

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE

Room E1.016
Capitol Extension Building
1400 Congress Avenue
Austin, Texas

Thursday
January 17, 2002

The meeting convened, pursuant to notice, at
9:53 a.m., C. Kent Conine, Chair, presiding.

MEMBERS PRESENT:

RUTH CEDILLO
VIDAL GONZALEZ
MICHAEL JONES

ALSO PRESENT:

ROBERT ONION

AGENDA

<u>AGENDA ITEM</u>	<u>PAGE</u>
Call to order, roll call and certification of quorum:	3
Presentation, discussion and possible approval of minutes of Finance Committee of December 12, 2001:	3
Presentation, discussion and possible approval of proposed issuance of multifamily mortgage revenue bonds for Millstone Apartments, Houston, Texas, in an amount not to exceed \$12,500,000, and other related matters:	4
Presentation, discussion and possible approval of proposed issuance of multifamily mortgage revenue bonds for Sugar Creek Apartments, Houston, Texas, in an amount not to exceed \$11,950,000, and other related matters:	6
Presentation, discussion and possible approval of proposed issuance of multifamily mortgage revenue bonds for West Oaks/Finlay III Apartments, Houston, Texas, in an amount not to exceed \$11,200,000, and other related matters:	7
Public comment:	
Darrell Jack	9
Presentation, discussion and possible approval to extend limit on capital budget expenditures for development of the Weatherization Assistance Program and the conversion of EASY Audit II to EASY Audit III Project:	13
Closing remarks/adjournment:	19

P R O C E E D I N G S

MR. CONINE: If we can, let's call the Finance Committee meeting to order -- the Texas Department for Housing and Community Affairs -- on January 17, 2002 at roughly 9:52 a.m.

I'll call the roll real quick. I'm here.

Michael Jones?

MR. JONES: Here.

MR. CONINE: Vidal Gonzalez?

MR. GONZALEZ: Here.

MR. CONINE: Everybody's here, and we've got a -- nobody's absent. I'll direct you to -- well, I guess we've got public comment.

Are there any public comments from anyone addressing to the Finance Committee?

(No response.)

MR. CONINE: Going, going, gone. Okay.

The first item on our agenda is the presentation, discussion and possible approval of minutes on December 12, 2001.

MR. GONZALEZ: So moved.

MR. CONINE: There's a motion for approval. I'll second the motion.

Any discussion?

(No response.)

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

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Any abstention?

MR. JONES: I abstain.

MR. CONINE: Okay.

Item 2: Presentation, discussion and possible approval of -- I guess we're missing Ruth here, aren't we? Where is Ruth? -- of multifamily mortgage revenue bonds for the Millstone Apartments in Houston.

Since Ruth's not here, Mr. Onion, would you like to step up? And she's probably going to call on you, anyway.

MR. ONION: Good morning.

MR. CONINE: Good morning.

MR. GONZALEZ: Good morning.

MR. ONION: This particular project is in Houston, Texas, the Millstone Apartment complex. The total amount of tax-exempt bonds are going to be 12-million-five. There will be taxable bonds in an amount not to exceed 300,000.

The applicant's compliance score is -- ranges

from a score of one to three, which is substantially below the material non-compliance score of 30. We did hold a TEFRA hearing and did all the proper notifications, and there's no opposition to the project. If the Finance Committee has any additional questions, I'll be happy to answer them at this time.

This is a credit-enhanced transaction with AmBank providing the credit enhancement, the type of transaction which the Board has seen several times, most recently with the Wildwood and Meridian in September of this -- of 2001.

MR. CONINE: Okay.

MR. JONES: Mr. Chairman, I recommend approval.

MR. CONINE: A motion by Mr. Jones that we recommend approval to the Board.

MR. GONZALEZ: Second.

MR. CONINE: Seconded by Mr. Gonzalez.

Any discussion?

(No response.)

MR. CONINE: Hearing no discussion, I'll call the question. All those in favor of Item 2 on our agenda, please signify by saying aye.

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Item carries.

Good morning, Ms. Ruth. How are you?

MS. CEDILLO: Fine.

MR. CONINE: I'm sorry. We were just trying to get things moving along here.

MS. CEDILLO: I'm sorry, too.

MR. CONINE: Mr. Onion's doing a fabulous job.

MS. CEDILLO: Great.

MR. CONINE: Moving on to Item 3: The possible approval of the Mortgage revenue bonds for the Sugar Creek Apartments in Houston.

Mr. Onion?

MR. ONION: The next transaction is also in the Houston area; however, it's in the unincorporated area of Harris County: Sugar Creek Apartments. It's a 240-unit apartment complex. The applicant's compliance score is exactly like the previous one's, Millstone Apartments, since it's the same related principal entity. I did want to make a correction to the write-up.

The entity that is providing the credit enhancement I have as QBE International Insurance Limited.

It is actually QBE Reinsurance Corporation, a related entity of the insurance -- QBE. The compliance score, as

I indicated, is relatively low. We did conduct the TEFRA hearing; there was no opposition to this particular project.

If the Finance Committee has any additional questions, I'd be happy to answer them.

MR. JONES: Mr. Chairman, I recommend -- excuse me. I move that we recommend this particular work for approval.

MR. GONZALEZ: Second.

MR. CONINE: There's a motion made by Mr. Jones and seconded by Mr. Gonzalez that we approve and -- recommend approval to the Board of this particular project. Is there any discussion?

(No response.)

MR. CONINE: Any discussion?

(No response.)

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

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Moving on to Item 4: Discussion and possible approval of the multifamily mortgage revenue bonds for the West Oaks/Finlay III Apartments.

MR. ONION: The next transaction is also in Houston. This one is in southwest Houston. It's composed of 168 units. The principal applicant has a compliance score -- we only have one property in our compliance system, and it has not yet been scored. That was Newport. And so we do not have a history on this particular applicant. A TEFRA hearing was conducted on this transaction, and there are no neighborhood oppositions to it.

This is a charter MAC structure, or a private placement. And based upon the resolution that is provided to you, the interest rates are stated within that resolution.

MR. JONES: Mr. Chairman, I move that we recommend it for approval to the Board.

MR. GONZALEZ: Second.

MR. CONINE: A motion and a second that we approve this particular project for recommendation to the Board for approval. Any discussion?

(No response.)

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

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: It passes.

Has Item 5 been pulled, or not?

MR. JONES: Stone Hearst has been pulled, yes, sir.

MR. CONINE: Okay.

Item 5, Committee members, has been pulled off of the agenda, although I have just been handed a witness affirmation form even though we've closed public comment.

Is there any opposition to the witness coming before us right quick?

MR. GONZALEZ: No.

MR. CONINE: If we could, call Darrell Jack to the podium.

MR. JACK: Thank you. My name is Darrell Jack, and my firm is Apartment Market Data. We were the market analysts for Stone Hearst Apartments and have worked closely with the department over the last few weeks in looking at this project and the underwriting criteria used particularly as it relates to the capture rates in the new QAP.

This is really one of the first projects, I think, that both myself and the department have looked at where the new QAP -- the restrictions are eliminating this

project or, at least, requiring it to come before the Board to request a waiver. My fear in this is that as I look around at other parts of the State, the new capture rate requirements are too restrictive and do not fit a large majority of the projects that not only the Board is going to see in these bond hearings but, also, in the coming 9 percent tax credit round.

For instance, if you take Tyler, Texas -- we've looked at the numbers there -- the capture rate exceeds the 25 percent required in the QAP. Now, you know, effectively, it's somewhere in the neighborhood of 25 to 26 percent, but as little as 20 additional units in that market could take that capture rate over 30 percent and eliminate a city like Tyler that hasn't seen a tax credit project in recent times from consideration.

I've gone back and looked at several other projects that have received tax credit allocations in the 2000 and 2001 allocation round. And these capture rates are in excess of 200 percent in one case and 600 percent in another case.

You take a city like Mission, Texas, in the Valley, where demand is high throughout the Valley for affordable housing, and it's effectively eliminated from consideration given the forecasted growth of renter

households over the next five years and the number of qualified income groups.

The problem is -- stems from several things, but the most critical thing is that one of the things that we're relying upon is the demographics in the area to determine these numbers. There are no -- there is no information out of the census bureau or any other census-compiling companies that gives us renter tenure by income group.

The way that the capture rate is being applied right now, it's very broad, and it assumes that renters at the very highest incomes rent at the same rate as people at the lower incomes. And we know that that's just not true. Lower-income people don't have the same options for housing that higher-income people do.

My fear is -- as I look around at the number of studies that we do each year is -- you know, effectively, I -- my estimation is that 50 percent or more of the coming tax credit applications could be eliminated from consideration. And right now, from previous years, I don't see a mechanism in place where developers can come and request a waiver prior to the July meeting where the Board approves the final list recommended by staff.

This is a problem that is going to have to be

examined. And the way the capture rates are calculated varies between mortgage companies and developers and the State; it's a very inexact science.

There are, you know, hundreds if not thousands of variables that affect how a capture rate could be determined. None of them are exact enough at this point to give the Board or the staff a very accurate measure of how many low-income families there are and how this is going to be affected.

The other part of the capture rate requires that any project that hasn't been stabilized for at least 12 months be given full consideration. So if you have a project that was built last year, effectively you're eliminating any other developments in that market for two to three more years. And it just doesn't address the need for affordable housing throughout the State.

My firm is one of the few firms that does work throughout the entire State. Right now, we're looking at projects from Amarillo to Texarkana to Mission and McAllen. We're finding that the problems that we're identifying now, since the new QAP has taken effect, since December 1, is going to affect the entire State.

I have some additional information that I'll be happy to supply you with that details this and how we went

through our analysis in the Beaumont Stone Hearst project in detail. I'll be happy to answer any questions.

MR. CONINE: That's great, Mr. Jack. We appreciate those comments relative to any new provisions in the QAP.

I'm sure not only this Committee but other Board members who are in the room, as well as staff, will take them under consideration and see if -- I guess monitor would be a good word to use here -- to see if some of your predictions come true in this year's round. And I for one would appreciate any further information, you know, on a side-bar, if you will, just for my own education.

MR. JACK: Yes. Just in closing, the way that the capture rate is set up right now, if you have a market demand over five years for 2,000 units, that's 400 units a year. The capture rate in an MSA would only allow you to require or -- build an additional hundred units. If you have another project as small as 20 units, that 100-unit project is eliminated the way that the capture rate works right now.

So you can see an annual demand of 400 versus, you know, the difference between a hundred and 120 units is tremendous the way that the QAP sits right now.

MR. CONINE: Got it.

MR. JACK: Thank you.

MR. CONINE: We appreciate your comments.

Any other business before the Finance
Committee?

MS. CEDILLO: We still have Item 6.

MR. CONINE: Oh, yes, Item 6. I'm sorry. I
just about forgot you. The presentation and possible
approval to extend limit on capital budget expenditures
for development of the Weatherization Assistance Program.

Ms. Ruth?

MS. CEDILLO: Mr. Chairman, we have a couple of
requests to increase the capital budget at the Legislative
Budget Board currently, but we felt strongly that this
request merits our asking the Board to request the
Legislative Budget Board to allow us to exceed our capital
budget.

On November 21, 2001, TDHCA submitted its bi-
annual operating plan to the Legislative Budget Board.
The BOP contains descriptions of all information
technology projects and related budgeted and recommended
appropriations for Fiscal Years 2002 through 2005.

Funds for two BOP projects planned for Fiscal
Years 2002 and 2003 are not included in the capital budget

appropriations for those fiscal years; these projects are the Weatherization Assistance Program project and the conversion of the EASY Audit II to EASY Audit III project.

In June 2001, the department received increased funds from the Weatherization Assistance Program through the U.S. Department of Energy. Congress increased the State's 2002 allocation from 3.7 million to 5.6 million. The receipt of the funds occurred after the close of the 77th Legislative Session.

The timely expenditure of these funds will assist the Department's sub-grantees by providing funds necessary to weatherize approximately 2,000 more homes; this benefit, however, can only be realized if program productivity of the EASY Audit II application is enhanced and converted into a web-based application.

And the department does have the funds from Weatherization Assistance Program administrative dollars and the Low-income Housing and Energy Assistance Program and under the Investor-owned Utility Program. We would take one-third of the funds required from each one of these programs to provide the funding necessary.

And we would need \$150,000 in 2002 for a contract with the National Laboratories, a working partner of the Department of Energy, and 130,000 is required in

2003 for a contract with CRN Applications. CRN Applications has assisted the department with the EASY Audit II and Prism programs.

And then, to complete the conversion of the EASY Audit II to EASY Audit III project, 190,000 is required in Fiscal Year 2002, and 50,000 is required in Fiscal Year 2003 for a contract with CRN Applications. CRN Applications works closely with Oak Ridge Laboratories, a contractor of the Department of Energy, and has provided services to the department with the existing software programs.

Now, we do have a letter from the Department of Energy supporting the programs for the department, and I would like to read this letter into the record if that is all right with the Committee.

MR. CONINE: Okay.

MS. CEDILLO: This letter is addressed to Ms. Peggy Colvin, Program Manager, Energy Assistance Section of the Department of Housing and Community Affairs, in reference to the WAP evaluation project: "Dear Ms. Colvin. I have received the information provided to me regarding the State of Texas Weatherization Program's proposed evaluation project in conjunction with Oak Ridge National Laboratory.

"The proposed cooperative project of the State of Texas Weatherization Program and the Oak Ridge National Laboratory to conduct an ongoing analysis of the effectiveness of weatherization measures of warm climates is much needed. As you indicated, Prism in its current configuration is unable to perform an accurate analysis of cooling measures.

"TDHCA's current involvement with ORNL in the three ongoing metering projects establishes an excellent foundation for this proposed project. It appears that initial discussion between TDHCA Energy Assistance and ORNL has resulted in a well-thought-out plan to determine if Prism can be modified to accommodate the needs of warm-climate states.

"Further development of an analytical tool that can determine the most cost-effective methodology and measures to be applied with limited resources could prove to be a benefit for not only Texas but all warm-climate states, as well. I encourage you to establish and maintain contact with Montana State University Extension Service to provide updates via the Denver Region list served to all states in the Denver region and provide access to all other warm-climate states.

"Please be sure to include this project along

with the proposal for conversion of the EASY Audit to a web-based application in your state's annual Department of Energy State Plan. The proposed conversion of the EASY Audit to a web-based application could prove to be invaluable in future evaluation of warm-climate weatherization measures.

"I strongly encourage you to proceed with these proposed projects and wish you the best of luck in your efforts. Sincerely, Robert L. DeSoto, Weatherization Program Manager." And this is from the Department of Energy Denver Regional Office.

In addition to the information that was provided, we provided the two letters that are required: One to Mr. John Kiel, and the other one to Wayne Roberts of the Office of the Governor.

We have -- the letter in your packet indicates January 7. Of course, that would have to be changed to January 17, 2002. And in the next-to-the-last paragraph -- well, the third paragraph up from the bottom, we say, "On December 12, the TDHCA Board of Directors agreed." That would have to be changed to January 17, also, in both letters.

MR. CONINE: Okay.

MR. JONES: Mr. Chairman?

MR. CONINE: Yes?

MR. JONES: I move that we recommend Item Number 6 for approval to the Board.

MR. GONZALEZ: Second.

MR. CONINE: There's a motion and a second -- a motion by Mr. Jones and a second by Mr. Gonzalez that we approve Item 6 and recommend that to the full Board. Is there any discussion?

(No response.)

MR. CONINE: Ruth, my understanding is -- in layman's terms of what you just said is that we're taking some of the DOE's money, improving the software system that we currently have to a better one, which will enable us to have 2,000 more homes served.

MS. CEDILLO: And to have access to information more readily available on the EASY Audits and, also, that we collect information with regard to warm-weather states.

Currently, the Prism program provides information primarily on cool-weather states. And our southern states are more warm-weather states. And we can make comparisons as to the effectiveness of the programs much better by having that information available.

MR. CONINE: Okay.

A motion on the floor. Any other discussion?

(No response.)

MR. CONINE: If not, all those in favor of the motion, signify by saying aye.

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Motion carries.

I believe that's the last --

MS. CEDILLO: That's it.

MR. CONINE: -- issue of the day for the Finance Committee. Do I hear a motion to adjourn?

MR. JONES: So moved.

MR. GONZALEZ: Second.

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

(A chorus of ayes.)

MR. CONINE: We are adjourned.

(Whereupon, at 10:17 a.m., this Committee meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Finance Committee

LOCATION: Austin, Texas

DATE: January 17, 2002

I do hereby certify that the foregoing pages, numbers 1 through 21, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Sunny L. Peer before the Texas Department of Housing and Community Affairs.

(Transcriber) 1/23/2002
(Date)

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