Board's pleasure. Discussion on the amendment?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The amendment carries. Does the Board have other questions for staff at this point, or are we ready for the public comment on this agenda item? Okay. Mr. John DuBose. And the next witness will be Suzanne Simmons.

MR. DUBOSE: Good morning, Madam Chair and Board members. John DuBose, County Commissioner of Orange County and also president of the Southeast Texas Regional Planning. It is good to hear of some of the changes from Mr. Gerber that have been made. We support those.

We do understand that it is first come first served on both the housing and the infrastructure, if that is correct. We think that might work for us. But the first round of funding talked about areas of concentrated distress. And we don't really understand why that hasn't been considered in this round of funding, because the coastal counties are those with the areas of concentrated distress.

One of the things that we have an advantage on now, that we have gone through the intake process, and eligibility determination. Is that we have a number of people already ready. So first come first served may not be too bad in that area.

I am glad to see that you are going to take into consideration some other factors, other than first come first served on the infrastructure side. Again, the coastal counties suffered the most damage to infrastructure, just like we did in housing. So I am pleased to see that.

We have done a lot of eligibility and intake work already. We have a staff trained to do that. We understand that when the contractor is chosen, he will utilize what we have already done. And we appreciate that. We also think, though, that we could continue in that role.

And we understand we will not be allowed to do that. And if that is the case, we would like you to consider allowing SET-RPC to be a subcontractor to the general that is chosen to provide that service. We already know how. Our people are trained. We have lots of folks already ready to go.

Yesterday's Houston Chronicle, an article about our neighboring State of Louisiana, and its contractor, ICF International. They have received 103,000 applications, and have completed 391 of those, 16 months later. We can do it better in Texas. We have done it better in Texas, with your help. And we want to do better. We want to be sure our folks are heard and that we are -- they get all their information together and are processed accordingly.

Let me switch gears just a minute. I want to thank Mr. Gerber, Mr. Hamby and from the officers and directors and elected officials of Southeast Texas Region, these gentlemen took their time recently to come to Sabine Pass, Texas. It is in our region. Ground Zero for storm Rita.

They toured the area. They spent time visiting with the citizens there in a meeting. Took some undeserved punishment, I think in some cases. But they were man enough to do that. And we appreciate it. Thank you very much for what you have done for Southeast Texas, Mr. Gerber.

MR. GERBER: Thank you, sir.

MS. ANDERSON: Thank you, sir. Ms. Simmons. And the next witness will be Malcolm Nash.

MS. SIMMONS: Thank you, Madam Chair. First of all, I would like to say to Mike Gerber, thank you also. I am sorry. I am Suzanne Simmons, Councilwoman, City of Sour Lake, First Vice-President Southeast Texas Regional Planning Commission. Thanks, Mike.

I got a call last night from Mark Viator, who unfortunately was unable to be here today. He wanted me to extend his personal thanks to you for what you have done for the citizens of Southeast Texas and particularly, Sabine Pass. Thank you very much.

I agree with everything that Commissioner DuBose said. I don't want to repeat all of that, so just suffice it say that I agree with it. But I do have a couple of things that I want to add to it.

I have told Mike Gerber before, not only as an elected official do I feel a responsibility to help rebuild my region, I feel a need to help do that. And I hope that you all will allow us to do that. I am committed to utilizing this money in the most effective way possible. And that is also including to make sure that it gets to the people who are most in need of these funds.

And lastly, I would like to encourage you to hold one of your board meetings in our region, and invite you to do so. Please let us know. You will be more than welcome. Thank you.

MR. BOGANY: I have a question.

MS. ANDERSON: Thank you. Yes, sir.

MR. BOGANY: In regards to Commissioner DuBose, I was under the impression from the last meeting that they had a right to bid on this contract also, because he was asking about being a sub.

MS. ANDERSON: Right. We have had those conversations. You know, at least I have had some with Executive. And it is clear that staff's view is there is nothing in that RFP, there will be nothing in the RFP that will preclude the appointment of subcontractors who know the local areas.

And I would think that in their wisdom, a project management firm would want to do that. You might have people fighting over you, Commissioner. But certainly, there is -- the RFP will certainly permit that. That is what I have been assured by staff. Okay. Mr. Malcolm Nash. And the next witness is Steve Fitzgibbons.

MR. NASH: Good morning. I am Malcolm Nash, Superintendent of Schools for Sabine Pass ISD. I first would like to express my appreciation to Mr. Gerber for his efforts in coming down and visiting with the community, and actually hearing the pain and facing the questions straightforward. That took a lot of courage. I commend you. I would like to commend the Department for your efforts to see to it that those with the greatest need are having first access to the funds. And that also, I would ask that consideration continue for those people who have or would qualify financially to be considered, and the second round of funding should be available, if they are not all used in the first round. That was the only thing that I really wanted to address to the Department this morning, and I appreciate the opportunity to be here. I understand your challenge. I am in the middle of Ground Zero. Our school is in fantastic shape. Our kids are doing great in school. We want to continue to work with our community to see to it that they have the opportunity to be back in their residences and out of the trailers that they are still in. Thank you.

MS. ANDERSON: Thank you, sir.

MR. FITZGIBBONS: Good morning, Madam Chair, members of the Board and Mr. Gerber. My name is Steve Fitzgibbons. I am the City Manager in Port Arthur. Sabine Pass is a community within Port Arthur.

I would like to thank the Governor and this Board for the Sabine Pass set-aside. It not only addresses the needs of individuals, but it also addresses the needs of the community, because it is critical that there is help that has incentives to have people rebuild in Sabine, and live in Sabine.

And it has been pointed out by previous

speakers, but recently, Mr. Gerber and Mr. Hamby came and visited with pretty much the entire community in Sabine, listened to all the concerns, and we had come up with this, taking those concerns into consideration. And I think it very fairly tries to not only meet the needs of the individuals, but the community, to try to keep that community viable, which is critical to us.

So the last thing I would say is, with Hurricane Katrina and Hurricane Rita, no one worked harder as an advocate for housing needs, and meeting the needs of the people than Candy Anderson, who you have recently hired to be the liaison. And we look forward very much to continuing to work with Candy. Because as I say, nobody worked harder or did more in our whole region than Candy to try to meet housing needs.

Thank you for all your help on this. We would be willing to go to Washington with you, to do whatever that needs to be done to start to get some of this work to take place. And I know that Mr. Gerber and others are just as concerned as we are, that we start getting something done. And we in Port Arthur will do whatever we can to help you help the feds, help us get some money to start doing some things. Thank you again.

MS. ANDERSON: Thank you, sir. Pete de la

Cruz.

MR. DE LA CRUZ: Good morning, everyone. I am Pete de la Cruz. I am the acting Executive Director for the Southeast Texas Regional Planning Commission. Again, I would like to support those comments of Board Chairman, Commissioner DuBose and first Vice-Chair Counselwoman Simmons.

We have worked extremely well with Mr. Gerber and his staff. They have been very supportive. They have held a public hearing at our offices. It was very well attended. The first three speakers were Representative Deshotel, Representative Ritter and Representative Hamilton.

And I believe before you, you have a letter that Representative Deshotel drafted, and brought before you. It has the signature of all three of those representatives I think that their comments were heard.

We are very much excited about being a participant in doing the intake for the second round of funding. I am not quite sure if the verbiage is in there, to the degree that we want it. But I think the intent is in there, and I know he has spoken to that.

We look forward to being a player in the second part. And the main reason being that we want those funds out to those citizens that are in greatest need. And we want to make sure that, you know, everything that we need to do with our fiduciary responsibility is undertaken. So we have invited TDHCA and the monitors and the auditors to come down and take a look at what we are doing right now, and make sure that that fundamental groundwork is there, so that as we move forward in this process, you know, these dollars get to who they need to, and they get to in a fair and equitable manner.

The only other thing that I would like to follow up on was the Sabine Pass public meeting. It was a very positive meeting. The only point that it turned a little bit sour was when we got into the part where the folks who had already taken their retirement funds, their savings funds, their college funds and repaired their homes.

And through this program, it is not structured to reimburse those folks that kind of took the ball and did what they needed to do as Americans to get their house back in order. And if there is some exception that we could do for the folks of Sabine Pass or Jefferson County in general to allow those folks that did go ahead and move forward to be reimbursed and get their retirement funds back into the shape that they were before the storm.

Thank you for your time.

MS. ANDERSON: Thank you, sir. I appreciate this comment from the leaders in Southeast Texas. And I appreciate you being here today. And I appreciate the way you have worked with our staff to sort of to get this plan. Some of this is very nuanced.

And I appreciate the way that you have worked with our staff to try to get to an outcome that we think is workable and has appropriate transparency, and those kinds of things. Because I don't want those headlines like I read about ICF or any of the prior headlines about the way Louisiana does business.

I am very mindful of what the Commissioner said about assuring that infrastructure funds go to the areas of concentrated distress. And so I would propose an amendment on page 16 of the plan, in the subhead called unreserved funds from restoration of critical infrastructure program. And I would propose striking the phrase in line three of that first paragraph that says, in the event that more applications are received that can be served.

MR. CONINE: What page were you on?

MS. ANDERSON: I am on page 16. I think, I mean, we want proposals that are ready to go, which is sort of was one of the thoughts behind the first come first served thing. But I think if we have a short application deadline, and the project has to demonstrate that it is ready to go, but we still have a short application deadline, you know, and I don't know if that is 90 days.

I guess I will put that out for discussion, so that we get all the applications in at 90 days, and we let ORCA then take a look at the relative merits of those applications, and let's rather than just first come first served, lets get the block applications in. Let ORCA look at them and make sure that we are really funding the things that are about areas of concentrated distress and where the need really is.

And so then, it would say -- it would take out on page 16, in the event that more applications are received than can be served, we have language put in that says, applications, a period for the application to be submitted. You know, it will be 90 days. And then ORCA will evaluate the request, based on priorities included in a NOFA announcing the availability of these funds, and then you have got a 90 day. That is a really kludgey way to propose an amendment, but --

VOICE: Madam Chair, I wish I could vote on that amendment.

MS. ANDERSON: And then in the NOFA, okay. So that is the amendment. That we take out that one phrase, that we make it a 90-day application period. Mr. Hamby. Are you going to rain on my parade?

MR. HAMBY: Well, Madam Chair, we are advised by ORCA staff that they would prefer 120 days. They will try to do it within 90.

MS. ANDERSON: Okay. That is fine. 120 days.

MR. BOGANY: Second.

MR. CONINE: The effect of the amendment transfers the --

MS. ANDERSON: The stuff that is not already in the earmarks for the hospital, et cetera, that remaining block of funds. Instead of just, first come first served, we are going to have a 120-day application period and then ORCA would look at all the apps that came in, and recommend funding the ones that reflect the greatest need.

MR. CONINE: But the way it was worded before, ORCA was just going to get the excess of the 5 million. Is that correct?

MS. ANDERSON: No. Well, there is. If you take out the -- does somebody want to do the math for me? What is the total infrastructure dollars minus the hospital, Bridge City, Hardin County, leaves?

MR. GERBER: ORCA will get the full $42 million. You will deduct out from that $6 million for Memorial Herman Baptist Hospital in Orange. You will deduct out from that.

MS. ANDERSON: 3.8.

MR. GERBER: $3.8 million for Bridge City water infrastructure. And you will deduct from that $10 million for Hardin County drainage restoration. And that leaves a balance of $22 million and some change -- 22.3.

MR. CONINE: Correct.

MR. GERBER: And that is what ORCA will be -- that is this unreserved pot.

MR. HAMBY: And of that, there are $5 million caps on any one grant that could go. But the whole $22 million is going to be distributed in this format.

MR. CONINE: But the way it read originally, if there were just let's say, if there were less applications than money, who was going to make the decision?

MR. HAMBY: It was first come first served. So if there were less than the $22 million in applications, then whoever came in. This takes out the first come first served.

MR. CONINE: Okay. I got you.

MR. HAMBY: And allows a ranking. It still comes back to the Board for approval. ORCA would rank those just like the TDHCA staff does any award that the Board makes, so you could play with the numbers, whatever you see it as well, if it is not exactly what you wanted to see.

MS. ANDERSON: We could provide some input to ORCA on things we -- some of the guidelines we think that NOFA ought to have in it. Like, you know, I mean, I think people that get flooded out of their homes two and three times, infrastructure improvements that help make sure we don't have them flooded out a fourth time might be a priority.

MR. HAMBY: Well and as is TDHCA policy, the NOFA would come back to this Board for approval before it was published.

MR. CONINE: Okay. I have got it.

MS. ANDERSON: Other questions on the amendment. Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The amendment carries.

MR. BOGANY: Madam Chair, I have a question.

MS. ANDERSON: Yes, sir.

MR. BOGANY: I was just wondering that people who had their house damaged because of Rita, and they were able, were financially able to fix their house back up, instead of waiting 18 months for this money, why couldn't those people be reimbursed, if they had pictures and receipts. Is there anything?

MS. ANDERSON: It is just not a reimbursable activity, the way the action plan that has been put out for public comment is written. And I think there is a lot of need down there, with a lot of lower income people.

And so I think that we have been trying to serve lower income people. And that is part of the reason. Mr. Gerber, would we have an option if the funds weren't committed based on the current set of guidelines to come back and, you know, if there are funds available then to make that an eligible category?

MR. GERBER: Madam Chair. There could be that option. The Governor, in his determination of funding intentionally excluded reimbursement, as did this Board because of the immense need that was out there, and the fact that the State of Texas, having identified more than $2 billion in damages, only received a little over $500 million. So we are only satisfied one out of every four dollars in need. That would certainly be an option.

But compared to states like Louisiana and Mississippi which received a tremendous amount more, fortunately for them, and unfortunately for us. And the same, we need to talk to our delegation in Washington about it. Those states do have reimbursement programs. And it is unfair to those who have gone and used their resources to go and rebuild and make repairs.

And we saw that vividly in Sabine Pass. And as I have traveled throughout the region. I think we have tried hard to prioritize enduring physical needs for low income people prior to going in and reimbursing for making budgets whole. And that is a very tough decision to make.

MR. BOGANY: The reason I brought this up is that even when we are using the GOVITA [phonetic] money, that for bond programs and things of that nature, you have people who are, for example in Harris County or Fort Bend County who may not have been affected at all, but they are taking advantage of that program. And you purchase homes, which is great.

But it just seems as though we ought to see if there is any way to penalize them for not being able -- because they used their own funds, because they couldn't wait for their house to be done, and they had the funds. It just seems like we are on a single family bond issue, we are letting anybody in those areas take advantage of this program, but then when we get into rehab money, we are all of a sudden saying that if you have got the money, and you give more away, you are excluded from the program.

And it just doesn't seem fair to me. And there ought to be a way to help those people. Because we are helping them buy houses who may not have been affected at all. So why can't we help them rehab those had money saved, and just was able to get it done.

But if we had gotten funds to them earlier, they may not have used those funds at all. So I am just wondering if there was just any way that we could even at least go back to our people and say, hey, can we look at this.

MR. GERBER: If there were remaining funds, certainly, that would be -- and there may be some in Sabine Pass, as has been pointed out by a number of community leaders there, including the superintendent and Mr. Fitzgibbons. And that might be something that the

Board wishes to consider. The harsh reality of this $428 million is that I doubt it will start to flow before we hit the second anniversary of the storm.

MR. BOGANY: Okay.

MS. ANDERSON: Other discussion?

(No response.)

MS. ANDERSON: I don't think we have a motion on the floor to approve the whole plan.

MR. CONINE: Move for the approval of the amended plan.

MS. ANDERSON: Thank you.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

(Applause.)

MS. ANDERSON: Yes. Mr. Gerber?

MR. GERBER: Madam Chair, a point of privilege.

If I could ask Candy Anderson to stand. We are very fortunate to have as our newest Texas Department of Housing and Community Affairs staffer Candy Anderson who will be serving as our field Director for our Beaumont, our presence in Beaumont.

She is going to be tasked with working with each of the Councils of Government and our subrecipients in the City of Beaumont and Port Arthur to make sure that everything that TDHCA needs to do and can do to help get these dollars out to people with critical needs is being done. And she is going to provide an important amount of technical assistance and liaison between headquarters here in Austin and be an important presence, as she has been, having been right in the center of the storm literally for the last 18 months.

We are so pleased to have her. She brings a wealth of experience, having served in senior positions at the Southeast Texas Regional Planning Commission for many years. And we are very blessed to have her join our team and be a continuation of the team that the COGs have. They are working so cooperatively together. And it has been such a joy to all of us here in Austin, at TDHCA and with other state agencies to see your community come together the way you have.

And we want Candy to continue to be a very active part of your discussions, an ongoing dialogue. And where we can help, we very much want to. And so we are delighted to have that presence down there in Candy, and we appreciate all that you all have done in supporting Candy's success, our success. And working together as a community to get help to people in need. So welcome Candy, and thank you all.

(Applause.)

MR. DE LA CRUZ: Madam Chair.

MS. ANDERSON: Yes, Mr. de la Cruz?

MR. DE LA CRUZ: Well, I just wanted to say, we are excited about Candy. We are sorry to see her leave, but she is in a good spot. She is actually going to be housed at the Regional Planning Commission. So we are not quite letting go of her all the way.

But we will do everything we can. We think it is a win-win for both groups involved in this situation.

The other final comment is, the Board members that I have, they and myself will be in D.C. this weekend and early next week. And we have scheduled appointments with our federal delegation. And we plan to speak on behalf of the plan and try and expedite review at HUD. Thank you very much.

MS. ANDERSON: Great. Thank you, sir. Agenda item 4 are some PMC, Compliance items. 4A is a request for amendment for all the HOME OCC contracts in '05 and '06. Mr. Gerber?

MR. GERBER: Madam Chair and Board members, the Department has received significant public comment that like the tax credit properties who were previously granted an increase, the HOME contracts that were awarded in the 2005 and 2006 cycle are being impacted by the increased costs related to building materials and supplies, and the availability of builders due to Hurricanes Rita and Katrina. This is impacting the size and quality of homes being build for the intended recipients.

The Department is recommending that the value of each contract be increased by 9.09 percent or $5,000 per home, whichever is less. I would like to bring to your attention that the report in your board book represents only the OCC contracts funded at the time that the report was created.

Since staff originally examined the cost of this increase, additional OCC contracts have been funded by the Department and the Hurricane Rita contracts were added to the total. Therefore, please note that the amounts being recommended are greater than the amounts identified in your board book for a new total of $5,489,914.

Again, $5,489,941. Deobligated HOME funds are available to cover the costs of these increases. The recommendation is for $5,278,789 in program costs, which is increased from $3,096,453 in your board book, and an additional $211,152 in administrative expense, which has increased from $123,000, which is in your board book for again, that new total of $5,489,941 for both years.

MS. ANDERSON: Was the math just wrong? That is a pretty big increase.

MR. GERBER: Again, it was reflective of the new additional contracts that were added to it.

MR. HAMBY: And it also, it did have a few additional contracts for OCC, and it also, this was the OCC run in this book, and it did not include the Hurricane Rita items that we have done in Southeast Texas. And so that is an additional. The Hurricane Rita represents about $2 million in additional funding to that region. And that is the bulk of the increase is adding in the hurricane.

MR. GERBER: By approving the increase, the Board would be waiving the current HOME rules that limit the amount of any OCC related contracts to $275,000. It would also provide the direction to approve expenditures per home over the current $55,000 limit and up to $60,000. No other changes would be made to the existing contracts.

MR. CONINE: Move approval.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Mr. Gerber.

MR. GERBER: Madam Chair, Item 4B is the Jefferson County item that was referred to by Representative Deshotel. Jefferson County is requesting a waiver of the $55,000 cap per unit and a reduction in the number of assisted households from 36 to 32, or a reduction of 11 percent of the households served. However, the County is lowering the funds requested by only $250.

The County is also requesting a six month extension in order to complete construction. The County states that as a result of Hurricanes Katrina and Rita, the cost of construction in the area has risen dramatically. The low bid received for each house is over $50,000. When the cost of demolition and disposal, elevation and soft costs are added in, the total costs for each home exceeds $60,000.

For an exact breakout, the County's request letters are included in your book. The Department has acknowledged the need for temporary increases, and in a separate agenda item, has requested an increase and additional funding for HOME related awards.

Jefferson County has requested increases on these projects exceeds the increase that was suggested by staff again in this new policy that you just approved. The County has not yet committed the funds; however, because the original contract term was for only twelve months, the County requests a contract extension prior to the commitment of the funds.

Staff recommends approval of the reduction in the number of the households served, and the six-month extension, and that an extension be granted. However, staff does not recommend approval of the waiver to exceed the $55,000 cap unless which of course, you just did approve with the policy. But not to exceed the $60,000 cap now.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MR. CONINE: So we are going to raise the 55 to 60 and reduce the number of homes built. Is that it?

MR. GERBER: Yes, sir. In homes. And provide an extension.

MR. CONINE: And provide the six-month extension.

MR. GERBER: Yes, sir.

MR. CONINE: Okay.

MS. ANDERSON: There is public comment on this item. Mr. Alfred.

MR. ALFRED: Madam Chair and Board members. My name is Everette Bo Alfred, County Commissioner Precinct Four, Jefferson County, representing the Court. I would just like to lay on your hearts, the simple facts.

The reason we reduced the houses, because when we went to Sabine Pass, we ran into obstacles, that it was going to cost us more. With that, we reduced it. But the costs of construction in Jefferson County and in the coastal area has dramatically increased. We really need the 3,000 extra dollars to get us over the hump.

I can show you the time line of where we are.

We have wasted no time. We have 32 homes ready to go, and 32 that is out there waiting. If we had the funds, we could. These would be the first homes that would be built by government funding in our region.

And we would please invite you to come down when this undertaking occurs. Because it will be tremendous for the people there, and the boost to the morale. We really need this, and we would hope that you would have the compassion to think about it. Could I approach the podium to give you this at this time?

MS. ANDERSON: Yes. Michelle will do that for you.

MR. ALFRED: I don't want to take too much of your time, but I do impress upon you the importance of continuing this ball to roll. It is very important. Thank you for your time.

MR. CONINE: Thank you, sir.

MS. ANDERSON: Thank you, sir. We had a motion on the floor and it has been seconded. Is there additional discussion?

(No response.)

MS. ANDERSON: Hearing none --

MR. BOGANY: I have a question.

MS. ANDERSON: Yes, sir.

MR. BOGANY: And I guess, Madam Chair and Mr. Gerber. Madam Chair, what is the difference in just making an exception to give them more money to do this?

MS. ANDERSON: Can I address that?

MR. BOGANY: Yes.

MS. ANDERSON: We have just done a statewide thing, where we raised the -- I mean. This is my opinion. But we raised it from 55 to 60 for everyone. And now to take on COM contract, you know. I think that is -- we will have everybody on this list that we just voted coming and asking for more, too.

And there are limited HOME funds. We need to get the housing built. We are grateful that Jefferson County has got this contract. We are going to let them build four fewer houses.

MR. BOGANY: Okay.

MS. ANDERSON: But I think to give them a different amount of money, you know, I can't. It is hard for me to defend that.

MR. BOGANY: Okay.

MS. ANDERSON: I never feel very strongly about anything. That is why I support staff's recommendation.

MR. BOGANY: Okay.

MR. CONINE: The six-month extension gets them to October 31 of this year. And my gut tells me they can't build 32 houses by October 31 of this year. Can someone answer?

MR. SPITZENGEL: I did fill out an affirmation form.

MS. ANDERSON: Yes, sir. Would you just introduce yourself.

MR. SPITZENGEL: All right, thank you. I appreciate the opportunity to come and speak before you. And I understand your --

MS. ANDERSON: If you would introduce yourself, sir. Your name.

MR. SPITZENGEL: Oh, I am sorry. I apologize for that. It is Bruce Spitzengel, President of Grantworks. What we have, I believe we have, is three different contractors that are doing this, or four. We have three different contractors. It is split between them. They have a history of working with the program. They have been successful in that.

However, if you feel more comfortable giving us a year, that is fine. We are certainly not going to object to that. That is not at issue at all.

MR. CONINE: Well, I would like to hear your explanation of why you asked for October 31. That is good enough for me.

MR. SPITZENGEL: Okay. Very good. We certainly feel comfortable with that. I would like to address the Chairman's comments in terms of the maximum amount being $60,000. What we are looking at, you have the information that was presented, you can see that in Sabine Pass, that we have two homes in that particular area, one is 69,000 and the other one is $77,000.

Part of that has to do with that the homes have to be elevated twelve feet. You then have to build an ADA ramp that is 240 linear feet. You also have to meet windstorm standards, which in the rest of the state, a lot of the part of the state, you don't have that problem. That adds additional costs.

MS. ANDERSON: And when you -- go ahead and finish. I am sorry. I apologize.

MR. SPITZENGEL: Quite all right. But I think that, you know, looking at Sabine Pass is certainly something that we should look at as an exception. Otherwise, we are not going to be able to build those homes at all. Those would just be gone.

You heard from the folks, and I am sorry that they have left. I wish they had stayed. They talked about the need for Sabine Pass. You are going to see this time and time again. Because when you have the type of criteria in your construction specs, it is going to cost more. The windstorm issue, being windstorm one.

And as a builder, you would appreciate the additional costs that go into that. It certainly would be above the $60,000 limit. And we are talking about in most cases, it is $61,432. We are talking about $62,216. Some of the additional costs, in looking at this chart is the low step. That is for a low step shower. That is an additional cost.

The only other option we have is to reduce the size of the home, rebid it. This is all going to cause delay. These people already in many instances lived in hovels since the storm. The situations that these folks are in is critical.

I will also point out that the program guidelines under the CDBG program that were approved for Southeast Texas Regional Planning Commission allow $100,000 for reconstruction per unit. We are well below that. This is really -- I am very pleased to present these costs and to be able to go forward with the additional monies. And I will finish up real quick.

With the additional monies, the extra $5,000 that you all just approved, and I really support that and agree with that. We are really talking about a small amount. We are actually going to be able to help another home, maybe two or three homes with those additional dollars. That is my request.

MS. ANDERSON: Sir, would you wind up, please?

MR. SPITZENGEL: Yes, I will.

MS. ANDERSON: Thank you. We haven't imposed a time limit today.

MR. SPITZENGEL: And I appreciate it. And I think that is my wish and desire. I think that is the wish and desire of the County.

MS. ANDERSON: Thank you. Thank you so much. Mr. Bogany?

MR. BOGANY: I have a quick question. Are you guys beating up on the contractors down there to get their prices in line?

MS. ANDERSON: Thank you.

MR. BOGANY: Because it seems as though --

MS. ANDERSON: Or on Grantworks, your consultant?

MR. SPITZENGEL: I beg your pardon?

MR. BOGANY: It just seems as though that we ought to be working with the contractors to keep their costs down. And since, okay, on a normal situation, because as I know contractors, when things -- they take advantage too.

And so it looks like we ought to be able to beat them down, or look at other types of housing. Maybe going in and system build housing versus stick housing. I am just thinking of some other innovative ways to make this work.

Because with system built housing, it is still windstorm protected. It still has to be built up. And maybe working and bringing in some competitors, to make these guys be a little bit more competitive in their pricing, and maybe we can squeeze it that way. Because we only have so much money. And I am just wondering what is going on with that.

MR. ALFRED: And it is a very good question. And I don't know if you know it, our Commissioners Court have given upwards of $200 billion in abatements. We have eight to $11 billion in construction that is on the books, that is rolling in now.

So right now, it is a contractor's heaven. You can be so much. But those guys know that they command a certain amount. And when you get to the -- once this contract come in from Regional Planning and I am a Board member there. And I appreciate the things that have been done from that standpoint.

You will see what I am saying. It is just that this part of our process -- we are the first to get where we are. And we are hitting it right on the head. But that is a part of -- it is a good and a bad. But it is good for our region. That is the best way for me to sum it up.

But the key thing that I really want to impress on this Committee, there are people living in substandard homes, that we can start building, and keep that process going right now. That I would hope that you have the compassion to look at that amount, because of the fact.

And I will give you an example. A 67 year old man decided not to move out of his house. His wife was 70 with breast cancer, to take care of her. The back of the house had a tree in it. He came stricken with pneumonia.

Guess what? I had to send him somebody from Health and Welfare to take care of both of them, because a neighbor called. Those are the situations that I represent here, and ask your compassion. Because we are ready to build homes for people just like that.

That is the only thing I can bring to you. And I won't try to bring anything else. And yes, I have beat up on Grantworks and have called in contractors. It is to me, it is about helping people. And you would get an opportunity for this to be the first homes built in our region with government money of any sort.

And it is proven -- if you look at the time. I have stayed. I have been what they call the bird dog on the court floor. This project and HOME building in our community. And I won't take anymore of your time. But I appreciate you for listening.

MR. SPITZENGEL: I do feel I need to respond to the Board members' comments in regards to two things. One, in terms of the costs per square foot. I believe that going out and getting new construction right now, you are lucky if you can get it $70 to $80 a square foot.

Is that not a reasonable number for new construction? And we are talking about here, a 900 square foot home for $55,000. That is substantially less than that. We have beat up on the contractors, and we are getting good prices. So I think we have responded to that, and been successful in getting good prices.

Second, in terms of the fees that Grantworks is charging, those are in line and in accordance to the guidelines that the Agency has set. So beating up on us, I don't see that really serves any additional purpose.

MS. ANDERSON: Thank you, sir.

MR. SPITZENGEL: Thank you.

MS. ANDERSON: Board members, I am going to withdraw my -- I am going to offer a suggestion, that we might table this to the March meeting. And that would give staff an opportunity to scrub numbers. I have some specific questions about the appropriateness of including homes in Sabine Pass, whether those are really -- whether it was appropriate to include homes in Sabine Pass that have a cost of 69 and 77, I think were the two numbers.

That is probably really not what this program was designed to serve, because of all the special elevation and ramping and all that kind of thing. It would let the staff look at that. Maybe there is some other locations.

Surely there are other locations in Jefferson County that are a little more like sort of the normal home unit that we normally build. And the staff could sort of scrub the numbers. And bring it back to us in March with a little more information. So I just offer that as a suggestion for your all's consideration.

MR. CONINE: I would also add, I think there is -- what is on the piece of paper in front of us is not a workable situation. Because I don't think they can build 32 houses that fast. With their own testimony, they say they don't have enough money to build them.

So if they don't have enough money to build them, they are never going to start them. So why approve an extension that doesn't work. So I would like to see -- I would second the motion to table.

And I would also like to ask staff to have -- there is all kinds of construction consultants running around to verify these numbers on a third party basis that we could get some input from that wouldn't cost an arm and a leg. And I would like to see it by the time we talk next month.

MS. ANDERSON: We are now ready to vote on the motion to table. All in favor of the motion, please say aye.

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Let's see.

MR. CONINE: How about a five-minute break?

MS. ANDERSON: Do you want a five-minute break?

MR. CONINE: Yes.

MS. ANDERSON: Does that sound like a good idea to everybody? We will be in recess for probably it will be more like ten minutes. Thank you.

(Whereupon, a short recess was taken.)

MS. ANDERSON: Okay. The board meeting will come back to order. We are ready for agenda item five, which is the real estate analysis item, an appeal on Ennis Senior Estates. Mr. Gerber?

MR. GERBER: Madam Chair and Board members, Item 5 is an RA appeal for Ennis Senior Estates. Tom Gouris, our Director of Real Estate Analysis will present this item.

MR. CONINE: Oh, boy.

MR. GOURIS: Sorry.

MR. CONINE: The break wasn't long enough for you?

MR. GERBER: Let me start. This agenda item is an appeal of the termination of a 2006 private activity bond tax credit and home application. The termination was based on the underwriting report, not recommending funding for the development.

The applicant, Life Free Builders, originally requested that the Department issue bonds of $7,685,000, allocate tax credits of $426,191 as well as a HOME fund loan in the amount of $1,900,000. The underwriting analysis concluded that an insufficient number of home units were pledged in order to qualify for the entire requested amount.

And even with the higher rents from the lesser number of HOME units, the loan would not be repayable in a normal monthly amortizing schedule. Tom, do you want to go from there?

MR. GOURIS: Sure. The applicant appealed the underwriting analysis and the termination. And I am sorry. By the way, Tom Gouris, Director of Real Estate Analysis for the Department. And they conceded in their appeal that they would need to -- they could delineate additional HOME units in order to be qualified for the entire HOME amount.

They also appear to indicate that that sort of structure that they had identified originally in the HOME application, the HOME portion of the application might be required to be a portion deferred, forgivable or at least a cash flow paid after ten years. They have been continuing to work with us and tried to come up with a structure that would work.

But at the point where we finished our underwriting report, we decided that we have kind of worked through as much of this as we could, and we need to move on. And if they want to reapply, we felt like that would be the appropriate way to deal with this transaction at this point.

MS. ANDERSON: I have public comment on this item. Will there be any questions for staff at this point?

MR. CONINE: Not at this point.

MS. ANDERSON: Thank you, Tom. Mr. Barry Halla.

MR. HALLA: Madam Chair, Good morning. Members of the Board, Executive Director Gerber. My name is Barry Halla. I am with Life Rebuilders. We are the developer of the proposed Ennis Senior Estates. Our appeal centers basically around two issues.

The proposed expenses, and the staff's conclusions as to how the HOME loan would have to be classified. We have got four items that I want to address specifically.

But before I get into those four items, I would like Bruce Woodward, who is with Mayan Management. Bruce manages our last senior property, the 252 unit Terrell Senior Terraces property. Ennis Senior Estates will be very similar, with just a few minor upgrades that we have learned. So I would like Bruce just to make a few brief comments if he would, please.

MR. WOODWARD: Madam Chair -- excuse me. Members of the Board. My name is Bruce Woodward. I am President of Mayan Management, a Dallas based project management firm. We, as Barry said, we manage the 252 unit Terrell Senior Terraces for Life Rebuilders. We have two years' experience with that facility.

It is a low density single-story senior-living community in fourplex buildings. It has a great number of social activities and for the most part, are handled by a volunteer resident council that needs very little onsite oversight by management.

The rents at Terrell Senior Terraces are slightly higher than the other family Housing Tax Credit properties in the area. The last two years, Terrell Senior Terrace's occupancy has averaged above 95 percent. Phase One of the Terrell Senior Terraces 72 units is now 100 percent leased. And Phase Two, 180 units is 97 percent leased.

The rents on the 60 percent two bedroom units are $760. And the market rate for the two bedrooms are $795. Based on my experience, and our experience with Life Rebuilders' senior product, we are absolutely convinced that the one bedrooms at Ennis Senior Estates will rent for $605 and the two bedrooms will lease for

$695, which is $65 lower than today's two bedroom rate at Terrell Senior Terraces.

We budgeted our expenses at Terrell Senior Terrace for 2007 at $3,400 per unit per year. I believe these two markets are very similar.

Life Rebuilders style of senior living is unique. It has been extremely well-received in the marketplace. Terrell Senior Terrace is one of the highlighted properties in this pamphlet, which is part of TDHCA's pamphlet here.

I would like to now turn this back over to Barry. And I will answer questions later after he is finished.

MR. HALLA: Thank you very much, Bruce. We have a couple of corrections we would like to at least offer on your writeup that you have in your board books. The very last statement is that the Department's rules and guidelines were applied evenly and fairly and as originally intended. I have to agree with that, but not in a timely manner.

We tried very hard, going back to September to get a readout from anybody, including Mr. Danenfelzer on how the HOME funds coming into a senior development should be structured, so that our underwriting would be in accordance with those conclusions. It was not until just days before the December 14th board meeting when we finally were told how that would be handled. And we were pulled from the board meeting at that time, so that we would have time to kind of regroup and represent at this time.

We appreciate this opportunity. We never anticipated the HOME funds coming into this property as being anything other than a loan. We never asked for a grant. We didn't anticipate a grant. We had proposed interest only during the first ten years, so that the deferred developer fee could be repaid. And then principal and interest on the HOME loan starting the 11th year. And the HOME loan being fully repaid.

In our appeal, we suggested two other alternatives. And I will get to those in just a minute. We are not -- we disagree with staff's conclusion on the two bedroom rents of $651. But for underwriting purposes, we will concur with that for right now. Although we have got 50 people on the waiting list, and there has been no problems quoting $695 to date. But we will go ahead and use the $651 for underwriting purposes.

Now, we do strongly disagree with their expense analysis. And the reason for that is that we have got a property that is one story. We have -- Mayan Management has managed it now for a little over two years. If we weren't doing it right, it wouldn't be close to 100 percent occupied and the rents that we are getting. So we are doing something right there.

And the new expenses are $3,400 projected for '07. That is, we are using 3,500 for underwriting, just to err on the side of conservativism so that there wouldn't be any criticism. We actually think we can run it for $3,400 per unit.

MR. CONINE: And what was it the Department came back at you at?

MR. HALLA: $3,800.

MR. CONINE: 3,800. Okay.

MR. HALLA: 38 and then I think it was slightly over $3,800.

MR. CONINE: Okay.

MR. HALLA: There was a statement made in the expense conclusions, comparable properties in the area, and our input. Hell, there is no comparable properties in the area. Most of the properties including the Housing Tax Credit communities in Ennis are two and three stories.

This is single story, fourplex construction, no elevators. Very easy to maintain. Low density. It just doesn't cost more that $3,400 to maintain those units. If we were guessing that number, that would be one thing. But we have got two years' experience with Terrell Senior Terraces.

I want to address the second to last paragraph on page 2 of your writeup. It talks about us owing $26,970 to Vinson and Elkins. That is not true. We have paid the third installment on our fee agreement with Vinson and Elkins.

We now have $45,000 invested in legal fees with Vinson and Elkins. The balance would be due when the transaction is closed, and that is per the fee agreement that we signed with Vinson and Elkins. It is not a big deal, but I just wanted to clarify that, because apparently, that didn't get changed in the board book.

We originally looked at this from the standpoint of interest only during the first ten years, again, so that the deferred developer fee could be repaid. We then anticipated that there were a couple of other options.

The statement is made in here, the lower rents with higher expenses. We see a couple of other options. The lower rents, and our lower expenses. Once of those options for the HOME funds would be to --we want to pay for it above the line. We have agreed with that for a long time now.

We don't want any, from cash flow only, it can be above the line. But what we are proposing and what we proposed in our appeal is that for the first ten years, while the deferred developer fee is outstanding, that half the payments due on the HOME loan would be paid. That is about $23,500 per year.

The other half would be added to the outstanding principal at the end of the tenth year, all of that principal plus 1 percent would then be amortized over, within the term of the bonds. Within the term of the bonds. I think it is important to note that as we go through the first few years of this property, paying off the deferred developer fee, those payments are about $90,000.

At the end of the tenth year, they are fully repaid. The principal and interest payments on the HOME loan then would be about $60,000. So the statements made in your board book about, I didn't quite understand heightened pro forma projections. But we have not done that, or put any additional pressure on that. If that can't work, and we don't see why it couldn't, and let me just pause it if I may.

It was not until a couple or three days before the December 14the meeting that we ever heard the term, deferred forgivable. I didn't even know what that meant until someone explained it to me prior to the board meeting. But if that is a problem, we would like them to sit down with staff and one, have a little bit more time to sell our expenses if you will.

But if that doesn't work, what we would like to do then is to propose that the 1.9 million be reduced down to 1.7 million. And at zero percent interest, the payments on that 1.7 million plus the deferred developer fee can be paid. If I am being confusing, I would like to clarify that. But there is a way by reducing the HOME funds slightly to in essence day one, full amortization of those HOME funds. We respectfully request that you approve our appeal. And it is basically along the lines of four items.

One, the guidelines on the HOME funds, we tried very hard to get it and we didn't get it until just a few days before the December 14 meeting. In your write-up, the other financing structure is not mentioned. And it was mentioned in our appeal process. And we think it is a viable alternative.

We never ever again, to repeat, anticipated asking for a grant of those HOME funds. And will be more than happy to have a lien against the property and a due on sale or refinance clause that clearly protects the TDHCA to get these HOME funds back.

The third point is, as mentioned about the lender and the syndicator. Well, the lender is here today to make a few brief comments. They have always looked at their debt as being senior. They always knew that the HOME loan would be a subordinate. So whether it is above the line or below the line really was never of great concern to them.

And number four, and most importantly, these HOME funds can be repaid within the guidelines that I think can be satisfactory to underwriting on this transaction. Ladies and gentlemen, we have got 50 people, 50 seniors waiting for this housing. We have got other people calling all the time.

Life Rebuilders has just a little over 500,000 invested in this development to date. The plans are ready to go. They have been approved by the municipality. Every stick of lumber has been costed out. All the roofing. Everything has been costed out. Everything is ready to go. There is nothing holding us back at this point.

We would like to see you approve the tax credits and the HOME loan funds today. And we will be happy to sit down with staff and work out the details. We could do that this afternoon, or stay over and work out the details with them any time tomorrow, too. So if I can answer any questions. I know that Steven Lipkin, the bond underwriter, has a few comments. But if I can answer any questions at this point, I would be more than happy to.

MS. ANDERSON: Mr. Lipkin? Thank you, sir.

MR. HALLA: Okay. Thank you.

MR. LIPKIN: Good morning, Madam Chair and members. My name is Steven Lipkin. I am Managing Director of Fixed Income at National Alliance Securities, and represent the lending group.

The first thing I would like to say is I do request that the Board approve the appeal for Ennis Senior Estates. But I would like to make one clarification. We certainly anticipate and expect and do care that the HOME funds get repaid. It is of utmost importance. We understand what the purpose of these HOME funds are and that is so that they can be repaid, so that they can be reused for other projects, for the good of the State of Texas, and the people of the State of Texas.

I understand that what we have presented, or what Barry has presented isn't necessarily what was put into the application. But I also want to state that we can make this work within your guidelines. Under what was presented, I believe by the staff, a loan at 1.675 million on a straight zero percent interest, for the amortization, would be payments of $41,875. I believe that is pretty correct.

If you used the expenses from the developer, that would increase in a line by about $47,400, therefore giving you the debt service coverage that you would need to pay back those loans. The reason why, from the lending perspective, that we were able to go with the developer numbers is because one, they currently have a project that is 30 miles away, that I have visited four times. There is no deferred maintenance.

They are currently running it. I have gone out there without the developer. I have looked to see how the operation is being run. And it is being run in a manner that the State would want their operation for any income, for any multifamily project to be run.

I understand where the staff is, and where they use averages, and how they get to their numbers. But this is a seniors project, so expenses are a little bit different. It is a single level so things work a little bit differently. So from an underwriting perspective, myself and the other members did not have a problem going with the developer's numbers, even when we re-crunched our numbers.

We actually have structured this so that if he did not meet his 695 payments, we underwrote it the same way the State did, and even a little bit lower on the income side. So we are not upset at all with the income side as much because we took a worst case scenario which sort of matched theirs, and we sent a little bit lower.

But we still did use the numbers, simply because we had an exact product that we could look at. And this is going to be very similar to that product. The expenses on Terrell, I think, are about 3,375 for last year. And I think that is in the board book. The actual numbers, I think, that the State had for this project, I believe, was 3,818. And we were running for this new project, 3.529. But we have structured on the bond side, this is a tough project. Otherwise, we wouldn't need HOME funds.

So we are concerned as well, to make sure this project works. Additional things that we have put into this project to make sure that this project works is we have three months of lease-up reserves. We have three months of operating reserves. I am sorry. We have six months of operating reserves. We have six months of debt service reserves.

We have 18 months of capitalized interest. This project is only supposed to take about nine months to build, but we have 18 months of CAPI [phonetic] and another six months of debt service.

So I believe that if there are any problems that occur, that we have assurances in place to make sure that we can get over the hump and get this through lease-up and get them to their numbers that they need to be. I am certainly available for any questions at this time. Thank you for your time.

MS. ANDERSON: Thank you.

MR. CONINE: Can we get Mr. Gouris back?

MS. ANDERSON: You bet we can. I want to talk to him, too.

MR. CONINE: Now, what do you say?

MR. GOURIS: Well --

MR. CONINE: The lender just said you were full of you-know-what.

MR. GOURIS: That may be true, sir. But that is not what we are debating here. In our underwriting report at the back of the materials that you have, if you look at page 7, the expense section goes into some detail with regard to the comparisons that they are referring to, to the Terrell Seniors.

And our -- you know, with the information they provided to us regarding Terrell Seniors, we looked at what they provided, and we evaluated those areas where we were off, on a line by line basis. And the three areas that we were most significantly off were general administrative, water, sewer and trash, and taxes. And those areas, each of those areas, their estimates or their actual performance at Terrell Seniors was higher than our number, and their projections were lower still.

So we stayed with our number, because their actuals at Terrell Seniors were higher. Those were the areas that we are the most off, and had the most differences. And those are the areas, you know, we didn't have any room to move from. We haven't -- you know, we have relayed that to them in this analyses. That is the grounds that they would have to kind of come back and say well, we really meant something else with our other expenses or whatever that is.

But we don't ever look at the overall number as our end all. The overall 3,400 a unit isn't what we look at. We look at it line by line, and we try to address each line item to see if there is some nuance or issue associated with that.

MR. CONINE: Let me ask you a question related to that. Really, the only number that I think, and we, you and I specifically have gotten into this discussion as it relates to same developer, same project, different location, on the construction side. But now we are talking about, you know, the rents and expenses associated with the particular deal. I have a lot of sympathy for same developer, same virtual construction, different location, 30 miles away.

So the one expense thing that jumps out at me, because insurance is going to be the same, and G & A is going to be the same. Is how is the county handling the tax valuation and ultimate assessment for tax credit properties. And is it significantly different than however Terrell is handling it.

MR. GOURIS: And again, when you look at those items, taxes was a good example. The taxes at Terrell Seniors from the information that we received were higher than what they are projecting for this transaction. We know their information. In fact, we asked about, are they looking for a property tax exemption, because that is something that they could have pursued that would have reduced their expenses.

It is not something they are claiming, so we didn't include that. But their Terrell Seniors expenses were higher for taxes than what they are projecting. We stayed with the number that we had, instead of moving up to Terrell Seniors. If we had used Terrell Seniors, we would have had a higher number for that line item. Again, we look at it on a line item by line item basis. They are correct in saying that overall --

MR. CONINE: So somewhere else, you used a lower number than they did.

MR. GOURIS: Somewhere else. But that is -- we laid out how our expenses are. And we haven't gotten -- we have got no feedback as to this is where the difference is.

MR. CONINE: All right. So talk to me about their income side for a minute. You have got 50 people signed up. Most of them say they want a $695 two bedroom. How or what market analyst come from, once they get 51.

MR. GOURIS: You know, we have to rely on what their market analyst gives us. And then we look at what other issues there are in that market. Or in this case, because they could show that the family units in Terrell might be renting for a little bit less than the senior units. There might be some adjustment based on that.

In the end, though, we came up with something fairly close to where the market analyst was. And felt pretty comfortable where our expenses were. With regard to the 50 folks on the waiting list, again, we didn't have any documentation of that.

MR. CONINE: So that is information that came later. Again, I know where Terrell is and I know where Ennis is, and there is not going to be a huge amount of difference in income of each county. So in my mind, if his market analyst said 651, which I doubt that he did because he wouldn't have submitted 695 if his market analyst said 651.

I am confused at how we got off track. But again, I am sympathetic to the same developer, same sort of project, 30 miles away, serving basically the same source of citizens in East Texas.

MR. GOURIS: And his market analyst did have some different numbers in there. When we went back in and looked at what other transactions we had in the same location, in Ennis, we found that those properties that we have in there, they are not seniors, but there are properties that we have meeting these same affordability levels are well below the expectations that -- that this project has. There are family units and there is some occupancy issues there. And that might be why they are so low.

MR. CONINE: Yes. Well, old people can afford to pay more than a family can, you know, for their two bedroom unit.

MR. GOURIS: Yes. With the number of vacancies, they can also afford to live at a new family project for considerably less. But again, while that is an issue, that wasn't what they are driving home today. They are driving home today the expense issue.

MR. CONINE: Right. And again, I have sympathy for their thoughts there. I think this Department should look at seriously a variance or a different situation. I know we handled the construction side in the QAP, but I don't remember us handling this sort of issue when it came to income and expense.

MR. GOURIS: And in fact --

MR. CONINE: Being able to override what we normally would consider various standards within the Department.

MR. GOURIS: In fact, we had an example of that, for the annual cycle last year that caused us to put some language in to provide some more flexibility on the expense side as well. The difference here with our normal transaction is that, you know, there is not just tax credits which aren't repayable. There is not just bonds which has a lender that is willing to take the risk. It is the 1.9 million in HOME funds -- the Department --

MR. CONINE: Right. And I am real uncomfortable in negotiating a HOME loan right here at the Board dais. And I would think, I would split my allegiance to a certain extent, in wanting to grant the appeal on the rents and the expenses, but not on the HOME funds. Because I am not capable of doing that from up here.

So my gut feel tells me to table this for another month, and let the two sides try to work it out one more time. One more go at it.

MS. ANDERSON: Can I ask a couple of questions?

MR. CONINE: Sure.

MS. ANDERSON: Have you re-underwritten this with the things that Mr. Halla talked about, you know, with the different repayment terms and, you know, the reduction in HOME funds from 1.9 to 1.7. I mean, have you -- because I am not -- you don't use an appeal to re-negotiate terms of a loan. I mean, this shouldn't be on the agenda, if that is what we are about. Because that is not what an appeal is for.

MR. GOURIS: We did look at it with the million .675 loan. And this is using our income and our expenses, we determined that there would be -- that they may be able to repay the HOME loan, but they would not then be able to repay deferred developer fee that we thought would be required. And so we weren't able to go forward from that basis.

You know, if the appeal isn't on the income and expenses, I guess we need to be more specific on what numbers the Board would like us to use for income and expenses, so we can underwrite at those numbers. We have established from our underwriting perspective, followed our guidelines and looked at the information provided, and feel like we have presented to you the best information that is available. And haven't gotten from the applicant a specific, here is the expense line that is different, other than, we think it should be 3,500 a unit.

MR. CONINE: 3,800.

MR. GOURIS: Well, we are doing it at 3,800 a unit. They are doing it at 3,500 a unit.

MR. CONINE: Okay.

MR. GOURIS: And if the Board would like us to underwrite at 3,500 a unit, we can do that.

MR. CONINE: No. I don't want to call that. But I think again, another 30 days would give the applicant after hearing both sides, it would give the applicant time to furnish some more information that you have now said you would like to see. And, you know, if he can't prove up what he says is reality, then we'll come to a different decision this time next month.

MS. BOSTON: Actually, the bond reservation expires on March 5, so --

MS. ANDERSON: Well, I understand that. But I am in concert with Mr. Conine. I am not going to get rushed into doing something when we have got these HOME funds that are very tricky to deal with and the Department is on the hook, not the developer when something goes wrong, we are on the hook for these funds, and they have to be paid out, paid for out of non-federal funds. And so there is a level of scrutiny that -- and the other thing I will say is, that this deal has been kicking around in one form or another since 2005.

And so you know, and I know that is frustrating for Barry. He has had to reapply more than once, I am guessing. But, you know, I think this Board wants to put housing on the ground. But, you know, we have got to understand what we are getting into when we --

particularly when we have a HOME loan attached.

MR. BOGANY: I have a question, Madam Chair. Is the problem with the expense side?

MR. GOURIS: The problem is that the expense side and the income side on the structure of the HOME loan, on the potential -- I mean, we see a lot of problems with the transaction. And they have picked on a couple of them, which will help. But then we are still going to have to take the, I think, in my mind, at this point, I think we will still have to take some leap of faith that the HOME loan is structured in a way that provides as Barry said, an ability to defer or to pay half of the HOME loan for the first ten years in order to get the deferred developer fee paid. I mean, that is sort of the bottom line here.

And that is just not a structure that we, based on our rules, will recommend to you all. If you all want to pursue that kind of structure, we'll of course, underwrite it that way. But based on the rules that we set out, that you all have set out for us, we don't do a stepped interest rate kind of structure.

MS. ANDERSON: I would want to see it underwritten to see what it looked like, to see if I want to vote to make an exception, I guess. So I wouldn't be comfortable doing it today without seeing that analysis.

MR. CONINE: You all are just, in my mind, you all are too close not to try to work to get there. You are not that far apart.

MR. GOURIS: I think we have been trying. I mean, I don't think this is something that has just come up today. It has been something that has been -- you know, we worked long and hard in the fall. October, November, December, when we got into this. And had several delays in bringing this to you all, because we thought we were going to get some additional information or help.

And we did get some additional information, but then it didn't help the situation. And like the Terrell Seniors numbers, when we looked at that closely, we decided that we couldn't in good conscience say, yes. The overall number is right, so we are going to use that. We had to look at it on a line by line basis.

I mean, I don't think -- I think we have given this -- I have had two different underwriters plus our review underwriter, plus myself working on this, over the last number of months. And I don't think we have given this deal short shrift in any way shape or form that way.

MR. CONINE: I am going to move to table until next month's meeting.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

MS. ANDERSON: Oh, I am sorry. You can't discuss a motion to table. All in favor of the motion, please say aye.

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. The next Agenda Item 6 is the presentation, discussion and possible approval of Department rules. I do have one person that wants to make public comment. Is Mr. Opiela here, just so I know. Yes. Okay. So it is not yet. Okay. Your Gardens. I see. It is not on the rules. Thank you. It says, 6E but 6E is colonia housing standards.

MR. OPIELA: Sorry.

MS. ANDERSON: Okay. All right. We won't forget you later. So there is no public comment on any of these items. So at the Board's discretion, we could take them as a group.

MR. CONINE: I move for approval as a group.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 7 concerns, Item 7A has been pulled from the agenda. Item 7B. So Item 7C is a request for reallocation of Housing Tax Credit and extension for the commencement of substantial construction for Wesleyan Retirement Homes.

MR. GERBER: Madam Chair and Board members, Item 7C is a request on behalf of the applicant for reallocation of Housing Tax Credits and the extension for commencement of substantial construction of Wesleyan Retirement Homes. It is a very unique request and for context, it is similar to a development that you considered several years ago, the Kingfisher Development.

This acquisition rehabilitation application was awarded Housing Tax Credits in 2005. Federal regulations requires a development to be placed in service, which means essentially completed by December 31 of the second year following the award, which in this case would be December 31, 2007. In this case, the applicant has indicated that they do not believe they can satisfy this deadline. Because this is a rehabilitation, the existing tenants need to be relocated.

The applicant chose to use another property that they were building as the place to relocate the tenants. However, that building then faced construction delays. The applicant was not able to relocate the existing tenants as they had hoped into this new building and has not utilized any other options for relocation. Therefore, they have not begun the rehabilitation of Wesleyan Retirement Homes.

The applicant is requesting permission to return the 2005 credits which effectively adds them to the 2007 credit ceiling, and that the Board simultaneously reallocate the credits back to Wesleyan Retirement Homes from the 2007 credit ceiling, allowing the development to be placed in service by December 31, 2009, instead of 2007. The applicant's counsel asserts that the Board has the authority to do this through Section 42 of the IRS Code and through our 2005 Qualified Allocation Plan and Rules.

The applicant is also requesting an extension to provide the documentation for the commencement of substantial construction if the Board approves the reallocation. Part of the basis of the applicant's assertion that the Department is, that the Department has the authority to take this action relates to QAP language which suggest that the Department can reallocate previously awarded credits if they were invalid or the owner was not responsible.

Staff does not believe the credits to be invalid in any way, and while unfortunate, does believe that the owner was responsible at least in part, because the time lines for reallocation are a clear function of the developer's responsibility relating to readiness to proceed. It should be noted that historically speaking, this is a highly uncommon request, and the Department is strict in following adherence to this federal requirement. Staff is not recommending the reallocation or the extension.

MS. ANDERSON: Any questions for staff at this point? There is some public comment on this item.

MR. CONINE: No.

MS. ANDERSON: Mr. Chris Spence.

MS. MCIVER: I know I don't look like Chris

Spence. We would like to go in a certain order. Is that okay?

MS. ANDERSON: Yes. Go.

MS. MCIVER: Chair, Board, Mr. Gerber. My name is Diana McIver, and I am President of Diana McIver and Associates. And our firm is serving as a consultant to Wesleyan Homes in the development of this senior facility. We are here today requesting your assistance in recasting a 2005 allocation of tax credits as a 2007 allocation. And this process of reallocating an award of credits has been done by the Board previously.

And I want to walk you through our reason for our request. Wesleyan Homes is a congregate style existing senior community constructed in 1960 in the heart of Georgetown on land donated by the City. It is a five story brick structure with a full scale service kitchen.

And the units themselves are SRO style units for the most part. There are a few apartments, but most of the units have a living area and a bath, and then the residents take their meals in the full scale kitchen. In 2005, Wesleyan Homes, a non-profit, was awarded Housing Tax Credits to rehabilitate Wesleyan Retirement Homes from an 82 unit dormitory style facility to 51 apartment units, one and two bedrooms.

We also received Housing Trust Funds and five project based rental vouchers from the Georgetown Housing Authority. Now, again, these units currently are occupied by frail elderly persons, and it has always been Wesleyan's plan to move these residents to a new facility currently under construction in Georgetown. And these particular residents, these 82 residents actually, the bulk of them do not actually qualify for the tax credit units because one, they are very frail, and they require services, including meal services and health services. But also, most of them are over income for the tax credit program.

Now, several good things have happened since this award was made in 2005. One is that Wesleyan secured $200,000 in affordable housing program funds of the Federal Home Loan Bank. And then even more importantly, a few months ago, we secured $1.7 million in a 202 grant. That brings with it 23 units of rental assistance.

So that will allow 23 units to be occupied by persons who pay no more than 30 percent of their income towards their rent, plus the five vouchers that we have from the Housing Authority. So all of a sudden, we have turned this tax credit facility into a facility where more than 50 percent of the residents are going to have deep subsidy. We are going to be able to serve seniors in Georgetown without ability to pay tax credit rents.

And furthermore, this whole concept of combining Housing Tax Credit and the 202 program is a new initiative with HUD. So HUD is still in their learning curve and we are anticipating that it won't be the simplest transaction, but it can be done, and it will be done. But it is part of a new initiative, an initiative that actually even has the support of the Office of Management and Budget. So a very good initiative.

Due to extraordinary circumstances, and I am going to let Chris Spence, who is the CEO of Wesleyan Homes, tell you about those. But due to extraordinary circumstances, beyond the sponsor's control, we anticipate that we cannot meet our placed in service date, which is December 2007. The new retirement home that we are going to relocate these folks to is not going to be completed due to this situation that involved the City of Georgetown.

It is not going to be completed until July of 2007. And we simply cannot complete this major rehab of this facility in six months. We really, we need eight to nine months, possibly ten months for that construction process. Now, typically, we would work around a problem like this. And we would do it in a couple of different ways; one, by beginning the rehab, building by building or floor by floor, or two, relocating residents to suitable accommodations, hotels, apartments or both. These aren't options under these circumstances. We are converting SRO units, 82 of them to 51 apartments. So the math doesn't work as far as the people are concerned. We can't -- even closing one floor doesn't allow us to properly get around the math of the issue of trying to get 82 into 51. We are just not there. But even more importantly, with that kind of rehab is, as you might suspect, this building has asbestos. And we have been advised that we should close the entire building down. Not do it floor by floor, because of the asbestos issues, and how that would relate to the senior residents, or any residents, for that matter. This second point is, these residents are old and very frail, and they depend on these services. And so it is not a situation of us being able to relocate into hotel rooms or into other apartments or even into other senior facilities. We simply cannot do that because we are talking about people who depend on these services, and they have got to go to a facility that will meet their housing and their service needs.

And we just simply, although you could do this for younger families, and I have done it for younger families, to relocate 82 seniors into some other inappropriate environment is going to have grave and serious consequences for these frail seniors. It just cannot be done.

Although our request seems like an unusual request, the Board has granted this type of request in recent years. In 2004, similar action was take on behalf of Kingfisher Creek, Project 04000 here in Austin. Now, I want to emphasize that our request is somewhat different, as we are anticipating a problem and we are requesting your assistance in advance.

And we are doing that based on the many times I have sat in this audience and heard the Chair say to us, please don't bring us your problems after they exist. So we are saying, we have a problem before we have a problem. And I realize that technically, that gives your counsel a little difficult because we are saying that the tax credits may be invalid. They aren't invalid today. That is absolutely true. But there is a strong likelihood that they are going to be invalid.

And I think it is more appropriate for me to be here today February 1, than to be here next November or December saying, I have a problem, we can't place in service. And so we are trying to do this in advance of really needing the assistance. So we are trying to be here in advance of what we believe the problem is going to be.

With me here today are two people who can also speak to important aspects of our request. Chris Spence, who is the President and CEO of Wesleyan Homes, is going to talk to you about why this development was delayed, beyond the sponsor's control. And Fran Hamermesh, an attorney with Davis and Wilkerson, is going to talk through the legal issues of how this can be done under Section 42 and within our State's QAP. Thank you.

MR. SPENCE: Madam Chair, I am Chris Spence, the President of Wesleyan Homes. I will take just a second. I do want to apologize for being a problem. But this is a terrific project with a lot of potential to help people, and to help people not only with the housing, but with the rental subsidy.

What happened to us was that we had the land purchased, and a plan to build a replacement facility for this facility that we built in 1962. And we had our plans filed and through the City of Georgetown planning process. But at the same time, there was a local developer that had the adjoining 70 acres.

And he came to us and said, if you will share some costs with us, we will put the road in. And instead of bringing your private drive out onto Williams Drive, which is a Farm to Market four lanes with the center turn lane, 50 miles per hour, that you will now have some access on a residential street. And we can get, if we cooperate together, we can get a light there. And so there was a cost savings to us. And a real safety issue for our residents on that new project.

And what happened was, as his project got held up with the Planning Commission in Georgetown on some drainage issues, they are saying, the planning people, yes. We have reviewed all your stuff, and we are ready to stamp it, but we can't give you a building permit for a project that is going to have access on a road that we haven't approved the road yet. And the road was the other developer's. So that was a six or seven-month delay in a very tight project.

I think it is true that we can't relocate those residents in any way. I mean, we drive them to the doctors. We are their transportation, housekeeping, activities, chaplaincy, you know. These are people that can't live alone, but don't need to be into any kind of health care, and they don't even need assisted living.

But they do need the full services.

So on behalf of the HUD subsidies, on behalf of the Georgetown housing subsidies that are available, on behalf of the Wesleyan Homes being part of the United Methodist Church and operating in Georgetown since 1962, we have been doing in that facility $117,000 in this past year of charitable subsidy for residents and we will continue to do that.

We have a great community, a great group of volunteers that will continue to support those residents. And I think it is just too good, too important a project to let it fail. So if there is anyway within the rules, we strongly urge you to do it. And thank you. Fran?

MS. HAMERMESH: Thank you, Board members and Mr. Gerber. My name is Fran Hamermesh. I am an attorney at Davis and Wilkerson here in Austin, and I am representing Wesleyan Homes on this project. Just first want to reiterate that this is a 2005, this was a 2005 allocation of tax credits with a placed in service deadline of December 31, 2007. And a commencement of substantial construction deadline of December 1, 2006.

The QAP sets two preconditions for making the kind of request that we are making today. That the credits may be invalid or that they are invalid. And then secondly, in either case, the owner cannot be responsible for the invalidity.

Here, staff has recommended against this request, saying that the credits are not invalid. And the staff has suggested that it cannot comfortably say that the project is not responsible for this situation.

First, we would respectfully point out that if the extension for the commencement of the construction is not granted, the project will not have met the commencement of construction deadline, and the credits will be invalid. As long as that request is pending, the request may be invalid. So in either case, we do or will fall into that category and meet that precondition.

Second, you have heard that the delay in the commencement of construction is the result of circumstances beyond the control of the Wesleyan Homes. Wesleyan Homes is a provider of housing and care for the elderly, could not physically have commenced the rehab efforts in advance of its ability to relocate these residents to a safe and proper location for them.

Request for extension was properly and timely submitted in accordance with the QAP. Extension requests must be submitted no later than the date for which an extension is being requested, and will not be accepted any later than the deadline. In this case, it was December 1, 2006. And the request was submitted by that deadline.

Again, I would emphasize that the reallocation is appropriate and in this case, will serve the interests of the Department and the community involved, as well as the public policy and the intent of the low income Housing Tax Credit. The project has invested already considerable funds in this rehabilitation project. As a result of its efforts, it will bring additional funds from federal sources into Williamson County.

Denial of this request will impose a very harsh penalty for something that is not the fault of the project. That penalty will be borne by the residents of the community, and by the State in not having this project go forward. The money which the QAP, which the credits are or may be invalid gives, in that provision of the QAP, gives discretion to the Department and gives you the authority to find that in good cause, the reallocation is warranted in this situation.

We have also had available to us as a consultant an attorney who has formerly head of the Michigan State Housing Development Authority, low income housing tax credit, program and general counsel to that state board. I would respectfully request that the Board consider a letter from Mr. Ted Roseboom [phonetic] in support of our position. And I have copies for the Board members, if I could.

MS. ANDERSON: If I could say, just wind it up.

MS. HAMERMESH: Okay. I will wind it up. I just want to emphasize that no one is harmed by the Board's decision to grant this request. We are not charting new waters. You can do it. You have done it before. But there is significant good to come from a positive decision.

One, reallocating this tax credit award into an '07 award allows us to preserve those other valuable sources of financing; the AHP grant, those valuable Section 202 funds, and to construct a project where more than half of the units benefit from deep rental subsidies. It is a beautiful structure. It also, a couple of other goals of the Board that are really continuous. In this one is rehab.

And I know you want to foster rehab. But it way exceeds the Board's goals of serving persons with incomes at or below 30 percent of median income. You all know me. I take this program seriously. I take deadlines seriously. I take the rules seriously.

In nine years of working with this program in

Texas, I have never once come before this Board asking for an amendment, asking for an extension, anything. You see me a lot, but it is on policy issues. And I really do want to ask that you consider this request, because I really do think this is going to be a valuable project for the City of Georgetown, and I would hate to see it lost. Thank you.

MS. ANDERSON: I just have one question, Diana. How long have you been under contract with this developer, general partner?

MS. MCIVER: Since the preapplication was submitted in 2005. Yes.

MS. ANDERSON: Okay. Thank you. Questions for staff?

MR. BOGANY: I'd like to hear staff's response.

MS. BOSTON: Do you have a specific question?

MR. BOGANY: I would just like to --

MS. ANDERSON: I would like to understand that that impact -- if we were to grant this extension, okay, and the reallocation of credits, what happens to the 2005 credits?

MS. BOSTON: They are technically returned to the State, and what would normally happen whether you did or didn't reallocate them to this property is they would roll into the 2007 credit ceiling in the same region, in the exurban category which is Region Seven. In this case, because you would give it back to them in the same region in the same exurban category they basically are just 2007 credits.

MS. ANDERSON: They just lose their identity as 2005 credits, get added into the bucket, come out of the bucket as 2007 credits?

MS. BOSTON: Yes.

MS. ANDERSON: Thank you.

MR. SALINAS: Why don't we go ahead and approve the project -- my motion is to approve the project.

MS. RAY: Second the motion.

MS. ANDERSON: Yes. Ms. Boston?

MS. BOSTON: I would like to know, we didn't have this in the writeup, because we had it as a do not recommend. But we would need to be sure that unless you waive this, we would need to be sure that it adhered to the 2007 QAP.

Essentially, that would just require us looking for wherever the '05 QAP is different from the '07 and having them certify that they meet those differences. I would also like to note that with the new fund that they mentioned, the 1.7 million, it could have an impact on the credits needed for the property.

And my suggestion would be that because it is a 2007, it will still need to carry over in 2007. And that we would reevaluate the credit amount at the time of carryover, if you all go that way.

MR. CONINE: I have got some more questions before the vote is taken. Do you want to say something, Counselor?

MR. HAMBY: Since Diane is going to jump up here and say that you know her and she has done this, she has never asked for this before, I am going to come up here and say, I rarely say this. I think this is extremely bad policy on your part to do this from a legal perspective.

Yes, technically you can do it. You can waive any single rule in the QAP that is not absolutely statutory. This concerns me as your General Counsel. Yes, it is legal. I am not going to argue that point. It is of deep concern to me, because you are talking about -- even this man said, they did it for cost reasons.

Every developer that comes up here says they had their plan finished. They all want to cut costs. That is the reason they did this. Pure and simple. Cost.

MS. ANDERSON: I have a follow-up question because that occurred to me too. And I will give the applicant a chance to answer this in a minute. What occurred to me was, where was the planned entrance before they entered into discussions with the developer about the shared road.

But I have a question, Mr. Hamby. The applicant's counsel said something about if the extension is not granted, the credits will be invalid.

MR. HAMBY: They actually lose them. So from their standpoint, yes. They are invalid. I would want to see it. I would want to get our tax credit counsel to give an actual detailed discussion of that. And we have not addressed this issue with Tony Friedman exactly, because we have been working with him on other issues, and getting his contract renewed so we can actually pay him to give us advice.

Which I know the other counsel believes that we should always pay our attorneys. But we have not gotten that official word as to exactly how it would be invalid, if it would be invalid. But we believe they would lose the credits, and that would be the question of probably why they would see them as invalid.

MS. ANDERSON: Which probably explains why they submitted a preapp, in case that shoe fell.

MS. RAY: Madam Chair?

MS. ANDERSON: Yes, ma'am.

MS. RAY: I would like to speak in favor of granting the waiver. The thing that interests me about this particular project is that it is a senior project. It is a senior project, and I can appreciate the creative and innovative means of financing the project and taking care of the needs of both the low income elderly and not at the same time penalizing those elderly residents that had the foresight to plan for their future.

I think this creativity in this particular project may be able to set the stage for future elderly projects that could marry both the low income as well as those that have planned better for their future. Our living population is increasing.

I think we need to be creative in the ways that we address the needs of housing for the elderly. And for those reasons, I am strongly in favor of approving this applicant's request.

MR. CONINE: Can I ask one question?

MS. ANDERSON: Yes.

MR. CONINE: On page 2 of 2, it says 2005 allocation is 368,190. And then it says 2008 allocation 21,640. Could someone explain that for me?

MS. MCIVER: (No audible response.)

MR. CONINE: Okay. So on page 2, right above the little list right there. Do you see what it says there? Why would we have an additional allocation of credits. Do you not have that?

MS. MCIVER: Do you want me to answer it for you real quickly?

MR. CONINE: Sure.

MS. MCIVER: It was because of the hurricane cost increase policy.

MR. CONINE: Oh, okay.

MS. MCIVER: And '05 has got an '08 as well.

MR. CONINE: Got it. Okay. You can answer one more question from me. Was this project originally contemplated with the HUD 202 grant?

MS. MCIVER: No, it was not. We did that as we had -- saw that we had quite a cost gap. We have some very expensive renovations to do in the way of total sprinklering of the building and the energy efficiency and that kind of stuff. And we sought the HUD 202 grant to fill the gap.

MR. CONINE: Okay.

MS. ANDERSON: I have another question for Mr. Hamby.

MR. HAMBY: Okay.

MS. ANDERSON: Thank you, Ms. McIver. I man, it is very usually for you to sort of stick you nose in and tell us not to do something. But I didn't hear, or I wasn't listening well enough, so I ask. I didn't hear the reasons why you are taking the position you are taking.

MR. HAMBY: It is a very aggressive waiver of our rules. There is no application, there is no direct process. It is not a carry. It is not a forward commitment. It is not anything -- we haven't seen anything that applies to the '07 credits. We haven't looked at it from a standpoint of what does it do to other projects in that area. It will start another clock running. There won't be any other senior deals that could happen, that may already be in there, because of the one mile one rule. There will be issues that have come up that we have not looked at from any of those standpoints. And again, I still fall back to your waiver rules are for a good cause. That is the reason this Board has the approval or has the ability to waive almost anything that isn't statutory. And the good cause here is that the developer chose to change a different way for relocation to save money on this project. And I do not find that to be good cause, and that worries me whenever a Board waives things that are not for good cause.

MS. ANDERSON: Thank you. Mr. Conine.

MR. CONINE: Much as I hate to, I am going to have to agree with Counsel and voice my opposition to the motion that is on the floor. I believe he is right, in that all developers look for cost considerations and cost reductions as ways to improve the project.

And it seems to me as they had a way to get access to the property before, when they applied for it, or we would have turned it down in the underwriting process. Sit down --

MS. ANDERSON: Wait, wait. We have finished public comment on this, unless the Chair exercises some discretion. So you all take a deep breath and let the Vice-Chair finish.

MR. CONINE: Secondly, there are a lot of developers that run into cost issues after an award of a tax credit. And I certainly applaud their efforts, and creativeness in getting the 202 grant. And I think it is something we should consider moving forward. However, I think there is at least in my mind, from my storied history on this Board, probably a better way to do it. And I beg to differ with Diane's issue that this Board has done this before. I don't think we have. And the reason we haven't is because on the Kingfisher example she used, considerable amounts of money had been expended on that project at the time we made the decision to do what we did. And it became more of an issue of saving a lender and saving a lot of bankruptcy if you will. Where in this case, that money hasn't been expended. Granted, the issue virtually is the same, in that the placed in service date seems to be in jeopardy. But I think the appropriate way for us to consider something like this would be for them to go ahead and apply for the 2007 round of credits. And if for some reason, they don't get in the money, we can use our discretion at that point in time, understanding that the money that has been expended by the developer at this point, and still either grant them. In that case, it would be a 2008 forward, probably. But, you know, my memory is going to be pretty good come July and listening to the creativeness and the issues related to this particular project. When they applied for this project in 2005, they knew they had to move those people out of the units, in order to rehab them. And they knew that if what they had planned on doing, Plan A didn't work, they were going to go have to go to Plan B. So I view this as just -- it is a great project. It is a good idea. We want to support it. But we want to support it in a different manner than it has been presented here. So I would speak against the motion.

MS. ANDERSON: Further discussion by the Board? We have a motion on the floor.

(No response.)

MS. ANDERSON: Ready for a vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(Chorus of noes.)

MS. RAY: Three for, two against.

MS. ANDERSON: I am sorry. May I see the ayes. Would you please raise your hands, please? The motion carries. The next item is 7D. These are determination notices for credits with other issuers. And I would suggest that we could take this as a group. Yes, sir.

MR. BOGANY: Can we get a break?

MS. ANDERSON: We are going to take a lunch break. We are going to vote this first. Yes. That is for everybody's edification. We are going to take a lunch break after we finish this agenda item 7D.

MR. GERBER: Madam Chair, Board members, Item

7D is the issuance of determination of Housing Tax Credits for taxes and bond applications with other issuers. Just handle them all en bloc. The first is the Town Square Apartments, proposed 252 unit new construction development targeting general population to be served in Converse, Texas. Converse Housing Finance Corporation is the issuer of this Priority Three application. Staff is recommending approval of Housing Tax Credits in the amount of $730,219.

The second application is the Gulfway Manor Apartments, a proposed 151 unit acquisition rehab development targeting general population located in Corpus Christi, Texas. Nueces County HFC is the issuer of this Priority Two application. Staff is recommending approval of Housing Tax Credits in the amount of $481,841.

The third application is the Rockwell Manor Apartments, a proposed 126 unit acquisition rehab development targeting general population located in Brownsville, Texas. The Cameron County HFC is the issuer of this Priority Two application.

Staff is recommending approval of Housing Tax Credits in the amount of $364,165. To the best of our knowledge, we are told that there is no opposition to any of these developments, and staff is recommending support for all three en bloc.

MR. CONINE: Move for approval.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. We are in recess for lunch for approximately one hour. We do not have an executive session. So we will reconvene. Thank you.

(Whereupon, a short recess was taken.)

MS. ANDERSON: If I could ask you all to take your seats and we will get started. The next agenda item to come before the Board is agenda item 7E which is a possible action on waivers of a portion of the 2007 QAP. Mr. Gerber?

MR. GERBER: Madam Chair and Board members, this item was previously on the Board agenda at the December 14, 2006 board meeting. However, the Board tabled the agenda item to the February 1, 2007 board meeting. Subsequent to the December Board meeting, one additional applicant requested a waiver for Woodside Manor Senior Community.

The Gardens of DeCordova and the Gardens of Weatherford were awarded 4 percent Housing Tax Credits and HOME CHDO rental development funds at the October 12, 2006 board meeting. The Lakes of Goldshire was awarded a 4 percent Housing Tax Credits at the November 9, 2006 board meeting. And the Woodside Manor Senior Apartment Community was awarded 4 percent Housing Tax Credits at the August 30, 2006 board meeting.

All these applications have bond docket numbers that were issued in 2006. The applicants were unable to close on their bonds by the bond reservation expiration date. Pursuant to the 2007 QAP, in the event that the bonds are not closed prior to the reservation expiration date, the new docket number issued by the Bond Review Board must be issued in the same program year as the original docket number in order to have the determination notice reinstate it.

These applicants are requesting a waiver of this requirement because according to the applicants, the only change will be the docket number, and the applications will not require a full review yet. It should be noted that because the applications will need to meet the 2007 QAP, not the 2006 QAP, the applicants will submit a 2007 application after a 2007 allocation is received, and the applicant will have to certify that they meet the 2007 requirements.

If there is opposition, the application must be presented to the Board for reinstatement. Staff is recommending that the Board waive this requirement of the 2007 QAP which will allow the applicants to be able to have a new docket number issued from the Bond Review Board in a different year from the original docket number.

MR. CONINE: Move approval of staff recommendation.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

MS. ANDERSON: I have one question, Mr. Gerber. So the thing you said about, unless there is public opposition. So a couple of these will then come back to us for formal approval, under the new docket number, and others won't?

MR. GERBER: If there is public opposition, we will bring those forward to you. Ms. Meyer, do you want to expand on that?

MS. MEYER: There is two transactions, Gardens of De Cordova and also Lakes of Goldshire that had opposition to begin with. And they would be coming back to you for reinstatement. The other two can just sign the cert and move forward, unless there is opposition received between then and now, or the time that we actually give them the certification.

MS. ANDERSON: Thank you.

MS. MEYER: Okay.

MS. ANDERSON: I do have public comment on this item. There is a motion on the floor, and it has been seconded to approve staff's recommendations so that the witness might just want to keep that in mind. Mr. Opiela.

MR. OPIELA: Just as a resource.

MS. ANDERSON: Thank you, sir. Mr. Richard Shaw?

MR. SHAW: I am here to answer questions.

MS. ANDERSON: Thank you, sir. That is the right answer. Ms. Jackson.

MS. JACKSON: The good answer.

MS. ANDERSON: Dr. Dan Ives. Yes, sir.

MR. IVES: I am Dr. Dan Ives, retired Superintendent of La Marque Consolidated Independent School District. I am here to ensure that Lakes of

Goldshire did not make an untimely last minute back door presentation as they did in November to get Board approval over staff's recommendation to deny the project. My testimony is in opposition to the Lakes of Goldshire project as included in your Board agenda.

And it is noted that an objective, TDHCA is to prevent discrimination. And I am requesting that this Board not discriminate against 3,190 economically disadvantaged elementary children, as per the details of my written testimony, by denying the request before you by the Lakes of Goldshire. And there is opposition. Thank you.

MS. ANDERSON: Thank you, sir. Mr. or Ms. Sobti.

MR. SOBTI: Just to answer questions.

MS. ANDERSON: Okay. That concludes the public comment for this item. Any other questions or discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. I note, Dr. Ives, that this particular, the Lakes of Goldshire will be coming back to the Board for approval, since there was originally opposition to the development.

MR. IVES: Thank you.

MS. ANDERSON: Okay. Thank you. Agenda Item 7F is action on extension of the application deadline for a Housing Tax Credit application associated with the private activity bond program. Mr. Gerber?

MR. GERBER: Madam Chair. Pursuant to the 2007 QAP and rules, 2007 bond lottery applications were required to be submitted to the Department on or before December 28, 2006. Six applicants out of the twelve that participated in the 2007 Texas Bond Review Board lottery state that they were unaware of the submission requirements outlined in the QAP, because they had not participated in the lottery in the past, or because of confusion, specifically that the complete tax credit application was required to be submitted on or before December 28, 2006.

All the applicants requesting this action have now submitted the appropriate fees and applications to the Department. The applications are Spencer Manor Senior, Cantrell Manor Senior, Home Towne at Matador Ranch, Lakeside Apartments, Villas at Shaver, and the Villas at Tomball. There is a correction to the write up for this item, in that Spencer Manor and Cantrell Manor are both Priority Three transactions not Priority Two as the writeup indicates.

Staff recommends that the Board deny the requested extensions and uphold the requirements of the QAP. This is not a new requirement and is clear in the QAP. Applicants are required to certify that they have read and will follow the QAP. It should be noted that if the Board denies the extensions, it is possible for some of the applicants to resubmit their applications to the Bond Review Board and receive new reservations of bond allocation.

MS. ANDERSON: Thank you. For the Board members consideration, there is public comment on this item. Would you like to hear that before someone puts a motion on the floor. Does someone have a motion ready?

MR. BOGANY: So moved.

MR. CONINE: I'll second.

MS. ANDERSON: Mr. Shaw.

MR. SHAW: Madam Chairman, members of the Board, I am Richard Shaw. I have submitted both Spencer Manor property and Cantrell Manor. I messed up. I have been doing this business -- tax credit business since 1987. And we have done a lot of bond deals over the last several years.

With all the bond allocation that has been available, we have not gone through the lottery, nor have most of the other people been through the lottery in a number of years. And under the bond program as we did it, the applications were due three days after we got our reservations. I just received my first reservation this week from that lottery.

And, you know, we have gone through all the work. We have a piece of land tied up that may be in jeopardy in Denton, if we have to go back and try to redo this. There may or may not be allocation left at that time. And all I can do ask the Board to understand that mistakes are made, and I made a mistake. I freely admit it. It has been in the QAP.

We went to the meeting, the QAP meeting in Dallas at the end of November to listen about TADI, the rules and new rules. And unfortunately on that day, there was some ice and snow in Dallas. And the meeting was cut short. And nothing at all -- they didn't get a chance to bring up anything about the bond program as it relates to the QAP. I just stand at your mercy.

I ask you to please try to understand. You know, myself along with all these other folks here have been in the bond program for several years, and we have not had to do this -- get the applications in before the end of December because it had not been necessary to be in the lottery. That is all. I am at your mercy. Thank you.

MS. ANDERSON: Thank you, sir. Mr. Fambro.

MR. FAMBRO: Good afternoon, Madam Chair, Board. I guess I can just ditto what Mr. Shaw is saying. And the only thing I would like to add. You know, obviously we made a mistake as well. We are used to doing the developments that have plenty of capital available. This is our first time on dealing with a bond lottery.

And there seems to have been some disconnect between the Bond Review Board, our issuer and TDHCA on just kind of how to go map through this process. We are in jeopardy. It is not a sure thing. If we can go back and resubmit our applications, I don't know whether or not we will receive volume cap.

And one question that I did have was, this request for a waiver does not adversely affect or in any way, anything that TDHCA has to offer. It is just mainly volume cap that is still available. We have already submitted our applications like the director said. This point was brought up after we submitted our applications, after we had in fact had actually been given a new board date if you will.

I think we are supposed to be on the April board meeting. We have had some interaction with TDHCA staff and as well as the Bond Review Board in order to get this squared away. And that is it. Thank you. Kenneth Fambro.

MS. ANDERSON: Thank you, sir. Mr. Richard Janson?

MR. JANSON: Hi. My name is Dick Janson and I represent my LBG development. And I guess like everybody else, we missed the December 28th date. And it was an oversight, I guess, on our part who put together the application. But basically, we have never used a local provider. We always went through the Department. And going through the Department once you received your bond letter, you had three days in which to turn in Vol. 1 and 2. We assumed. We went to the annual meeting that is put on by the Department. Nothing was mentioned about this at all. We just didn't pick it up. And so it was on the 30th of December that the local provider called us and said, hey. You missed a deadline. And we didn't understand what deadline because we thought we had made all the deadlines. And they said, well you were supposed to turn in Volume 1 and 2 on the 28th. Well, we didn't. But we did turn it in on the 4th of January for all three. And all we can say, we put a lot of money and a lot of effort. We have the cities behind us as far as doing the projects. And one of the things, all three of these are in what is called the GO Zone in Houston. And if we have to delay this again or resubmit and everything else, there is a good possibility that we are not going to be able to make that December 2008 deadline, which we'll turn around and basically wind up killing these deals. So again, we ask for you to give a consideration to waive this one point when we have everything in place. We are ready for the April meeting. We have TEFRA meetings on these projects at the end of this month. They have already been scheduled. So we are ready to go. It is just that we totally overlooked it. We just thought it was the same as when we submitted to the Department as we did in the last three years. So we ask that you really consider that waiver. Thank you.

MS. ANDERSON: Thank you. I have a couple of questions for Robbye Meyer. Hi. Could you give me, help me understand what the status of the volume cap is, you know. Are we about to run out of cap? And I am really talking about the 2007 cap. Let's not event talk about post August at this point.

MS. MEYER: Robbye Meyer, Director of Multifamily Finance. At this point, everything is reserved at the locals for site. There will be a collapse on March 1 that could possibly give the local entities the regions some additional cap. However, everything is reserved at this time. In the Dallas-Fort Worth region three, there are some applications that are in front, so there is a possibility that they could lose their reservation and not get it back.

MS. ANDERSON: They are in front for Tarrant HFCs.

MS. MEYER: They are already in line. So if this applicant returned their reservation, they would be behind the ones that are already there. And if anybody else turned in an application before they could withdraw and come back, then you would have the other ones at risk also. But for right now, they should be able to return and come back. It just depends on how quick they can do that and move forward.

MS. ANDERSON: Okay. And what was the last -- I think it was Mr. Janson that made a reference to something about December 31 of '08. What was he referring to?

MS. MEYER: On the tax credits, the boost. The 30 percent boost.

MS. ANDERSON: Okay.

MR. CONINE: The writeup here says this is not a new requirement. Yet everybody else is saying this is different this time.

MS. MEYER: It is not a new requirement. Anybody that has participated in the lottery and for as long as I have been with the Department then that has been since 2001, we have always had a requirement. If they participated in the lottery, then their applications when they participated in the lotteries they would know they were getting a reservation in January.

And so we had the tax credit full application due at the end of the year. Because in the last couple of years, we have had plenty of allocation, everybody has kind of gotten away from that.

MS. ANDERSON: That is the perils of just going and getting in line on the waiting list instead of competing in the lottery.

MS. MEYER: They missed the deadline. And some of them are new applicants also, and they weren't ready for that date. But it is not something that has changed. And they do sign a certification saying they have read the rules and they know where we are.

MS. RAY: Madam Chair, may I ask a question of Ms. Meyer?

MS. ANDERSON: Sure.

MS. RAY: Of these number of people that are coming and asking for the waiver, could you give me some idea of how many people participated in the lottery and got the deadline correctly?

MS. MEYER: Actually, there was six out of the twelve that missed it. Actually there was seven, but one withdrew. So five of the applicants.

MS. ANDERSON: If we had the full use -- I think this may be helpful. If everyone came in in the lottery like they used to, to try -- instead of coming in the waiting list, you would have had more than twelve applications for the cap in the lottery.

MS. MEYER: Probably. I think this next year, you will see that happen. The lottery will be in more use as it has in previous years, 2002, 2003. But the last couple of years, we haven't had that reason to do that. TDHCA also has not used the lottery process. Again, the rule is there, though. And it hasn't changed.

MS. ANDERSON: So by the -- let me ask one more question. So, I will pass on that question. Thanks.

MR. CONINE: There is a motion.

MS. ANDERSON: There is a motion on the floor.

MR. CONINE: And seconded.

MS. ANDERSON: Is there any other discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 8A is a possible issuance of mortgage revenue bonds and Housing Tax Credits with TDHCA as the issuer. Mr. Gerber.

MR. GERBER: Madam Chair and Board members, Park Place at Loyola is a Priority Three bond transaction with TDHCA as the issuer. It is a proposed 252 unit new construction. It is to be located here in Austin and targeting the general population. Staff would note a correction in the writeup concerning the composition of the general partner. Park Place at Loyola is comprised of the following individuals with ownership interest. Chris

Dishinger with 40 percent ownership interest, Mark Leckner with 40 percent ownership interest, Richard Dantzen with 10 percent ownership interest and Yueh Najina with 10 percent ownership interest. The bonds will be unrated and privately placed with NMA. NMA will underwrite the transaction using a debt covered ratio of 1.5 amortized over 40 years. The interest rates on the bonds will be 5.8 percent subject to the adjustment that is set forth in the debenture. There were five people in attendance at the public hearing conducted by the Department for the proposed development on December 18, 2006 and two people spoke for the record. Some of the concerns that were expressed were that the area might see a crime rate increase and that the lack of upkeep and maintenance may have an effect on the surrounding property values. The Department has not received any letters of support or opposition. Staff recommends approval of the issuance of $15 million in tax exempt bonds and $1,225,615 in Housing Tax Credits.

MR. CONINE: Is he doing them one at a time, I guess?

MS. ANDERSON: Well, the other one, we deferred on the HOME loan, so I don't think we can probably take action on the bonds and the credits.

MR. CONINE: I guess so. Move approval.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 8C is an inducement resolution. Mr. Gerber.

MR. GERBER: Madam Chair and Board members, inducement resolution 07-003 includes 14 applications that were received on or before January 4, 2006. The applications will reserve approximately 64 million in 2007 state volume cap. Upon Board approval to proceed, the application will be submitted to the Texas Bond Review Board for placement on the 2007 waiting list. The Board has previously approved five applications for the 2007 program year. The first twelve applications are acquisition rehab developments located throughout the state, which total 909 units, which will be pooled into one bond transaction. Therefore, only one prequalification worksheet is included in your board book. This pool transaction will require twelve separate applications to be submitted to the Bond Review Board. However, the final transaction will be combined for an approximate total of 36 million in tax exempt bonds. All twelve properties must be pooled in order for the transaction to be feasible. The applications have also been approved for inducement by the Texas State Affordable Housing Corporation. The Department will participate in the transactions, even if TSAHC is the issuer of the bonds, because Housing Tax Credit will also be issued. The following issues will necessitate consideration at this time, and for the issuance of the Housing Tax Credits. First the 2007 QAP require a minimum rehabilitation costs of $12,000 per unit. Although the overall rehabilitation will average $15,000 per unit for the pool. Some properties may not reach the $12,000 minimum loan. Two, the real estate analysis rules require each property to meet debt service and cash flow minimums as a pool with the cross collateralization. The pool meet the requirements, however each property may not. And lastly, the applicant has requested a reduction in the bond application fee of $10,000 per application. Because this transaction as a whole will require significant staff resources, staff's recommendation includes confirmation of the determination of these issues at the time of inducement, so that staff and the applicant will know the Board's intention when the transaction is presented to the Board for a final decision. On these twelve, staff recommends approval of the inducement as recommended in your Board writeup. The remaining two applications requesting approval of an inducement resolution are both new construction developments proposed to be built in Houston, and staff recommends approval of the inducement resolution as presented.

MR. BOGANY: So moved.

MR. CONINE: Second.

MS. ANDERSON: Mr. Bogany, is it your intent to follow the staff recommendation completely, including no waiver of the fees?

MR. BOGANY: Yes, ma'am.

MS. ANDERSON: Thank you, sir for the clarification. Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

MR. CONINE: Is there public comment?

MS. ANDERSON: I am sorry. Sure did. I am very sorry. Mr. Juhle.

MR. JUHLE: Madam Chair, members of the Board. My name is Hans Juhle. I am here as a representative of the development team for again, the first twelve properties under Item 8C of the agenda.

To give you a description of the properties, just to put it in context, there are twelve properties located in various, largely tertiary MSAs across the State of Texas. They were all built at the same time in 1983 by the same developer, using largely the same plans. They have been owned for the past 23 years by the same owner. They currently have the same property manager. They even look the same.

They are all 100 percent encumbered by Section 8 contracts. They have all been through the mark to market process. And because of their similarities, their overwhelming similarities, they all have very similar Cap X needs in terms of what needs to be done to preserve that affordable housing stock today. The development team has entered into a purchase contract for the entirety of that portfolio.

And we have entered into some structuring discussions with the Department, with bond counsel, and with various other parties regarding how to best structure this as a portfolio, again, given the overwhelming similarities in the properties. Given their small size, again, 900 units or so, and twelve properties, that is about 70 units per property. Some of these properties can't support the bond financing individually.

And so we request respectfully that you review them as a portfolio in a variety of terms. I know the Board has already approved, issued its approval for the first two points. But I would like to make a few other quick comments if I may.

The request for the waiver of the fees or the reduction rather of the fees comes because of the overwhelming similarity of the properties. They are completely similar in almost every regard. And the last point that I would like to make is that it would be great if it was permitted that we can serve from a point allocation perspective the portfolio in aggregate as well.

I have been told that at least one or two of the properties fall somewhat deficient on the points perspective and would be further down in the priority listing, segregated out. That would be problematic for two reasons. Respectfully, the purchase agreement does not allow for a parsing out.

But secondarily, these properties are small. And there is really no other means for preservation of this affordable housing if they are not to be included again, as a portfolio. With that, I would be happy to answer any questions.

MS. ANDERSON: Thank you. The Board has already taken action on this item. Sir. Any other discussion from the Board on this, in response to the testimony?

(No response.)

MS. ANDERSON: Thank you. Agenda Item 9A is possible approval of a HOME NOFA for tenant based rental assistance, serving people with disabilities. Mr. Gerber?

MR. GERBER: Item 9A, Madam Chair and Board members, this item relates to a 2007 NOFA in the amount of $2 million for the HOME tenant based rental assistance program directed to people with disabilities. Under this NOFA, up to $1 million will be targeted to assist households in participating jurisdictions. Applications will be accepted on a competitive basis by the Department until April 2, 2007. Program awards are anticipated to be made in May 2007.

TBRA may be used for rental subsidy and security and utility deposit assistance, and is provided in the form of a grant to tenants. TDHCA staff has worked closely with the disability advocates during this process of drafting this NOFA and the HOME homebuyers assistance NOFA which we will discuss in a moment. In the process, staff identified several sections of the HOME rule that are recommended to be waived.

It should also be noted that TDHCA has formed a disability advisory work group and assigned a TDHCA staff person as liaison. This work group provides a forum for technical advice on the Department's administration of programs from the disability community perspective.

This work group had its first meeting specifically to discuss these two NOFAs. Staff recommends approval of the 2007 HOME tenant based rental assistance NOFA directed to people with disabilities. And staff recommends approval of te 2007 TBRA NOFA directed to persons with disabilities.

MR. CONINE: Move approval.

MR. BOGANY: Second.

MS. ANDERSON: I won't forget this time. Ms. Langendorf.

MS. LANGENDORF: I will be brief. Regarding 9B, I am here to address some potential barriers to the implementing the new HPA with rehab activity proposed by staff under 9B.

MS. ANDERSON: Is this okay, Kevin? It said 9A on your thing. Is it okay for her to -- since she is already up here to talk about 9B. And then the other witness wants to talk about them both.

MS. LANGENDORF: Sorry.

MS. ANDERSON: Sorry. Just wanted to make sure we were legal, Jean.

MS. LANGENDORF: We did have the opportunity to provide some input to staff, but the issue in seeing what was posted here is regarding the access modifications. This is HPA homebuyer with rehab. It is a separate activity. It is not OCC.

And there is an incredible need to address access modifications from a people with disabilities. You are assisting them in purchasing a home. These renovations, the activity comes under the HPA activity. The way it is being presented is that it would be a separate loan. We have a first lien against when you purchase the home, which is the HPA activity.

And now the way the staff is presenting it, is there would also be a repayable loan for the ramps and the lighting of the doors and other issues. And that can affect whether or not they are going to be able to get the mortgage loan, because they are now going to have another payment.

Currently, that program that we operate, the Home of Your Own program does not have its agreement. It is a grant. The actual modifications are done as a grant. The concern, and ours is an HPA with rehab activity. It is not currently in any of the programs that we have been administering, nor is it anywhere on the website that I can find that there is a requirement that there be a payback.

That is the concern as we assist with the lenders and work with the realtors. If we have got to be talking about a separate loan, the lenders are going to want to know what the impact to the family, the payment of that loan is going to be. And that would really make it very difficult to work with the lenders and the realtors on doing this.

So I want to make sure the way it is being presented is not the way -- it would be very difficult to implement. So we are asking that the necessary home modification and rehab required for the newly purchased home by the HOME regs be in the form of a grant for all incomes. So it continues in the particular way it is being done.

The thing I want to point out under the TBRA program under HOME, the persons -- it is allowed by federal rules that the person's medical expenses, their attendant care and some of those others can be taken into consideration when you look at the area median income under the HPA activity and owner occupied, you cannot take in those other expenses. So I just wanted -- the reason we would want this kind of not having any kind of a loan payment for qualifying purposes for the loan, for the HOME loan.

But also, that we are not able to take into consideration the other expenses that people with disabilities have that do affect their income. And it is recognized in TBRA program by federal regulations, but we are not allowed to do that in the HPA aspect of it. So I would hope you all would consider making that modification in this program.

We do have a lien. There is a mortgage. There is a second lien and all that. So there is a commitment for affordability, but not to affect the modifications. I would be happy to answer any questions. Thank you.

MS. ANDERSON: Thank you. Sarah Mills.

MS. MILLS: I think I am the first one to use the little mic today. Hello. Good afternoon. My name is Sarah Mills, and I am a housing policy specialist with Advocacy, Incorporated. And I am also on the disability advisory workgroup for TDHCA.

And first, I would like to thank Mr. Gerber and his staff and their commitment at pulling together that group. We have had two meetings to quickly work on these NOFAs, which was great. And that first item I am going to talk about and the second one is what Jean mentioned about beginning the 30 year repayable loan.

I just want to give you all an example of somebody that we actually have on staff that is an attorney with us, who has a significant disability and requires attendant care. And even though he is an attorney, and he makes a decent living, and he would probably fall if not maybe above that, the cost of attendant care is enormous. Roughly probably half of his salary.

And that is just attendant care. That is not in addition to his other expenses that he has that services or insurance doesn't pay for. So while yes, he conceivably makes a decent income, to be able to pay back that loan, there is a lot of costs that I think people with disabilities incur via their disabilities.

I just want to put that out there as another aspect. And that is all I have to say. If there is any questions?

(No response.)

MS. MILLS: Thank you.

MS. ANDERSON: Thank you. Would the Board like to have staff, Mr. Gerber have someone from staff?

MR. GERBER: Sure. Ms. Boston, would you like to come up and address some of this?

MS. ANDERSON: I personally would like to hear staff's -- understand staff's thinking in light of the public comment we just had.

MS. BOSTON: Okay. Regarding the HPA activity, the comment regarding loan versus a grant. There is not a ton of precedent for how we do this. Our normal HPA activity that we do when we bring the normal single family awards each year, those HPA awards are purely adjusted on payment assistance. They don't have rehab.

The only two situations where we have HPA with rehab have historically been the HOYO contract where the rehab was a grant and our contract for need contracts where the rehab is a grant. In this case though, as we were crafting the NOFA we were trying to mirror what we believed was past Board policy relating to the shift from grants to loans. And so that is the reason why it is in there.

I think her comments make sense. So it is really a policy decision for the Board. Thank you. And a comment about the loans. If the family were at 50 percent of AMI or lower, it is deferred forgivable. On the rehab, it would be five year deferred forgivable. So the loan that would be repayable is only if it is above 50 percent of area median income.

MS. ANDERSON: And we have not really been under HOYO to date, we have not really looked at income levels of the tenants because it wasn't an issue in that contract period. We didn't. There were grants regardless of income. Therefore, we weren't verifying income. We were collecting data on the income levels of the people being served.

MS. BOSTON: I believe they are income eligible under the HOME program. But I don't know that we were gathering it within the different ranges. Although Jean may be able to comment better on what her average income ranges are of her clients.

MR. CONINE: In our other HOME programs, we have been doing zero interest due upon sale or refinance loans, as opposed to structuring something that required a payment. Why are we requiring. Evidently we are structuring these laws to require payment.

MR. HAMBY: Actually, it would be the -- the concept is the same. But it is ultimately repayable if it is above 50 percent. So if it say or upon completion of the note.

MR. CONINE: Right.

MR. HAMBY: So you would have it at the end of the 30 year cycle, if you sold the property. We did this just as we did all the new HOME loans.

MR. CONINE: So it is zero percent interest due upon sale or refinance. And place is a second or third.

MR. HAMBY: Well, this would probably be a third.

MR. CONINE: I'm good to go.

MS. ANDERSON: All right. Any other questions for staff. I am sorry. It must be getting late. Do we have a motion on the floor? Thank you. Okay. Any other discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. That was 9A on TBRA. That is what we just vote on. Tenant based rental assistance. So now we are on 9B which is the homebuyers assistance with rehab that you also heard referred to in the testimony.

MR. CONINE: Wait a minute. We can't do tenant based and put a note on it.

MS. BOSTON: The comment only applied to 9B.

MR. CONINE: So I asked the question out of order there.

MS. ANDERSON: Well, because the testimony came out, or because I called her.

MR. CONINE: All right. So it is your fault.

MS. ANDERSON: And Mr. Hamby said we could take her testimony out of order.

MR. CONINE: Just as long as it wasn't my fault.

MS. ANDERSON: That is my fault. I am messing up this afternoon.

MR. BOGANY: I move that we accept the 2007 NOFA homebuyers assistance go directly to assist persons with disabilities.

MR. CONINE: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 9C is a possible action on an amendment to a HOME commitment for Star Village Apartments. Mr. Gerber.

MR. GERBER: Madam Chair and Board members, in May 2005, the Board approved the award of HOME CHDO funds to Star Village Apartments in San Benito. The applicant was provided with a six month time period to close on the construction financing for the development.

Subsequently, the applicant requested and received a four month extension of the closing date to May 1, 2006. Since May 2006, the applicant has not closed and has requested additional action. On November 6, 2006, due to the expiration of the commitment, the applicant was notified by the Department that a commitment of funds would be rescinded.

The applicant is requesting an appeal to the Executive Director and subsequently the board, to consider their requests for an extension to the closing deadline, to allow them to increase their award to $2,870,313, and to change the payment terms of their award to make repaying of HOME funds to the department conditioned on available cash flow. Staff also notes that the applicant is currently under review for a delinquent contract under the Home Single Family program.

This issue involves the Department's consideration of taking back the deed and title to a property for single family housing development in lieu of foreclosure on the subject property. No action has been taken on this issue. However, the applicant may be technically ineligible for additional funding considerations at this time, pursuant to the HOME Department Rule found in the Texas Administrative Code. Staff recommends the Board deny the appeal to extend the loan commitment because in staff's review, the applicant is not sufficiently prepared to move forward with the development even if granted an additional extension to the closing deadline. The Department's financial analysis of the development does not justify the considerable increase in costs. The Department's financial risk into the development will greatly increase.

The Department's financial benefits will effectively be eliminated, given requirements to change the loan to a cash flow note and concern with the deed in lieu of foreclosure issue, which has been noted. If the Board should grant the applicant's appeal for an extension, staff would recommend a nine month extension with monthly status reports of the construction with no consideration given at this time for additional funding.

MR. CONINE: Is there any public comment?

MS. ANDERSON: No.

MR. CONINE: Move we agree with staff's recommendation.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 9D is possible awards for the single family colonia model subdivision program. Mr. Gerber.

MR. GERBER: Madam Chair, Board members. Staff is seeking approval of two single family colonia model subdivision program awards. Pursuant to the colonia model subdivision program legislation, the Department established a program to fund the development of housing that provides alternative to existing substandard colonias. The Department made available 4 million in HOME Community Housing Development Organization funds on a first come first served basis.

Applicants were eligible for up to 1.5 million in program funds for land acquisition, lot development, construction costs and down payment assistance. The Department will provide a combination of repayable zero percent interest and deferred forgivable loans based on the buyers' income and ability to pay. All homebuyers must be 60 percent of AMFI or below.

The subject properties must be located in a colonia and have water, sewer, paved streets and other improvements necessary and suitable for the development of quality single family housing. Applicants can purchase up to five lots, and no more than three lots can be in development at any one time.

A total of five applications were received. One application was ineligible due to outstanding compliance, loan or other threshold issues. Two applications were not recommended for funding by REA due to lack of financial feasibility. The remaining two applications, the Pharr Housing Development Corporation and the Community Development Corporation in Brownsville are being recommended for funding.

Project funds totaling $1,316,043 and $75,000 in CHDO operating expenses are being recommended for the Pharr Housing Development Corporation and 1.5 million in project funds is being recommended for the Community Development Corporation of Brownsville. And they did not request any funds for CHDO operating expenses. Staff is recommending approval of these two awards as presented.

MR. BOGANY: So moved.

MR. SALINAS: Second.

MS. ANDERSON: Questions. Discussion? I have one question. And that is, these were set up as zero interest deferred forgivable loans. So is it like what Mr. Conine was just discussing on the homebuyers assistance.

Does the Department have a lien that we get back in the event of a sale for some period of time? Can someone answer that for me?

MR. GERBER: Mr. Pike.

MR. PIKE: Good afternoon. Eric Pike, Director of Texas Home Ownership Programs. Yes, there will be a lien on the property. These will be, I believe, they are five year deferred forgivables.

MS. ANDERSON: They are five year deferred forgivable?

MR. PIKE: Yes. Right.

MS. ANDERSON: Sort of like HOME OCC kind of thing.

MR. PIKE: Yes.

MS. ANDERSON: Okay. Thank you very much. Other questions?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 9E is concerning the use of the Housing Trust Fund as leverage.

MR. HAMBY: Madam Chair, can I just make one clarification.

MS. ANDERSON: Yes, sir.

MR. HAMBY: They don't have the area median income, AMFI that OCC loans do. So they would all be deferred forgivable above 50 percent, below 50 percent. I just wanted to make sure that was on the record.

MS. ANDERSON: Okay. 9E concerns the use of the Housing Trust Fund as leverage for the FEMA Alternative Housing Pilot Program. Mr. Gerber.

MR. GERBER: Madam Chair and Board members, as you recall, at the October board meeting, staff requested authority to review and submit an application to FEMA for the FEMA Alternative Housing Pilot Program. As part of that request, the Board approved inclusion of up to $1 million in Housing Trust Funds as leverage for the potential funds provided, provided that the actual funds to be committed were approved by the Board prior to commitment.

Staff submitted an Alternative Housing Pilot Program proposal to the U.S. Department of Homeland Security, Federal Emergency Management Agency on October

20th of 2006, totaling over $63 million. The application consisted of six proposed pilot projects to address the ongoing housing challenges created by the 2005 hurricane season.

From an original pool of potential applicants, including several university sponsored projects, staff conditionally pledged the approved HTF funds contingent upon the projects being selected. Staff believed it would be more appropriate to provide leveraging if a non-profit or university sponsored project were selected.

In December of 2006, FEMA announced an award for the State of Texas totaling $16.4 million for a project that was proposed by the Heston Group, which is a private sector defense contractor based in New Orleans, Louisiana. Staff believes that it is inappropriate and inefficient use of Housing Trust Fund dollars to recommend approval of the 4.1 million in leveraged funds.

However, consistent with the amount awarded and the type of program awarded and the benefits to housing in Southeast Texas through this demonstration, staff is recommending approval of an amount up to $250,000 that may be leveraged at the Executive Director's discretion, should the approval be denied, it is possible that FEMA's award may not be made.

MR. BOGANY: Recommend staff recommendation.

MR. CONINE: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries. Item 10 is a presentation, discussion and possible approval of bond finance item.

MR. GERBER: Madam Chair?

MS. ANDERSON: Yes, sir.

MR. GERBER: One more point on that. We will certainly keep the Board apprised of what we will commit to FEMA prior to making that commitment to FEMA. We will send out -- I appreciate that latitude and we will make sure you are kept abreast of that circumstance. And we are excited about doing business with the Heston Group. We believe that they have a very good concept that could have real meaningful and tangible housing benefits for folks in Southeast Texas and we will keep you apprised of our progress.

I also neglected to mention at the beginning of the discussion about HOME, that we have a new HOME Director. Jeanne Arellano has come back to the Department. Jeanne, if you would go ahead and stand?

She is a very seasoned professional HOME program, having been our HOME manager over several years. Left the Department to do some wonderful things in the private sector. And to have time to raise her family and has now returned to the Department. And we delighted that she has taken on the role of HOME Director and just wanted to extend a welcome to her. I know you all will look forward to working with her in the years ahead. So welcome, Jeanne.

MS. ARELLANO: Thank you.

MS. ANDERSON: You have got a full plate. We are glad you are here.

MR. GERBER: Madam Chair, Item 10A is a resolution authorizing application to the Texas Bond Review Board for reservation of single family mortgage revenue bonds, and approval of underwriting teams for Program 69, our first time homebuyer program. As of January 16, 2007, 51 percent or 67 million of the $132 million in lendable proceeds from Program 68 have been purchased or are in the pipeline to be purchased.

Staff anticipates expending all statewide unrestricted funds in May of 2007. Staff is recommending approval of a resolution 07-001 authorizing application to the Texas Bond Review Board for a portion of the 2007 volume cap, along with preliminary approval of Program 69 and approval of the underwriting team.

Matt Pogor, our Director of Bond Finance is here, as is Gary Machak, who is our financial advisor, who are both available to answer, and Bill Dally to answer any questions you might have on this complex program.

MS. ANDERSON: Matt, if you would, if you would come up and walk us through, walk me through on page 3 of the write up. The three scenarios you have. And talk a little bit about the line items.

I can see the interest rate differences. But, you know, what the transaction costs, why that is different across the -- explain the notion of not being able to capture the full spread and then talk about the subsidy and its uses.

MR. POGOR: Yes, Madam Chair. Thank you. Board members, Mike. I am Matt Pogor, Director of Bond Finance. On January 12 of this year, we met with our Texas Homeownership Division, Eric Pike, along with some staff members of the underwriting team.

And we looked at the mortgage rate that was out there at that time, looked around about 550 with the two points for origination and discount. And from there, we decided that we need to be competitive with our rates and be below market.

So we looked at a 515 mortgage rate for the unassisted mortgages. And when we did that, we asked for a breakdown of what a fixed rate bond would be, what a fixed rate plus variable, and what a variable would be. And the reason we asked for those three scenarios is that the Department is in need of zero percent funding.

What those zero percent funds do for us is that it helps us blend down our mortgage rate, so we can be below market, and it also gives us some additional assistance if we need it for down payment assistance. We can use that money, which we did, in this last transaction on November.

We used $1 million of that for down payment assistance. So with the needs we have, we put four together. We came up with those three different scenarios and we found out that it would be better to pick through all this to you with some additional information.

And one of them being is that the project costs, as you can see on that one item is around $950,000. And it goes down to 315. The reason for that is that the takedown rate for doing swaps is a lot less than doing a fixed rate. A lot less costs involved in doing a swap.

The second line underneath there is the cost of lending for full spread. It is like 1.4 million for doing a fixed rate. What happens is that we are not at full spread right now. So we had a fixed rate deal. Even though we are doing a refunding of the 97A and 97D, that kind of brings in some zero percent funds forward. It brings in some funds we can blend down the rate. But it still does not get us to a 515 target rate.

So what we are doing is, we are leaving some money on the table. Another way to look at that is, if the Department was to have 1.4 million to bring into this deal, it would be a full spread rate we would have. So even with that, we are still not -- we are still at that point where we really don't have any zero percent funds in case we need them for future use.

The reason I am bringing this up is that looking at the 550 back up a couple or three weeks ago, our last deal for 150 was at a 5625 or 565. Whatever. So we were like below the market array. And we were looking at our funds, and as we were moving out, they weren't moving out. They were moving, but not as fast as I thought they would be. And when you started talking to lenders, one of them is, that we are basically sitting on top of the market right now with our old program.

So we wanted to make sure that we are competitive enough. So we put our target at 515. Now, the last line is the subsidies that we are going to generate by using the swap. We don't really have any subsidies on scenario one and two because all the benefit we have is going to be plowed into the structure without generating any subsidies at all.

By doing a 100 percent swap, we are able to generate about $700 million, $750 million worth of zero percent funds. And we can house those over for the next two or three years, or the next two years maybe to use those to blend down.

There is -- there will not be any refunding capability for us on the next two structures. Because really the next one would be refunding would probably a residential mortgage revenue bonds structure. And it would be probably in late next year when it is due for refunding.

So probably this coming fall and next spring, it is just going to be a straight deal and we may need some zero percent funds to blend down that rate to get it in the market. So with that, we are looking at all three scenarios. And coming forth for your preliminary approval until we get more concrete information and come back to you in March for the final structure.

MS. RAY: Is there a motion on the floor?

MR. CONINE: I don't think so. But I'll make one. Move for approval.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: The motion carries.

MR. CONINE: Madam Chair?

MS. ANDERSON: Yes, sir.

MR. CONINE: I have a question for Mr. Poger. Is the Department still running cash flows, internal cash flows on our bond portfolio?

MR. POGER: No, we are not. About two or three years ago, we were about -- we were using $10,000 a year to maintain the swap. Doing it for running DBC. And it was determined at that time to let our underwriters run those DBC software, you know, cash flows for us.

MR. CONINE: On each issue.

MR. POGER: On each issue. Yes. And also do a consolidated cash flow as well. So we can take a look at both on an individual issue as well as a consolidated issue. So we get those in-house and take a look at them ourselves, to determine what our needs.

MR. CONINE: Well, I think we probably need to get back to doing that. It would be advisable. I know I can remember at some point in the past where we got to looking at the portfolio of old stuff hanging around and new stuff and found a way to squeeze some extra money out.

Like you said, that you can use for zero interest or down payment assistance. I think it would be good for you to look into that, and report back next month and see.

MR. POGER: One of the good things about that, the individual that used to run those cash flows is back working for me. Just got to buy the software.

MR. CONINE: Well, then staff needs to make some sort of decision. There is obviously folks in the marketplace that can do it as well, too.

MR. POGER: That is true, too.

MR. CONINE: But I think it is important for the Department and specifically for the Bond Portfolio Group to understand where you are at all times.

MR. POGER: Okay. Very good.

MS. ANDERSON: Thank you. We have no executive session today. We now proceed to the Executive Director's report. Mr. Gerber.

MR. GERBER: Madam Chair, there are several items that are in your board book to be reported on and I will just bring them to your attention. Outreach activities and certainly multifamily production division report. And some other items that are in here for your benefit.

Probably the most significant thing I have to mention is that for the publics benefit is that our next board meeting has been changed. The date of it will be Monday, March 12 at 9:30. And I thank all the Board members for their flexibility in accommodating that.

MS. ANDERSON: Is that it? Is that all you have. I have a question. It is just a trivia. Probably just a trivia question. On the changes, the report on changes in ownership. Because I remember this deal out in

Odessa, that was a private sector developer and then the special limited partner was the Odessa Housing Authority.

I guess these transfers -- I don't really know what I am trying to ask. But because there was a PHA associated with it, and most of those guys have non-profits and stuff.

I mean, when these transfers go through, you make sure they are still doing everything that they are supposed to do to be eligible for credit and all that stuff? Because the Housing Authority withdrew. It looks like it is just a pure private sector deal now. And I don't know if they applied in a non-profit set-aside, or I just can't remember.

MS. BOSTON: Definitely. Every time we review a transfer we double check not only if they had been in a non-profit set-aside, if they got points for doing a non-profit joint partnership, if they had gotten points for the public housing authority partnership, we check all that.

And additionally, we double check the cap on the applicant. The $2 million cap. We double check that as well. So we are confirming everything before we ever authorize any.

MS. ANDERSON: Good. Thank you. Any other discussion? Anything else to come before the Board?

(No response.)

MS. ANDERSON: Then we stand in adjournment until Monday March 12. Thank you all.

(Whereupon, the meeting was adjourned.)

C E R T I F I C A T E

IN RE: TDHCA Board Meeting

LOCATION: Austin, Texas

DATE: February 2, 2007

I do hereby certify that the foregoing pages, numbers 1 through 171, 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.

2/07/2007

(Transcriber) (Date)

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