

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING

Hilton Hotel North
Austin, Texas

Thursday
May 9, 2002
9:30 a.m.

BOARD MEMBERS:

MICHAEL JONES, Chairman
BETH ANDERSON, Member
SHADRICK BOGANY, Member
NORBERTO SALINAS, Member

STAFF:

EDWINA CARRINGTON, Executive Director
ROBERT ONION
TOM GOURIS

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P R O C E E D I N G S

MR. JONES: I now will call to order the meeting of the Texas Department of Housing and Community Affairs of May 9, 2002, the first order of business being the roll call.

Ms. Beth Anderson?

MS. ANDERSON: Here.

MR. JONES: Mr. Bogany?

MR. BOGANY: Here.

MR. JONES: Kent Conine is absent; Mr. Gonzales is absent.

Mayor Salinas?

MAYOR SALINAS: Here.

MR. JONES: And Mike Jones is present. We have four members present, we have two members absent, so I declare we have a quorum.

Our next item of business is public comment, but I will take that up in just a second; I would like to turn at this time to item number 1 which is the presentation, discussion and possible approval of the minutes of the board meeting of April 11, 2002.

MS. ANDERSON: Mr. Chairman, I move approval of the minutes.

MR. BOGANY: Second.

MR. JONES: We have a motion that's been made that they be approved and seconded. Any further discussion or amendments?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed to the motion, say nay.

(No response.)

MR. JONES: Motion carries.

I would now, with the board's permission, like to turn to items 2(a) and 5(a) of the agenda, which deals with the Stonebrook Villas, McKinney, Texas development, and if I could, the reason I turn to that is we have a number of witness affirmation forms that have been submitted of people that would like to speak with regard to those two matters, and in regard to the interest of their time, and since we have the most people here on that, I think it might be best if we take that up first, and we'll do so unless a board member objects. So we'll now turn to public comment with regard to those two items

I would also like to say that it's been my general practice as chair to allow unlimited time for speakers with regard to most matters, but we do have so

many people speaking on this that we may not be able to accomplish that. What I would like to ask the people that would like to speak with regard to Stonebrook Villas, if you would, if you are a representative -- for example, I believe Mayor Dozier is the first speaker that I have -- if you're a representative who will be speaking on behalf of both yourself and others, if you would come up first, I would like to give those of you who represent others the opportunity to speak first and then we will turn to others.

I would also like to encourage you not to be redundant; if a point has already been made, if you don't mind, don't try to bring it up again. Certainly if you have something new you want to bring up, please do so. At some point, though, I wanted to warn everybody, I may well have to impose time limitations in regard to just the mere numbers of people that we have that want to give information today.

We certainly want to thank you for being here today and thank you very much for giving us the input you're about to give us. So with that, Mayor Dozier, is he here? Mayor, how are you today? And if you would, when you come up to speak, please state your name for the record.

MAYOR DOZIER: Mr. Chairman, distinguished members of the board. My name is Don Dozier, mayor of the City of McKinney, Texas. I'm here today to address the wishes of the city council of the City of McKinney. We have other speakers this morning who represent directly various organizations within the neighborhood in which this facility is planned to be built and you'll hear from them later.

McKinney has a unique history of endorsing and promoting affordable housing. We have, in fact, eight facilities of affordable housing with 512 units. We're very proud of that. We started that program in 1988; we have seen it through at a rate of about 200 units per year for the last five or six years. We continue to support affordable housing as demonstrated by our commitment to the Housing Finance Corporation which we appointed this past year.

We realize that we need to provide housing for our firemen, our policemen, our nurses and our engineers -- one of which I happen to be, and I started out in this same situation living in housing that I could afford to live in as a struggling engineer. I'm fortunate today that I've moved beyond that, but I am a part of that program and I am endeared to it.

The city council, appearing through myself today, desires to communicate a clear message that McKinney is supportive of the housing initiatives of the Texas Department of Housing and Community Affairs. McKinney has unique circumstances, both geographic and growth related, that caused the city council to examine the effects of new multifamily housing on the community, especially on our ability to fund the city services and schools through ad valorem taxes. In my opinion, the resolution passed by the city council in April was intended to alert TDHCA to issues that were potential problems for cities that are doing their best to provide affordable housing to their citizens, and McKinney is a perfect example of one of those cities.

The city feels that the criteria for examining the concentration and densities of available housing in the state's approval process for proposed developments does not account for inequities that are created in rapidly growing communities. In McKinney's case, a new development located in a rapidly growing area on the perimeter of our city may qualify under state guidelines.

The burden on McKinney and McKinney ISD services can be disproportionate considering the community right across the street has virtually no affordable housing,

multifamily or single-family.

In summary, the City of McKinney asks that the TDHCA examine the effects of its guidelines for qualifying projects as it reviews its rules. The city will process the land use application for this project as it does all others, but we looked outside our city limits and it was apparent that over-concentration of units in our city and disproportionately so compared to our neighbors which prompted my fellow council members and me to express concern in the form of a resolution.

The city respectfully asks that your board take these serious issues into consideration today in your deliberations and in your review of the standards and rules that you use in the future. The City of McKinney stands ready to assist you and your staff in any way possible.

I thank you for your time and your attention to this matter.

MR. JONES: Thank you, Mayor.

MR. BELL: My name is Steve Bell; I'm a city councilman in McKinney representing District 4, and this is the area that Stonebrook Villas would go in. I also have with me today two other council members from McKinney and also a councilman elect, and what I would like to give

you is a little perspective of our city

Our city is a unique one in the state of Texas; it's 150 years old. We have the second largest historic district in the state of Texas, next to Galveston. Our city is divided basically in half: we have an east side and a west side. The west side is brand new; our developers are building it rapidly. Our east side is 150 years old; consequently, the infrastructure, the water, the sewer, the streets, sidewalks are insufficient for our area. We've got certain streets that we can't get a fire truck through because they're so narrow. Now, we're working hard to do that.

In '98 we passed a bond initiative that was \$14 million that would be used in infrastructure on the east side, and obviously that is not near enough to solve the problems that we have over there. This past year we passed an \$80 million bond with \$28 million designated for east side infrastructure to try to move it along as rapidly as we possibly can because we have people that sewers back up in their houses because of the inefficient lines, that the water pressure drops so much it concerns me that if we were to have a fire or something that maybe we couldn't put it out the way that we should be able to do it, hoping that we can use part of this to catch up.

Well, this isn't near enough money to be able to bring our east side up to the standard that it should be.

We're already one of the heaviest taxed cities in the state of Texas. You know the situation of our school district, it's growing leaps and bounds and they're hitting their tax cap within the next 18 months which poses another problem for us. Underscoring what Mayor Dozier said, we'd really like for you to look at the criteria in which you go about in selecting these sites. We have 62 percent of this type of housing in the city of McKinney today, you know, when you look at the entire Collin County. We need some relief because it takes an awful lot of money to provide the services that we need to provide our citizens and also being able to provide the tax monies that we need for education.

I would ask this of you, that if you do decide that this project is necessary for our city is that full taxes be paid by the developer to the city and to the school district. We absolutely need the dollars to continue to be able to keep up with our growth, to be able to provide the education for our citizens, to be able to provide fire, police, emergency services, and just down to the basic services of water, sewer, sidewalks for kids to walk on, and streets that you can get up and down without

the potholes and so forth.

So please take this in consideration as you enter into your decision process today. Thank you.

MR. JONES: Thank you, sir; we appreciate your being here.

MR. HELSLEY: Good morning, Mr. Chairman, members of the board. My name is Thad Helsley; I'm the mayor pro-tem of the City of McKinney.

The city council has been working very hard with our school district to address the problems we have with our tax base of our citizens. We want to continue to provide excellent services and excellent schools; it's very difficult in a community that over the last few years has been growing at 13 to 15 percent annually.

The school district and the city have concluded that the best way to address these issues is through commercial tax base economic development. However, our focus on commercial tax base is a question of priority and emphasis. We are also working on housing issues important to our community.

I, as well as the entire city council, are strong advocates of the programs that your board provides.

We need your help in funding single-family affordable housing projects, projects that help aspiring young

families create equity, pride of ownership, and make them full-fledged citizens by virtue of being taxpaying citizens. I, like the mayor and like Mr. Bell, would ask the board to consider the effect of the concentration criteria on these multifamily properties. I would ask that you please consider that prior to your approval of the Stonebrook Villas project.

I speak with regard to this project today because of the tax burden that this concentration will affect our citizens. I appreciate the opportunity to speak to you and thank you for your consideration.

MR. JONES: Thank you, sir.

MR. LOUGHMILLER: Good morning. My name is Brian Loughmiller; I am a citizen in McKinney, Texas; I live in the area where this project is being built; I am also council-elect for District 4 for the City of McKinney. I'm here speaking today as a citizen.

In determining whether your criteria has been met, it is essential that the underlying data is reliable and accurate. It is also important that we are intellectually honest in evaluating the criteria and the importance of each element. I've looked at the criteria that you follow on the concentration policy and the first criteria of concern is the geographical and political

boundaries and a targeted demand of a population of 50,000 to 250,000 people. To allow inclusion of surrounding municipalities of Frisco, Allen and Plano as part of your targeted demand is not intellectually honest and ignores the importance of consideration of political and geographical boundaries.

In further review of the criteria, under Item 2, Quantification of Demand, you are to consider new employment growth for the intended area. Collin County, and especially McKinney, has felt the impact of economic downturn over the last year and a half; many people are currently in job transition. There are no employment centers in the immediate area of the location of Stonebrook Villas and economic and commercial development versus residential development is in a crisis at this time and it's creating a huge tax burden, as the other people have spoken, on our residents and on our school system.

In reviewing the Quantification of Demand, in addition to the issues of capture rate, as presented by the Citizens of Balanced Growth -- which you will hear from in a minute -- we have no quantifiable demand of new employment in this area.

You've received letters from both Senator Shapiro and Representative Denny asking you to carefully

scrutinize the data that you've been provided and to follow your guidelines that you have. I ask you to do the same thing and ask you to consider, in looking at your criteria, to follow each element and not just focus on capture rates or one element versus another element, and ask yourself if this criteria has been met and consider the corresponding tax consequences that our community will feel as a result of this project.

When you consider whether or not full taxes are going to be paid by this project, you also have to consider the fact that we don't know what the assessed value of this project will be for purposes of taxation, and that's a concern too. And I thank you for your time.

MR. JONES: Thank you for being here, appreciate it.

MR. DAVIS: Mr. Chairman, members of the board, thank you for your time; we appreciate the time for public comment here. My name is Roger Davis; I am a member of McKinney Citizens for Balanced Growth and I represent more than 2,000 petitioners who have petitioned your board to please consider not approving the application for this project.

These programs are very important; the LIHTC program is very important to the State of Texas and there

is need in Texas, and it's really a question of where and when that need is exemplified. What I'd like to talk about today a little bit is there's a lot of talk about concentration relative to these projects, and that means a lot of things to different people, so I'd like to talk just very briefly about some of those technical issues and walk you through some items, facts and other things that I don't think are necessarily fully exemplified in the market study that was prepared for the project or necessarily in the underwriter's comments on this project.

As has been previously mentioned -- and I think this is a concentration issue that is important to our citizens as well -- is that McKinney has 11 percent of the population of Collin County but it supports currently 62 percent of the low income housing tax credit projects in the entire county. And to put this in perspective, one should consider that McKinney is a city, as of 2001, that was clocking in at about 59,000 people; our neighbor to the south, Plano which is in Collin County, has over 220,000 people; we have other cities in the county that have in excess of 40- to 50,000 people; so to kind of put this in perspective, we are carrying more than half of the low income tax credit units for the entire county that has a population of a little under 400,000.

Talking about concentration in terms of what you are used to seeing, I believe, your guideline standard asks that the concentration be less than 25 percent, I think there are several things that need to be considered in what produces that calculation concentration that you see on the paper when it hits your desk. It's a mathematical calculation, and I've got to tell you I spent innumerable hour going through it to understand it, and having gone through it and understanding it, it's a bit complex but I think I can illustrate some issues that, as with any mathematical calculations, these issues can sway the number one way or the other, it an make a big impact on the number that pops up and what you conclude from that.

For example, in the calculation done by the market analyst and in the underwriter's calculation, you will notice that the population that is used there includes senior citizens, and we welcome that. Unfortunately, the supply side of the calculation does not include senior units and the ironic situation you can have is that a project such as Country Lane that exists in McKinney today, the residents that happily live in this project already, that is only two years old, are being counted as units of demand in this calculation. We feel

this is inappropriate and we would love to see this addressed, and I think this is a logical item for review for the board that is easily understandable.

One of the other items that needs to be looked at, I feel, is the type of data that is used in making the calculation. There's a world of data available out there for use in these calculations, and what you will find used in the market study and in the underwriter's comments in several cases is 1990 data. These are items of data from the 1990 census and what you also find is that in the market out there there's much more recent data that is available from the year 2000 to the year 2001 from credible national demographic organizations that produce this data, and I think it's important if you're calculating math answers to give you a real answer to what you think about a situation in any area, it's important to use the most recent data.

The other issue that may be considered is that the calculation does not take into account the existing non-LIHTC units in our city that compete in similar rent price points to these units already. In fact, we have a project built in 1997 that competes in a very similar price point, it's a nice project, but it's not included in the supply calculation that has 260 units. There's

another renovated complex that was renovated five years ago that competes in the same rent category that has 40 units, so there are 300 units of supply here that are not accounted for, coupled with the senior units that are not accounted for of 200, that's over 500 units of supply that were not accounted for in that calculation.

So what does all this tell you? If you go back and rerun the numbers, your underwriter and the market analyst for this project tell you that the concentration for your guideline is just under 25 percent, but if you use year 2000 or year 2001 numbers, what you find is that the concentration is actually much higher. In a ten-mile ring, the concentration is over 40 percent; that is the case if you include senior units and if you include the other units that I mentioned. If all you do, if the only changes you make to the calculation are to include the more recent 2000 and 2001 data, the concentration is well over 30 percent; within a seven-mile ring surrounding this project, the concentration is over 50 percent; in McKinney itself today the concentration would be over 300 percent.

I think it's important to note that a city of our size with the many burdens and challenges that we face, that our city council is struggling with and doing a very meritorious with, that our school district is doing a

very meritorious job with, it is very difficult to take a look at this type of concentration and not ask is it appropriate to build this project at this time.

The last technical issue I'll try not to bore you too much with is the assessment for this project. The underwriter and the market analyst have looked at this project and surmised that the assessment the tax district will place on it is \$24,000 per unit or less. So what I did was basically look at what is the county tax district assessing projects in our county at. If you look at the projects that were built in the '90s or later in McKinney itself -- and there are a number of them -- they are assessed at an average of \$41,000.

What you will find is that if this project is assessed at over \$34,000 per unit, based on the pro forma that's been presented to you, I believe, you will find it would be difficult for the project to produce positive net cash flow. Now, again, that is at the discretion of the county tax district, I can't tell you what they will assess it at, but looking at their past history, I would think that this question merits some observation.

To summarize, I've talked about some technical issues that I believe prevent this project from qualifying per your own criteria. These are not the emotional or

social issues that revolve around this project, but it is important to the citizens of McKinney and our strong growth trend that we have right now, doing everything that we can to provide adequate services and infrastructure to all the citizens in our city and all the students in our city, that the consideration of the State as a good steward of public funds to review these issues is very important to our citizens.

So in close, and as a representative of over 2,000 citizens of McKinney and over 700 persons who came to the TEFRA hearing -- that the State graciously set up for us -- and signed in against this project, for a city and for a school board that have voiced their opposition we ask you, respectfully, to decline the application for this project. Thank you very much for your time.

MR. JONES: Thank you sir; we appreciate you being here.

Do we have anybody else with regard to these agenda items that speaks as a representative?

MR. BUSHNELL: Good morning, Mr. Chairman.

MR. JONES: Good morning.

MR. BUSHNELL: And members of the board. My name is Jerry Bushnell and I live in McKinney, Texas across the street from the proposed development, and I've

brought with me letters of 13 of my neighbors protesting against the construction of the low income tax credit property proposed here today; I am also against this project.

By nature, I just go with the flow, whatever life brings my way, and I've never protested anything before, but this project is wrong, really wrong. Our taxes are already too high and this project only increases the city's expenses without bringing in revenue to support it. Also, our local elementary school is already overcrowded; my son spends his day in a portable building a the school. The school can't handle the additional students this project would bring, therefore, the school is against this project as well.

Our neighborhood is against this project, our city is against this project, and our school district is against this project. Please don't approve the project. Thank you.

MR. JONES: Thank you, sir.

MS. BROMLY: Good morning. My name is Jackie Bromly and I'm the vice president of the McKinney Housing Finance Corporation, but I have already submitted my comments for the public record, it's in the letter that you have, and I would like to read a letter from Sarah

Thomas who is the secretary of the Housing Finance Corporation; she's also the chairman of the board of the McKinney Chamber of Commerce which represents a thousand businesses in McKinney.

"I regret not being there with you today at the hearing for the approval of Stonebrook Villas complex in west McKinney. As you know, the McKinney Housing Finance Corporation is hoping for a partnership opportunity with Southwest Housing in the event that the TDHCA elects to approve the project.

"Please be aware that at least four members of the HFC board had originally intended to attend today's meeting. As of last week we were given the impression that our city council would prefer it if we did not attend in a speaking capacity, and at that point we changed direction. Late yesterday we found out that we had perhaps misinterpreted our council's directive. At this point it was too late for most of us to change our plans.

I do not want our absence in any way to send the message that the HFC no longer wishes to pursue a business relationship with Southwest Housing on this project, if indeed it is approved.

"I also want to state that our city has always been very much in favor of affordable housing, as

evidenced by our strong Habitat affiliate, our Rebuilding Neighborhoods Program, our Homes Down Payment Grant programs, and the recent Affordable Housing Task Force which was implemented by our city council. The funds that could be generated for the HFC from this project will be used primarily for the purchase and development of land for single-family homes. We also hope to hire a paid administrator in the near future to further enhance our mission to increase the number of affordable homes in McKinney.

"I hope that the TDHCA does opt to allow our non-profit to claim an ownership percentage in this project so that the tax savings will be passed on as rental savings to potential tenants. By forcing Southwest Housing to pay full taxes we may be increasing the tax benefit to our school district but we would also be increasing the cost to Stonebrook Villas residents.

"Thank you very much for the opportunity to explain my absence today. AS both an HFC board and chairman of the board of the McKinney Chamber of Commerce, I plan to continue taking an active role in the development of affordable housing in the city. And I appreciate the opportunity to submit this letter.
Regards, Sarah Thomas."

Thank you very much.

MR. JONES: Thank you.

MR. POTASHNIK: Board Chair, esteemed board members. My name is Brian Potashnik; I am the developer and president of Southwest Housing. Let me first start out by thanking you for your time and thanking you for your endurance. I know this has been something that has been brought to your attention as well as something that's been worked on by your staff, and I certainly compliment their hard work and efforts, and would like to start out by giving you a little bit of background.

As most of you know, Southwest Housing has been developing in the state of Texas for over ten years; we have 22 projects in this state throughout the state, representing over 10,000 residents who are well served by the high quality of housing. This housing has set the standard for the state of Texas and for the nation for its quality; we've been recognized by HUD as a model for affordable housing, we've been recognized by the National Association of Homebuilders for the quality of our housing.

Less than a mile away from where we're sitting today, we have a development that we are in partners with the Austin Housing Finance Corporation which I'm very

proud of. It's an affordable development for senior citizens and I think it's something that will also set the standards here in the city of Austin.

What I'd first like to say is that we went into the city of McKinney with support, support that has continued and support that is evident by the people who are here today and people who have continued to express their support. I appreciate the city council comments and I think it's important to point out some of the history of this development.

Very early on in the process we reached out to the Housing Finance Corporation of McKinney. They are a duly appointed group of citizens, very prominent citizens within the city of McKinney, appointed by the city council and mayor, who have gotten up and spoken today. You have just heard from one of those members of the HFC, and I applaud them for the hard work that they have put forth for this development.

Having said that, I do want to point out some of the support which is included in a package that has gone to the secretary and I would like to submit to the board. The Chamber of Commerce of McKinney, who represents over 1,000 businesses within McKinney, is supporting this development; the HFC, as I said, is very

supportive of this development; there are a number of citizens who are solidly in support of this development; we have a letter here from LULAC, which is very active in Collin County and in this area, who support this area.

I would also like to point out that this development meets all of the standards that the state has put forth in their QAP and their underwriting with respect to the quality and any of the issues with regard to concentration. As the market studies -- and I do say studies because there have been one -- point out even with this development there is still significant unmet demand for affordable housing in the city of McKinney and in Collin County. Collin County is the fastest growing county in the state; this will be a development that the city will be proud of; this is a development that will help meet the needs for the affordable housing crisis in McKinney.

I am here today to ask for your support and to reach out, as we have done, to the neighborhood group. I do want to make it clear that the neighborhood has been very vocal in the issues that affordable housing brings into McKinney, and we have addressed those issues, we have worked hard to make sure that the neighborhood understands, and above all understands they have nothing

to fear from affordable housing, and this will meet and exceed everybody's expectations that has any concern whatsoever for there being affordable housing in their neighborhoods.

Again, thank you very much for your time, and I would like to, again, submit for the record letters of support from businesses and citizens in McKinney for the development of Stonebrook Villas. Thank you all very much.

MR. JONES: Thank you, sir.

Is there anyone else that would like to speak on this agenda item that is a representative of others? Seeing none, I'll turn to the other witness affirmation forms. Mr. Rob Karl?

MR. KARL: Mr. Chairman, board, my name is Rob Karl and I'm a citizen of McKinney.

First off, I want to say thank you for this opportunity to give the citizens an opportunity to voice our opinions and our concerns.

MR. JONES: Thank you for being here.

MR. KARL: Thank you. I'd also like to mention just a few things. We totally support affordable housing in McKinney; I don't think our citizens have ever had any fears, by evidence of the 62 percent of the housing we

already have in McKinney; we've never brought up any issue that we were worried about that kind of housing.

I would also like to point out at both TEFRA hearings I don't recall anybody supporting the project except for the developer and members of the HFC. Each time there's been hundreds of citizens that have spoken about their concerns regarding the tax increase, the over-concentration we already have, the school board, we support them as well.

I also would like to say that the second TEFRA hearing no member, to my knowledge, from LULAC or the HFC spoke in support; they did not speak at the second TEFRA hearing where we had over 500 citizens appear in opposition, and again, I would like to say that we have over 2,000 signatures in opposition.

And lastly, I would like to say when this project first came to our attention in the little newspaper ad that goes out, I called the phone number on there which was Southwest Housing. Mr. Potashnik kindly called me back later that day, we spoke briefly about the project, and he told me if the people didn't want it, he would not build it. So the more information we gathered about our existing concentration in McKinney, the concerns that were raised by our schools, the concerns that were

raised by our city councilman in the neighborhood, we respectfully asked that Mr. Potashnik live by that code that he gave us: if the people did not want it, the city didn't want it, he wouldn't build it.

And I'd also respectfully ask that the board deny the funding of this project based on the fact that we do make up 11 percent of the population in that area and we do have 62 percent of the existing low income housing in that area. And thank you for your time.

MR. JONES: Thank you for being here.

Ms. Cindy Evans?

MS. EVANS: My name is Cindy Evans. I want to address one thing that Mr. Potashnik did just say, as a resident of McKinney, and the McKinney Citizens for Balanced Growth. We don't represent one neighborhood, we represent the whole city, we have people on our petition and people who have been involved who are from all over the city.

One of the reasons that I moved to McKinney was because it is a unique community. I had lived previously in East Dallas which is really where my heart probably will always be; I moved to McKinney because it was a very different kind of community, it is not a suburb, it has very many different kinds of areas: we've got some new

stuff, we've got the historic stuff.

Mr. Potashnik said something about that he had tried to tell the neighborhood that we had nothing to fear. I do have a fear, I have a fear that by providing so much housing for moderate income people in the LIHTC program -- we have 300 people right now that are on our waiting list for the McKinney Housing Authority who are in the lowest income, I have a fear that we won't be able to provide for those people; I have a fear that we won't be able to provide for the 300 people who are on our Section 8 housing list; I have a fear that our schools will become so overcrowded.

At the moment we have 20 percent of our children on our school lunch program and I have a fear that those children won't be able to be reached by teachers if the class size gets so big that the teachers aren't able to give one-on-one attention to every single child, particularly those children whose parents do not have the resources for them to have an outside tutor, particularly for those children who may have a hearing impairment, who rely on the public schools to provide those services for them, and for the children who may need a speech therapist and our resources become so stretched that those children are the ones who will be left behind.

Those are the things that we have worried about with this program. We have many people in our community who are in the lowest income brackets, and as you can see by the comments from our city council, this is an unbelievable community that has a tremendous commitment to making sure that no citizen in our city is ever left behind, and we just want to make sure that we continue to be able to serve all of our citizens. Thank you.

MR. JONES: Thank you.

Ken Vowell?

MR. VOWELL: I signed up on the wrong side; I want to be on the agenda side rather than public comment, on 2(b).

MR. JONES: Mr. James Beery?

MR. BEERY: I'm also on 2(b).

MR. JONES: Candice Pritzell?

MS. PRITZELL: My employer has covered the issues that I wanted to address, so I concede. Thank you.

MR. JONES: Thank you.

Kasey Sutphen?

MS. SUTPHEN: Good morning. My name is Kasey Sutphen and I am a property manager for Country Lane Seniors Community in McKinney, and I have some information that I'm going to let Ken pass out for me to each one of

the board members. One of them includes a rent roll from Country Lane and a waiting list for a future project, The Grand Texan, and I understand that The Grand Texan was to be on the agenda in April, it was not; it was to be on the agenda in May and it was not; so we're here today to plead with you put our proposal, The Grand Texan, on June's agenda.

I'd like to start by telling you a little bit about what we offer at Country Lane. Country Lane is a seniors community, 55 and older, and some of our amenities include a restaurant-style dining room, a coffee shop, a beauty shop, a fitness center, an inside mail room, daily social events planned by our full-time social director on staff. We are located in a country setting off Highway 5 in McKinney with beautiful grounds.

If you'll notice with the rent roll that you have received, we are 100 percent leased; since we were 100 percent occupied since last October, our occupancy has remained above 98 percent. We also have 214 on a waiting list, we have a number of these on a waiting list that are on the waiting list for our future project, The Grand Texan, and also one that has already been approved, The Grand Reserve. We also have a number of letters of support that Ken will provide you with.

In conclusion, I would just like to say that I would most appreciate your consideration for our project, The Grand Texan. We feel like we're providing great affordable housing for our senior population which is going to help them continue the quality of life. Thank you very much for your consideration.

MR. JONES: Thank you.

Mr. Mitchell, have you signed a witness affirmation form?

MR. MITCHELL: Yes, sir.

MR. JONES: We're just trying to find it; excuse us.

MR. MITCHELL: My name is Ken Mitchell from Fort Worth with The Grand Texan; we were left off of this agenda.

We had a request to reduce our market rate units in our project and we're still going to be 46 percent market rate units which is greater than the 40 percent required. I think it was just an oversight on the staff's part. I have no complaints at all with the staff; they've been great and very nice to work with, but we just want to come here and let you know that there are so many, many senior citizens that are counting on this project. We have in a notebook letters which I call them "our dear

seniors" have written.

These are some more letters that our seniors have written that we would like put in our file. After we realized the oversight that we weren't on the agenda for this meeting, we told our seniors that our project would be delayed again, and they decided to write more letters, and many of these letters are not typewritten, they're just a yellow piece of paper. Many of these seniors use scooters and wheelchairs and in their 80s, and they like our project. It has elevators, no steps, and we have meals and transportation.

We have over 200 seniors on our waiting list and I have been working on this project for two years. I have been telling seniors please sign up on the waiting list and we'll have a project, we have a good application, and so these seniors have signed up counting on this project being developed. We are not asking for an allocation because we received the allocation last year, and we're not asking for more credits, we're asking to use our allocation. I guess it was my error but I thought we could build more market rate units than what we really could.

When the 9/11 terrorist attack occurred last year, our economy went under or was negatively impacted.

It is extremely difficult to build any market rate units in our area, especially for senior citizens. I have tried with, I guess, seven or eight syndication companies to finance this property and I've been unsuccessful. I am proposing to reduce my unit mix only market rate units in a way that will not change my score; my score on the scoring system would remain the same. The 9/11 attack was unforeseeable and it changed all of our lives. I had worked so hard on this project for two years, just to see no after no after no from one syndication company after the other.

So all we can do is just come here, we just hope that maybe next agenda you can consider our request and maybe read some of those letters. They pretty well tell it like it is and if their closet is not big enough, they'll tell you, you know. So anyway, we hope that we'll be on the June agenda and we'll see you then.

MR. JONES: Thank you, sir.

Elizabeth Julian?

(Inaudible response.)

MR. JONES: Andy Siegel?

MR. SIEGEL: I'll waive comments in support of the Stonebrook Villas.

MR. JONES: Thank you.

Cheryl Potashnik?

(Inaudible response.)

MR. JONES: Thank you.

Those are the witness affirmation forms that I have for agenda item 2(a). Are there others that would like to speak? Yes, sir? Please come up.

MR. MARQUIS: Chairman Jones, members of the board, good morning.

MR. JONES: Good morning.

MR. MARQUIS: My name is David Marquis; I'm the president of the Southwest Dallas Neighborhood Association. I do not live in McKinney but I'm here today to speak to the issue of the Stonebrook Villas.

Since I don't live in McKinney, I can't speak very well to the particulars of the project; I can, however, tell you about the relationship that our neighborhood has with Southwest Housing Management and Brian Potashnik. We have a reputation in Dallas, our neighborhood association does, as being aggressive and not just tough but mean as junkyard dogs. We have sent representatives to meetings here in Austin before to vigorously oppose developments in our neighborhood; however, I'm here today to speak on behalf of Brian Potashnik and Southwest Housing.

The first time I ever met Brian was at a meeting, a community meeting, and the room was smaller than this, I was standing at the back of the room and I was shouting at him because we had so many people come to our neighborhood in Oak Cliffe and break their promises to us. But both Ron Kirk and Laura Miller -- if you know anything about Dallas politics, if you get Ron Kirk and Laura Miller both to support someone and say give him a chance, that's quite an affirmation of support, so we gave Brian a chance.

Two months later, after a series of committee meetings and community meetings, our neighborhood voted 63 to 3 in favor of the project that Brian wanted to bring to our neighborhood. He wrote his promises on paper and he kept his promises. He built a beautiful project, it's been well maintained, and it's been a real boon to our neighborhood.

I've heard concerns expressed this morning about property values. The best way to ensure property values is to ensure a growing and vital economy. Brian's project brought over \$20 million of economic development to our neighborhood. And remember that when it comes to property values, it's not just the type of property, it's who owns the property, it's a major consideration.

There's a very nice home down the block from the home that my wife and I own, it's in very bad disrepair, a single-family home in bad disrepair because of who the owner is.

We did our research on Brian, did our homework, found that his properties are well maintained, and in working with him, we found him to be a good citizen. He put in a traffic light at a dangerous intersection; he donated three acres of land for a new Dallas public library -- there's a long list of the things he's done to be a good neighbor.

And so I come here today to tell you that our aggressive, mean neighborhood association will deal with only one developer of affordable housing anymore, that's Brian Potashnik. In fact, we've alerted the City of Dallas that as regards to the infamous Bold Ridge Apartments right across the alley from our home which are market rate apartments, not affordable housing, we want those either torn down to the ground or Brian Potashnik can own them and rehab them, that's the only choices we've given the city. That's the relationship we have with Brian based upon experience with him, with his organization, with his staff members, so I came here today to let you know what kind of relationship we've had with him, what kind of experience we've had with him.

I thank you for the time that you put into this important mission to provide affordable housing for the citizens of Texas. Thank you.

MR. JONES: Thank you, sir; appreciate you being here.

Glenn Silva?

MR. SILVA: Mr. Chairman, I'd like to yield my time to Mr. Roger Davis.

MR. JONES: Mr. Davis?

MR. DAVIS: If there's no other comment, we would yield back our time to the board.

MR. JONES: Thank you, sir. I always like yielding; it just seems so much fun.

(General laughter.)

MR. JONES: Again, I've run out of witness affirmation forms for 2(a). Have I missed anyone?

(No response.)

MR. JONES: I see none so I assume that there's no more public comment then on agenda item 2(a).

I would close public comment on agenda item 2(a), and I would turn to our staff, Ms. Carrington, and let you make a recommendation in regard to 2(a).

MS. CARRINGTON: Do you want staff presentations?

MR. JONES: Please.

MS. CARRINGTON: The first staff presentation will be by Robert Onion who is our multifamily bond manager.

MR. ONION: Good morning, board members, Ms. Carrington.

As I start out my presentation, I think it would be a good idea to explain our concentration policy in just simple terms. Our concentration policy considers the existing proposed development you have before you and other affordable housing sponsored by the department that is not stabilized for twelve-months period and then a demand calculation is made based upon affordable demand in the area, and that amount of units that are not stabilized plus the proposed is divided into that calculated demand for the designated market area. That capture rate cannot exceed 25 percent.

The market analyst used a ten-mile radius. A five-mile radius falls short of the 50,000 people that is required under our QAP; the ten-mile radius fell just in the area of 200,000 so it did fit within that category.

I wanted to mention a few things to you about what's going on in that particular area. Just Dallas-Fort Worth alone led the nation in job growth for three out of

the last four years. The area has added more net jobs than all but three other major metropolitan areas in the nation. Dallas is currently tenth ranked and expected to be -- and here's the real grabber -- in less than eight years fourth in the nation.

The McKinney area has seen a population explosion from 21,283 in 1990 to 54,369 in 2000, an increase of 155 percent. It is anticipated to be 66,000 by the end of this year. North Central Council indicates that another 70,000 residents will reside there by 2025.

The next line is a statement by me: "Job creation, business recruitment and affordable housing are all necessary for balanced growth." Now let me explain to you what the problem is in McKinney. McKinney suffers from an imbalance of residential to commercial in a ratio of approximately 70 percent residential to 30 percent commercial. Balanced growth would be approximately 50-50.

Based on the cost to educate one student annually at \$4,600, it would require a house or a unit to be worth at least \$245,000 in order to pay for that student. Now, I've been told that my number is low; \$4,600 is actually more \$5,500. If that's the case, then a house or unit would have to be worth \$350,000 in order to educate that student. Obviously, houses and apartments do not pay for

the cost of that child.

Retail businesses are dependent upon affordable housing for their workers. I will show you on the aerial map there is some concern that there is no jobs in the local area. What we did find out is actually there is an agreement between the applicant and Kroger to share a retention pond which will be located directly in back of the subject property so that they can both share the cost of that retention pond. Not only will there be a Kroger store there, but there will be pad sites, and I assume it will be for fast food restaurants. The tenants that would locate here at Stonebrook merely have to walk across the street in order to get employment. The elementary school is within walking distance of this project; the junior high is directly east of this property, depending on what you consider walking distance, two miles, that's also within walking distance.

Let me point out to you this is where the subject property is. If you will take a look at this whole area here, and here's the five-mile radius here, it takes in all this area here, we have three country clubs: El Dorado, we have the Branch Country Club, and Stonebridge Ranch. Within a five-mile radius, the average income is approximately \$121,000. I can tell you by

looking at these houses that no low to moderate income people live here; I think that's an easy assumption.

As far as employment, we have employment down here with Experience Data Center, also United American Insurance. The mayor can probably give you a better idea but this is the regional employment center that incorporates around 6,000 acres trying to bring employment and business to the area. In addition, we have an Albertson's that will be located at this intersection of Stonebrook and West Virginia Parkway.

Also, I wanted to point out is here's Frisco, and here's Talon, and here's the site. It's just as close or as close to Frisco as it is to McKinney and the highway. That is why the market analyst took a bigger ring to consider this whole area because it would be serving this whole area.

McKinney talks about apartments and apartments don't pay for the education and the infrastructure. McKinney, since 1997, has authorized, given building permits for 2,664 units. You currently have 1,500 conventional apartment units complex under construction right now. If apartments don't pay their fair share, why is the city continuing to provide building permits? The City of McKinney also has additional approved zoning for

an additional 35,000 units within the city limits.

Now if you could go to the map for me, please.

One of the things I wanted to point out, everybody says the department has been placing too many affordable housing units in McKinney, it's been picking on McKinney.

I wanted to point out that on tax credit transactions -- which are the red flags -- the department did three 9 percent deals, they're all located east of the highway with the exception of Skyline Villas. Skyline Villas is a rehab transaction that was done in 1986. The purple triangles -- which there's one that's just directly on the west side of the property -- were all done by local bond issuers: McKinney HFC and Collin County HFC, and most recently which we just heard, the Grand Reserve which was just recently approved last month. As far as I know, there was no opposition to those properties.

TDHCA was the issuer on two transactions which were the blue pinpoints: Skyway Villas which is directly west of the highway, and Creek Point. I personally attended both those TEFRA hearings; I had no participation from the neighborhood. Stonebrook Villas comes up and all of a sudden all the evils of McKinney surface. I think if anything that this project shows and the positive thing about that is that I think the neighborhood and the city

council realize what their situation is and they need to correct that and they're taking the steps to provide the commercial base that they need, but they can't really do it without the affordable housing.

I look out over the sea of homes, there's some 3,000 homes out there, and I ask the question where do these people shop, where's the fast food restaurants, where's the services. What's happened is that McKinney is growing so fast that the commercial services can't keep up with it, and I would encourage the city to do whatever they need to do to rush those building permits through because there are certainly services there.

I joked with one of the residents and said I was going to quit my job and start a pizza delivery service and retire in two years, easily could do that, not a question. So I certainly know that the neighborhood needs services, they need people to man those services, and therefore, based upon that, we're willing to recommend this based upon a real estate transaction.

MAYOR SALINAS: Let me ask a question. I don't think those people that came down here are evil people, I think they're concerned about the neighborhood, but has everything gone through the city council as far as zoning?

MR. ONION: Yes, sir. The site plan was

approved this week 7-0, and so they anticipate being able to pull permits just prior to closing.

MAYOR SALINAS: Is the mayor in favor?

MR. ONION: At 7-0, I would assume so, if he was a voting member and I assume he was.

MAYOR SALINAS: How about do they have a comprehensive plan for the zoning throughout the city? Have they done a comprehensive plan? I mean, I would think the citizens of McKinney would protest this by going to the city council and there are other legal ways. I don't think it's up to us here to decide where a project is going to be at, our job is to go ahead and accept the tax credits. I have a letter here from the chamber of commerce supporting the project, and then we have other people sending us faxes supporting the project.

I think our job is not to select the site, I think our job is to do what's right here for housing, and Mr. Onion's job is to recommend it in favor or against. I just don't think it's right for us to be looking at the pizza parlors or restaurants, it's just got to be a good project that we can fund. Now, how you all take care of business in McKinney is something else, you know, and I know that because I am the mayor of a city of about 56,000 population. When we don't want a project, we just go

ahead and deny the permit.

It's a local issue, I don't think it's up to us. If you don't like the mayor, you don't elect him again, you know. I mean, for you guys to be putting us in a position that we have to decide -- I mean as far as this project is concerned, I've looked at the zoning and it's zoned for this project and it wasn't taken care of before, so I don't see how we can be put in that position. So I had to say that.

MAYOR DOZIER: Thank you, sir. With all due respect, some of the numbers that we've seen that Mr. Onion presented are in error, and we would like to give you the exact information for the record which we will present to you in written form, if that's acceptable.

We do have, in fact, 33,000 units that are zoned for multifamily; we will be taking action on that but this zoning was done in the '80s. We have no legal remedy to that at this time other than to support affordable housing for that zoning, and that's why the vote was 7 and 0 the other night. And Mayor Salinas, with regard to the city not issuing a permit if they don't want to, we would be at risk of lawsuits from developers, state government, federal government if we even talked about not issuing a permit. Our city does not function in that

manner, with all due respect.

MAYOR SALINAS: Well, the thing is that you go back and you do a comprehensive plan --

MAYOR DOZIER: And we have.

MAYOR SALINAS: -- and you have so you kept this area with the same zoning.

MAYOR DOZIER: We do have a comprehensive plan.

MAYOR SALINAS: Because when we don't want certain kind of housing in certain areas of our cities, we go ahead and do a comprehensive plan to change the zoning, we have public hearings, we have input from the public, and we change the zoning. I would imagine that you just didn't do it in this area.

MAYOR DOZIER: No, sir, that's not the case. What we're asking here is that the City of McKinney not be disproportionately allocated a number of affordable housing units just because of the ten-mile radius. We believe that we have carried the burden and the load for our county with 62 percent of the units that have been built. We would aks that you investigate the criteria which you have awarded those to the City of McKinney and in the future that criteria be used that differentiates us from other cities in our county.

Our sister cities, the one next door to us to

the west at Frisco, Frisco has one housing project; our sister city to the south of us, Allen, has one project. So we're being penalized, for whatever reason, for having so many units disproportionate to the size of our city in proportion to the overall area, and we would ask that you consider that.

MAYOR SALINAS: So they could file a lawsuit against us.

MAYOR DOZIER: Sorry?

MAYOR SALINAS: So they could file a lawsuit against us, because that's what they probably would do, sir.

MAYOR DOZIER: I would not --

MAYOR SALINAS: We had one about six months ago just because we denied somebody. We've just got to follow the rules if the rules say that these people qualify. I mean, we're in the same boat that you are in, and what I'm saying here, we need to take care of housing issues, not zoning. And you do a comprehensive plan every year and you change your zoning and you have public hearings and you have a vote from the city council. In this case you have a 7-0 in favor, so it's very hard to take an issue to help those citizens of McKinney to stop this project because as far as I can see, I can't stop it. And if we

do get a vote here against it, then we'll get a lawsuit, believe me, we will.

MAYOR DOZIER: We're just asking for your consideration of the rules and how they're applied.

MAYOR SALINAS: And then you have the Chamber of Commerce giving us a letter of support.

MAYOR DOZIER: Sir, I don't control what the Chamber of Commerce says or any other agency in the City of McKinney.

MR. JONES: Mayor, excuse me.

MAYOR DOZIER: Sorry, I don't mean to get into a debate, I would not allow that, Mr. Chairman.

MAYOR SALINAS: I just want to be able to clear myself where I'm sure you fund the chamber in some sort of way from the city, but they're giving you a letter of support here, and then you have other people supporting you from the community.

MR. JONES: Thank you, Mayor, we do appreciate you being here. I can't help but say one thing to you: we hope you don't view affordable housing from us as penalties. We certainly don't mean them as penalties to any community, and I know you didn't mean that, and I really say that with some levity.

MAYOR DOZIER: I didn't mean that.

MR. JONES: Yes, I understand.

MAYOR DOZIER: I think we demonstrate by our past record that we support affordable housing, unquestionably.

MR. JONES: Sure, and I understand that, but I really say that more for levity just as I get in between two mayors, and I should never do that.

MAYOR DOZIER: I wish you'd jump in then.

(General laughter.)

MR. JONES: We certainly appreciate you being here and we certainly appreciate your comments.

MAYOR DOZIER: Thank you, sir.

MR. JONES: And I think Mayor Salinas has certainly been very predictive in something that he said, or prescient or very wise because we've heard the presentation now from staff and we've taken public comment on this item. We also do have threatened and potential litigation on this subject matter. I don't know if the board wants to go into executive session; we do have counsel here to advise us, and if the board does want to go into executive session, we can.

MS. CARRINGTON: Chairman Jones, may I ask if you would like to hear the underwriting report from Tom Gouris? Robert's presentation was on the bond piece; Tom

has done the underwriting for the 4 percent tax credits on the transaction. It could be in abbreviated form.

MR. JONES: And I know the board has reviewed that. Tom, if you want to abbreviate it, if you could, I know the board has reviewed it.

MR. GOURIS: Tom Gouris, director of credit underwriting, and I'll do better than give you a summary, I'll just point to a couple of issues.

With regard to the concentration policy, Robert mentioned that the purpose of the policy is to look at existing product that has not stabilized, and we're trying with that policy to remedy a potential problem with putting too many units in one place at one time. The concerns from the city are really a different kind of concentration which is a concentration of total number of units, affordable units there, and so to make sure that you are clear, the concentration that we're talking about and the concentration policy that we are trying to maintain and enforce with our program is one that deals with just the unstabilized, the product that's new to the area.

There was a comment about the tax assessment and that was a concern. With regard to what our underwriting report recommended or used, we looked at our

database of other projects that are the same size in large metropolitan areas and used an average or some data points from that to determine our rate. We didn't look specifically at McKinney and so there's a difference of opinion there on what that ultimate tax assessment, tax expense will be, but I've run some numbers since that information was provided to us, and the effect would be if those additional average taxes were to be paid, the effect would be that there would be some sort of redemption that would be necessary, potentially, and the maximum amount of that redemption of the bonds that would be necessary would still provide, in my opinion, enough bond financing to support the project. The difference would have to come out of deferred developer fees which would still, in my opinion, be able to be repaid in the time frames that we require. So that's an issue that I think is not an issue for this project.

And then there is a mention about the seniors and why the seniors aren't considered, the demand. They're considered in the demand portion but not considered in the supply portion, and that's because that our concentration policy does separate types of units on the supply side because a family can't move into a seniors development but an individual elderly person can move into

a family project. So we have to consider seniors in the demand side and cannot, when we look at a seniors project, include families in the supply side.

We do recommend this project from an underwriting perspective, and we do recommend a slightly reduced tax credit amount, and the difference in the tax credit amount is due to a difference in the final cost calculations that were provided to us. From the original, that's the biggest portion of the difference.

I'll answer any other questions that you might have. Thanks.

MR. JONES: Let me just remind the board then where we are. We have now had the presentations from staff with regard to this matter; we have also heard public comment from everybody that wanted to speak with regard to the Stonebrook Villas in McKinney, Texas, and the only other thing that I know we can do on behalf of the board with regard to this matter, if the board chooses to do so, is that we do also have attorneys available to give us advice with regard to potential or threatened litigation in this matter, if that is necessary, and I leave that totally up to the board. And with that, I turn the matter over to the board.

MS. ANDERSON: I'm going to have something I'd

like to say during the discussion period, but at this point, Mr. Chairman, I would move approval of this project for Stonebrook Villas with the following condition, that a LURA -- that as a condition of approval, we have a LURA which is a Land Use Restriction Agreement, that would follow this land use for the next 30 years, that we have a LURA that assures all the local taxing authorities that all of the appropriate taxes will be paid by this project.

MR. JONES: We have a motion on the floor. Is there a second?

MR. BOGANY: Second.

MR. JONES: We have a motion that's been made and seconded; the chair will now entertain discussion of the motion.

MS. ANDERSON: Some of you from McKinney may or may not know, but I live in Dallas, and I used to work out at the Legacy facility at EDS for many years, and so I took a special interest in this project because there clearly is a lot of -- obviously a lot of community interest. I want to tell you that I read your packets, I read the transcripts of the public hearings. It caused me to ask our staff a lot of follow-up questions, and I'm sure my fellow board members did too, but I gave this a lot of careful thought before I even came today.

I've moved adoption of this proposal for our agency's support of Stonebrook Villas. I absolutely believe that affordable housing is key to successful economic development and I've listened and reflected on things, both in McKinney's Citizens for Balanced Growth and the staff recommendations around the commercial versus residential mix in McKinney. There's a lot of other building going on out in northern Collin County and in your city, so this is not the only thing that's being built that's adding burden to schools. I acknowledge that there will be some children -- that's part of the point of this is to create affordable environments for children to live in, and I want you to know that I am supporting this project today but I've done it after a great deal of reflection and careful review of the materials that you submitted.

And I think the community and the Community Citizens for Balanced Growth, you should be very proud, and your city leaders very proud of the way you've conducted yourselves and made your case to this agency, and I appreciate the investment of time that I know you all made to do so. And I appreciate the developer's thoughtful testimony as well.

MR. JONES: Further discussion? I would like

to just say one thing on this point -- and Mayor, again I want to thank you and everyone who has come to testify today, I really do appreciate your time and your interest -- I also want to say that I said a comment to you that I really meant to be funny but I also don't mean it to be funny -- I consider it a great compliment to a community such as McKinney when affordable housing goes there. We take this very seriously -- I agree with Ms. Anderson -- and we really consider this; unfortunately, it bothers me even more when there's so many communities that we can't say yes, this is a good idea, we really need to put affordable housing there, because we can't do it in some communities, and that's a real problem, too, that this board has.

I also am very persuaded by some of the Mayor's comments, Mayor Salinas's, that we do not, this board cannot deal with zoning issues or some other issues that are best left to the community level, not at this level. So for all of those reasons, those are just some ideas that I have on your motion.

Any further discussion of the motion?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote, and again, I remind board members if they want

it, we do have legal counsel available for us. Hearing no further discussion, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed to the motion, please say nay.

(No response.)

MR. JONES: The motion carries.

I would then turn item 5(a) of the agenda which also deals with Stonebrook Villas Apartments and take up that item to the extent it deals with Stonebrook Villas Apartments.

MS. CARRINGTON: That was Tom Gouris's presentation.

MR. JONES: Yes, and do we have the same motion -- or did we take them both up at the same time?

MS. CARRINGTON: I think we took the both.

MR. JONES: Okay, good deal, and then we will turn to item 2(b).

MS. CARRINGTON: We need to make sure the record reflects that.

MR. JONES: Make sure the record reflects we voted on both items, 2(a) Stonebrook Villas Apartments, and item 5(a) to the extent it deals with Stonebrook

Villas Apartments.

We will then turn to item 2(b) on the agenda. I tell you what, board members, would it be good to take a break at this point for five minutes? Okay, we don't need to? All right, we'll move forward.

We will then turn to item 2(b) on the agenda and take public comment with regard to item 2(b), which is the Veteran's Memorial matter in Houston, Texas.

I guess we do need to take a break. We will take a five-minute break and we will be back here at 11:15 and get going. Thank you.

(Whereupon, a brief recess was taken.)

MR. JONES: Our meeting is back in order. Ms. Carrington?

MS. CARRINGTON: Thank you, Chairman Jones. We would like to get the amounts in the record on 2(a) and 5(a). On 2(a) the amount of private activity mortgage revenue bonds we are recommending for the Stonebrook Villas transaction in McKinney is \$12,200,000; the amount of low income housing tax credits, the 4 percent credit that we are recommending is \$631,583. Thank you, Mr. Chairman.

MR. JONES: And can we add that as part of your motion, Ms. Anderson?

MS. ANDERSON: Absolutely. I'm sorry I didn't do that.

MR. JONES: And by unanimous consent of the board, that will be added as part of Ms. Anderson's motion. Thank you.

We will then turn back to public comment. We have a couple of people who would like to speak immediately. Mr. Dario Chapa.

MR. CHAPA: First I'd like to thank you, this board for giving me this opportunity to come before you to speak on behalf of this project Number 02-075, the Heatherwilde development project. My name is Dario Chapa; I'm the chairman of the Bexar County Housing Authority, we're the general partner of this development.

I was disappointed I could not attend last month's hearings because I was undergoing quadruple bypass heart surgery, so six weeks later here I am. I believe so much in this project that I thought I should come and speak on its behalf. It's so important that six weeks of convalescence was enough.

The Housing Authority of Bexar County has a long history of community service in the areas of housing and economic development. This proposed Heatherwilde project development, Number 02-075 consists of 176 units

that will target a very under-served population. It will meet the housing needs of families 60percent and below of median income. There is presently a waiting list of over 20,000 families awaiting housing in Bexar County. Neither the San Antonio Housing Authority or the Bexar County Housing can take care of this without building additional housing.

This development is proposed to take place in the southern part of Bexar County where development and housing are greatly needed. Hardly any development takes place in that are of Bexar County. This planned mix of low and market rate units will greatly benefit the area and will give a lot of families a greater opportunity for quality rental housing. We will have supportive services such as computer courses, budgeting classes, housing maintenance guidance, as well as other support services that will provide for a higher quality of life.

In closing I would like to provide your board with letters of support from the state representative from the Texas House of Representatives Mr. John Longoria and from Dr. Anna Guzman who is the president of Palo Alto College. It's the local area college in the area and near where the housing development is going to take place. Both of these letters are very supportive of the project;

they say the development in that area is greatly needed and it will benefit their own institutions.

So thank you and I'd like to give this to the board.

MR. JONES: Thank you so much, we appreciate your comments.

Mr. Henry Flores?

MR. FLORES; Good morning, Mr. Chairman, members of the board, Ms. Carrington.

I have to begin by commending the board about the previous action taken. As a housing advocate and a person who cares greatly about affordable housing, I think it was very reassuring to watch this board apply due diligence to this process, and I recognize they are very difficult decisions that you make. I want to commend the mayor, especially, on the wisdom of his comments. They are local issues, they need to be resolved locally, and housing policy needs to be enacted by you all. Ms. Anderson, the courage of your commitment is appreciated by all.

I am here today -- and my name is Henry Flores, for the record -- to represent Passern [phonetic] Development Corporation, and I'm here actually to thank you. Many of you remember that back in December of last

year and January of this year, Nicole Flores and I appeared before you to appeal a staff recommendation on an allocation of tax credits and bond authority. After having heard our arguments, and quite passionately for much longer than we had intended, Mr. Conine very wisely and calmly made a recommendation that actually met our needs.

In the passion of the moment actually I was not as privy to that understanding as I was subsequently, but he saw through the convoluted arguments and made a recommendation that did suffice.

We have closed that transaction, we are under construction, everything is moving along satisfactorily, and I'm here on behalf of Passern and the development team to again thank you for your consideration and to promise you that in about a year we're going to bring you pictures and grand opening invitations.

I also wanted to, as an aside, make a comment.

As some of you know, I serve as the chairman of the Texas Housing Finance Corporation. As such, I have become over time very well acquainted with the skills of your executive director and I want to commend you on your choice. I think that the industry is very clear and very confident in her capacity and in her judgement and her

honesty, and those are the characteristics an executive director needs. We look forward to the future and we think she's going to have a good tenure.

I don't want to close, though, without first again commenting about the subject of January's meeting, and that's the 4 Percent Tax Credit Program. You had a project earlier today that was being considered that again was a difficult choice. Again, the 4 Percent Tax Credits is a program that is an unlimited resource to the State of Texas. If you issue a private activity bond, you qualify for the 4 percent credit; you control that credit, and appropriately so, you apply underwriting to ensure that projects aren't over-subsidized. I understand the responsibility of this board.

That being said, I think often that there are mistakes being made in the underwriting process. Again, during our situation we argued that there were at least two mistakes, each one of which was critical enough to have killed our project, and again, only Mr. Conine through is wisdom saw the appropriate action and supported our perspective.

I say it's an unlimited resource because if the State of Texas chose to issue \$100 million worth of bonds -- as they did a few years ago -- you'd have enough

tax credits to qualify every single project for the full allocation; if the State of Texas, as they will next year, issues \$365 million, you still have enough credits. It's an unlimited resource to the State of Texas that's applicable only to private activity bond transactions. Again, to restrict the amount of equity being provided by those credits prematurely creates an artificial barrier to affordable housing. There are enough barriers in the marketplace -- you've seen some of the barriers today -- that to create artificial barriers is in no one's best interest and it's certainly not in the best interest of this agency.

I continue as chairman of the Federal Home Loan Bank to see applicants from South Texas and other parts of the state come to us to apply for affordable housing program dollars to fill gaps from cuts created from the 4 Percent Tax Credit Program. That makes no sense at all. We issue about \$17 million in grants a year, that's a fairly significant amount of infinitesimally small in comparison to the demand. So that means that somewhere there's an AIDS center or an elderly complex or a childcare center, something is not happening because our AHP dollars have to go to tax credit deals where that shouldn't happen.

It's my understanding -- and again, I've not been the kindest of individuals to the underwriting section and I do believe there's significant issues there, but I will say that it's my understanding that Mr. Gouris has recommended to Ms. Carrington the idea of revising the way they look at 4 percent credits, to again mirror more what the nation does, where there's a rather superficial evaluation on financial feasibility and the credits are awarded at cost certification. Once an independent certified public account has established the cost, there's no more doubts, there's no question about land costs or construction costs, they're established, the CPA has certified them for you. You clearly will not ever over-subsidize, you will exactly perfectly subsidize each transaction. And I think that's the light at the end of the tunnel and we're excited about that possibility, we're hoping that light is not a train and that in fact the tunnel is over.

Again, we're excited about Ms. Carrington's tenure, we've always been excited about the quality of the staff here and this board. We look forward to future opportunities to work together, and I thank you for your consideration.

MR. JONES: Thank you, appreciate you being

here.

Mr. Manuel Macias.

MR. MACIAS: First of all, thank you for allowing me the opportunity to speak today. My name is Manuel Macias and I'm here as executive director of the San Antonio Development Agency. My purpose here is just to keep you informed on our El Capitan tax credit application.

In the way of background, the San Antonio Development Agency has been around for 45 years; we are the urban renewal agency for the City of San Antonio, and our activities include revitalization, providing land assembly and land acquisition, services that will lead to meeting the housing needs of the greater San Antonio area; we are funded by CDBG funds.

And as you know, there's a very great need for affordable housing in San Antonio. The El Capitan project is located in an empowerment zone and qualified census tract, it is also located in the Edgewood School District which is having trouble because it's losing students and they're looking at ways to regain students, and the main reason they're losing is there's not affordable housing in their area. So we've worked hand-in-hand with them on this project and also on another project -- we're going to

be doing a parade of homes in their area. They're very supportive of our project located on the west side of San Antonio, and this proposed project will provide approximately 112 multifamily units.

In addition to all the support that this project already has, we recently received a letter from Kelly USA who is one of the largest employers in the area, and I submit this for record. So once again, my purpose here today is just to keep you up to date on the progress and we're still gaining additional support as we speak. Thank you.

MR. JONES: Thank you.

We then turn the board's attention to item 2(b) of our agenda, and before we take public comment on item 2(b), Ms. Carrington, could the -- I've had a request that the staff go ahead and make their presentation on item 2(b), so could that be done?

MS. CARRINGTON: That can be done. We will start with Robert Onion on the bond side of the transaction, and then Tom Gouris on underwriting.

MR. JONES: That would be great, and I again commend you for what you've done already, and keep in mind we've reviewed it. Thank you.

MS. CARRINGTON: You heard that, Robert.

Right?

(General laughter.)

MR. ONION: Thank you. I'll be very brief. The staff's recommendation is to decline this transaction. There were four issues that the staff considered to be part of that decline. Number one, at the time that that decision was made, the concentration policy, the project appears to not meet our concentration policy and so it was rejected on that basis. Also, the staff was unable to come to a bond amount which they felt comfortable recommending. The underwriting report recommended approximately \$13,100,000, the request was for \$14,400,000, so we have a lot of daylight there.

Also, the property is in the flood plain and although we did receive some information that these pads would be out of the flood plain, the parking lot remains in the flood plain. And then the fourth issue is underwriting was unable to approve the costs that were submitted by the applicant, they were much lower than what the estimated cost by underwriting was.

As part of the process of appeal, the applicant is here today to address those issues and so I would like to just turn it over to them, if that's the board's wishes.

MR. JONES: That would be fine.

MS. CARRINGTON: I think we want to hear Tom?

MR. JONES: That would be fine, let's hear Tom first.

MR. GOURIS: Again, Tom Gouris, director of Credit Underwriting. I think Robert really did hit on the four issues that we had included in our underwriting report -- well, I think he hit on them so I'm ready just to hear what the folks have to say, unless you want something else.

MR. JONES: Thank you, Tom.

MR. GOURIS: We did provide an alternative for consideration if there as some thought to go to an alternative, and that's in our report as well.

MR. JONES: Thank you.

Ken Vowell, please?

MR. VOWELL: Thank you, Chairman Jones, members of the board, Ms. Carrington. I would like to thank the board for this opportunity to speak concerning our Veteran's Memorial Townhome Development. Veteran's Memorial is proposed as a 250-unit townhome and garden style apartment complex that will provide rents to families at or below 50 percent of the area median income; it will of first-rate design by a renowned architect

located in Houston; it has an excellent amenity package; and is extremely well located.

It's next to an elementary school, has public transportation, and freeway systems immediately available for those residents. It's also located immediately adjacent to significant amount of neighborhood services, many of which those services are the job opportunities for people at this 50 percent area median income level.

With a variety of floor plan choices, every single unit will be available at 50 percent AMI, providing a level of resident livability, quality and affordability that would otherwise not be available except for the use of tax-exempt bonds and tax credits which enhance those bonds.

Approval of this application will guarantee for the future true affordability and choice for citizens of Houston and Harris County. We believe that our presentation will demonstrate a significant need in the area and our market study will show that. In addition, our housing authority, the Houston Housing Authority, has provided us a letter indicating that they currently have a waiting list of over 20,000 families in the Houston area.

The Brisben Companies, I know this board is familiar with, has been active in the state of Texas and

around the country. We're serving as the developer in this instance for Housing Initiatives Corporation, a Texas 501(c)(3) that has 2,000 affordable apartments in Texas, including over 1,000 units in Houston. I have with me several people to help support our presentation; Mr. Frank Mendez and Mr. Kelly Elizondo representing the non-profit also join me today.

Chairman Jones and members, also with me are several people who will appear today. I've talked to the chairman. Thank you for the opportunity to let us flow this with several other presentations.

MR. JONES: And let me also direct your attention to the four concerns that have been raised; that's probably where you are really going to want to direct our attention, direct your comments.

MR. VOWELL: And we do have that, yes, sir.

MR. JONES: Thank you.

MR. VOWELL: As background, the TDHCA underwriter determined four areas that led to a recommendation to deny our application, as you know. Unfortunately, our discussions with underwriting have not produced a full agreement, and yet we're here now to provide information and data that I believe is designed to convince you of our position. The same group with me

today met in a public hearing under the director's first open meeting last Friday, and in that meeting additional information was requested and has been provided. There's been a flurry of activity in providing additional information to staff.

Although the underwriters appear to have softened in their evaluation, they still have before you a recommendation for denial, and I think that's because there's no way to really undo their process at this point, so we're presenting this in a form of appeal to the board.

MR. JONES: Could you repeat the name of the architect? Our reporter didn't get it down.

MR. VOWELL: Koffman-Meeks.

I was listening to Mr. Flores, and I think interestingly enough, he touched on an issue that we think will deal with one of our issues, and that is the issue of cost. It seems somewhat inappropriate to actually deny a development on cost when you have the ability at the end of the construction process to do cost certifications which will rectify any of the errors or imbalance that we may have at this early point in time.

The four issues of concern are: the flood plain, development costs, operating expenses, and concentration.

Concerning the flood plain, obviously the concern has been expressed that residents and improvements might be at risk because of the flood plain elevation. We would share those same concerns were it not for the fact that we are engineering this development to deal with these issues in a most accepted engineering method that protects both citizens and property alike. Our consulting engineer has designed the parking lots and finished floor elevations in accordance with proper engineering guidelines and practices as set out by Harris County Flood Control. The City of Houston requires finished floor elevations to be 12 inches above the flood plain elevation; we are actually at 18 inches under the Harris County guidelines.

Permits obtained under these requirements, there's been time taken on the part of those officials to understand these issues and they are permitting us with these design standards in mind. I would submit to you that the parking lot issue is one that can be thoroughly explained in terms of how water is channeled in flood zones and how it's done as a normal practice and course of events in Houston. Reid Phillips of Berry and Partners Engineering is here today to provide that, should you have further questions.

Concern also was expressed that our development costs are represented lower than is reasonably acceptable.

In Friday's meeting the underwriter asked for and has received an engineer's estimate of site development costs. Our costs are in line with the engineer's estimate and they closely establish the mark that we believe should be underwritten. The consulting engineer's statement of site development costs should suffice as expert testimony that our estimation is correct.

As a developer, the Brisben Company has built over 16,000 apartments across the country; in Texas we've not only built several TDHCA developments, but our construction president, prior to joining Brisben almost ten years ago, built thousands of apartment units in Texas. We're kind of homegrown here; I'm from Houston myself. The experience that we have gives us significant trade contracts, material purchasing power, labor and negotiating power, and important economies of scale, that along with verified cost estimates from our engineer, must be considered in your evaluation of our ability to produce at the costs that we've presented.

The averages that are compiled by -- and I stress averages that are compiled by the underwriting department include all developers, small developments,

large developments, mom-and-pop developers, large developers; they don't take into account the efficiencies and the economies of scale that our company brings to the table. In addition, within the past year we've provided staff with three cost certifications on previous developments that we've constructed in Texas. Those cost certifications are below our current estimates for this development.

We've selected a cost-effective product, we've taken measures to value-engineer the development, to produce the best product for the very least money. There simply is no rationale or incentive for us to show lower costs, and we just ask you and appeal to you to consider these factors and give us the benefit of doubt, the benefit of our experience and accept our numbers as we've presented.

You should also recognize that an affiliate of Brisben has already signed a fixed rate contract with the amount based on our estimates and is guaranteeing this construction price to the owner, the non-profit. Finally, it should not be forgotten that our costs that are outlined will be verified at cost certification.

With due respect to staff and their effort to evaluate development costs, frankly, we believe that

making a black-and-white decision on this issue, based on cost estimates that fail to take in all the dynamics necessary for an accurate estimate, has the unmistakable potential of creating yet another barrier to affordable housing.

We have an issue on expenses. Similarly, staff sees our numbers on operational expenses as questionable. Simply put, we have experience in this area: we're operating 16,000 apartment units; Housing Initiatives, the owner, has experience operating 2,000 apartment units; they've indicated their agreement of our operational budget based on their experience.

Our project appraiser is here, and with your forbearance, he has a presentation to support where we are on operational expenses, and I would like to introduce Jerry Fletcher of Fletcher and Associates. He's a licensed Texas appraiser, he's prepared appraisals on hundreds of multifamily developments, including a significant number of tax credit developments across the country, and including those here in Texas. Mr. Fletcher.

MR. FLETCHER: Thank you, Mr. Vowell. And thank you, Mr. Chairman, for hearing us, and the board members.

I've been asked to come before you today to

comment on the operating expenses on the proposed project.

We prepared a full and complete appraisal analysis of the proposed property. In that analysis we, of course, did an income approach which included an operating expense analysis.

The problem seems to be the variance in the operating expenses where we as independent appraisers show an operating expense of \$2,850 per unit, the agency has an operating expense of \$3,215 per unit in their underwriting analysis, and the developer has an operating expense estimate of \$2,680.

What did we do to develop our estimate of operating expenses? Well, we looked at similar properties, comparable properties in the area. We also looked at the Institute of Real Estate management data which is a booklet prepared for cities all over the United States, including a section on Houston, and we looked at both 2001 and the 2000 data. We also were provided with information on the three projects that the developer has and is operating. And in addition, we had operating data that is in the Texas Housing Development Agency's database. That database is page 3 of the data that I submitted to you.

All of this data, when we analyzed it, gave us

a very, very strong feeling that our operating expenses at the \$2,850 are a good estimate of the operating expenses.

The higher expenses that were estimated by the agency were in two areas: one, payroll; and two, utilities. These two items, with respect to the payroll, are about \$200 a unit higher and based on all the other sources of data, whether it's the database of the agency, the Institute of Real Estate Management's data, the comparable data in the area, and the owner's operating data, all indicate that those expenses are high.

The other area where there was significant difference was in the area of utilities which includes sewer, water, trash. And that item also was significantly above our estimate and above the estimate of the comparables, of the data in the Institute of Real Estate Management's booklets, and in the comparables.

We don't know why the agency is higher on those areas; we do call your attention to the fact, and we've marked a little item in yellow for your consideration that shows in the database, the most recent database for the agency that shows utilities at \$1,295 per unit. This was significantly higher than the two previous reported time periods that the agency had reported that data. This could be one of the areas where there's a discrepancy and

possibly the agency would want to reconsider in the area of utilities and payroll in examining the underwriting of this property.

In any event, we strongly feel that our number at \$2,850 per unit is well supported. This is a new project and certainly new projects with respect to maintenance and repairs, the expenses are lower. This is also a townhouse project which tends to have slightly lower expenses because there is no need for hall maintenance and so on. And the experience of the developer with the number of units that they manage, certainly would support a somewhat lower operating expense.

With that, we would just ask for you to consider our data. We strongly believe that our operating expense figure is the right figure. Thank you very much.

MR. VOWELL: Thank you, Jerry, I appreciate that.

Now, on concentration, Robert asked me to kind of hurry up, and we really are going to be very short on concentration, I promise you. The underwriter expressed concern that the concentration rate is going to exceed the 25 percent of the primary market or sub-market as established. The discussion on this matter could be

extremely detailed and very boring. Instead, I would like to have our market analyst, Jim Beery, chart out, just in a very simple way, the issue that we have before us. I believe he'll demonstrate effectively that using the correct methodology concludes that our capture rate was actually going to be 21 percent which is actually below, obviously, the TDHCA requirement.

MR. BEERY: Mr. Chairman, members of the board, it's a pleasure to be here this morning. My name is Jim Beery, I'm with the Danter Company, a real estate feasibility firm out of Columbus, Ohio, and we had the opportunity to conduct a market study for the Veteran's Memorial project, and as you've heard several times this morning, concentration issues keep coming up.

Well, in this case, I'm not going to bore you with some of the tables and charts that I brought, but I would like to kind of make a simplified illustration of what has occurred within the situation with the Veteran's Memorial project.

When we did the initial market study back in December, we established a market area for Veteran's memorial where we anticipated 60 to 70 percent of the support for the project would come. After we had completed our field work, during which time we conducted

interviews with local planners, we checked the inventory of properties completed by TDHCA as well as projects that were in the pipeline in public notification. Since that time there have been two other projects here and another project here on the boundaries of our market area that have been approved and allocated.

The problem with looking at that area in terms of all of these projects is that realistically these projects are not all going to compete within the same market area. Through research that we had conducted within this area of Houston in the past, we had information on this northern part of Houston. We went back and looked to see what kind of market areas, what kind of factors would impact these potential market areas and what kind of impact does that have on our project as well as the other projects.

Taking that into consideration, we decided that we've got a market area like that for those projects, we've got a market area like that for this other project.

All of these projects are competing within this larger area and it is our opinion that that is the market area that we need to look at if we're going to look at the concentration of potential units within this much larger area.

Detailed within the packet that you have -- and I also have additional copies of it as well -- is the concentration calculations that we completed for this larger area as well as the Veteran's Memorial project, the other allocated projects there, as well as a project that opened back February of 2001 that has achieved absorption of nearly 26 units a month and was 100 percent occupied by December.

Within this larger area we have an overall concentration rate of 21 percent which is below the TDHCA threshold of 25 percent, and it's with that evaluation that you have in front of you that I ask you to please reconsider the denial on the fact of the concentration ratio. Thank you.

MR. JONES: Thank you.

MR. VOWELL: I can't resist pointing out that in the Qualified Allocation Plan under a 9 percent application there has been studies done by TDHCA that looks at a particular city or county and evaluates, through some formula, what the ratio is of tax credit units or tax credit funding that has been done within that jurisdiction, and interestingly enough, in Houston that ratio is 1.68 which would earn a point or two in the application. In Harris County it's at 1.08 which would

earn two points in the application.

There are developments in Texas that are being considered and approved by this board that actually have ratios that are as high as 5.68 percent and which four points would have been deducted, and I think that's significant that we're in Harris County at the 1.08 ratio.

There's a real need for affordable housing, it's not being addressed fully in Houston, and so we would just again extend that appeal.

The last speaker that I have here with me is Andy Kane with Kirkpatrick Pettis. He's our financial advisor; I think he has some thoughts that the board should hear, and Andy, if you would come on up. Thank you.

MR. KANE: Ladies and gentlemen, thank you. My name is Andy Kane and I am a senior vice president with a firm known as Kirkpatrick Pettis which is the wholly owned broker-dealer subsidiary of the Mutual of Omaha Companies which is a financial institution based in Omaha.

I am in this occasion the bond advisor for Housing Initiatives and Brisben Development and have in my underwriting capacity underwritten approximately 30 SunAmerica/AmBank insured bond issues which is the focus of today's -- the bond resolution actually in front of

you. My purpose today is to explain the status and design of the financing so as to give the board some assurances as to the progress, and a little bit of reflection on how all these questions fit into the bond mechanics.

The bond program is actually kind of an elegant one, I actually kind of like this. It's somewhat symmetrical to how tax credit investments take place. In a typical tax credit investment, investors use a price adjustor clause to recognize the fact that actual tax credit basis upon completion often differs from that projected during the early reservation process. Similarly, our bond program provides for the downward adjustment to bond size upon stabilization, so as to reconcile projected versus actual that operating income, without causing the catastrophic results -- meaning default and foreclosure -- that are often found in more conventional bond/credit enhancement programs.

We call this a balancing call. This so-called balancing call both protects valuable bond cap and preserves the units as affordable over the long term. In addition, under this program 20 percent of the total par of the bonds is issued as subordinate bonds purchased initially by Kirkpatrick Pettis. This creates less project risk caused by the debt. The sub-debt acts as

additional cushion to the project's NOI and serves as a form of soft debt equity. The board should consider this as it reviews the concerns raised today by staff.

As to the status of debt approvals, various third party reports have been delivered to both SunAmerica and to AmBank Assurance Corporation, site visits have occurred and both creditors have issued commitments to permit bonds to be issued and insured as triple A securities in the amount of \$14,450,000.

As we move toward your consideration of this project, it seems to me that it might be appropriate to ask whether the department should reduce, through conservative underwriting, this loan amount, given that: one, two Fortune 100 life companies have approved a higher debt amount; two, the bonds are conduit debt of the issuer -- albeit that's not an unimportant consideration; and three, I assume that we all agree that the project's operating assumptions fall within a reasonable band width of acceptability.

The reason this matters is that expenses impact net operating income and net operating income determines loan sizing. For instance, \$250 per unit per annum in expenses translates into roughly \$775,000 in bond amount at today's coverage and interest rates. Backwards this

calculates to about \$21 per unit per month, so it is a matter of relativity.

I had intended to propose a compromise whereby the department would issue that amount of tax-exempt bonds approved by staff which I have been led to believe is approximately \$13-1/2 million, plus an earn-out amount of \$700,000 of taxable bonds which would not use private activity bond cap and would be subject to the balancing call if NOI does not prove to be what the owner anticipates. However, in a sidebar recently with bond counsel, I've been informed that this may not be possible at this time because the resolution before you does not provide for any taxable bonds and cannot so be amended upon adoption.

Given that, I simply ask that you approve the largest amount of bonds possible at this time. At \$14,200,000, please recognize that \$2,840,000 of that amount would be issued as subordinate obligations. The tax credit investor and a triple A bond insurer have both approved this transaction for investment and for credit enhancement. And again, I appreciate the opportunity to speak before you, and I'll return it to Mr. Vowell.

MR. VOWELL: Thank you, Andy.

In conclusion, Chairman Jones and members, we

recognize that the staff evaluation you have and recommendation is an important part and necessary part of this process. The staff brings balance and due diligence to the process, and through that process we've worked together and I believe we've made significant progress on both sides.

Our process began almost seven months ago with the TDHCA inducement in front of this board; the Texas Bond Review Board reservation of bonds came next, almost four months ago. We've proceeded in good faith and so far have spent approximately \$300,000 in accomplishing those things that are absolutely necessary to close these bonds.

We've put a development team together which now includes a host of professionals; we've order third party reports, commissioned the architect and the engineer; we've designed the development; we've secured the financing commitment. Our entire team of executive staff, non-profit advocates, professional consultants, lenders, underwriters, principals, bond counsel, and financial advisors are all in agreement that this deal works.

It was only two weeks ago that these underwriting issues came to our attention and yet it was without benefit of prior analysis and discussion, unfortunately, that the decision was made to recommend

denial

On behalf of the housing Initiative Corporation and Brisben, we respectfully request your approval with the highest amount that you can provide at this time. If this board is inclined to deny this proposal on the financing amount of \$14,200,000, then I would ask that with discussion, if protocol permits, that you take a straw vote, and if that is for a denial of this development, that you give us an opportunity to huddle and seek an alternate proposal that would be satisfactory to this board. Thank you.

MR. JONES: I also have one to speak, Mr. Kelly Elizondo

MR. ELIZONDO: Mr. Chairman, Mr. Vowell has covered all the issues.

MR. JONES: Thank you. I also have a witness affirmation form for Ms. Cynthia Bast.

MS. CARRINGTON: She's gone.

MR. JONES: She's gone? So I presume she does not want to speak.

I also have a witness affirmation form for Mr. Don Paxton.

MR. PAXTON: I yield my time back.

MR. JONES: Okay, thank you. And Mr. Donald

"Red Phillips.

MR. PHILIPS: I'm here as a resource for Brisben Development and to answer any questions you have regarding the flood plain on the development.

MR. JONES: Thank you so much, I appreciate it.

With that, I think we've then had everybody speak who desires to speak with regard to 2(b). In fact, at this time I think we've had public comment from anyone who has turned in a witness affirmation form. Is there anyone out there who would like to speak that we haven't gotten to yet?

MS. CARRINGTON: On any subject?

MR. JONES: On any subject. I think I've gotten all the public comment at this point. Have I missed somebody?

MS. CARRINGTON: Yes, Ray Ocanas.

MR. JONES: Okay, Ray Ocanas.

MR. JONES: Jean Langendorf. Yes, it looks like there's several.

MR. JONES: Okay, I don't have those. Then we'll go to those next. We're on item 2(b), and we've had all the public comment on that item, and I turn it over to the board's pleasure. We have the recommendation of staff and we also have had public comment. What's the board's

pleasure?

MS. ANDERSON: Mr. Chairman, I'd like to ask Mr. Vowell a question.

MR. JONES: Certainly, feel free.

MS. ANDERSON: Thank you.

In your comments you referenced -- and I think this is where we were talking about cost certification and that issue -- you referenced what I think you called a letter contract that has been executed between a subsidiary of Brisben or something and the not-for-profit. Would you explain to me what that letter does?

MR. VOWELL: Well, we have in place a -- Brisben Company, of course, is a full-service development company and we have our own construction company as well as management company, and as a part of the process in the application they want to see who your construction contractor is, and in this case it is a Brisben affiliate, and we've executed a contract at the level that we've proposed as what our costs are.

MS. ANDERSON: So the construction company has executed a letter contract with the not-for-profit that's sort of a fixed price contract?

MR. VOWELL: That is correct, yes.

MS. ANDERSON: Has a copy of that letter been

provided to staff?

MR. GOURIS: We have it.

MS. ANDERSON: You have it? Okay, thank you, Robert.

MR. BOGANY: I have a question.

MR. JONES: Mr. Bogany?

MR. BOGANY: To the underwriters, what's the alternative and why are we so far off on the utility bills versus what's in their report and what's in your report?

MR. GOURIS: The utility expense issue is difficult for us because our database breaks it into two components, utilities; and water, sewer and trash, but they broke it into one section, one full number. When you look at our combined number, we're considerably higher than they are and our database is higher still. What we attempt to do when we evaluate these is we look at all the data points that we can: we look at the IREM figures, we look at our own database of like properties, and then we'll also look at the utility allowances that are there provided by the local PHA, and we'll make an adjustment to our utility numbers based on that.

In this case, our data points from our TDHCA utility costs and water, sewer and trash costs were considerably higher; we adjusted downward a significant

amount to get to the PHA level, the level that the local housing authority said the average costs to operate, and that's the number that we chose to use in that case.

MR. BOGANY: What's the alternative? When you were up earlier, you said you have a compromise that may work, help this project work.

MR. GOURIS: Well, in our report we presented an alternative that talked about a rough \$13,100,000 bond amount.

MS. CARRINGTON: Tom, if I can, this is on page 11 of the underwriting report, so it's after Stonebrook Villas, it's behind 5(a), and then you have kind of a mustard-colored page and then you have the report for this particular transaction, and if you'll go to page 11 of that report -- actually page 10 is the recommendation and the four reasons why staff does not feel they can recommend it, and then if you go to page 11 staff has identified 12 areas or 12 items that we feel would need to be addressed, satisfied, mitigated for us to move forward with the transaction.

MR. BOGANY: Have you guys seen these recommendations?

MR. GOURIS: Yes. This is what you guys came to talk to us about on Friday; I think you have a copy.

MR. VOWELL: It's the list of twelve?

MS. CARRINGTON: Yes, it's the list of twelve.

MAYOR SALINAS: I would think that instead of turning it down, could you go ahead and postpone it for another meeting, maybe in June, till you work an alternative?

MR. JONES: I don't believe that can be done.

MS. CARRINGTON: Yes. It's a tax-exempt bond transaction and they have a deadline to close their bonds. Ken, what is that deadline?

MR. VOWELL: June 6.

MS. CARRINGTON: June 6 to close their bonds.

MR. BOGANY: Ms. Carrington, what I would like to see is for them to -- let's move on with the agenda, postpone this, let you guys look at these conditions. We seem to have trouble with the utility costs -- it's not the first time this has come up on the utilities -- and it seems like we're way up there and then the cost is right here. I assume we're using the latest data that you can use, but I would like to at least let your group get together, look over those 12 conditions and let us move on through the report and come back, if that's okay with the Chairman.

MR. JONES: It certainly is.

MS. CARRINGTON: And I need to comment about something.

MR. JONES: Okay, and I think Ms. Anderson --

MS. ANDERSON: I'd like to ask Tom a question.

MR. JONES: Okay, certainly.

MS. ANDERSON: You know, I get confused about how all these moving parts fit together, so if, for example, we took the appraiser that testified her really has come up with a proposed number of \$2,850 a unit from an expense standpoint that kind of splits the difference between the developer's original proposal and the \$3,215 that was your number. If you accepted that \$2,850 number, what does that do? If you run the numbers to see what that does either to the appropriate amount of bonds from your perspective or other elements of the deal?

MR. GOURIS: With Robert's help we had had some communications and tried to get to some compromise or some in-between numbers, and I think yesterday we had a number of \$3,080 as our number. I haven't seen the appraiser's information that you have provided in that way.

MS. ANDERSON: You haven't seen this that he just put in front of us?

MR. GOURIS: Not that version of it, no -- or that information, no. But at \$3,080 per unit, I think we

were able to get to a bond size of \$13,500,000

MAYOR SALINAS: Can you do that?

MR. VOWELL: We really need to have more than that.

MAYOR SALINAS: We're trying to help you here, you know.

MR. VOWELL: I recognize that, sir. We would ask that you look at this difference in cost at \$3,000 versus the \$2,800 that our appraiser is at and look strong at that. We would like to take Mr. Bogany's suggestion to look at those 12 items.

MR. JONES: Ms. Carrington, please.

MS. CARRINGTON: We are talking about utilities and we are very far off on the -- I gather we're closer after discussion yesterday, but I think for the board's information, perhaps the most important item, the most important reason staff is not recommending this transaction is the concentration policy which we feel 57 -- percent which is way above the department's policy of 25 percent -- we are, as you all know, struggling through implementing this concentration policy which was adopted by the board. There's a difference of the methodology in the way the market area was looked at and what was included as part of the market area and maybe

what was not included, but if the board does indeed decide to move forward with this using these mitigating factors, staff feels it's very important that you all look at item number 1, which would be to waive the concentration policy.

MR. JONES: Well, let me tell the board -- we're having a crisis here and let me inform the board members of it. We're going to lose a quorum in 15 minutes, unfortunately, and that's just where we're at.

MAYOR SALINAS: Well, if our executive director is advising us to -- I would not like to waive any items on our policies that we have right now.

MR. JONES: Here's what I would suggest, and then board members, you tell me a better way to operate. Obviously I'm going to turn our agenda over to our executive director because there are some things we need to act on this month. I would suggest that we move forward with those immediately as we can. I will then at that point in time come back to this item, as Mr. Bogany has suggested. Now, with that in mind, I think as a matter of law we need to address the other people that want to give this public comment. Obviously we have a problem with our time right now. I'm going to call on those members who care to speak to us. The first one is

Mr. Frank Mendez.

MR. MENDEZ: I gave my up; I was speaking on this.

MR. JONES: Okay, thank you so much, I appreciate it.

Alicia Gallegos-Gomez?

MS. GALLEGOS-GOMEZ: Item 6?

MR. JONES: Yes, if you would.

MS. CARRINGTON: We can table 6 and 7.

MR. JONES: We're going to table item 6 and 7 and come back to that at another board meeting.

MS. GALLEGOS-GOMEZ: At another board meeting?

MR. JONES: Yes.

MS. GALLEGOS-GOMEZ: I traveled from Corpus Christi today, if I may speak.

MR. JONES: Okay, please go right ahead.

MS. GALLEGOS-GOMEZ: Thank you. My name is Alicia Gallegos-Gomez and I'm here to speak about item 6, some of the proposed recommendations for the certification of community housing development organizations, and I'm speaking on behalf of the Foundation of Hope, Incorporated and some other non-profits from South Texas.

We're asking the department to take an even stronger position when you certify community housing

development organizations in that part of that language includes some sort of public education to tax appraisal districts so that they will understand the ad valorem tax-exemption that CHDOs are requesting after they are building apartments with the HOME monies.

And I see confusion in all of your faces, and maybe I'm not saying this right, but you have some rules in item 6 where there are some minor changes being made in the language as to how community housing development organizations are certified, and it's my understanding that most CHDOs understand that along with the funding is an option to file an application for an ad valorem tax-exemption.

What we're seeing now at the local level is that some non-profits are filing for these exemptions and the tax appraisal districts are becoming very confused as to they support affordable housing but they need the tax money, and so you're having some non-profits that only build 100 percent CHDO apartments in a dilemma because most of us figure the ad valorem tax-exemption into the budget, and without it, as most of you know, with the HOME Program you don't make a profit. Without that exemption it will become increasingly more difficult to build 100 percent CHDO apartments especially in rural areas.

So I would like to suggest that when you write the rules for the certification of CHDOs that you be very clear in saying that if you have certified an organization as a CHDO that they are entitled to certain things and one of those is an ad valorem tax-exemption. This is a hot issue now, it's going to be even hotter when the legislature meets in January, so I think that this is something that we need to start thinking about.

The Foundation of Hope was denied an ad valorem tax-exemption for the year 2000, we were approved for 2001, and now we're waiting for 2002. And so it's not just a given that when you go to the tax appraisal district that they're going to approve this, and I think that your CHDOs desperately need clarification of the language and your support for the ad valorem tax-exemption.

I've heard comments this morning about people who support affordable housing, but when you get down to the local level, the definition of affordable housing doesn't include an ad valorem tax-exemption, and so I think that there's always a solution to every problem. It's very difficult sometimes for public officials during the campaign trail to say we support affordable housing and then when you tell them about the ad valorem tax-

exemption, there's a wait a minute, let's take another look at it.

So I'm just here to ask this board and this department to take a very strong position on whether or not CHDOs are entitled to an ad valorem tax-exemption. I believe that in this country we have chosen to provide basic services, education, the fire department, the police department, but I also think that affordable housing for working people is a basic service.

Who are these people? Let's put a face on them: these are the children that need a speech therapist, these are the children that brings us our coffee in the morning either in our homes or at the restaurant, these are the people that set up the room and will clean up the room when we finish, these are the people that need affordable housing. These are not the people that are looking for free public housing and these are not the people that can afford the apartments at \$8- or \$900 a month, these are working people, people like the people who work at TDHCA, these are people like our children, recent college grads who can't find decent housing much less affordable housing.

So as you work your language for CHDOs, please remember that somehow you have been given the

responsibility of providing affordable housing in Texas, and your CHDOs are an extension of that, and we need your help at the local level to convince taxing entities that affordable housing is a good thing and that the ad valorem tax-exemption is a good thing. Thank you for your time.

MR. JONES: Thank you, ma'am, appreciate it.

Mr. Trey Yelverton.

MR. YELVERTON: Thank you, Mr. Chairman, members of the board. I appreciate the opportunity to speak because I also traveled in from out of town to comment on items 6 and 7.

My name is Trey Yelverton; I'm the director of neighborhood services for the City of Arlington, also former executive director of the Arlington Housing Authority and the main staff liaison with our Arlington Housing Finance Corporation. So in Arlington, I don't know how unique it is, but all of our housing mechanisms are aligned so we can ensure the integration of the services for affordable housing through the financing mechanisms, et cetera, to do so.

What's going on items 6 and 7 are that I want to add support to the staff's recommendation that's in your packet today relative to the CHDO certification process. It seems to strike a balance between the

appropriate role of state versus local participation and when you have a city that's of a large urban nature that has a participating jurisdiction that it defers to the local officials and council members to review those certifications. After all, CHDOs are community based, locally based, and therefore, should be encouraged to work with and communicate with the local officials so that the network of non-profits and the enhancements that the local government can bring to the project are all hooked up together.

And so that local jurisdiction requirement I think is a positive change in the certification process that the State is looking at, and we support the recommendation that's in your packet for today.

Connecting to that is the recommendation relative to the tax-exemption policy, again, looking at the way the State reviews these matters. In Arlington, what we have found just in the last three years is this financing mechanism of tax-exemption has come along. We have seen our \$1.3 billion multifamily tax base jump from what was a 4 percent exempt to what's projected to be 11 percent exempt. That represents an exemption of over \$150 million in Arlington which turns into hundreds of thousands and millions of dollars to provide local

services to these very complexes that not only provide affordable housing but if you can't get the other services that they need to the facility, whether it be transportation, streets, public safety, etcetera.

I think the previous speaker pointed out an issue that local governments in particular are very concerned about. I would add one clarification. In your report you talk about tax abatement versus tax incentive, and with the local hat on, there's a big difference between abatement and exemption. Abatements are the city has the ability or the taxing jurisdiction has the ability, and the exemption is just the other way around, and instead of having dollars that we're providing incentives for to encourage neighborhood revitalization and economic development activities, it works just the opposite. So I would point out that clarification.

All the measures that are in the staff proposal I think we're supportive of. Essentially what this is doing is creating local investment in affordable housing which in Arlington we're open to and taking a look at and participating in, and that type of investment leads to the approval and public disclosure of our officials -- I think I've already made that point.

Then connected to that which is item 5(b) which

the other reason why I was here is an Arlington project that you've got for your approval today, an Arlington senior complex. All these issues, as they intertwine in Arlington, how we structure, we've been able to work with the developer on this particular project, we've been able to certify that they're meeting a need in our community and that it's consistent with our consolidated plan, and we've been able to talk to them about participation of a payment in lieu of taxes arrangement so that services can continue to be provided.

And so relative to that particular project, that's how it should work, but I would tell you that it worked that way only at the 11th hour because until the 11th hour it kind of came in under the radar screen and with the small classified notices and public hearings in Austin as opposed to the Metroplex, et cetera, we find our way to work these deals with developers and we want to make sure that in the future they just need to come to us and talk to us about the investment, the value, the benefit of their project for affordable housing needs and neighborhood investment and economic development in our community.

So with those comments, I'd just let you know that we stand in support of 5(b) and the comments for

items 6 and 7, and appreciate the time for you to hear us, and we'll see you next month when you take action on those items.

MR. JONES: Thank you so much.

MS. ANDERSON: Mr. Chairman?

MR. JONES: Yes.

MS. ANDERSON: I'm going to move formally to table items 6 and 7 until the next meeting and ask that we not have any further testimony on those agenda items so that we can clear some agenda items that have to be dealt with today, with the indulgence of the people who intended to testify on those items.

MR. JONES: Mr. Ocanas, do we have your indulgence?

MR. OCANAS: Absolutely.

MR. JONES: Ms. Langendorf, do we have your indulgence?

MS. LANGENDORF: I'm on 3(a).

MR. JONES: Okay, when we come to 3(a) I'll call for you.

And Mr. Henneberger, could we have your indulgence?

MR. HENNEBERGER: Okay.

MR. JONES: Thank you. And Ms. Bast, I

understand is in the room -- maybe she's not.

MS. CARRINGTON: She is.

MR. JONES: She is?

MS. CARRINGTON: Cynthia?

MR. JONES: Do you care to testify?

MS. BAST: No, sir.

MR. JONES: Okay, thank you.

All right, we will then move on. I turn over the agenda to Ms. Carrington.

MS. CARRINGTON: 3(a) which is the approval of the Section 8 Program Public Housing Authority Plan for the Year 2002, and other related matters, and I guess Jean Langendorf wants to testify on that.

MR. JONES: Yes, please.

MS. LANGENDORF: My name is Jean Langendorf; I'm with United Cerebral Palsy of Texas, and I'll get right to the written testimony and the recommendations.

This is concerning serving people with disabilities, and we would recommend in the Section 8 plan that you make a commitment to obtain the data on the number of families with disabilities in need of housing or on the waiting list for Section 8 Tenant-based rental. This is the second year we've testified to please improve the data collection and to at least note, as we know

people are on the waiting list but you all are not collecting that information; we would like that changed.

We'd like a preference for admission to Section 8 Tenant-based assistance for people with disabilities and that you all submit an application to HUD for the Mainstream Voucher Program which is special efforts from HUD which you all have not applied for, and we are asking that you do. And that in your efforts for home ownership that you include the Texas Home of Your Own Coalition which has a particular grant to serve people with disabilities.

Those are the changes we're asking for; we appreciate your indulgence.

MR. JONES: Thank you so much, we appreciate you and we certainly appreciate your comments.

By unanimous consent of the board, items 6 and 7 were tabled for the record.

We are on item 3(a).

MS. CARRINGTON: David Burrell.

MR. JONES: If you could just give us a recommendation, sir.

MR. BURRELL: We're recommending that the PHA plan be approved as presented.

MR. JONES: Thank you.

MR. BOGANY: So moved.

MR. JONES: We have a motion. Do we have a second?

MS. ANDERSON: Second.

MR. JONES: We have a motion that's been made and seconded. Is there further discussion, questions or comments?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed to the motion, please say nay.

(No response.)

MR. JONES: The ayes have it, motion carries.

Ms. Carrington, the next item?

MS. CARRINGTON: Anne, can 3(b) be moved to the agenda next month? Yes.

3(c) is the approval of \$5,500,000 of awards in de-obligated HOME funds for disaster relief.

MR. JONES: And by unanimous consent of the board, item 3(b) will be put over to next month's agenda.

MS. CARRINGTON: Well, we would like to recommend approval of those.

MAYOR SALINAS: On 3(c)?

MR. JONES: No, I'm talking about 3(b); I'm just doing it for the record. 3(b) is going to next month by unanimous consent of the board, that's just for the record.

We are now on 3(c), do we have a motion?

MS. ANDERSON: I move adoption of 3(c).

MAYOR SALINAS: Second.

MR. JONES: WE have a motion that's been made and seconded. Any further discussion, questions or comments from the board?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed to the motion, please say nay.

(No response.)

MR. JONES: Motion carries.

Ms. Carrington?

MS. CARRINGTON: Let me ask Byron Johnson on your items going back to item 2(c), (d) and (e) relate to trustee services to the upcoming single-family mortgage revenue bond issue, some items that are time-sensitive

also.

MR. JOHNSON: 2(c) we can postpone.

MR. JONES: 2(c) will be postponed then by unanimous consent of the board.

2(d), do you have a recommendation?

MR. JOHNSON: That we issue up to \$119,920,000 in single-family mortgage revenue bonds 2002 Series A, 2002 Series B, 2002 Series C, and 2002 Series D, and other matters pertaining to the bond transactions.

MR. JONES: We have a recommendation from staff.

MR. BOGANY: So moved.

MAYOR SALINAS: Second.

MR. JONES: We have a motion that's been made and seconded. Further questions, discussion from the board?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed say nay.

(No response.)

MR. JONES: Motion carries.

2(e).

MR. JOHNSON: This is the recommendation of the Investment Banking Team for the transaction; we're recommending Solomon Smith Barney as senior manager and Marbile as co-senior, Gomez-Sachs as co-manager, first Southwest co-manager, Siebert Branford as co-manager. The fees and liability percentages are consistent with our past practices and we're just seeking approval of the team.

MAYOR SALINAS: So moved.

MS. ANDERSON: Second.

MR. JONES: We have a motion that's been made and seconded. Further discussion, questions or comments?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. JONES: Motion carries.

MR. JOHNSON: Thank you.

Ms. Carrington?

MS. CARRINGTON: Item number 4 can go to the June board meeting.

MR. JONES: Thank you, ma'am. By unanimous

consent of the board, item number 4 will be taken up at the next board meeting in June.

MS. CARRINGTON: Item 5(a) has already been considered by the board; item 5(b) needs to be considered by the board.

MR. JONES: Is there a recommendation from staff?

MS. CARRINGTON: Tom? They're cutting a deal back there, I think. Tom 5(b) North Arlington Seniors and Matthew Ridge Apartments.

MR. GOURIS: These, I'm happy to say, will be a much easier thing to get through.

MS. CARRINGTON: Do you recommend them? Just make the recommendation.

MR. JONES: We just need a recommendation on 5(b).

MR. GOURIS: Recommendation for Arlington Seniors is \$574,331 in credit. Do you want me to make the other one too?

MR. JONES: Yes, if you'd make them jointly.

MR. GOURIS: For Matthew Ridge it's \$562,190 in annual credits.

MS. ANDERSON: Mr. Chairman, I move the adoption of this item 5(b) with staff recommendation,

subject to the conditions that they have in their underwriting analysis for both projects.

MR. BOGANY: Second.

MR. JONES: The motion has been made and seconded. Further questions, discussion, comments?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: Opposed, nay.

(No response.)

MR. JONES: Motion carries.

MR. GOURIS: Thank you.

MR. JONES: Thank you.

Ms. Carrington?

MS. CARRINGTON: Yes, Mr. Chairman.

MR. JONES: Have we got through the items we need?

MS. CARRINGTON: Items 6 and 7 you officially postponed those until June. Is that correct?

MR. JONES: That's correct.

MS. CARRINGTON: Then I believe we need to go back to item 2(a) and item 5(a) Stonebrook Villas to determine what the board's action will be on that.

MR. JONES: I believe you're referring to Veterans Memorial.

MS. CARRINGTON: 2(b) and 5(b).

MR. JONES: Yes. I tell you what, why don't we wait just a second till we hear back from Mr. Vowell.

Let me ask this, with regard to items 6 and 7 which I know we have tabled, since they're not through yet, I think we still have a few minutes, how long will it take us to deal with item 6 and 7?

MAYOR SALINAS: It's a motion.

MR. JONES: I'm just asking Ms. Carrington, I'm not doing anything, it's been tabled. Okay, it's going to take a while; the table remains.

Mr. Onion and Mr. Vowell, do you have anything to present to us?

MR. PAXTON: My name is Don Paxton with Brisben.

MR. JONES: Yes.

MR. PAXTON: There is an issue that the board had raised given the concentration issue. I guess we contend that the original market study that was submitted showed that we were under the 25 percent capture ratio. There was some new information that was gathered in discussions with staff and having that new information,

the market study analyst was employed to go back out and reassess the findings of this information, and in taking that information into consideration, has calculated that still the capture rate is 21 percent, and I think Mr. Gouris is probably of the opinion that -- we had some discussions earlier -- that had that information been available today, maybe that determination -- and I won't speak for you.

MR. GOURIS: I think this is the point -- let me borrow this chart -- this is kind of the point at hand.

This was the original market area that the market analyst looked at. If you look at the whole market area, they would be okay, the concentration would be okay, but this is what they told us it was originally and it wasn't okay. It's only today or yesterday, at the last hour, that they've changed the market area to make it okay; if they'd presented that originally, we would have been okay with it.

MAYOR SALINAS: Can we do that?

MR. GOURIS: If that's acceptable to change that market area, then it would be within our concentration.

MR. JONES: Well, is it acceptable?

MR. GOURIS: From a staff perspective of having

to be able to do these deals in an efficient time manner, changing things at the last minute is not acceptable.

MR. JONES: Well, yes. Let me ask you a couple of questions. I'd like to draw your attention to two things, Tom. The first thing is if the board entertained a motion -- and there are no such things as straw polls so don't think this has been done, this is a question from me and I'm only speaking my mind -- but if a motion was made by a board member that said we would approve subject to the 12 conditions that you had just discussed, what problems would the developer have with that? And number two, are there any of those 12 conditions that the staff would recommend to the board be removed if such a motion was presented? Can you answer those two questions for me?

MR. GOURIS: I'll answer the second one first. I know that first condition says waiver, I think staff would say either you waive that policy or you accept the larger site map given in the final hours here, and I think either way from our perspective would cover that. As far as the other items, I don't believe that they are too tremendously significant. I think the bond sizing is the one that's most significant.

MR. JONES: That was my question.

MR. BOGANY: I have some.

MR. JONES: Yes, Mr. Bogany.

MR. BOGANY: After discussing with the developer, were you able to compromise where staff says hey, we can move forward with this project, or the developer is still saying that I've got to have this, this and this to make it work? Where are we?

MR. ONION: Assuming we can get by the concentration issue, we went back, Tom and I both went back and took a look at the expenses and took a harder look, started getting more data as far as the insurance costs for the property. Tom has come to an expense number of \$3,080 and I concur with him; I was at \$3,000. Based upon that expense number, it would allow a bond amount of \$13,500,000, still a lot of distance way from what they had requested, and we had discussed the option of the developer to finance the balance on a taxable basis, not a taxable bond tail but strictly straight financing, and I think that's the proposal in front of them, as well as the other items of getting us comfortable with the flood plain issues and with the cost of the property.

MS. ANDERSON: Robert, I'm sorry, did you say taxable or tax exempt on the gap piece?

MR. ONION: Taxable, as in a loan.

MR. GOURIS: It would be a transaction that

they would have to fund out of if they made those income levels and expense levels that they expect.

MAYOR SALINAS: On the flood plain, you would have to get a certificate of elevation on the site?

MR. ONION: Yes, sir, and we worked closely with the engineer and the engineer would work closely with Harris County Flood Control District and get the necessary support so that we would feel comfortable with the issue.

MAYOR SALINAS: It would be entirely up to them to give them a certificate of elevation or not. Right?

MR. ONION: Harris County?

MAYOR SALINAS: Yes.

MR. ONION: Yes. We have an engineer here that could give you more detail.

MR. PHILLIPS: Yes, you'd get a certificate of elevation.

MR. BOGANY: Moving back to the main issue, the concentration issue, why did you guys wait so late to redo this and bring it to us at the last minute?

MR. PAXTON: The concentration issue, I think the market analyst explained he had gone out in December and I guess it was not posted on the website in December that the two projects had been approved. We really just found out about the concentration issue two weeks ago from

today; I was on vacation and Robert and I had a conversation raising the issue. I believe that was the timing of the events. Not knowing that the EARC committee was meeting the following Tuesday, I stayed for the weekend on vacation with my family and came in Monday and worked all day Monday on a lot of the responses. I believe that that was when we had Danter -- if I'm not correct -- Danter had gone through and redone the analysis.

Having found out Tuesday that the EARC committee met, we took the opportunity to go in front of the new session on Friday to try to go and have some discussion since we were kind of prevented from having a lot of conversations with Tom Gouris, so that's when we really had the opportunity to kind of present our case in front of Tom in a public forum.

MR. BOGANY: Staff, what's your take on this re-looking at this concentration? Are you in agreement -- I mean, what's your recommendation on that? Because all those 12 conditions really don't mean anything if we can't get this concentration issue corrected.

MR. GOURIS: We rely on the market analyst to define the market area, and that's where we are today. The market analyst defined the market area and now has

redefined the market area.

MR. BOGANY: To make the project work.

MR. GOURIS: To make the project work. That's the honest bottom line: had he defined the market area that way in the first place, we would have not had a problem with that defined market area. So we're okay with that the way it's been defined today.

MR. BOGANY: You're okay with the way it's been defined today.

MR. GOURIS: Been redefined, but the timing of it.

MR. JONES: Ms. Carrington, Ms. Anderson? Ms. Carrington, I thought you wanted to say something. Was I wrong? I was wrong.

MS. CARRINGTON: Yes, sir, you were wrong.

MR. JONES: I'm sorry.

MS. CARRINGTON: First time, I'm sure.

MR. JONES: Many times. Further questions of staff?

MAYOR SALINAS: Well, what are you going to recommend? We need to get dead center here. What is the -- I hate to be put in this predicament every time we have these issues that to give it a day or two days or if it's not done by this time, you know, it cannot be done.

MS. ANDERSON: I tell you, I am very uncomfortable. We just saw the reverse issue earlier in the morning, where the market area was very large and we accepted that, that was the way it was submitted, although the local community had a problem with the radius being drawn that big. So now we're in some ways in an opposite situation where they drew in their judgement the right market area the first time and now the morning of the board meeting we're changing the market area, and I'm very uncomfortable with that, because I don't think the purpose and the reason we have a market analysis in these deals is to just manipulate our way into doing every deal. You could theoretically define every market analysis so you'd never have a concentration issue, and concentration is a business issue around some of these deals.

I'm going to direct that we ask the staff -- we've got to have a better process than what we've seen today on both of these deals, and Tom, let's have some ideas in the future to address that. I'm very uncomfortable with just draw a bigger circle so you can make something work.

MR. JONES: I think those are very wise comments, Ms. Anderson, and I agree with you. Ms. Carrington, the other thing is, though, even with the two

weeks' notice, it bothers me that you had two weeks notice and we're doing it on the morning of the board meeting. I mean, I just think that's amazing, and I don't criticize staff for that. Ms. Carrington?

MS. CARRINGTON: I think staff is always put in a difficult position on the tax-exempt bond transactions because of the 120 days. We do request the information, we request it from the developers; it does not always come. Ex parte certainly has created some difficulties in staff being able to have free discussion with developers and being able to get the information that they need. With that said, as Tom said, we take the information that's provided to us by the market analyst and we go with what we have at the time.

Our board books go on the web the week before; my staff has to have that ready a couple of days before that, and so these things to continue to move. I think we accommodate as best we can and certainly have made some changes and recommendations based on something that's shown up by the time the board book went on the web and the board meeting. But it puts staff in a very, very difficult position when we're given information at the very last minute and asked to reconsider our recommendations.

MR. JONES: Yes, very good comment. Yes, sir?

MR. FLETCHER: Could I make one comment? As a real estate appraiser and as an old guy, I've looked at a lot of these properties, and this looks like a good location for an affordable housing project. I said that in the appraisal.

The other point I want to make, I also, with respect to the utilities, called the water department in that district and they came up with a \$300 per unit estimate for sewer and water, and if you add another 100 bucks for common area, you're right where we were in our estimate which came up to \$2,850.

MR. JONES: Thank you. As a manner of just summarizing the debate here, I think where we are, if we take no action, obviously we follow the original recommendation of the staff which would be not to approve, and then the chair will entertain any other motion that a board member wants to make.

I would just make one final comment about this. We did adopt certain policies with regard to concentration. You know, we let people then define it, we then look at it; I have a problem from the standpoint of when you adopt a policy, sometimes you've got to live with them. With that, do we have any motions from any board

member?

MAYOR SALINAS: I'd like to move to deny the request, take the staff recommendation.

MR. JONES: We have a motion to deny.

MS. ANDERSON: Second.

MR. JONES: And I'm going to have to close the time for public comment because we have allowed public comment on this matter from the developer, I think, completely, and once the board starts the debate, we do have to close the public comment. We have a motion that's been made and seconded. Further discussion, questions, comments, arguments concerning the motion?

(No response.)

MR. JONES: Hearing none, I assume we're ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed to the motion, please say nay.

(No response.)

MR. JONES: The motion carries.

Ms. Carrington, do we have anything else we need to take up at the board meeting?

MS. CARRINGTON: No, sir, we don't.

MR. JONES: On behalf of just myself as chair,

I would like to say this, I apologize to everyone, staff, to the public that's attended with regard to the time management with regard to this particular board meeting. We will do better in the future.

It is the responsibility of the chair; the chair takes that responsibility. I made a mistake; I ask your indulgence. I apologized to you before about it, and I just tell you that we'll work on it and we'll do a much better job at the next board meeting.

With that, is there a motion to adjourn?

MS. ANDERSON: So moved.

MAYOR SALINAS: Second.

MR. JONES: A motion has been made to adjourn and seconded. All in favor, say aye.

(A chorus of ayes.)

MR. JONES: Motion carries. Thank you so much.

(Whereupon, at 12:55 p.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA board
LOCATION: Austin, Texas
DATE: May 9, 2002

I do hereby certify that the foregoing pages, numbers 1 through 128, 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.

(Transcriber) 05/16/02
(Date)

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