

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING

9:15 a.m.
Thursday,
April 10, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

BOARD MEMBERS:

MICHAEL JONES, Chairman
C. KENT CONINE, Vice Chairman
SHADRICK BOGANY
ELIZABETH ANDERSON
NORBERTO SALINAS

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
ROBERT ONION
BILL DALLY
CHRIS WITTMAYER
BYRON JOHNSON
GARY MACHAK, Financial Consultant
ROBBYE MEYER
TOM GOURIS
DAVID GAINES

ALSO PRESENT:

JERRY ROMERO, TSAHC Representative
JOHN HENNEBERGER, Co-Director, Texas Low Income
Housing Information Service
SAM GUZMAN
JOE VELA
ROBERT GREER, The Michaels Development Co.
FRANCES FERGUSON, Multifamily Initiative for
Neighborhood Reinvestment

ON THE RECORD REPORTING
(512) 450-0342

CARLOS HERRERA, Pleasant Valley Courtyards,
L.P.
CYNTHIA BAST, Locke, Liddell, & Sapp
ROGER ARRIAGA, City of Austin Representative
RON ANDERSON, Executive Director, Housing and
Community Services
RAYMOND LUCAS, Housing and Community Services
PETER WISE, Bear Stearns
BRENT STEWART
MARNIE MILLER, Charter Mac
KURT KEHOE, Hillery Garden Villas
REV. H.T. JOHNSON, Pleasant Wood/Pleasant Grove
Economic Development
Corporation
EUGENE THOMAS, Southeast Dallas Land Use Study
Chairperson
NEAL SOX JOHNSON, Rural Rental Housing
Association
BILL FISHER
BOB BUFFINGTON
JIM HENDERSON, Interstate Management Realty
Company
JOHN O'DONNELL, The Michaels Development Co.
ANTOINETTE JACKSON, Coats, Rose, Yale, Holm,
Ryman, & Lee

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P R O C E E D I N G S

CHAIRMAN JONES: I now call the board meeting of the Texas Department of Housing and Community Affairs for April 10, 2003, the first order of business being our roll call.

Mr. Bogany?

MR. BOGANY: Here.

CHAIRMAN JONES: Mr. Conine?

MR. CONINE: Here.

CHAIRMAN JONES: Ms. Anderson?

MS. ANDERSON: Here.

CHAIRMAN JONES: Mr. Jones? Here.

Mayor Salinas is absent. And Mr. Gonzalez is absent. So we do have a quorum. And I determine we have a quorum.

The next order of business is public comment. And the first speaker we have is Mr. John Henneberger. Good morning.

MR. HENNEBERGER: Good morning, Mr. Chairman and members. My name is John Henneberger. I'm the co-director of the Texas Low Income Housing Information Service. And I'm here just to very briefly urge the board to move expeditiously on its item number 2 on its agenda, to develop a criteria for receiving public input, and to

develop a criteria for the, I guess, criteria under which you would review public input.

As I'm sure that the board is aware, I think there's substantial concern, both within the industry, if the legislature and among community organizations, that there's a need for clearer definition of exactly the criteria that the board will apply to consider the public comments on affordable housing developments. I think it's very important for the board to indicate very quickly, if not immediately, to the legislature that the board is taking action to develop such a criteria.

It's my feeling, and the feeling of the non-profit organizations that I work for, and the low income people who I represent, that this board is uniquely equipped to develop this criteria and is the proper place where the consideration of this type of process is properly vested, as opposed to the legislature. And so I'm here just to urge you to move expeditiously, and to commend you for doing this, and also ask that you communicate to the legislature your intention to follow through on this process and get the criteria put into place very quickly.

Thank you very much.

CHAIRMAN JONES: Thank you, sir.

Our next speaker is Mr. Guzman, Sam Guzman.

(Pause.)

CHAIRMAN JONES: Mr. Guzman?

MR. GUZMAN: Yes.

CHAIRMAN JONES: Good morning.

MR. GUZMAN: Good morning. My name is Sam Guzman. I'm here as -- I was asked by Representative Eddie Rodriguez to address you this morning --

CHAIRMAN JONES: Thank you.

MR. GUZMAN: -- and particularly to present, for the record, this letter that I have given you. And it's in regard to Pleasant Valley Courtyards, LIHTC project. And the letter reads:

"Dear Ms. Carrington,

"I am writing to express my support for Carlos Herrera's request to your department to consider approving his request to add additional land to his low income housing tax credit project. The additional land will assist the developer in meeting the issues faced during the zoning process, satisfy the concerns of the surrounding neighborhoods, and respond to the sensitive environmental and wetlands issues. I believe this project is an effort to satisfy City of Austin requirements, community issues and concerns, and its commitment to

excellence reflects the type of housing so desperately needed by our community's working families.

"Mr. Herrera and his development team, along with the support of the community, have achieved unanimous support by the city council on the zoning of this site. I trust the department can consider Mr. Herrera's request in a positive manner so this project may move forward to completion. As state representative for this district, I strongly support this project and look forward, not only to the investment in our community, but also to the high quality affordable housing for families.

"Sincerely, Eddie Rodriguez, State Representative, District 51."

Obviously, he wasn't able to be here this morning because of other conflicting schedules that you know of. And I understand, by the way, that this agency is doing really well at the session. So I commend you for that.

If you have any questions, I'd be happy to answer them. I believe that other letters of support are going to be included by the project managers in the packet. Thank you very much.

CHAIRMAN JONES: Thank you, sir.

Mr. Herrera?

MR. HERRERA: I will speak at the item, sir.

CHAIRMAN JONES: Thank you.

Ms. McKinney? Dena McKinney?

MS. MCKINNEY: I would like to speak to the
item, sir.

CHAIRMAN JONES: Thank you.

Ms. Jackson?

MS. JACKSON: [inaudible].

CHAIRMAN JONES: Excuse me?

VOICE: Which Jackson?

CHAIRMAN JONES: Pebble Jackson.

MS. JACKSON: I'll speak at the item.

CHAIRMAN JONES: Thank you.

Christine Sullivan?

MS. SULLIVAN: I'll just speak at the item.

CHAIRMAN JONES: Kent Clemens?

MR. CLEMENS: I'll speak at the item.

CHAIRMAN JONES: Craig Alter?

MR. ALTER: Speak to the item.

CHAIRMAN JONES: Bill Fisher?

MR. FISHER: At my item.

CHAIRMAN JONES: Joe Vela?

MR. VELA: Hi.

CHAIRMAN JONES: Good morning.

MR. VELA: I'm here to speak on item number 3, the Qualified Allocation Plan. I just want to read a letter of support from Commissioner Gomez.

"Dear Ms. Carrington,

"I enthusiastically support Mr. Herrera's application to the Texas Department of Housing and Community Affairs for a low income housing tax credits. The project is a \$15 million investment and will provide 163 units of high quality affordable housing in the southeast quadrant of Travis County.

"As County Commissioner, I recognize the critical need for quality and affordable housing for low income families. With a population of over 812,000, Travis County continues to grow, as does our demand for affordable housing.

"The Pleasant Valley Courtyard project will be vital to addressing this need. And that is why I support this application without reservation. I would also request that you consider the application for an amendment request to add additional land to increase the quality of life for the residents.

"I appreciate Mr. Herrera's commitment to ensuring the Travis County residents are provided the quality of life they so richly deserve.

"Margaret Gomez, County Commissioner, Travis County."

And here's a copy of the letter.

CHAIRMAN JONES: Mr. Roger Arriaga?

MR. ARRIAGA: Speak at the item, please.

CHAIRMAN JONES: Marnie Miller?

MS. MILLER: I'll speak at the item.

CHAIRMAN JONES: Kurt Kehoe?

MR. KEHOE: I'll speak at the item, Mr. Chair.

CHAIRMAN JONES: Brent Stewart?

MR. STEWART: I'll speak on the item. Thank you.

CHAIRMAN JONES: Eugene Thomas?

MR. THOMAS: Speak at the item.

CHAIRMAN JONES: Reverend Johnson?

REVEREND JOHNSON: Speak at the item, please.

CHAIRMAN JONES: Ron Anderson?

MR. ANDERSON: At the item.

CHAIRMAN JONES: Raymond Lucas?

MR. LUCAS: At the item.

CHAIRMAN JONES: Sox Johnson?

MR. JOHNSON: At the item.

CHAIRMAN JONES: Jim Henderson?

MR. HENDERSON: I'll speak at the item.

CHAIRMAN JONES: John O'Donnell?

MR. O'DONNELL: I'll speak at the item also, please.

CHAIRMAN JONES: Okay. What item would that be?

MR. O'DONNELL: Eight.

CHAIRMAN JONES: Thank you. Antoinette Jackson?

MS. JACKSON: I'll speak at the item.

CHAIRMAN JONES: Okay. Robert Greer?

MR. GREER: Yes, thank you.

CHAIRMAN JONES: You're welcome.

MR. GREER: Good morning. I am Robert Greer, the president of Michaels Development Company. And I have with me this morning two associates who will be speaking at the item, James Henderson, who is the president of our management company, Interstate Realty, and John O'Donnell, who is our chief financial officer.

I am here speaking for item 8, the proposed settlement for Century Pacific. And I'm asking for this opportunity to speak to you now. While I am aware that you have received a great amount of material representing our company, and our history in the United States, I wanted to personally speak to you before this item was

addressed, so that you may have a clear picture of our commitment in the development of affordable housing.

We are currently working in 17 states and the Virgin Islands here in this country. We have developed, over a 30 year period, approximately 25,000 units of affordable housing, initially using housing production programs such as Section 8 and 236, in the last twelve years primarily tax credit developments, and even more recently, in combination, in the Hope 6 program, utilizing Hope 6 funding for mixed income developments.

Our concentration in this 30 year period has been solely the production of new and preserved affordable housing in the country. Because of our national presence in developing affordable housing, we are, from time to time, approached by other developers who are experiencing difficulty changing their goals, a change in staffing that requires them to consider stepping away from developments they have in processing. Such is the situation here.

We are aware of these four properties currently having received tax credits from the department, which are now in question. It is our interest to be considered and approved by this board to assume the responsibilities of that general partner, and go forward with the preservation of these 800 family units within three communities here in

Texas.

We had reviewed their initial proposal for rehabilitation and preservation activities. We have increased the activities we would propose under your guidance and your acceptance, to go from 15,000 a unit to 25,000 a unit, including unit preservation, site preservation, and the introduction of significant family supportive social programs and self-sustained programs.

We are very interested in this opportunity. We welcome the opportunity to answer any questions you may have at the time that that item comes before the board. And we would be willing to work very closely with you and your staff to accomplish these goals. Thank you very much.

CHAIRMAN JONES: Thank you, sir.

Frances Ferguson?

MS. FERGUSON: At the item, please.

CHAIRMAN JONES: Cynthia Bast?

MS. BAST: I'll speak to the item, please.

CHAIRMAN JONES: And I think that's everybody.

Have I missed anybody?

(No response.)

CHAIRMAN JONES: At this time, we will close the public comment, with the exceptions of those whose

names I called that have requested to speak at the agenda item.

We then will move to item 1 on the agenda, which is the presentation, discussion, and possible approval of the minutes of the board meeting of March 13, 2003.

MR. CONINE: So moved.

MR. BOGANY: Second.

CHAIRMAN JONES: I have a motion that's been made and seconded. Further discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, say, Nay.

(No response.)

CHAIRMAN JONES: The motion carries.

Ms. Carrington, it's my understanding that we don't want to do item number 2, with the consent of the board, right now. Is that true?

MS. CARRINGTON: We can do number 2.

CHAIRMAN JONES: Do we want to?

MS. CARRINGTON: Yes, we want to do number 2.

CHAIRMAN JONES: We want to do number 2?

MS. CARRINGTON: Yes, sir.

CHAIRMAN JONES: Okay. Then let's go to item number 2.

MS. CARRINGTON: Thank you, Mr. Chair. We know that several people, this morning, were over at the urban affairs hearing, as were several of our staff. But I have been told by that sage, John Garvin, that they did not take any of our housing bills this morning. But I guess we're going to be up this afternoon. So I did want to give an opportunity for everyone who was at the Capitol to have a chance to be over here and I believe we've adequately done that.

CHAIRMAN JONES: Great. And then, we have one person who would like to give public comment on item number 2. And that's Frances Ferguson.

MS. CARRINGTON: Yes.

MS. FERGUSON: Thank you. My name is Frances Ferguson. I serve as the national manager for the Multifamily Initiative for Neighborhood Reinvestment. Neighborhood Reinvestment is a national intermediary that serves non-profit community development corporations across the country. And the Multifamily Initiative has 59 members across the country, a number of whom are in Texas,

which own and operate 30,000 units. And we provide development, and asset management, and learning center support for them.

In our work, we also interact with a number of national organizations on policy issues. And this issue of -- the whole process of input, and the community's input on the location of multifamily housing, is an issue across the country. And so I just wanted to take just a minute to applaud the fact that you're taking this on, and urge you to take it on within a -- recognizing that you are in the position of being part of the number of locations that are taking sort of a ground-breaking role in this.

I think, when you look across the country, what you see is that communities all across the country are struggling with this question. And the reason they're struggling with this question is because a lot of forces are converging. The diversity of America has changed in the last 30 or 40 years. School finance is an issue all across the country. And the quality of schools has everything to do with how people feel about their communities.

Environmental and water concerns are becoming a fundamental issue shaping the growth of communities.

Therefore, smart growth is an issue that's changing the way we're viewing the way communities should grow.

And ensuring that affordable housing is available fairly across a community, as opposed to only being located in one part of town, and, therefore, creating an environment that cannot be a healthy community. So the locational issue is one that has many forces upon it, and isn't just an issue of how residents in one place feel about one property.

So how residents in one place feel about one property is part of it. But added together, every one of those locations becomes part of how we build our communities to be healthy communities and how we ensure that affordability is available for the work force, for employers, for the way schools are funded, for the way neighborhoods grow, for the way cities grow.

Therefore, it's an urgent issue. But it's also one that's a complicated issue. So groups like Urban Land Institute, the American Planning Association, the National Housing Conference, the National Multi-Housing Council, the Brookings Institute, national foundations, the Ford Foundation, the McArthur Foundation, the Annie B. Casey Foundation -- there's a lot of national groups working on this issue.

And I simply wanted to encourage you that as you take this on you, perhaps, allocate some resources to bringing in some of those national folks such as the Urban Land Institute; so that you have the wealth of experience, not only of what those of us here are thinking, but what's happening across the country.

Thank you very much.

CHAIRMAN JONES: Thank you.

I don't believe there's anybody else that wants to speak on item number 2. Is that correct?

(No response.)

CHAIRMAN JONES: All right. Thank you.

Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chair. In your board material this morning, for you all's consideration, and to help us begin to frame this discussion, we've provided you some information on what the department has been doing, is currently doing internally, as we consider and grapple with the topic of public input and public opposition, and using that information to help us make decisions about financing multifamily.

We've also provided for you a list of -- in Appendix A -- 13 items that are not necessarily all inclusive. But it's questions that we are posing to the

board for their discussion in helping you frame this issue and that helps us get to developing policy, rules, related to the consideration of public input, as we look at our financing of our developments.

And then behind that is Appendix B, and there are five bills, actually six bills, in particular, that are being mentioned here as John Henneberger mentioned earlier in his testimony. There certainly is some proposed legislation that would address how we take public input and how we incorporate that into our decision making process. So these bills, six of them -- five of them would actually amend our statutes. They would amend 2306.

A sixth bill does not amend our statute. It relates specifically to housing authorities. But one of the things we certainly have noticed is, as the housing authorities go in one legislative session, then it is not uncommon for that to be transferred to TDHCA and other housing agencies in the state.

So, as this board is well aware, beginning I guess probably a year or so ago, there has been -- with our multifamily transactions, specifically the multifamily bond transactions -- a considerable amount of public opposition on these transaction at the TEFRA hearings and also at the board meetings. And what we want

to do is begin a policy discussion with the board today on framing this issue and coming up with some guidelines, rules, policy, that would help us incorporate this into our decision making process.

(Pause.)

CHAIRMAN JONES: Well, you know, I --

MR. SALINAS: I really don't understand why we're doing this. And I think one of the bills will probably address the whole issue.

The problem here has always just been one area, in the Houston area. I think what we've done before in the other areas in Texas is that we followed the city's planning and zoning commissions. And that is a local issue which they decide what kind of zoning they are going to have in their communities.

All of a sudden, we go ahead and propose two or three projects in the Houston area, where they don't have any zoning at all, where they can't even police themselves. This is terrible. You know, you go to Austin and they have planning and zoning. We usually don't disagree with what the cities want in their own areas. But for everybody to make a big issue about just one area in Houston.

I don't think this board has denied anybody the

planning and zoning and the cities have approved. One example is McKinney, where we had that big, big 500 people coming down to our meeting. We went ahead and took the advice of the city council and the planning and zoning. And we just approved the project.

When you have people in Houston -- which they cannot police themselves, and they cannot even go to anybody to defend their community -- then I have a problem with that. I don't have any problems with people making their own decisions in their own communities. I would feel that that's their local affairs.

When you have the whole city of Houston coming down here and saying, Well, we just don't want this project right next door, I think that then we become a public zoning agency for the City of Houston. And we have to do almost everything for them. This is what they need to address in the legislature, the City of Houston zoning, because the people of Houston really don't have any representation when it comes to zoning.

They want us to take care of it here. That has been my whole problem. And I just don't feel that you have a public hearing, and you have 1,600 people go to a public hearing, and you ask how many were in favor, and it says, None. How many were against, 1,600. And they were

still wanting to go ahead and put those people aside. I'm not going to be supporting that.

And I know that this is on the agenda, but I haven't talked to too many people about this. But I really don't think we have any problem in the rest of the state. And if the legislature wants to do something about this, this is fine. And I can see one of the bills which says that it goes back to the local level, local planning and zoning in the cities, which is the right thing to do.

MS. ANDERSON: Mr. Chairman?

CHAIRMAN JONES: Yes?

MS. ANDERSON: May I speak?

CHAIRMAN JONES: Yes, certainly.

MS. ANDERSON: I have to say, I agree and appreciate John Henneberger's remarks, that I really think that this board and staff, with the help of all of our constituencies -- the development community, the advocacy community, community organizations -- is in the best position to clarify, really, the process of how we receive public input and consider that input in making these decisions. And if we can do it more surgically and with more insight, then, you know, the best intentions of the legislature.

And I think we do -- I am persuaded that it

will be helpful, both to the development community and to the communities for which this housing is planned, if we can provide some clarity about how we consider both the developers' input and package and how we consider community input. So I support this process, to try to have a rule-making process to sort of take control of our destiny, and how we work with the citizens of Texas and the developers.

I think, you know -- I start out -- and sort of my charge to the staff -- this is not going to be easy to do. There are a lot of -- as Ms. Ferguson said, there are a lot of sort of swirling forces, stormcell-like if you will, that are at play in this. But I think we all know that projects work best when they are a joint endeavor between the community and the developer and the department.

So then my question becomes how do you build a process that helps us sort of focus on that goal, gives us the best chance to get to where we have project development in communities that are really a joint endeavor? I don't have an answer for that today. But I think we need clarity around, you know, what is -- is that a reasonable goal, to help, sort of as a lodestar really, to kind of guide some of our thinking?

You know, that leads me then to a question about what is the role of TDHCA? We're not, you know, strictly a regulatory body, like the PUC, where we determine, you know, where we're going to run utility lines. We're not just a purely regulatory entity. We work very closely -- and I'm very proud of the work staff has done -- to rebuild credibility with the development community. But we have a responsibility, quasi-regulatory or however you want to characterize it, to the citizens of Texas, and the communities of Texas as well. So, I mean, I think some discussion and thought around what the role of TDHCA is, in this part of the process, is important.

I also charge the staff to kind of think out of the box on this. I have asked several times that we look, with Ms. Carrington's colleagues, and other contacts we have -- let's look for, as Ms. Ferguson suggested, some of the -- you know, maybe there's some innovation going on in other states that we can learn from and make part of our rulemaking process here.

There've been some creative ideas, you know, proposed. For example, the development community, or members of that community, have asked that they have some advance submission from the community of, you know, what the nature of the opposition is, and that that be posted

like, you know, there's an advance posting for all the other materials this board considers. And I'm willing to entertain that.

I think to balance that, there may be a need for a role for this agency to provide what I would call technical assistance, broadly defined, to communities. And I think this rule that we, you know, propose, or we embark on today to propose to develop, might provide some assistance to communities to help frame their thinking. I mean, developers and we go through this process all the time. I mean, we do it multiple times a year. The communities do it, you know, generally once. Or there's one neighborhood in Houston that did it twice.

So I think we ought to think deeply about what our obligation is to prepare communities, you know, to offer their public input in a constructive way. You know, again, I think we've done just an awesome job as a department. And I really thank the staff who've been here throughout this long process, to rebuild credibility with the legislature and the development community. The feedback I get is that our processes, you know, around the 9 percent rounds and so forth are transparent, and fair, and our staff, you know, works very hard to be fair.

But there's a lot of murkiness, and mystery if

you will, around this 4 percent decision process. And I just ask that as we go forward with this, that we -- I ask all of our communities to give us their best ideas. And I charge the staff with making sure that we really are sort of draining all the good ideas, and listening to all the voices out there as we, you know, move forward in what's a difficult process to build a rule that this board could all support and embrace and that all the different publics that we work with can as well.

MR. SALINAS; Well, you know, I really don't think we have a problem. And I think we're discussing an issue that is local issues -- you know a city that has its own planning and zoning, its own city counsel, elected by the people in that community; outside their city limits, they have an ETJ called a five-mile-line ETJ. Okay. So they kind of protected that through the legislature.

I actually do not approve of this board or anybody else telling any community how they are going to use their land use. Every community in Texas, with the exception of the Houston area, has its own comprehensive plan for five, ten years. And they will decide how this land is going to be used. They have public hearings, where they have literature going out to all the community, and telling them what's going to happen. They have

planning and zoning advisory committees. And a committee, I would feel, would have to be left alone from this agency.

All of a sudden, this agency becomes a zoning commission. I just don't agree with it. I can agree that we have a little problem in Houston, but that's Houston, you know. I actually don't agree with anybody in the state coming to our areas in South Texas and telling us how we can use our land. Developers in that area work together with our communities, and they know that. And we have our hearings. We have communication between developers and the city council, people that get elected, people that have to listen to people.

And I just don't think that whatever we do here is going to affect our community; because we own our community. We select our community. And we decide how we're going to use that land.

All of a sudden, we are going to be the body telling our communities. I don't think so. I mean, anybody that wants to do that, they need to get on the ballot and run for office. But I actually do not agree with anybody, especially this committee, or this commission, telling any community how to run their business as far as where they're going to have their own

land use and how they are going to accept certain areas. We have people who do that in our communities, that are experts in doing that. We have legal counsel.

And, surely, we do not have any problem in South Texas. The only problem I see -- and I'm sure Dallas is going to do the same thing, they're going to take care of their community. And they're going to be very careful, as to how and where they are going to have affordable homes, and where they're going to have apartments, and where they're going to have a big community of big lots, small lots. That is all up to the community where you belong.

The only problem we have here -- and I think we've gotten out of proportion -- is that the Houston area does not have any zoning. And then we become a commission here on zoning. And I don't think -- I think the legislature needs to address the area of Houston. And probably, in this bill they're introducing, is the same thing. It goes back to the local cities and local zonings, because, actually, they cannot do anything about what we already have in place.

Now, we have a problem in Houston. How are we going to address it? I don't know. But, certainly, I do not want that problem overlapping into our other

communities, because we do not have any problems with our developers. We get along fine with them. I think there's a lot of good communication with developers. Good developers go to their communities, and talk to the local people, and address what they are going to bring into their community -- no problem.

We have planning and zonings every week and address problems like that. We have mail go out. People get public notices. And anybody that can do that is these communities, not this board. This board has no authority to do or say anything where we can put our zoning.

I think that has to come directly from our communities to this board. All we have to do is allocate what we have to do on 4 percents and tax credits. That's our role. That's what I've been put here to do. And, of course, public hearing -- that we have to hear for the last two months on the Houston problem.

So, I don't know if we do have a problem. But I think we only have a problem in one area of the state. And now, everybody has to pay for it? No, I don't think so.

MR. CONINE: Mr. Chairman?

CHAIRMAN JONES: Mr. Conine.

MR. CONINE: You can't lose sight -- this is,

of course, a wonderful process and good discussion. I personally think we probably ought to have a workshop with the board and staff, and try to help answer a lot of these different questions that the staff has proposed.

But we can't lose sight of the fact that we're dealing with a federal resource here, that, in the U.S. Congress' infinite wisdom has been delegated to the states to administrate and create the rules and the regulations around those federal resources. And the spectrum would go from if a project meets all the rules of a local municipality, and the rules that we set upon the process, it would automatically qualify.

Well, if that were the case, then we wouldn't particularly need a role. Congress would have just said, Here's a set of rules and regulations; here's a check-off list. If your project meets that particular requirement, then boom. And they could administrate it out of Washington, D.C.

But what they felt like was that there was some local input, and some local knowledge if you will -- local meaning both local and statewide -- that needed to be held within the process. And so there's a need for public comment. There's a need for discussion relative to each of these projects.

And somewhere in the middle lies the discretion that this particular board has chosen to take on, of whether to approve a project or not approve a project. Can we make the public comment that we hear -- can we filter it? Can we quantify it? Can we qualify it to a point where we know that whatever a person is standing up in front of us is saying is actually the truth? I think that's where we really need to go. And I think we need to figure out how best to do that, how best to take that input from various cities across the state, but yet still have the discretion in saying whether or not a particular project should go or not go.

The pressure that puts on the development community is the uncertainty of the process, which is okay. I don't have a problem with that. I think there shouldn't be an automatic deal out there.

But it is also incumbent upon this board, then, to not require them to spend tons of money to get to the point where the decision is made. There are other states that have much less requirements than we do on the application, and the project, and so forth. And it doesn't require near the amount of money to get a project in front of those state boards as it does ours. So I would echo Ms. Anderson's suggestion that we ought to take

a look at what other states are doing, and see how we can improve the process.

But, again, our broad-based goal here is to take a federal resource -- take one that has obviously worked very, very well in providing work force housing all across this country for the last 16 years -- and make sure that it gets put in places where it's truly needed. And that's because the Congress felt like we had a role in that, and felt like there needed to be local control over that, we get to do it from Austin instead of them doing it from Washington, D.C. So we can't forget that.

MR. SALINAS: And I agree with you. IF my whole issue here is we do not really want to lose -- and I speak as we, because I am the mayor of the City of Mission -- we surely do not want to lose control of where those projects are going to be in our community. I don't really -- and I think we should follow the process here, and find a better way to avoid those people spending so much money for their applications. But for local control, I think the planning and zoning commissions are the ones that are going to decide where they are going to go.

MR. CONINE: It's important, Mr. Mayor, that each local municipality have comprehensive land planning and zoning --

MR. SALINAS: Yes.

MR. CONINE: -- and planning out on the ETJ.

MR. SALINAS: Exactly.

MR. CONINE: And, as you know, all cities in Texas don't do that, unfortunately. But they need to. And if they haven't for some particular reason -- Houston being an example, because they don't want it -- then it's incumbent upon us to try to filter the information we get, and make sure that whatever we choose to do has taken all those various factors into consideration.

But the best thing would be, like you say, if every city in Texas has done comprehensive land planning, then the citizens already -- it's a representative government. They've elected a city council and the school board. They know that a piece of land is zoned multifamily. And if it's not there today, they have to plan on it being there tomorrow.

MR. SALINAS: Yes.

MR. CONINE: And quite frankly, a lot of that planning at the local level is probably not done as well, and as well thought out, as it needs to be. So that's why you have a lot of disputes when we have projects.

And the other thing here is, there's a huge misconception about these properties don't pay taxes, and

it's all crime, and that kind of thing. It's just a huge educational curve that we need to try to implement all across the state. We need to figure out how best to do that within the resources that we have, I think.

MR. SALINAS: I agree.

MR. BOGANY: Mr. Chairman?

CHAIRMAN JONES: Shadrick?

MR. BOGANY: You know, our role here is to put housing where Texans need it. And this is a very volatile subject. I don't think it's as volatile as everybody's making it out to be. And the reason I feel this way is that I believe the development community -- when you go into a community, you need to put on a movie show. It's show time. You need to sell your project to those residents in those particular areas.

There is no study out there that says that if you put affordable housing, low income housing tax credit, in a neighborhood, it brings property values down. There's no study out there. Wisconsin study proved it wrong. Wayne State University, in Detroit, study proved it wrong. There is no study out there. So as a developer community, I believe you should go out there and sell that idea to that community.

You don't go in -- and I've talked to staff

about our public hearing. I think they're terrible. I think when you go in, they'd be controlled. And the people who are putting on the project should be able to have an opportunity to show what kind of project they do, what's going on in the community, and their other projects, and then at that point why staff decided to choose this project.

You know, it's funny. I sit back and I listen to one of the projects. The school district said, Hey, we're out of school space. We don't have any room. You shouldn't let this project go. In the same weekend, they're passing a \$200 million bond issue. It doesn't make any sense to me. But they'll sit here and tell us at this board that they shouldn't go in and put schools.

And I'm real concerned that -- where I have a problem is the concentration efforts. And the study does say that if you put too many of them in one neighborhood, you can have an adverse effect. It just amazes me that we don't go in, in public hearing. I've asked Edwina, Ms. Carrington, at times, to go in. This should be show time.

You should explain your project, talk about the schools, computers, all the social activities you are. You should have pictures of your different projects out there. So the community can see it.

What we're dealing with, as Mr. Conine said, is a social fear. You've called it low income housing. All of a sudden, everybody thinks that people are raping each other, crime is there. It's just ridiculous. But it does say it happens if you put too many in a certain area.

What I would like to see us do, Mr. Chairman, is put together an advisory committee -- somebody from the development community, those people that like to write these letters on public hearing, have somebody from them, have somebody from the state legislature on that advisory board --

CHAIRMAN JONES: You have a lot of volunteers, too.

MR. BOGANY: Yes.

CHAIRMAN JONES: I'll let you know that from the communications that I've received, there are many volunteers.

MR. BOGANY: I mean, bring these -- put an advisory group of about ten people, and let them examine Appendix A, and come up with a solution to come bring it back to this board, but bring the players to the game, and let them give their input. And when you put it in front of them, you'd be surprised. You'd start getting these people that said, Well, I didn't know they did this at

this housing project.

The whole issue is because it's called low income housing. And that is the problem. And until we can change that name, we're going to constantly have this.

You know, I have one down the street from my house. It's one sitting right in front of a neighborhood, just down the street from my house. That neighborhood property value has gone up 10, 15 percent, you know. And it looks better than the doublewide trailer-duplex on the other side that the city didn't complain for us putting over there, that they allowed to be there, but they didn't want this really nice project there. And it's day and night.

So I feel that we're going to have to try the presentation. The key is going to be presentation. And I think, to the mayor's issue in Houston is controlled by deed restrictions. So if you've got deed restrictions, that's how they control the communities. We've brought up zoning several times. And each time, they voted it down.

So it's not going to happen in Houston. Okay. But deed restrictions will.

And I think the real key is concentration. And if we can cut the concentration down -- it bothers me that scattered housing works all over this country. Everybody

knows that scattered housing is really the key. It is not to concentrate and take poor people and put them all in one side of the community. How can you pull them up if they see that everybody looks and acts like them. You've got to be able to do scattered housing. And we've got to stand by that.

I think the advisory committee -- Ms. Carrington, let them bring this back to the board. And let them hash it out. Let the housing advocates come here and say, Let's look at all these, and give us a recommendation. I think you really tread very bad waters when you let the public determine for us whether or not we're going to put affordable housing. It is a very gray area and we cannot let that happen, or we go back to segregate housing again.

You have to be very, very careful with letting public comments. It defeats the whole mission statement of this agency. It's Texans to achieve improved quality through development of better communities. If you let the public continue to tell you -- because they're basing it on fear. They have no knowledge.

A market study can say anything you want. And what bothers me is that when one community doesn't want it, who can't afford a market study, then one community

comes up here with a flawed market study, that we can cherry pick where we put these projects at. I've got a problem with that. And I think everybody -- when I started on this board, we pretty much voted it just the way it is.

And by the way, on that advisory committee, the bond review board should have a member on there, too, okay, because it ain't just us, you know.

(Applause.)

MR. BOGANY: And you have to take the time to put those people on there and let them hash it out. But when I joined this board, we never looked -- where the staff recommended it, they're the experts, we went with it. Okay. And now, all of a sudden public hearing comes into play, and we don't want it. And it's nothing but NIMBYs. Nobody has yet to give me one study that says it's brought down the value.

But I do have an issue when you've got one next door, and then you put another one next door, and a mile away you've got another one. They should be spread out. And I think the advisory board is the first step of putting these players in the game, and letting them look at Appendix A, and give us an idea, or a recommendation, and then we go.

I don't think you can quantitative public opinion. How many people come up there, 500, 600 people?

That doesn't mean anything. And then, you get one group that can only come up here with five. I mean, I've got an issue with it. And I think if we let public hearing -- it will defeat our own purpose of this whole board, if we continue to let public comment determine that we're not going to put a project somewhere.

I think we let the advisory committee come up with an idea. The people that want to be on -- and there has to be some public members on there -- and let them present something to us, and go forward. Thank you.

MR. SALINAS: Shad, and I agree with you. But that's the way you all want to run things in Houston, that's fine with me. But don't tell me that I am not going to listen to public comments. If you have 400 people, or 300 people, come to this board, if you don't have your zoning in place in Houston, by golly, I'm going to listen to those people. And I'm going to look at it, because you guys have given me the right to do that.

I will tell you one thing. South Texas will never give you the right to choose in their zoning, because they are going to take care of their problems at home. And when one project comes to this board, it's

going to be taken care of. We're not going to discuss who is where. We are going to take care of our problems, take care of them at home.

But the way you guys do have them in Houston, you're giving me the opportunity to look at it. You're giving me an opportunity to listen to public hearings. And I'm going to do that. And I'm going to tell and say my piece, even if I don't -- even if I'm the only one. But you are giving me the right.

Because you all can't take care of your problems in Houston -- you all can't get along, I mean, you just said deed restrictions -- you all have done and voted against the deed restrictions. So then, we have to take care of the zoning here in this board. And that's fine. I can do that. But whenever I do that, don't criticize me for doing what I have to do.

MR. BOGANY: Okay, Mayor, I don't disagree with any of your comments. Okay. I think Houston's a very fine city to live in, and I'm glad to be from Houston. And I also believe, though, we've had in --

CHAIRMAN JONES: We like to visit, too. We really do.

MR. BOGANY: And I think the mayor has some very valid points. But we've had issues where we've had

cities that are zoned. And the zoning commission approves them. Everything goes down the road. And then, we vote to do what we are supposed to do here. And then, it goes to the bond review board and they turn it down, because they're -- I mean, we've listened. I think it's happened. So I think you can go both ways.

And I think what Mr. Conine said, it is education. It is education. And we can improve this thing. But let's put an advisory group down and let them bring it back to us, and make a recommendation, which shows the legislation that we are looking at it. We are making an advisory group. Maybe the advisory group can go to other states, and look and see what they're doing with public comment. But I think the advisory group is at least a start.

You know, I believe in action. I don't believe in doing a bunch of studies. But I think in this case, we need input from everybody. So when it comes out of, then everybody can be in agreement with it.

MR. SALINAS: I think we do exactly that, everywhere else in the state. You know, I'm not going to move from that issue. I think everybody in the state is doing great. We've had mayors, and city councils, and planning and zonings approve an area project in their

community, and then come before us and say they don't want it. We've had that before. We've had everybody here, you know.

And one of the things that we've done is listen and take the recommendations that they voted on in their city. And then they come over here and tell us that they don't want it. That happened in McKinney. And we went ahead and took the advice of the planning and zoning and the city council.

Whether they were here -- maybe they changed their mind later on because they got pressure from their community. But we had their recommendation from day one.

And we took it. We took a lot of heat on it. Remember all the community that came? We did the right thing in that project, because this is what their community elected to have.

Now, that's what I want to do in everybody else's community. But we do have this little problem in Houston, which you all can live with. If you all want me to make those decisions for you, fine, I will. I won't have any problems doing that. But don't criticize me for doing what I think is right.

MR. BOGANY: Mayor, I agree with you wholeheartedly.

MR. CONINE: There is one difficulty with the program that is instituted at the federal level, that's causing some of the problems Mr. Bogany alluded to in concentration. And that's the 30 percent boost in QCT areas, which draws like a magnet those particular projects to those particular areas. In 1987, when the law was passed, it sounded like a pretty good idea. Sixteen, seventeen years later, after we've jammed a ton of projects in QCTs all over the county, it may not be that good of an idea to go forward.

So there's something that none of us can do anything about, other than deal with the issue of the 30 percent boost. And we all know how that helps lower the debt on the projects, and make them financially feasible, in areas which don't have high median incomes.

So, I don't know how to take that away as an attraction, or as a magnet. But it's important that the public understand that the United States Congress controls that process, not us.

MR. BOGANY: Right.

MR. CONINE: And I don't -- you know, it's a tough issue to deal with. Maybe we go to Washington and tweak the program, and make some adjustments. Some public comment in that area might be helpful, especially from the

development and the syndication community, on how to make these things work a little better. But that's an issue that this board gets caught in the vice of.

CHAIRMAN JONES: Well, after listening to everything that's been said by these very wise board members -- and I'll go on the record with that, please get that down -- I have good news. And that is that I agree with much of what they said. And I have bad news, because I disagree sometimes on certain issues. But that's as it should be.

I always go back to, when I try to determine something like this -- because I think what we're trying to determine today is what is the issue. I mean, I think that's, you know -- and I certainly think Mr. Bogany's suggestion is good and deserves our consideration, about the advisory group.

But, you know, I am contacted, since I am chairman of the board, a lot by people on both sides of this issue. I don't think that's surprising. And I think our public comment went a long way toward defining the kind of groups we need to be thinking about that we represent. I mean, we represent, on behalf of the State of Texas, I think, people in communities that with regard to these development want to give us input.

We represent, at the same time, developers, who have dedicated their lives to providing housing. We represent, I believe -- as Mr. Stewart, one time when he was giving public comment, so aptly said, the people that are going to live in these developments, and the people that are in need of this housing assistance.

So we represent all these folks. And we want to do best by all of them, I think. I think that's our true, you know, mission.

I also think that what we're dealing with here is not so much whether or not public ought to have comment. I think the history of housing programs, governmental-assisted housing, the history of it -- if you'll look at it in this country -- says that a good thing is when you allow the public, even at the very local level, to have input.

There was a time when that was not true. And people above us, as Mr. Conine has so aptly pointed out, decided, you know, that's not a good thing. That's a bad thing. We've all driven by government-assisted housing developments developed in the past that ignored the locality and ignored the local population, and what they might feel. And we've seen that it can be disastrous if that occurs. And that has given rise to the misperception

that, I think, Shad, you so adequately described.

So I don't think the question before us is -- can the public have comment or not? I think we have to say, Yes, they can. In fact, the very statutes and laws tell us that we have to allow that to occur. So that's not the issue.

The second thing, I say, Well, is the issue the process by which they give us comment? Is that inherently flawed? And I don't know that it is. I mean, when I really listen to the people that criticize us -- and we have people in at least two of those groups that criticize us, as a department --

MR. CONINE: Two of what groups?

CHAIRMAN JONES: Two of the three groups we just talked about, you know, the development groups, the people involved in the communities, and the people that actually need the assistance.

MR. CONINE: Okay.

CHAIRMAN JONES: I don't know how we're going to make that a whole lot better. You know, I can understand that we can give notice, you know, better. The best way to give notice -- I want to do it. Let's study that and come up with better ways to give notice.

The one thing I will say is let's not make it a

whole lot more complicated. The individual member of the public has enough trouble, and makes enough sacrifice, to get before our department, that whatever we do, let's keep it simple. You know, it's pretty complicated right now, particularly for people who only do it once in their lifetime.

So, I just say that. That's my guide to us as we go forward. If the process is broke, certainly let's fix it. Certainly, let's do the best notification that we can. In some cases, that's really determined by law. So we're not going to be able to change that a whole lot. But let's do notice the best way we can. But let's keep it simple.

The next thing, I think, once you move from process is you move to what I really think the issue is. And that's the criteria. Once we take the public comment, what should our criteria be in the way we use it.

And, unfortunately, I think there are some misconceptions that drive this. You have very adequately set forth the misconception that people have about these developments. And it is true. And we need -- our department needs to be at the leading edge of satisfying the public that these misconceptions are wrong. And we need to figure out how we can help developers in that

role.

Now, at the same time, I want to say this. We don't do that, though, by making the public feel that we're not listening to them. We will hurt that education process when we do that. Right now -- I know this from those public mentors that criticize our department to me -- they feel like that the board's the only place they can go. And I'm saying, I think this is part of the misconception we have to deal with, because I want you to know that I defend our staff all the time on that.

But there is a conception, in the public's mind, that our departmental staff, when these things come up, is already over on the development side, that we have chosen -- at least they have chosen grounds in that. And that the development is marching in lock step with the department. And that the early stages of this, that they get nowhere. And that their only hope is going to be that maybe the board will be independent. That's a misconception that I fight all the time.

And I think we as a department, and as part of this process, need to figure out what we can do about that misconception, because I believe that the public believes, we as a department, even as a staff, you know, early stages of this, are being fair, that we will have a better

opportunity to educate them about how good that development can be. I think that that will aid this process.

The second thing I think is this. Many people have testified before us with regard to these developments and against these developments. Many people have called us about that. I think it hurts the process, and is yet another misconception, if we assume automatically that they are NIMBYs. I wish that word had never been created.

It immediately puts emotion into this issue. And instead of looking at the real issues, we are trying to characterize people.

What we are doing there is, you know, on one hand, when this person that speaks, he's going to characterize the developer that, well, he's just after profits. He doesn't care about this community. They've got their caricature in place here.

On the flip side, those people who are for the project, they immediately have their caricature in place of these people, when in truth many of the people that have testified before this board are concerned about their communities, and are working to make those communities a better place. And it's a better place not only for themselves, but also for the people that would need

housing assistance. So there's got to be a way, I think, to take those caricatures that we're placing on these two groups away, and then look at the real issues involved and help them work together.

The other concern that I have -- and I'll close with this; I don't mean to take too long -- deals with the fact that -- and, again, I think this echoes what Mr. Bogany has said -- deals with the fact that the earlier we can get these three groups together, to talking about the issues, the better off we are.

I have heard developers tell me -- and I have been on this board a long time now, probably too long. And I have heard developers tell me, for years, that, you know, we try to fly under the radar scope. And I believe that's true. And that is a huge mistake. And to the extent, in dealing with these issues, we tell developers that that's a huge mistake, I don't think we are doing anything wrong.

The earlier you can get in there, you can do the education that Mr. Bogany is talking about -- I mean, it ought to be way before any hearings. And if our board has sent a message to developers that, you know, if you disregard the community, and if you don't work with them, you may have problems later on down the road, I don't

think that's a bad message. They need to be working with the community at the earliest stages of these projects.

Now, will that result in there being no opposition? No, that won't result in there being no opposition. But I do think that's a huge mistake that we need this. We look at this process and try to deal with it.

Those are the things that I am concerned about. I think the Appendix A sets out a lot of real good questions. But those are just the issues. Myself, I'm struggling more on the criteria issues that we're going to have to come up with, and, someday, going to have to deal with.

Having said that, I know this is not an action item; it's merely a discussion item. Right, Ms. Carrington?

MS. CARRINGTON: Correct.

CHAIRMAN JONES: I also think that Mr. Bogany's suggestion is an excellent one. And I'll just end with that comment.

MR. BOGANY: Mr. Chairman, will we be out of order if we made a motion to develop an advisory committee?

CHAIRMAN JONES: I don't think we can even do

that. We have not posted an action item. So, Ms. Carrington?

MR. BOGANY: It's under action items.

MS. CARRINGTON: I'd like to report on what we are currently doing at this time. And I think --

CHAIRMAN JONES: Okay.

MS. CARRINGTON: I'm sorry. I'd like to report on what we're currently doing in that regards.

On you all's summary page, under current activities -- and I really kind of glossed over this as I was introducing the item -- bullet number 1 identifies an internal working group that has been set up within the department to discuss this item, this issue. And as Mr. Jones has said, really what we've been trying to do is identify the criteria and then quantify that criteria.

So we've had our internal working group set up probably for the last couple of months. And we've identified others that we would like to involve in this group. We've said developers, neighborhood groups, local government officials, and housing advocates that would work to develop a policy that would be submitted to the board for their consideration. Now, I did add, Mr. Bogany, a representative from the bond review board, at that bullet number 1.

We did want to share with you, really, three things that are going on. That's one that's going on internally within the department. Also, the second item, working on the 2004 qualified allocation plan, which is not only department staff, but also many representatives -- syndicators, lenders, developers -- from the community that uses the tax credit program are working on that issue through the QAP.

And then also, several of us participated, including Mr. Conine, last fall, and Ms. Anderson, in a housing colloquium in New Mexico in November. And there is a group. One of the work groups out of that housing colloquium is a group that is dealing with public opposition, doing it more from a policy standpoint than I think what we're, you know, looking to do right here. But certainly, it is going to be of assistance and help to us. And they're also working on a public relations campaign.

And then, the fourth thing, as Ms. Ferguson had mentioned, and Ms. Anderson also, we are reaching out and looking at what is going on in other states related to this issue, and looking to see what we can incorporate in other states in Texas.

MR. CONINE: Mr. Chairman, I recognize that the legislature is also dealing with this, in several

particular pieces of legislation. We've had some good dialogue here. And I don't know how best to communicate what's been said here over the last 30 minutes to the legislature, but I would encourage staff to do that.

CHAIRMAN JONES: Why don't you go do that?

MR. CONINE: I probably will. But we need it in a more Cliff Notes version, I think, because it would be helpful for them to understand the issues, and the total picture of what this board has to grapple with. And I think what's been said here helps frame that issue very, very well.

MS. CARRINGTON: We will do that, Mr. Conine. We received a letter from a representative yesterday that said, We understand this is on your agenda today. And after the discussion, would you please brief us on what the board's discussion revolved around.

MR. CONINE: Ms. Carrington, is there a particular timeframe? I notice you've got the internal working group and all that. But there's no real timeframe on when that group's to report back?

MS. CARRINGTON: We can have a report to the board at the May board meeting.

MR. CONINE: Pretty quick.

CHAIRMAN JONES: Anything further on item 2?

(No response.)

CHAIRMAN JONES: We would then move to item 3 on the agenda. Ms. Carrington, item 3?

MS. CARRINGTON: I believe you had some public comment related to item 3.

CHAIRMAN JONES: Oh, yes, exactly. Good idea. Mr. Herrera?

MR. HERRERA: Good morning.

CHAIRMAN JONES: Good morning.

MR. HERRERA: Chairman Jones, board, Executive Director Carrington, I really appreciated all the comments that were made in that last discussion, because I truly feel that by doing exactly that is one of the reasons that I am here today.

I am going to pass out -- they're copies of -- they'll be others earlier today, County Commissioner Margaret Gomez, and a representative to speak on behalf of supporting the amendment that I'm asking you to consider.

Eddie Rodriguez, the state representative for that district, also sent a state representative that spoke on behalf of supporting this project in his district.

Included in the package that I'm handing out is a letter that was handed out, and sent to the department, to support this project from Senator Barrientos. In

essence, he's indicating his support, and would like for you to consider the amendment that I am requesting, to add some land to the project of Pleasant Valley Courtyards.

There is a representative that will speak on behalf of the support in a minute, representing the mayor of the City of Austin. Today is their city council day and he couldn't be here. But he strongly supports the project.

I won't take much of your time, because there will be other people speaking. But, in summary, what I would like to tell you is that when I -- after I got my tax credits, and even before then, I had done exactly what was being discussed earlier. I jumped into the jaws of the community to see what was important to them, and what issues were important.

Austin, where I happened to be born and raised -- in fact, I was the housing director in this community for many years, a long time ago. This is a very difficult city to deal with when it comes to zoning, planning, and the community.

After a long, arduous process of dealing with these issues, we wound up having a 7-0 vote at city council, and truly I believe -- only because that's what they say in their letter even now -- because we did turn

the community around, because we did work with them. We did meet with them. We did put on show time. We did everything that we needed to do to convey to these people that affordable housing was not bad. In fact, it would improve their community. And, in fact, we described the social services, everything else.

More importantly than that is, I think, that we were willing to meet, and not meet with them, and be able to do all of that. So in terms of meeting the local challenges that were there, we did. In doing so, we've run into some issues regarding the net useable place, because this is a very beautiful rustic site in southeast Travis county, somewhat close to McKinney Falls State Park. If any of you are familiar with that, it's a virtual paradise sitting very close to our center of the urban area here.

So what I would like to do is be able to develop and improve this project. So we are appealing to your sense of real estate knowledge, your discretion as a board member to make decisions. And with that, I'm going to end, unless you have any questions, and turn it over to other people who will speak on behalf of it.

But I did want you to be aware, acutely, that before you are, I think, all of the elected officials that

represent that area, who do also not only support it for the sense of what I'm doing, but also because I have met the community challenges head on, worked with them, and got the city council to vote for the zoning that was needed. Thank you.

CHAIRMAN JONES: Thank you, sir.

Dena McKinney?

MS. MCKINNEY: I'm going to give my time to Cynthia Bast.

CHAIRMAN JONES: Thank you. Cynthia Bast, then?

MS. BAST: Good morning. I'm Cynthia Bast of Locke, Liddell, and Sapp. And I've been assisting Pleasant Valley Courtyard Housing, L.P., with this change in their site plan for the Pleasant Valley Courtyard apartments here in Austin.

Having reviewed the board book, I believe that the board book did not include a picture of the revised site plan on the website. So I would like to make sure that each of you have a copy of the revised site plan. There are also pictures of the site in this booklet. The revised site plan is on the last page.

As you've heard, the proposed amendment is strongly supported by the City of Austin, Travis County,

and the Kensington Neighborhood Association. You've received those letters of support. The reason they're supporting these changes in the amendment is because the proposed site plan represents better planning to protect sensitive wetlands on the property, to lower the density, and to allow the creeks and the natural beauty of this project to be used in such a way that it benefits the entire neighborhood.

You have heard that this change is the result of significant community input in the planning process. Let me very briefly explain to you how we got here. As you're aware, at the time a developer applies for tax credits, it has not received an extensive amount of engineering work for the planning and construction of the project. So the need for the change became apparent as a result of that engineering process, and also as a result of a comprehensive neighborhood plan that was being implemented at the same time that the tax credits were being awarded. All of these things -- the final neighborhood plan, the environmental reports -- became available after the tax credits were awarded last summer.

Pleasant Valley Courtyards did participate in the City of Austin's SMART housing program. And through that program, the city and the neighborhood developed

setbacks and zoning restrictions that I would like to show you. This is the picture that you have that I handed out to you. The original tract submitted in the tax credit application was approximately here and down here.

As you can see, these gray areas are all designated CEF. They are around creeks. They are around wetlands. So what's happened here is, in this original tract, the zoning restriction says now that no residential buildings can be placed here. And then, you have this down here, where a significant environmental feature has now prohibited the development.

The fact that the site plan would require amendment first became apparent, as I told you, after the tax credits were awarded, and then, again, as we were approaching the carryover deadline. But a clear understanding of all of the changes that would be necessary weren't available until about mid-February.

Nonetheless, at the time of the carryover, the partnership did advise the department that there would be a potential change in the site plan, and, in fact, submitted three different potential versions of its site plan in the carryover. The partnership had two contracts to acquire its land. One contract was with Mr. Pospisil. And one contract was with Ms. de la Llata. This was the

Pospisil tract. This was the de la Llata.

The de la Llata tract specified in its contract that it would be for 5.4 useable acres. This is an important distinction. The preliminary engineering study suggested that there would be some development challenges here. And at the time of carryover, when this partnership was required to buy its land, it still was not sure how much of Ms. de la Llata's land would need to be acquired to get 5.4 useable acres.

Ms. de la Llata also had a home on this site. She didn't want this development to interfere with her home. She didn't want to have uncertainty. So at that time of carryover, she insisted that the partnership acquire all of her tract. Thus, this piece was acquired, for a total, with the Pospisil tract, of 26 acres of land.

We did show, in the carryover document submitted to the department, that 26 acres had been acquired. Despite the fact that we knew that there were going to be some changes at the time of carryover, we're coming to the board today, at the earliest opportunity, because the city and neighborhood planning processes have finally generated some certainty about what would really be required in the design, and what kind of performance would be expected for the construction of this property.

So we need your help in conforming to the city and neighborhood's expectations. Because of the setbacks and the zoning restrictions that I showed you on this site plan, the original plan in the tax credit application is infeasible. So the partnership needs to make this change.

The 2002 QAP states that an amendment to a site plan is material, requires board approval. The QAP gives criteria by which you may reject an amendment to a site plan. The first is whether the modification would materially alter the project in a negative manner. I think we all see that that is not the case. We are protecting wetlands. We are making a beautiful site. There's nothing about this that has a negative impact on the project. And, in fact, staff did acknowledge in their recommendation memo that it did improve the site to have the 26 acres.

So the second criteria that you have, by which you can reject a site plan amendment, is whether the modification would have adversely affected the selection of the application in the application round. In its recommendation memo, staff advises you that one of the requirements to receive the pre-application points is that the proposed development in the pre-application must be for the identical site as the proposed development in the

application.

The site proposed by Pleasant Valley Courtyards, in its pre-application, was identical to the site proposed in its application at the time the application was made. This point, in fact, was decided by staff during the appeals process when the application was terminated for failure of a threshold matter. And the application was subsequently reinstated.

So our understanding of the staff's position is that this identical site requirement would, therefore, extend beyond the submission of the final application, and bind the project in perpetuity. And I would like to, respectfully, disagree with that position. We believe that the identical site requirement was intended to apply between the period of pre-application and final application.

When the pre-application process was initiated, the concept was to allow developers to essentially throw their hats into the ring, if you will, and decide if they wanted to go forward with the time and expense of completing an application. It was about creating more level playing field.

Maintaining the same site between the time of pre-application and the time of application was a critical

factor in keeping that playing field level. But we don't think that the policy behind a pre-application procedure was intended to handcuff developers in a fluid development process. We don't think that a developer should be precluded from adding land to a project after the applications are evaluated and the tax credits are awarded, especially if the additional land improves the project overall and the developer is not asking for more tax credits to cover the additional expense.

The 2002 QAP does not expressly prohibit the addition of land to a project. So we are asking for your help in requesting a change in the site plan for the Pleasant Valley Courtyards, because we do believe that this is in the best interest of the property and the future residents. The city, the county, the neighborhood association, the legislators have all expressed a desire for you to approve this change.

The partnership wants to build the best possible housing. It wants to protect the creeks, protect all of these wetlands in a responsible way, and it needs your help to do so. So please approve the amendment to the Pleasant Valley Courtyard site plan. Thank you.

CHAIRMAN JONES: Thank you.

Pebble Jackson?

MS. JACKSON: I'd like to allocate my time as needed.

CHAIRMAN JONES: Thank you.

Christine Sullivan?

MS. SULLIVAN: Do the same. I'd like to allocate it to either someone else that works [inaudible] at this time.

CHAIRMAN JONES: Thank you, ma'am.

Kent Clemens?

MR. CLEMENS: I yield my time to Ms. Bast.

CHAIRMAN JONES: Thank you.

Craig Alter?

MR. ALTER: No further comment right now.

CHAIRMAN JONES: Thank you.

And Roger Arriaga?

MR. ARRIAGA: Good morning, Mr. Chairman, board members.

CHAIRMAN JONES: Good morning.

MR. ARRIAGA: My name is Roger Arriaga. I am representing the City of Austin. More specifically, I'm here on behalf of Mayor Gus Garcia. He's asked me to read a letter to you in support of this project, which is also what we consider a SMART housing and affordable housing project.

The letter reads, "Dear Ms. Carrington.

"I want to express my full support for the Pleasant Valley Courtyards, L.P., and their interest in obtaining TDHCA approval on the expansion of their site. The development of the entire 26 acre site is favored by the City of Austin and the community in the area, including the Kensington Neighborhood Association.

"Mr. Herrera and their team have diligently worked with the City of Austin to create a development plan that presents a greater beneficial living environment for the community. The amendment to add more land will offer protection to the natural resources, such as creeks, springs, wetlands, and an environmentally sensitive watershed that already exists on this land. I encourage you to strongly consider this expansion and aid in the creation of additional affordable housing in Austin.

"Signed, Gustavo L. Garcia, Mayor of Austin."

I'll be submitting this letter and submitting a staff letter. It's a report which provides more specific detail about the support of this project. Thank you.

CHAIRMAN JONES: Thank you, sir.

I don't have any further witness affirmation forms with regard to item number 3, unless I missed somebody. Did I miss somebody?

(No response.)

CHAIRMAN JONES: So I will then close the time for public comment. Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chairman. The issue before the board this morning has been, I think, very well laid out by the individuals who have spoken to the board this morning. As staff has reviewed this request for an amendment to this 2002 tax credit application, we have taken the position that the addition of the land and the changing of the location of the buildings within the site does represent a material change to the application.

As is presented to you in your material, and I think it's already been mentioned, the application was originally terminated by the department, and then reinstated. And indeed, they have worked very diligently on the site, and issues with the site, throughout this whole process with us.

The department, the staff, absolutely acknowledges that the changes that are being made look, to us, look like they are improvements, that there is a tremendous amount of support for the application amendment, for the site amendment. However, for staff, in looking at your board action request, for us, the key is

at the bottom of this first page.

And that is, we do believe, and as has been stated, that to receive, to continue -- for an application to receive the 15 points in the pre-application, that the site needed to be identical site. And because of the fact that it is no longer an identical site, that that application in the pre-app would have lost the 15 points.

And had they lost those 15 points, they would have tied with, ironically, the transaction in Killeen, which was Killeen Stone Ranch. They would have had the same number of points.

And then, if you will remember in your qualified allocation plan, there are actually some tie-breakers on how you make a decision if you do have developments that score the same amount. And it is our opinion, it is staff's opinion that Pleasant Valley Courtyards would not have been the application that would have received the allocation, because, in the tie-breaker, Killeen Stone Ranch would have been the application that received the allocation.

So from staff's standpoint, what we see is probably a very unusual situation, that at the time would have resulted in the loss of the 15 points. And the allocation would not have been made to this particular

development.

CHAIRMAN JONES: What happens to the tax credits if we followed the recommendation?

MS. CARRINGTON: These tax credits would go into the 2003 allocation pool.

CHAIRMAN JONES: And it would not benefit the Killeen development?

MS. CARRINGTON: No, sir. It would not benefit the Killeen development.

CHAIRMAN JONES: Thank you.

MR. CONINE: Where is a copy of the original site plan, Ms. Carrington? In our packet, it wasn't in here. And it's hard for me. You know, I remember this thing when it came through. But I sure would like to see the original one laid up against the nice colored one we've got.

MS. CARRINGTON: Craig, do you or Cynthia have a copy of the original site plan?

And might I ask Robert Onion to come on up in case there are any detailed questions that I need assistance with.

MS. BAST: I'm sorry it's not bigger. This is the original. Again, as I indicated to you, the Pospisil tract is here. And the de la Llata tract is down here.

And so, as you can see, this anticipated building is in some of these areas that have now been environmentally designated here, and then down here. Does that help?

MR. CONINE: Uh-huh.

MS. BAST: Can everyone see that well enough? Would you like me to bring this up closer?

MR. SALINAS: So this says, you don't have the -- they lost the 15 points?

MS. CARRINGTON: They would have lost the 15 points in the pre-application, yes.

MR. SALINAS: But you recommend that we go ahead and do the amendment?

MS. CARRINGTON: I'm sorry?

MR. SALINAS: You're not recommending that we do the amendment?

MS. CARRINGTON: No, sir, we are not.

MR. CONINE: Is this -- are we dealing with the same number of physical units?

MS. CARRINGTON: Yes, we are.

CHAIRMAN JONES: And the reason, obviously, that they haven't asked for more credits is because land's not an eligible basis under the credit scenario. So, you know, this is just -- this sounds like this project is ready to be submitted for tax credits now, when it wasn't

in 2002. And that's what I had a problem with back then, still have a problem with today -- the inequity, if you will, in the rest of the development community, by not having the site that was needed under full control.

If there needed to be more homework done, you know, in my mind, if you have an experienced developer dealing with issues such as wetlands, vegetation, and the like, they know that prior to submitting it for the 2002 credit. I just have no sympathy for this particular issue.

It sounds like a wonderful project. It sounds like it needs to be done. It sounds like it has community support. It sounds like it should have been in the 2003 round. So I make a motion to accept staff recommendation.

CHAIRMAN JONES: Motion's been made. Is there a second?

MS. ANDERSON: Second.

CHAIRMAN JONES: Motion's been made and seconded. That was Ms. Anderson that made the second. Further questions, comments, discussions.

(No response.)

CHAIRMAN JONES: Hearing that, I assume we're ready to vote. All in favor of the motion, please say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed to the motion, please say, Nay.

MR. SALINAS: Nay.

CHAIRMAN JONES: I heard three ayes. Is that correct?

(No response.)

CHAIRMAN JONES: Okay. Motion carries. Chair votes aye.

We will then move to item 4 on the agenda. Mr. Conine?

MR. CONINE: Okay. Who's -- Ms. Carrington, are you going to do this one?

MS. CARRINGTON: Yes, sir, I am. Thank you, Mr. Conine.

CHAIRMAN JONES: Yes, we have comment on 4(a)(1). Mr. Anderson?

MR. ANDERSON: Thank you. Mr. Lucas is with me. He's going comment to on -- can he talk about the same topic?

CHAIRMAN JONES: He sure can.

MR. ANDERSON: All right.

CHAIRMAN JONES: Come on down.

MR. ANDERSON: Good morning. My name is Ron

Anderson. I'm the executive director of Housing and Community Services. We are a non-profit community development corporation out of San Antonio. Ray Lucas is a third party asset manager that we use to oversee and provide balance to our financial operations.

Since 1994, Housing and Community Services has acquired and rehabbed just over 1,200 units of low-income affordable housing that would no longer exist as low income housing if our organization had not been there. These are 1,200 units of federally subsidized housing that would have been lost to Texas.

In addition to the acquisition and rehab of existing housing, which is our niche, we also work to get the communities, to organize the communities to stabilize themselves, to become active in working with us to operate the properties that we have. And, finally, we also work with residents to help them achieve economic and social self-sufficiency. Those are our three goals.

Country Club Village meets all of the criteria of our mission; and even more so, because this particular property, under the rules that it was created, through HUD, is reserved for elderly residents. It's located within a mile of San Antonio's medical center. It's in a moderately upscale neighborhood. And we're asking the

TDHCA for a low interest loan to help us, to assist us, in the acquisition and rehab of this property.

The loan that we're asking from you is but one piece of what we're doing. It will allow us to make the acquisition, to do some initial rehab that is needed. But there are other resources that will be needed as well. We have obtained a \$10,000 grant from The Enterprise Foundation to use for our due diligence. We have a \$250,000 application in to the City of San Antonio for additional rehab that's needed beyond the immediate work that we want to do. And we've also been invited by the San Antonio Neighborhood Action department to submit an application for the next phase of rehab.

This property is 25 years old. There's immediate things that need to be done. But there's always more that needs to be done. And our immediate goals, once we've obtained the property, is to go and look for money for those ongoing things.

We're asking for preservation funding, not so much to preserve the physical asset but to preserve the affordable housing. This is 100 percent Section 8, property-based Section 8 housing. The owner does have the option to sell the property, to get out of the program, so to speak. When that happens, the folks who are living

there, they receive a voucher. Once they no longer need that voucher, that voucher is gone, lost to Texas. If we preserve the property with the property-based Section 8 contract, we'll be able to save that for our state, for San Antonio.

This is a -- there's certainly no community opposition to this. It's been there for 25 years. There are no other low income units in this neighborhood. It's located near the medical center. It's an excellent opportunity for our non-profit to collaborate with the TDHCA in preserving this housing.

Any questions?

CHAIRMAN JONES: Thank you, sir.

MR. ANDERSON: Any questions?

CHAIRMAN JONES: Mr. Lucas?

MR. LUCAS: (No response.)

CHAIRMAN JONES: Thank you, sir. We appreciate it.

MR. ANDERSON: Thanks.

CHAIRMAN JONES: Any further public comment?

(No response.)

CHAIRMAN JONES: Hearing none, I will turn things over to Ms. Carrington.

MS. CARRINGTON: Thank you, Mr. Chairman. What

we are asking for today is for the board to reconsider the approval for a loan from our housing preservation incentives program. And that loan would be \$909,657 for Country Club apartments in San Antonio.

And as Mr. Anderson has said, the application and the project did meet all of the requirements, or does meet all of the requirements as outlined in our housing preservation incentives program. Of the amount that would be in the loan, there is \$105,117 that would address immediate rehab needs for this property. And then, money is being sourced for additional rehabilitation needs also.

Mr. Anderson has presented a letter to you all that is in your board material. He has outlined it very well. It's 82 units. It's elderly. It's 100 percent Section 8 project-based. It's in a fairly nice area of San Antonio. And if the property is not bought by a non-profit, then there is a very likely chance that the Section 8 contract would go away with the sale of the property. And relocation would be required of the 82 elderly tenants.

As we put together, last year, the rules and guidelines for the housing preservation program, staff believes that this type of application is the kind of application we were looking for when we envisioned

allocating the funds out of that program. And staff is recommending that the board reconsider this and approve this allocation of funding.

MR. BOGANY: So moved.

CHAIRMAN JONES: We have a motion.

MR. SALINAS: Second.

CHAIRMAN JONES: Motion's been made and seconded. Questions, comments, discussion?

MS. ANDERSON: I have some comments.

CHAIRMAN JONES: Surely.

MS. ANDERSON: Since I spoke last month, you know, in opposition to this, and I have to say I'm disappointed that the conditions really have not changed.

The comments I made last month were that, you know, this primarily was state funds, primarily being used to pay off a for-profit developer with very little going into rehab.

Last month, we were not aware of the potential HOME grant from the City of San Antonio that would provide significant additional rehabilitation funds, which are needed, according to the developers on testimony this morning. But we're not going to know about that home allocation until May 15, so that causes a timing program for us and for HCS, because I guess his sales contract runs out on May 20, or something.

The other thing -- and I had a conversation with Ms. Carrington about this proposal, right after the March board meeting, because the developer was asking us to reconsider. In that conversation with her, I laid out several things that if those conditions were met, that I would be prepared to support this development.

And, you know, one of them, significantly, was that moving from a for-profit to a non-profit developer, that I felt like that shouldn't be done without some notice to the local taxing authorities, you know, to the mayor's point about respecting local elected officials, and local governmental institutions.

And, you know, what I asked for was to have, you know, some evidence that the various taxing jurisdictions -- you know, the MUD, the ISD, the city, the county -- have been notified about this proposed removal of this property from the tax rolls, and that there could be some sort of pilot, or some kind of agreement made between the developer and those local jurisdictions.

What we have in our board book, instead, is a letter from a property tax consultant that says, "There is no reason why the Bexar appraisal district will not grant property tax exemption." And to me, that is a long way from what I asked the developer to provide.

Furthermore, the previous tax exemptions for the other four properties -- and I'm sure that HCS does a fine job with the work you do in the San Antonio community, but those exemptions were all granted in 2000.

And we are in a very, very different economic climate, both at the state and at the local level, now than we were in the year 2000. And when you remove items from the tax rolls, specifically from the school tax rolls, that causes a general revenue drain, because the state needs to make up that difference.

And, you know, so I'm -- the home loan, you know, I think makes a big difference in what the developer could be expected to do with this property. And so I, you know, I have some mixed emotions about this. But --

MR. SALINAS: Could we do it subject to the Bexar County Appraisal District approval?

MS. ANDERSON: Well, I would be willing -- I don't know --

MR. SALINAS: Can we do that?

MS. ANDERSON: -- if this is a practical to do that -- subject to --

MR. CONINE: Amend the motion.

MS. ANDERSON: Oh, okay. All right. I amend the motion to approve the proposal, subject to, number

one, receiving the HOME grant that's expected to be allocated on the 15th; and, number two, notifying the local tax jurisdictions, and receiving a tax exemption or negotiating a pilot agreement --

MR. SALINAS: No, receive an exception, period.

MS. ANDERSON: Okay.

MR. SALINAS: Let them decide whether they want to be --

MS. ANDERSON: How to handle it.

MR. SALINAS: Huh? That would take care of it, no?

MS. ANDERSON: Okay.

MR. SALINAS: Let them decide if they want to give them a non-profit exception, you know. You're talking about the 80 vouchers that you're worried about. Right? Is that correct?

MR. CONINE: What's going to happen is --

MR. SALINAS: Eighty vouchers that you will have to --

MS. ANDERSON: It's project-based.

MR. CONINE: -- that they -- maybe, we ought to listen to staff response on whether any of those conversations have taken place before we finish the amendment. Do you know if they have or haven't?

MS. CARRINGTON: I'm sorry. Mr. Conine, would you repeat your question?

MR. CONINE: Any of the conversations, have they taken place between the city, county, MUD districts?

MS. CARRINGTON: Yes. In talking to the developer -- I'm sorry, the would-be owner, the non-profit, Ron -- they are beginning to have those conversations. But the conversations cannot be meaningful until they actually own the property, because it's at that point that they can actually apply.

I brought up, with Mr. Anderson, the same thing that Ms. Anderson has brought up; and that is, that these were granted in 2000. And I knew that all taxing jurisdictions, Bexar County has been one of the entities where -- they have been generally very CHDO-friendly in Bexar County. And I also knew that that climate was changing some.

And what Mr. Anderson indicated to me was that, on an annual basis, they are going back to Bexar County to verify their CHDO status and their tax exemption status. And so that is something that Bexar County hadn't been doing in the past and is more aggressively, I think you would say, taking a look at that.

But I would certainly believe that if the board

wanted to do it subject to -- as we've noted, the City of San Antonio is going to make the decision on the home loan on May 15 --

MR. CONINE: Okay.

MS. CARRINGTON: -- and further discussions with the appraisal district.

CHAIRMAN JONES: I'm not sure that I understand your motion to amend, exactly.

MS. ANDERSON: Okay. I'm amending the motion to approve this expenditure of our rehab preservation funds to make the approval subject to, number one, favorable decision on the \$250,000 HOME grant from the City of San Antonio that they're making their decision on the 15th. That's the first condition. And the second condition is favorable resolution with the various taxing jurisdictions of their willingness to grant the tax exemption.

CHAIRMAN JONES: Thank you. Mr. Bogany, would you accept the amendment?

MR. BOGANY: Yes, I will.

CHAIRMAN JONES: Okay. And would you accept the amendment also?

MR. SALINAS: Yes.

CHAIRMAN JONES: Then we will be voting on the

amended motion, with the approval of the entire board.
And I see that I have such approval.

Any further discussion of the motion as
amended?

(No response.)

CHAIRMAN JONES: Hearing none, I assume we're
ready to vote. All in favor of the motion as amended,
please say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay?

(No response.)

CHAIRMAN JONES: Motion carries.

Item 4(b)?

MR. CONINE: Ms. Carrington, are you going to
do this, or is Mr. Dally going to do this?

MS. CARRINGTON: Mr. Dally is going to do this.

CHAIRMAN JONES: Well, don't dilly Dally.

MS. CARRINGTON: I'll bet he heard that in high
school.

MR. CONINE: It was before that.

MR. DALLY: Good morning, Mr. Chairman, board
members, Ms. Carrington. Under tab b is the fourth
quarter investment report, and I'll go through this very
quickly.

Overall, the portfolio increased \$92.5 million, for a total of \$1.28 billion. This is due in large measure to -- we had some bond issuances in the RMRB and then two multifamily issues. The portfolio consists of 60 percent mortgage-backed securities, 34 percent in guaranteed investment contracts and investment agreements. We've got 4 percent in repurchase agreements and 2 percent in others.

The purchase of mortgage-backed securities, which indicates the single-family loan activity for the quarter, was \$15.7 million. Maturities in this area were \$48.8 million, which is an indication of the refinance activity.

Overall, the market value of this portfolio increased \$9.68 million, which is increasing a difference between the fair market value and its par value. This was due to the overall decrease in bond rates over that quarter. The 30-year fixed mortgage rate ended in February at 5.48 percent, from a 5.79 in November.

Are there any questions? That will conclude my report.

CHAIRMAN JONES: Any questions?

MR. CONINE: No.

CHAIRMAN JONES: All right. Thank you, sir.

MR. DALLY: Thank you.

CHAIRMAN JONES: Appreciate it. (B)(2)?

MS. CARRINGTON: Mr. Dally also.

MR. DALLY: At last month's audit committee meeting, there was a comment from our external auditors with regards to the lapse of directors' and officers' insurance. And at that time, we had some discussion about getting another policy in place.

At that time, we were in discussions with the State Office of Risk Management. At the time that this board book went out a week ago, I did not have the new quotes in. I have them in now. And I'm going to recommend that we put a new policy in place, with a \$1 million cap. It will have a \$50,000 deductible.

But what I did include in this package, because I didn't have those new quotes, was some of the background material that the AG's office did on the general state immunities that apply with regards to state law. And largely, this policy is to cover a federal action with regards to the civil rights for employment issues -- is actually what this covers.

Also, this points out that the Attorney General's office is the one that will be charged with defending the department and board members, and stuff, if

there are actions or claims made against the department.
Are there any questions?

CHAIRMAN JONES: Yes, how does this policy compare to the policy we had in the past, before it was terminated?

MR. DALLY: This policy -- in premium, we've gone from \$125,000 to a \$25,000 premium. But it does have a lower overall cap, as I think we've gone from \$10 million to \$1 million.

CHAIRMAN JONES: How does it compare in policy terms?

MR. DALLY: It's essentially the same, covering, like I say, mainly employment issues.

CHAIRMAN JONES: Did the old policy do that, too?

MR. DALLY: Yes.

CHAIRMAN JONES: So it's the same terms?

MR. DALLY: Yes.

CHAIRMAN JONES: It covers exactly the same risk. Correct?

MR. DALLY: Correct, essentially.

CHAIRMAN JONES: Okay. You've just gone down from \$10 million in coverage to \$1 million in coverage. Correct?

MR. DALLY: That's correct.

CHAIRMAN JONES: Is this a board item?

MR. DALLY: Well, I didn't have a recommendation as to a quote. I didn't have it last Thursday. What I would tell you is I got the indication that the board wanted me to evaluate and put a policy into place. And so that's what I intend to do over the next week.

CHAIRMAN JONES: And I understand that. I'm not disputing that at all. I'm just asking what's expected of us right now.

MS. CARRINGTON: I think this is information.

MR. DALLY: I think is informational.

CHAIRMAN JONES: Okay. That's all I was asking.

MS. CARRINGTON: Since you all didn't --

MR. DALLY: If you've got some comments --

MR. CONINE: Can we get some advice from counsel on the inherent risk of dropping from 10 million to a million?

CHAIRMAN JONES: It's \$9 million.

(General laughter.)

MR. CONINE: Did you go to Baylor University?

CHAIRMAN JONES: Obviously you went to Tech.

We don't want to get into that, do we?

No, but of all the things we could understand about an insurance policy, though, Kent, that's probably the easiest. Now, they're telling us there's no difference in coverage whatsoever. We're just going down in policy limits. And the question of whether we need 1 million or whether we need 10 million, you know, we could probably get an actuarial in here to tell us what verdicts are in different kinds of lawsuits. But it's not hardly going to be worth the paper it's written on.

MR. CONINE: I was thinking more in layman's terms. I don't need an actuarial. I need a little more layman's understanding of who's exposed after the million, as opposed to -- I mean, there's a huge gap between a million and 10 million. And I think the air gets real rarified above 10 million. But it gets pretty thick at 1 million and \$1. And I just would like to hear some more input on that.

It's wonderful, he's got something sitting here. And we can effect coverage immediately. But that still doesn't make me any more comfortable unless I hear some more dialogue from someone else.

CHAIRMAN JONES: My suggestion would be -- can we take that up in executive session?

MR. WITTMAYER: Yes.

CHAIRMAN JONES: I would think we could. And my suggestion would be that we would do that, because I think our counsel would be giving us some advice that would be best heard in executive session.

So with counsel's advice that we can do that --

MR. WITTMAYER: Yes.

CHAIRMAN JONES: -- I would suggest you ask that question at that time, Mr. Conine, if you don't mind.

MR. CONINE: I would be glad to.

CHAIRMAN JONES: Thank you, sir.

MR. CONINE: Thank you.

CHAIRMAN JONES: I would then turn our attention to item 4(c).

MS. CARRINGTON: Thank you, Mr. Chair. The next series of four items relate to professional services in our, and for our, single-family mortgage revenue bond program(s). Item 4(c)(1) is requesting the board to approve two trustees for our single-family mortgage revenue bond program. And those two trustees that we are recommending are Bank One and Wells Fargo.

In January of this year, you all approved the issuance of a request for qualifications, and that request for qualifications is included -- actually, the responses

are included as part of your board material. And out of those responses, staff is recommending these two trustees for our single-family program.

MR. BOGANY: So moved.

MR. CONINE: Second.

CHAIRMAN JONES: We have a motion that's been made and seconded. Any discussion?

MS. ANDERSON: I have a quick question.

CHAIRMAN JONES: Yes, ma'am.

MS. ANDERSON: Do these institutions both happen to be new to the agency? Or are they incumbents? Are they the current trustees?

MS. CARRINGTON: Bank One is a current trustee, and Wells Fargo has been a trustee of the agency. So they both have previous participation with the department.

MS. ANDERSON: Thanks.

CHAIRMAN JONES: Further questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. (c)(2)?

MS. CARRINGTON: (c)(2) pertains to recommending two additional investment banking firms to provide co-management investment banking services to the department. Again, in January of this year, you all approved issuing a request for qualifications. And we do have those responses also included for you all's information.

And what staff is recommending today is two additional firms that would go on the list. We currently have six senior managers and six co-managers that have previously been approved. So we're recommending two more co-managers to take that co-manager list from six to eight. And the two that staff is recommending is Loop Capital Markets, LLC, which is headquartered in Chicago, and also has an office in Texas, and Samuel A. Ramirez and Company, headquartered in New York, but also has a Texas presence.

MR. BOGANY: So moved.

MR. CONINE: Second.

CHAIRMAN JONES: Motion's been made and seconded. Questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay?

(No response.)

CHAIRMAN JONES: Motion carries.

Item (c)(3)?

MS. CARRINGTON: (C)(3) is requesting you all's authorization to reissue the request for qualifications for co-managers, underwriters for our single-family bond program. You just selected two more. But what we're looking for is to select probably, in addition, one to four more co-managers. And we are requesting permission for reauthorization from you all to reissue the RFQ to go out, yet again. And some of the things that we are looking for in this RFQ, and to add to the team of, now, 14, would be retail capacity, those who might have experience with derivatives and sub-prime mortgage securitization.

MR. BOGANY: So moved.

MR. CONINE: Second.

CHAIRMAN JONES: We have a motion made and seconded. Any questions, comments, discussion?

MS. ANDERSON: I have a question.

CHAIRMAN JONES: Yes, ma'am.

MS. ANDERSON: For Ms. Carrington, or someone on the staff. I remember discussions, you know, going back several months with Byron, Mr. Johnson, that the intent was to sort of, over time, reduce the number of potential managers in the investment banking teams that we -- reduce the number of firms. And now, it appears we've got a direction where we're going the other direction. I'm just trying to understand what's behind the change in thinking.

MS. CARRINGTON: I will begin to answer it. And, Byron, you want to come on up?

Actually, what we're doing is putting together a series of teams. And right now, we've had twelve. We've had six senior managers and we've had six co-managers. What we're going to be doing over time is reducing the amount of senior managers and having a team that would have a senior manager and then several co-managers on that team.

So, Byron, how did I do?

MR. JOHNSON: That was great. I'm just going to sit down now.

MS. CARRINGTON: Well, no, I don't think Ms.

Anderson completely has her question answered.

MR. JOHNSON: No, sorry.

CHAIRMAN JONES: I like it when he sits down.

MR. JOHNSON: Ms. Carrington was correct. We will be reducing the pool of senior managers from six to three. But we're adding to the pool of co-managers. So that eventually we'll have three teams, rotating; each team will have a senior manager, a co-senior manager, and three or four co-managers.

So there is a reduction that will take place, probably the end of the year. But in the meantime, we're building the rest of the team.

MS. ANDERSON: So we have six senior managers now, and you anticipate this reduction in the number of senior managers.

Then my question is, why are we going out now for co-managers when some of the people -- I mean, it pains me to say it -- but, you know, some of these six good firms that are with us now, you know, are going to be -- not be selected to be among the three. And would they not be eligible to be, you know, either co-seniors or co-managers.

MR. JOHNSON: They will -- oh, I'm sorry.

MS. ANDERSON: I mean, I'm just wondering

about, you know, shouldn't we maybe go out with that solicitation when those three of the six would know who they are, and they could make a business decision about whether they wanted to play in a different role for us?

MR. JOHNSON: Of the six firms that are senior managers, three will become senior managers. The other three will most likely become co-senior managers. So they're already in the pool and no further action will be required of them.

MS. ANDERSON: Okay. And so that will be done just sort of by your action, or by a competitive process, or how?

MR. JOHNSON: Staff's recommendation to the board and your action, based on -- we've been rotating through the seniors since '99. We've worked with four. We have two firms remaining. At the end of the day, staff will get with the financial advisor, bond counsel, and we'll talk about how the transactions were handled, processed, service that was received. We'll look at the quantitative factors. We'll come to the board and provide you with a recommendation.

MS. ANDERSON: Okay. At the co-manager level, where we have eight now, as a result of the action we just took. And you're proposing to add four more, depending on

the responses you get. So that would be as many as twelve, perhaps. What's your thinking behind wanting to have twelve, you know, co-managers that sit on these teams, instead of having fewer co-managers who are on the team more frequently?

MR. JOHNSON: Each team -- hopefully, we'll be able to do up to three deals or more transactions a year.

Each team will have a transaction per year. We're trying to gather all the experience we can to minimize the number of times we have to go out to perform an RFQ process.

I would recommend that we have a larger team with varied single-family housing experience. So that, at any point in time, if we have a need or a project, or we want to develop something new, we can just go to that team, and bring them in just through a simple RFP, a letter saying this is what we're looking for, provide us with your comments.

And also, the firms now that are not serving as senior managers are being used as co-managers or co-senior managers. So we are rotating through all of the firms. They're not sitting idle.

MS. ANDERSON: I'm not sure you answered my question.

MR. JOHNSON: Okay.

MS. ANDERSON: I'm asking why you need twelve? What's the philosophy behind having twelve co-managers, so that you put four on a team, and if you do three deals a year, they each -- versus having, you know, half that many, and they all do two deals a year?

MR. JOHNSON: Once again, the philosophy is that we are doing multiple transactions, and just providing more opportunity to more firms.

MS. ANDERSON: And what is the benefit to the state of providing more opportunity to more firms? What's the public good?

MR. JOHNSON: The --

MS. CARRINGTON: Byron, may I?

MR. JOHNSON: Yes.

MS. CARRINGTON: The staff believes that the public good is that by having more of the firms on our list, and opportunities to participate, they will tend to be more creative for us, bring more experience, bring some distribution capabilities. We basically see it as increasing our brain trust. So having a large pool of the investment banking community to work with, to bring us new, innovative, creative kinds of ideas and structures.

MR. JOHNSON: Increasing competition within our pools.

CHAIRMAN JONES: What does our financial advisor say about all of this, since he's kind of lurking in the back of the room?

MR. MACHAK: Are you asking me to lurk up here.

CHAIRMAN JONES: Please do. Oh, we always like to see you, Mr. Machak.

MR. MACHAK: Okay.

CHAIRMAN JONES: We've been missing you.

MR. MACHAK: Good to see you again. Thank you. Gary Machak of RBC Dain Rauscher.

And Ms. Anderson, your question is a good one. I think, from a lot of financial investment bankers, they would probably like to be involved in more deals, or all the deals. From the department's standpoint -- and the industry has gone through a lot of change. People change firms frequently. The firms merge. They go out of business.

So that to the extent that we have a large pool to call on, we may not be caught short in one transaction with one less underwriter. We may be able to substitute another underwriter. And there may be a culling process in the future when we find out how these firms perform.

But I think it's also competition during the order period. To the extent that we have more managers

and they work against each other and we can look at their sales performance on each of the transactions, we can decide which ones are performing best for us at the time.

And when you have competition during an order period, it means lower interest rates for TDHCA and lower interest rates for your mortgagors.

MR. CONINE: Isn't it also true, Gary, that, once again, we're taking a federal resource and allocating it statewide. But there are investment banking firms that have experiences in other states, that are different from ours, and could bring some of those resources to bear on issues that we may never have experienced before.

MR. MACHAK: That's correct. And that leads to what Ms. Carrington mentioned, about the brain trust, and the experience that they're bringing from other places. And the comment that I just added was the competition that's added during the order period. And for us to then be able to look at each firm, and see how they're performing for us on the sales performance.

CHAIRMAN JONES: Thank you, sir.

MR. MACHAK: Yes, sir.

MR. CONINE: Is there a motion?

CHAIRMAN JONES: I believe we have a motion on the floor that's been seconded. Any further questions,

discussion, comments?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: The motion carries. Item (c)(4), I believe?

MS. CARRINGTON: Yes, thank you, Mr. Chair. What staff is requesting authorization to do is transfer the role between senior manager and co-senior manager for two firms that are currently in our investment banking pool. And that would be to transfer M.R. Beal and Company from the senior manager pool to the co-manager pool; and transfer Siebert Brandford Shank and Company from the co-manager pool to the senior manager pool.

MR. CONINE: So moved.

MR. BOGANY: Second.

CHAIRMAN JONES: Motion's been made and seconded. Questions, comments, discussion? It was made by Mr. Conine. It was seconded by Shad.

MS. ANDERSON: I have a question.

CHAIRMAN JONES: Certainly.

MS. ANDERSON: I think Mr. Machak just made a very good point about the sales performance. And, you know, I buy that argument about, you know, why competition, and you get to see people's sales performance.

CHAIRMAN JONES: Be careful what you buy from him, though.

MS. ANDERSON: And I think it would be interesting for the board to get to see some sales performance assessment when we finish cycling through all these co-managers at the end of the year. And I will bird dog that and make sure we get to that toward the end of the year.

So then, my question with regard to the motion that's on the floor is -- what is the sales performance of Siebert Brandford Shank that justifies them being elevated to senior management status?

MR. JOHNSON: From a state perspective, our deals or a national perspective?

MS. ANDERSON: However you want to answer it.

MR. JOHNSON: On a national perspective, we obtained some information from securities data for -- they track all of the transactions and sales of the various

investment banks. Siebert Brandford and Shank was ranked 16th in terms of co-manager, co-senior business, last year. In Texas, Siebert Brandford was ranked 8th. Amongst just, I guess, the minority firms nationally -- this is all just single-family -- this is not single-family, but nationally, they were ranked first in terms of co-manager, co-senior business.

M.R. Beal, the reason why we are moving them down, or recommending the change, is that they have had some changes in personnel. Some of their major bankers that work on our deals have left. And they haven't really been in touch with the department as much as they used to.

Siebert, on the other hand, has been here frequently. They're working with us on the PHA securitization transaction. And they also offered, if they are given an opportunity to senior management transaction, to work on a joint venture with one of the other firms in the pool to structure the deal and run cash flows.

MS. ANDERSON: Okay. Last question -- the rankings that you state, are they really about the dollar amounts of the deal that the firm managed? Or are they really a proxy for their sales performance on those deals? Is that one and the same thing?

MR. JOHNSON: Not quite.

MS. ANDERSON: Yes?

MR. JOHNSON: They represent the dollar amount of the transactions that they worked on. We have -- I didn't bring it down with me, but we do track the performance of the investment banks on our transactions. I can give that to you at a later time.

MS. ANDERSON: Well, how would you assess their sales performance on the prior transactions they have done for us, as a co-senior manager, or whatever they were?

MR. JOHNSON: They've always participated fully in the transactions, and have produced orders, and taken down their share of the bonds.

MS. ANDERSON: Okay. Great. Thank you.

CHAIRMAN JONES: Further questions, comments, and discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

Item 4(d)?

MS. CARRINGTON: Thank you, Mr. Chair. Item 4(d)(1) and (2) both relate to a new program for the department, 59-A.

Behind your material in (d)(1), in December of last year, the department issued a convertible auction bond in approximately \$74 million. And what we are proposing to you is a structure for 2003A, which would be program 59-A, for single-family mortgage revenue bonds to make single-family loans, or loans for first time home buyers. And we would be taking \$40 million out of that \$70 million COB that you did in December, and it would be in the form of a variable rate auction bond. And it would involve an interest rate swap.

And this is the first time that the department has actually brought to the board this kind of structure.

It was looked at last summer. At least the swap was looked at last summer. And Byron and the bond finance division, and our financial advisor, decided not to proceed with that transaction.

So we have one, in front of you all today, that we want to ask for your consideration. And I will turn it over to Byron and Gary to probably explain the questions you all will have on this kind of facility.

MR. JOHNSON: I am just going to state that we have actually -- bonds finance has been studying interest rate swaps since 2000. We received a proposal at that time, and at that time, we did not think it was something the department should do. However, market conditions are vastly different, and if we were to do an interest rate swap, this is probably the best time to execute one.

So to explain the mechanics and give you an overview of the interest rate swap, I'm going to ask Peter Wise from Bear Stearns to step up and give you that overview.

And then, after Peter, Gary will come up. And if you have questions, he can field them.

MR. WISE: Good morning. Peter Wise with Bear Stearns. Thank you.

I've got some brief materials that I'd like to pass out that, hopefully, will help. I'd like to quickly echo something Mr. Johnson said. The department, the division of bond finance, they have been considering this type of structure for a great deal of time. It is something that we had discussed for the transaction that closed in December, that the department decided to forego at the time, and I think is in a position today to go forward with it. And I think what they're asking you for

is your consideration and to try to better understand what this is.

Starting with page 1, this is, just very quickly, talking about the current economic environment, the equity market is still in a state of disarray. We've got global unrest, corporate earnings issues, and macro-economic statistics. There's been an enormous flight to quality over the last few years, which has driven bond yields down to historical lows.

The next two items are really the key issues facing the department right now -- is that mortgage rates have hit 40 year lows and tax exempt yields have not decreased as much as treasury yields. And the mortgages that you all are putting out are pegged to tax exempt rates. And the result is what we call spread compression between the mortgages. Simply, a traditional transaction does not produce a mortgage rate that is competitive enough with the local commercial banks.

Turning to page 2, the proposed structure, as Ms. Carrington said, is to refund the 2002 series b convertible option bonds. So there is no requirement for volume cap. It's going to take advantage of historically low mortgage rates. And the structure specifically will be fixed-rate bonds, which you traditionally have done,

together with variable-rate option bonds. This will reduce the interest costs, minimize the spread compression, decrease negative arbitrage, and ultimately generate attractive mortgage loan rates.

In connection with the variable-rate debt, we will incorporate interest rate swaps. And in today's market, this proposed structure would reduce mortgage rates by approximately 50 basis points versus a traditional fixed-rate transaction.

I get to talk for a few more minutes. So please don't hesitate to interrupt if there's something you question at the time.

Page 3, very simply put, is the nature of the transaction. Approximately 27 million would be done as a fixed-rate transaction. And somewhere between 40 and 47 million would be variable rate, with the goal being approximately 37 million each of unassisted loans and assisted loans. The assisted loans would have four points of down payment assistance.

Page 4 is when it gets fun. When we take variable-rate debt and put that together with an interest rate swap, we call that synthetic fixed-rate debt. The left side of this shows a traditional fixed-rate bond transaction. The department has a fixed-rate obligation

to an investor, very simply put. On the right side, the synthetic fixed rate, the department is issuing to the left, has a floating rate obligation to a bond investor.

At the same time that that bond deal closes, the department would enter into a contract with Bear Stearns, where it is obligated to pay a fixed rate to Bear Stearns. Bear Stearns, in return, will pay a floating rate interest to the department.

Page 5, the rating agencies have spent a great deal of time evaluating this. A large number of state HFAs have considered, and have entered into, these types of transactions. The principal risks that they consider counter-party default, in this case Bear Stearns -- what happens if that entity goes away that you've contracted with. And our response, and what the department has considered as a AAA counter-party. And the Bear Stearns entity that would enter into this is rated AAA by both S&P and Moody's.

Swap termination risk is really the same issue that you work with a AAA-rated counter-party. Amortization mismatch and basis in tax rate change can be dealt with through structure and reserves, which I'll talk about now. On page 6, the termination risks that I discuss -- swaps are terminable at any time. Whereas

bonds, sometimes, may have a premium to call out a bond, you could cancel any or all of a portion of a swap at any time. But it is at the then prevailing market rate. So there's a chance that the department might have to make a payment. There's also just as good a likelihood that the department might receive a payment.

We're considering two swaps here. One of them will actually have the right to terminate the swap at par.

So there would be a guarantee that there would be no cost to the department after a period of time.

The swap market is very large and very liquid; not that familiar to the tax exempt market until about five years ago, but is regularly used in the taxable market. Swap pricing is transparent. It is very -- you are able to look at publicly available data and figure out precisely how the fixed-rate obligation is arrived at. So it's not a black box that I think people once considered it to be.

ISDA, which is the International Swap and Dealers Association, prescribes price calculation methodology to the extent that you do need to terminate a swap. So it's not just whatever we think you should pay to get out of that transaction.

Turning to page 7, there are a couple of

different types of swaps. Page 7 looks at a cost of funds swap, which is very attractive, in that Bear Stearns contracts to pay to the department precisely what the department would owe to the bond holder. So there is effectively no what we call basis risk. There is no mismatch between what you owe the bond holder and what we're paying. It's very attractive but also very expensive. There's very little savings in this type of transaction versus a traditional fixed-rate transaction.

And what we're recommending, and discussing with bond finance, is on page 8. This is called a percentage of LIBOR swap. LIBOR is a taxable index. And tax exempts trade traditionally at a percentage of that, which tends to relate, in inverse correlation, to marginal corporate tax rates.

And in this type of swap, again, the department is obligated to make some actual floating rate payment to the bond holders. Bear Stearns would be paying a percentage of LIBOR to the department. And the risk here -- what's called basis risk -- is that the percentage of LIBOR that Bear Stearns is paying to the department is not identical to what the department is obligated to pay to the bond holder.

Page 9 shows how that percentage of LIBOR has

performed relative to the BMA index, which is a proxy for variable-rate bonds. And really what you should take away from this is -- the blue line shows you that it just goes all over the place. But the box in the upper right -- the average difference has been about 15 basis points. Now, it can be very high at times; it can be very low in times; i.e., in favor of the department or against the department. But over the life of the transaction -- what we're showing you here is ten years -- is that that levels out.

Page 10 -- why would the department consider a percentage of LIBOR swap when there is some inherent risk built in, versus the cost of funds swap. And it's economics. What we've shown you here -- the red line is what the interest cost would be at various bond maturities for a cost of funds swap. And the green line shows what in this case is 67 percent of LIBOR swap. And the blue bars represent the interest rate savings.

And turning to page 11, here's just a sample of what's produced here. A pack bond is a type of bond that's quite common in the single-family transaction. A traditional pack bond in today's market would obligate the department to pay a fixed interest rate of 3.75 percent. A cost of funds swap, while lower -- it's 16 basis points

lower -- would be 3.59 percent. So on a portion of the transaction, that would probably only translate to about 1 or 2 basis points to the bottom line of the mortgage rate.

A 70 percent of LIBOR swap produces interest rate savings of 74 basis points, compared to a traditional pack bond. So we're proposing this type of swap, as well as another one which produces a similar level of savings, which results, as I said earlier, in approximately 50 basis point savings in the mortgage rate.

MR. BOGANY: Mr. Chairman?

CHAIRMAN JONES: Sure.

MR. BOGANY: How does this effect the consumer?

MR. WISE: It allows them to -- the department is able to offer a mortgage rate that is very competitive with a commercial bank. Right now, a first time home buyer can walk into a commercial bank, and to be perfectly honest, because of absolute rates right now, can get a fairly low mortgage rate. If the department did a traditional fixed-rate bond, they would be able to offer a mortgage rate to first time home buyers of maybe 10 or 15 basis points below that.

The paperwork involved with a mortgage revenue bond program for a first time home buyer -- most state HFAs are looking for at least 30 to 50 basis points

benefit to conventional mortgages to think that their money is going to go out the door. To the extent that the department were to issue bonds and not be able to originate those mortgages, there is the obvious aspect of buying cap being issued but not used. But in today's market, there's the negative arbitrage; that is, the difference between what the borrowing costs on the money is for the department, and what the interest rate, which are very low right now, that the department would earn while that money waits to be originated.

And to more directly answer your question, Mr. Bogany, is -- by reducing the mortgage rates from 10 to 15 basis points below conventionals to more like 60 or 70 basis points below conventionals, it will allow, in all likelihood, a great many first-time homebuyers to get into a home that they otherwise would not have been able to.

MR. BOGANY: Okay. The other question I had -- in the summer, when Byron looked at this, and decided we didn't want to do this, and now look at the market rate right now -- which the interest rates are beginning not to go up because of what's going on -- some of the people out there predict it to be at 7 percent by the end of the year -- and with rates moving upward right now, why is this a good time now?

Because it looks like what we have been dealing with, the all time lows, are beginning to be all time lows. And they're being gradually moved up. So why would we want to do it now, where we didn't want to do it at the end of the summer, middle of summer, last year?

MR. WISE: I'll defer to Mr. Johnson. But I'll quickly mention that if the department does issue the bonds in this fashion right now, it will have mortgage money available at these low rates as commercial banks cost of borrowing goes up, as offering even higher rates.

MR. JOHNSON: Last summer, when we started the review of this particular transaction, the auction rate bonds had certain features that we weren't comfortable with. Those features have been changed. And now, we are more comfortable with auction rate bonds. As a matter of fact, the department has issued auction rate bonds previously, in 1992.

In terms of why we want to employ it now, on this transaction, is because we're ruling out the warehouse facility from last year. That warehouse facility will expire in October. And we do not want to wait until September to use these funds.

MR. BOGANY: Okay. One last question. What's the -- you know, I've looked at your data here, but what's

the downside? What's the department's vulnerability in this situation? What could, bad, happen by doing this swap?

MR. WISE: A couple of things can result when I talked about basis risk and tax risk. If the corporate marginal tax rate were to be drastically reduced, then it's likely that the department's bonds would trade at higher yields than what Bear Stearn's contractual obligation to pay to the department might be. The analysis that we've done shows that the savings on the fixed rate far outweigh even a Draconian flat tax on that.

The other is if the department's bonds, for some reason, trade very differently than where they have in the past, or where variable-rate bonds have traditionally priced and traded in the past.

MR. BOGANY: Okay. Thank you.

CHAIRMAN JONES: What does our financial advisor say about all this?

You know, Delores, we need to get him to sign a witness affirmation sheet. I think it would be great for our financial advisor to be under oath when he makes all these predictions, so that we can prosecute him for perjury should they not come true.

MR. CONINE: Spoken like a true lawyer.

CHAIRMAN JONES: I've always wanted to question you under oath. And I think this would be a beautiful opportunity.

MR. MACHAK: You treat me as though I was working with Peter Arnett or something.

(General laughter.)

MR. MACHAK: Well, we, as financial advisors, have been through a lot of conversations, a lot of work on the swaps for the department, and with staff, and with various investment bankers. We have been involved with quite a few swaps with your sister agency, Texas Veterans Land Board. I think last year they did eleven swaps. They are probably one issuer that's done more swaps in the whole country. They have a different profile than you do that allows them to mitigate the risk a bit more. So they can enter into different kinds of swaps.

But what we're doing here, in order to mitigate the risk for the department, are various things. There's certain termination insurance that we're employing. There's par termination rights that we have. And we're also insuring the auction rate bonds.

The final decision on this will probably be made at pricing. And it will be a market driven decision. And it will be a level of comfort, what we have with the

final structure of the swap.

As we're progressing, I think people are feeling more comfortable. People are feeling like the economics are in the right place, in order to provide benefit for the department.

And, ultimately, I think what the department needs to get comfortable with is the fact that -- take away all of the synthetic fixed, take away the basis risk, take away the counter-party risk with Bear Stearns -- is that, ultimately, the department could end up with an issue with a substantial part of variable-rate debt, or auction rate debt. And the question is -- do they have the ability to manage that, and manage a tax plan that's involved with that?

And given their experience in the past with 0 percent yields, and running those numbers, and using that to calculate old tax yields on old programs, I think there is that capability in place.

But, ultimately, when you say, what's the bottom line risk? That's it. Basically you're issuing variable-rate bonds. You're issuing auction-rate bonds. You're entering in with a counter-party, a financial institution who's rated AAA, who we've done a lot of business with them. Texas Veterans Land Board has done a

lot of business with them. They're one of the best firms in this area.

But the contingency is, and the ultimate fallback is, that veneer that they're putting on this auction rate may go away. It's not likely. It's not expected. We have to -- in fact, we even have to certify that it's not expected. It's not been our experience with other swaps that we've done. But if it does happen, that's ultimately what the department has to be comfortable with. That is all removed and we're left with auction rate debt.

MR. CONINE: Gary?

CHAIRMAN JONES: Go ahead.

MR. CONINE: Gary, I'd like to, again, applaud the team's creativity here. I think this is, again, an example of some innovation coming to the department, based on experiences other folks have had, not only sister agencies but other finance agencies around the country.

Isn't it -- if we approve this today, when's pricing going to happen?

MR. MACHAK: Probably the first or second week of June. I think we're looking at the second week in June.

MR. CONINE: Okay. And if the prognosticators

are correct and the fed is probably lower on the discount rate and fed funds rate, once again, to stimulate the economy, won't the benefit to the ultimate consumer -- because our bonds will be coming out in a time frame, if you will, being priced, say, post-fed action -- won't the spread be even greater than what Peter had displayed to us here?

MR. MACHAK: We would hope, at that time, that the spread is even greater. There's a lot with regards to supply and demand in the market. But if they lower interest rates, we would hope that the spread would be in our benefit. It's just going to be a snapshot at that time. It's going to depend on what the swap market is at that time, and where we price our other bonds at that time.

MR. CONINE: I've experienced a swap on real estate loans, just for the board's knowledge. And it really worked well. I got some ten-year debt at rates that were 50 to 75 basis points below what fixed rates could be in the open market. And I think we're going to experience that here. And we may be doing it -- again, if the fed takes a certain action that we all think they should -- at a percent time.

MR. MACHAK: Mr. Conine, what we found with our

issuers -- and I think what we see with other issuers across the country -- is that this is a very powerful financial tool. Once they gain experience in it, and they become comfortable in it, it's usually -- it's hard for me to remember a case where they haven't gone back and utilized it again, successfully.

As I said, the Veterans Land Board started out doing portions of their transactions on a synthetic fixed basis. The last transaction that they did at the beginning of this year was 100 percent synthetically fixed, given market reasons.

If things change, and there is a great spread between conventional rates and what we can get in what we call the tax exempt cash market, our usual manner of issuing bonds, then we probably wouldn't want to utilize this as much. But, like I said, we've seen the activity in this increase quite a bit.

MR. BOGANY: And if we can get our rates down to 3.75, or 3.25, which is what the Veterans Land Board is doing, I think that's great. So if that's the -- if you can hit all their targets, you can get it down to 3.25. And if we can do somewhere like that, I think it's a real good program.

MR. MACHAK: Yes. They have quite a bit of

cash that they are buying down to that rate, that they've built up over the years, that we hope to get you to.

MR. JOHNSON: We need a disclaimer here. We won't hit 3.25.

CHAIRMAN JONES: No, we're not giving you a disclaimer. All joking aside, you wholeheartedly recommend this proposal. Correct?

MR. MACHAK: I wholeheartedly recommend the path that we're taking right now.

CHAIRMAN JONES: Okay.

MR. MACHAK: Okay. Again, I really think that this is a decision that will be finally made given the market and given what we assess the risk to be at that time, and locking in that risk.

MR. CONINE: Which is exactly what we did last summer, if I recall. The risk at that time was --

MR. MACHAK: The risk in the market was not --

MR. CONINE: Right.

MR. MACHAK: -- that's exactly right. We made that decision before we went to market, very soon before we went to market, that we would not pursue that.

So there's a precedent there for saying, Guys, you know, you've done a lot of work on this. We appreciate that. But we're not players right now.

CHAIRMAN JONES: Got you.

MR. BOGANY: So moved.

MS. ANDERSON: I just have one question for Gary. You made the comment, when you were asked about the risk by Mr. Bogany, that, you know, part of the risk was this is new for the department. And, you know, there's a risk in the department managing this kind of auction rate --

MR. MACHAK: Auction rate bond.

MS. ANDERSON: -- auction rate bonds. What should we, as a board, and the department as a whole, be doing? You know, should this come to pass, what should we be doing to make sure that we do have the capacity to manage this kind of debt?

MR. MACHAK: That's a good question. There is, I think, right now, the personnel that has the experience to manage that, in the bond division. I think you should, you know, be aware of what's going on with the experience level of those people. And you have the capability, with regards to the programming requirements -- there's a numbers running program that you currently own or lease that can help with the calculations then. So making sure that that is up to date and that is current is helpful, and having the people to run that.

One other thing, too, this can be verified and checked. We run those programs. Other underwriters out there in the market run these programs. So there is a lot of external help, too, that can be gained.

MR. JOHNSON: Also, in order to achieve, I guess, an investment grade rating on the bonds and on the program, the rating agencies require a swap management plan. And we're in the process of preparing a swap management plan. And included in that plan will be reasons why we are entering into the swap, purely for hedging purposes, not for investment or speculative purposes, how we manage it, personnel. And also we will be, as Gary mentioned, marking to market the swap. We haven't determined whether it will be monthly or quarterly.

But if it does -- in the past, we've done transactions, walked away from it, had to do nothing with it really. This transaction is going to require monitoring. And we're preparing it to do that, per the rating agencies.

MS. ANDERSON: Okay. Thank you.

MR. CONINE: I think Mr. Bogany made a motion to approve 2003, program 59-A. And I'll second it.

CHAIRMAN JONES: Motion's been made and

seconded. Further questions, comments, and discussion?

(No response.)

CHAIRMAN JONES: Hearing none, I assume we're ready to vote. All in favor, say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

(D)(2)?

MS. CARRINGTON: Thank you, Mr. Chair. The next item for your consideration is to select the team that would be executing this transaction. And this is on the rotating basis that Byron has previously mentioned. All these firms were selected in 2001. And on the second page, in your material, you see the members of the team. And that would be Bear Stearns as the senior manager, U.S. Bancorp, Piper Jaffrey as co-senior, Solomon Smith Barley, co-senior, George K. Baum, co-manager, Siebert Brandford, co-manager, and U.S.B./Paine Webber, co-manager.

MR. BOGANY: So moved.

MR. CONINE: Second.

CHAIRMAN JONES: Motion made and seconded. Questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. Item e?

MS. CARRINGTON: Thank you, Mr. Chair. This item relates to reprogramming of funds for our taxable junior lien program. And we are requesting that the board approve basically a reallocation of a million for us in our down payment assistance program, and \$152,944 for use in the multifamily preservation program. And where this money is coming from -- we've put a chart in your book for you -- but 1 million, we're moving from a Section 8 home ownership voucher program, and the \$159,944 [sic], we're moving from cost of issuance.

MR. BOGANY: So moved.

MR. SALINAS: Second.

CHAIRMAN JONES: We have a motion made and seconded. Questions, comments, discussion?

(Pause.)

CHAIRMAN JONES: Mr. Conine?

MR. CONINE: This is just a comment. I know, I

think scheduled to get an update on our down payment assistance HOME program, kind of where it is, where it's been going. Is that in the works? And is this board going to hear some sort of feedback on that sometime soon?

MS. CARRINGTON: Down payment assistance HOME program?

MR. CONINE: Yes.

MS. CARRINGTON: The HOME funds that we're using for down payment assistance?

MR. CONINE: Yes, I think we had talked about -- back when we suspended the HOME program distribution last fall, pushed it to this spring -- kind of getting an evaluation of the depth of the use of the down payment assistance program. And I know the auditor's doing an audit on the program. But I'm speaking separate. I'm speaking more of a program issue as opposed to an audit issue. You know, I'm just curious if you've had any of those sorts of discussions.

MS. CARRINGTON: We can have something for you next month.

MR. CONINE: Okay. Thanks.

MS. CARRINGTON: Thank you.

CHAIRMAN JONES: We have a motion that's been made and seconded. Further questions, comments,

discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

Item f?

MS. CARRINGTON: Item f, items 1 and 2 relate to professional services, procurement of professional services for our multifamily tax exempt bond program. And the first item is to approve the issuance of a multifamily underwriter request for qualifications. We did model this after our single-family underwriter RFQ. Our financial advisor has taken a look at this.

What we are recommending -- since our multifamily program is really very different from the single-family program -- on the multifamily side, we currently have, I think about 22 or 24 firms that were actually selected in 1999 to serve as underwriters. It's been quite a while since we've gone out for an RFQ.

We are proposing that this would be done on an

open cycle, and that, basically, as developers have entities that they would be very interested in having work with the department, in an underwriter capacity, that they have the ability to place an application, or respond to an RFQ, and then the department board would consider that request to participate in our programs.

MR. BOGANY: So moved.

MS. ANDERSON: Second.

CHAIRMAN JONES: Motion's been made and seconded. Questions, comments, discussion?

MR. CONINE: Is there an indication from staff on whether we're looking to shrink or expand this particular pool?

MS. CARRINGTON: I think what we are looking -- one thing we are looking to do, certainly, is update it, since they were selected in 1999. And the department always welcomes additional professional partners if they meet the qualifications that we have set out.

MR. CONINE: You ought to run for something.

CHAIRMAN JONES: Boy, I really --

MS. CARRINGTON: Yes and no.

CHAIRMAN JONES: -- I think that's good because expand or shrink, update -- the answer is update, Kent.

MS. CARRINGTON: Which may involve some

shrinking, but it may involve --

CHAIRMAN JONES: Or expanding.

MS. CARRINGTON: -- some expanding if we have a new firm. What was wrong with that? That was a good answer.

(General laughter.)

CHAIRMAN JONES: I hate to do this, but I have to join with Kent; I don't understand. And you don't know how much it grieves me to join with him in his lack of understanding.

MS. CARRINGTON: What do you gentlemen not understand?

MR. CONINE: Well, let me just say this. The single-family department had an indication, or a direction, that they felt like they were going. Are we saying that the multifamily guys hadn't quite made up their mind? Or is in the executive director's purview that that may be happening?

MS. CARRINGTON: What we're saying is that the multifamily program operates very differently than the single-family program.

MR. CONINE: I understand that.

MS. CARRINGTON: The department controls who will be on the team each time we do a single-family bond

issue. As developers propose multifamily bond issues, then typically that developer brings their own financial expertise with them, their own financial advisor, their own investment banking firm.

And so what we want to do is expand the list, perhaps, with investment banking firms the developers would like to participate with. But we also want to update since we haven't been out since 1999.

The developer comes in arm in arm with the investment banking firm.

CHAIRMAN JONES: Which might we be doing right now? Are we expanding? I trust we are.

MS. CARRINGTON: Well, the ones that are on the list right now actually stay on the list until May 2004. So I would say that this would be an expansion, unless someone on that current list says, I don't want to participate anymore.

MR. CONINE: Mr. Onion, would you have a comment, maybe?

MR. ONION: By providing an open cycle, it will allow other underwriters who, as our financial advisor has said, has either moved to other firms or it's been consolidated. I think what it will have is the effect of reducing the list.

When we go out for an RFQ under the old process, we had a number of underwriters who wanted to be on our approved list without any particular application in mind. They just wanted to make sure they were on our list, because it was a closed cycle. Now that we will open it up, we will actually, probably, consolidate that list. And as a result of it being open, that that list will actually be reduced.

MR. CONINE: Thank you.

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

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

Item 2?

MS. CARRINGTON: Thank you. This is a request to approve the issuance of a request for qualifications for trustee services for the department, for multifamily.

This list was last approved in June 1996. We are, again, taking a fresh look at the list. We have three currently on the list, Wells Fargo, BankOne, and J.P. Morgan/Chase.

And what we would like to do is issue an RFQ to see indeed if there are other financial institutions in the state that would like to perform trustee services on multifamily, that the department feels would be qualified.

MR. BOGANY: So moved.

MR. CONINE: Second.

CHAIRMAN JONES: Motion's been made and seconded. Questions, comments, discussion?

MS. ANDERSON: Is this contemplated to be an open cycle also, or a one-time deal?

(No audible response.)

MS. ANDERSON: Thank you. And this RFQ will be going to some Texas-based banks as well as national banks?

MS. CARRINGTON: I hope.

MR. CONINE: Are there any left?

MS. ANDERSON: There are a few left.

CHAIRMAN JONES: Any others?

MS. ANDERSON: Maybe, I should put that in form, on the record, of a request to make sure that the distribution list for this does include -- there are, you know, still some significant Texas-based banks. And I

would like to make sure they had the opportunity to participate.

CHAIRMAN JONES: Anybody else?

(No response.)

CHAIRMAN JONES: All right. Are we ready to vote? All in favor of the motion, please say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

If we could, we have some people who want to give some public comment on 4(g)(2) --

MS. CARRINGTON: Uh-huh.

CHAIRMAN JONES: -- and why don't we let them do that now? So if we could go out of order, with nobody's objection, 4(g)(2), Mr. Stewart?

MR. STEWART: I'm on 4(g)(1).

CHAIRMAN JONES: Oh, I'm sorry.

MR. STEWART: And I'm just here as a resource if there are any questions.

CHAIRMAN JONES: Okay. Well, let's do 4(g)(1) then. I'm sorry about that.

MS. CARRINGTON: I do think most of the comment's on 4(g)(2) because the one staff isn't

recommending.

CHAIRMAN JONES: Yes, I understand. Well, let's just go ahead and do -- what I was trying to do was get the public comments out of the way before we took a break, in their convenience. So why don't we go ahead and do 4(g)(1), since he is signed up.

MS. CARRINGTON: Okay.

CHAIRMAN JONES: And that way, he won't have to stay until after the break.

So 4(g)(1), staff's recommendation? I'm sorry for the confusion.

MS. CARRINGTON: 4(g)(1) is the request for, and staff's recommendation, for the approval of issuance of 9,450,000 in tax exempt multifamily mortgage revenue bonds. It is for a property, West Virginia Apartments. The property is to be located in Dallas. It's new construction is 204 units.

Behind tab 1, you have the bond finance description of the structure of the transaction, also the number of units in the transaction. Behind tab 4, you have the multifamily underwriting report on this particular transaction. And the amount of tax credits that is recommended for this transaction is \$668,961. And staff is recommending both approval from the board for the

issuance of the private activity bonds and also the allocation of the tax credits.

Behind tab 8, as it's usually set up in your book, is a copy of the transcript of the public hearing. And there were some issues raised at the public hearing, related to the cost for new schools, other transactions that had been approved in the area. In staff's review of this transaction, it does meet all of our requirements, both for issuance of the bonds and also for allocation of the tax credits.

MR. BOGANY: So move.

MR. SALINAS: Second.

CHAIRMAN JONES: Mr. Bogany made a motion and the mayor seconded it. Further questions, comments, discussions?

MR. CONINE: I have a question, Mr. Chairman.

CHAIRMAN JONES: Yes, sir.

MR. CONINE: Behind tab 8, Ms. Carrington --

MS. CARRINGTON: Yes?

MR. CONINE: -- there is a little green tab, and then, several pages behind that is another kind of reconciliation of the project. On the very bottom of that reconciliation is -- keep turning past that -- and on the bottom, it has a little box that says public comment.

MS. CARRINGTON: Yes?

MR. CONINE: After reading the TEFRA hearing transcript, there were some in support and some against. Here, this says, zero for both. I'm curious how that was developed and when that was developed; and account for what I would categorize as a discrepancy.

MS. CARRINGTON: This is developed by the multifamily program staff. And in my reading the transcript also, I did certainly note that there was some opposition. Robbye Meyer, would you like to address that? Or is Robert the more appropriate person? Don't let me put you on the spot, Robbye, if it's not you. If it needs to be Robert, then --

MS. MEYER: Well, it's actually -- that came from the tax credit piece. And I can't really answer for that piece of the information. On the bond side, you have the transcript and all that. So you know what it said on the bond side. But, obviously, we didn't communicate with the tax credit. And that has to do with the tax credit application. They might not have received any support or opposition. So that was on the 4 percent tax credit side.

MS. CARRINGTON: I think that that is the answer, Mr. Conine. And it probably is something that, certainly, we need to look at. That's why, as we've been

doing the transcripts, starting last month, I have drawn the board's attention to the TEFRA hearing transcript behind tab 8, so that we can discuss that. But Robbye is exactly correct, in that this would come from the tax credit area. And they are reporting what they had received.

MR. CONINE: Sounds like one of those whole issues that that advisory group, in that earlier discussion the board had, needs to work on.

MS. CARRINGTON: It also sounds like it's a communication issue among the staff, if you ask me, yes.

MR. CONINE: Can I amend the motion to include resolution that this approval be resolution 03-22, so we can get this formal, on the bond side?

MS. CARRINGTON: Okay.

CHAIRMAN JONES: You made the motion, didn't you? Do you accept that amendment?

MR. BOGANY: I accept that amendment.

CHAIRMAN JONES: Further questions, comments, discussion?

(No response.)

CHAIRMAN JONES: All in favor of the motion, please say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

Delores has been delightful and prepared lunch for us. And she said we could break and do that.

MS. CARRINGTON: Mr. Chairman?

CHAIRMAN JONES: Yes?

MS. CARRINGTON: I am told that I read the tax credit allocation amount wrong into the record. So I do want to make sure that I do read the correct amount for the tax credit application. And that amount that's being recommended is \$686,961.

MR. CONINE: Did you give him more or less?

MS. CARRINGTON: Did I give you more or less, Tom?

MR. GOURIS: Than what she originally said?

MS. CARRINGTON: Yes.

MR. CONINE: A little more?

MR. GOURIS: Yes.

CHAIRMAN JONES: And I think Mr. Bogany's made a great suggestion. With the board's approval, we'll go ahead and do (g)(2) and (3) before lunch, since we have several people that would like to make public comment.

And then we will take our lunch break. And for

everybody's planning purposes, Delores tells me, we ought to be able to have lunch in 15, 30 minutes or so. So the board will be back pretty quickly after it takes its lunch break. You can expect us back in action within 30 minutes. And so for your planning purposes, I'll let you all know that.

So we'll go to item (g)(2). In the public comment, Mr. Kehoe.

MR. KEHOE: Mr. Chair, I'd like Ms. Marnie Miller to speak for me.

CHAIRMAN JONES: That'd be great. Ms. Miller?

MS. MILLER: Good morning. My name is Marnie Miller and I am representing the lender, Charter Mac for the Hillery Gardens project, who will assume the construction risk on this project. As you will here later from the owner pursuing development, Kurt Kehoe, I am here to confirm that we are also comfortable with the construction costs on this project.

We have had our third party consulting engineer review the project. And the costs are in line with all other new construction projects that we have financed in the past, as well as including a number of projects that we have also done with concerned development. Thank you.

CHAIRMAN JONES: Thank you. Ms. Carrington?

MS. CARRINGTON: Was that it? That was it?

CHAIRMAN JONES: I think so. I only had two people that cared to speak on that. Did I miss anybody?

MR. KEHOE: That was me.

CHAIRMAN JONES: Okay. Do you want to speak?

MR. KEHOE: Yes, sir, please.

CHAIRMAN JONES: Oh, I'm sorry. I thought --

MR. KEHOE: That's all right. I just wanted her to go in front of me, if that was all right.

CHAIRMAN JONES: Oh, I'm sorry. I misunderstood. I thought you wanted her to speak for you.

MR. KEHOE: That's all right.

CHAIRMAN JONES: Excuse me.

MR. KEHOE: Good morning. And I represent the owner and contractor of Hillery Garden Villas. Ms. Carrington, Mr. Jones, board members, thank you for the opportunity to speak to you today.

I'm here to discuss the issues surrounding Hillery Garden Villas, and to respectfully request the board vote to approve the issuance of bonds and tax credits. As you know, TDHCA staff have not recommended Hillery Garden Villas for governing board approval, due to staff's contention that there are insufficient sources of funds available to complete the development as

underwritten.

The underwriter report contains two main reasons why this conclusion was reached. The first reason -- the underwritten expenses indicate the loan amount should be limited to \$12,950,000, instead of the requested \$13,300,000. And the second reason -- the underwritten hard construction costs require the project uses to be increased by approximately \$1.7 million, which required a large deferral of fees. These deferred fees were unable to be repaid by expected cash flow within 15 years.

Now, I come before you today and would like to say, I'm not here to criticize the department's staff or the underwriter in any way. In fact, all during this process, there seemed to be a genuine intent by the underwriter and others within the department to listen and be fair. But I do disagree with their conclusions in this case. I'd like to go through several issues and then follow up my discussion with, hopefully, a solution to this problem.

The first two issues I'd like to discuss concern how the allowed sources of the project were calculated, both the debt and the tax credit equity. As I will discuss in more detail later, the underwriter

increased the total project eligible cost by approximately 1.7 million, yet was not able to increase the tax credit annual allocation recommended. Due to this methodology, even though the eligible basis has increased, the sources to fund these uses was not.

I requested an amount of annual credits as \$681,694. And the underwriter computes an annual amount of \$707,987, but then states, even though his numbers support the higher amount, an amount of \$645,369 annually must be used. This doesn't make any sense. I know this is an issue that this board has heard before also. It's been an issue that I've heard coming in front of the board.

If the project supports a higher annual credit amount, that amount should be allowed since the credits associated with the bond transactions do not impact the state's borrowing cap, as you know. Not until actual cost certification, at the time the project is placed in service, will the final eligible basis amount be known, that final dollar amount. Why limit the annual allocation to a certain maximum number now, which in this case is not correct?

The second issue has to do with the property expenses that were underwritten. The tax credit

application estimated a value of \$200 per unit, for property insurance, which the underwriter agreed with this amount. Subsequent discussions with the underwriter revealed they were underwriting to a total higher expense number, and therefore I provided an actual quote for property insurance to the underwriter, that confirmed a cost of \$155 per unit, on an annual basis.

This is a real quote from our insurance provider and is used by our lender and investor on all transactions. We get that and that solidifies the underwriting for insurance. This confirmed cost was not reflected in the underwriting report. The decrease in expenses that would have resulted if it was taken into account would have increased the recommended loan amount by approximately 125,000.

The next set of issues I'd like to discuss briefly are the underwriting issues having to do with the construction costs calculated and the uses of that in the project. The methodology used by the underwriters significantly skews the construction costs since the base construction cost is a straight square footage cost. We, as a contractor, do not cost our construction projects using this methodology. We use actual trade item breakdowns to compute a total construction cost, which

results in a much more accurate cost estimate, in my opinion.

The underwriter has a detailed comparison in his report, which compares seven projects -- seven projects that we haven't been involved with -- on a square foot basis and a unit cost basis. As you can see, the per unit costs strongly support our actual costs for Hillery Garden Villas.

The next issue is we don't feel the underwriter has taken into account the slowdown in the economy, and the pressures in the current marketplace on construction costs. We have seen actual decrease, a large decrease in some cases, in construction sub-contractor bids on Hillery Garden Villas that we have received so far and on other projects that we are doing in the state of Texas, in other parts of Texas also.

The third item -- the underwriter adds to the base square foot construction costs and the line item costs that the base cost does not take into account. One of these items is built-in appliances. The per unit cost used by the underwriter for these built-in appliances is \$625 per unit. This is \$500 per unit higher than our actual costs, as evidenced by a bid from our appliance provider, General Electric. This is an appliance provider

we have always used. And we have some very premium pricing with them. This results in an overestimation by the underwriter, totalling \$136,000 of verifiable costs.

The next issue -- the underwriter has included our construction contingency number in his total uses, even though he computes the total construction cost separately. In effect, this double counts this contingency, which results in the underwriter's total uses to increase by 569,920.

And then, the last issue I'd like to bring up is that we have a fixed price construction contract with Picerne Construction Corporation for this project to be built. This fixed price contract guarantees -- the owner is guaranteed the project will be built for the total contract price, lien free, and in accordance with the plans and specs. The contractor, Picerne Construction Corporation, is also backed by the Picerne Real Estate group of companies.

Overall, we are ranked the eighth largest multifamily builder in the country. We have been in business for over 75 years. We have over 35,000 units that we have built. And I have a net worth of over \$340 million.

I tried to go through those issues rather

quickly. I understand the board is not interested in appliance costs and stuff like that, but what I'd like to do at this point is just offer a solution to this. The solution being -- as the owner/contractor on this project, we will agree to reduce our construction profit and overhead fees to zero. This reduces the required project uses, as shown in the underwriting report, by \$911,872. This solution, in itself, should reverse the conclusion that was reached in the underwriting report.

Based on this, I would respectfully request the board vote to approve the issuance of the tax exempt bonds in an amount not to exceed 12,950,000, and an annual allocation of tax credits not to exceed 645,369. These amounts are what would have been recommended by the underwriting report had a positive recommendation been made.

Thank you for your consideration and if you have any questions, I'd love to answer them.

MR. CONINE: Mr. Kehoe, could you go over the appliance thing one more time, because I am interested in that.

MR. KEHOE: Sure. Okay. I actually, Mr. Conine, have a copy, which I could provide you.

MR. CONINE: No, I don't need to see that.

MR. KEHOE: Okay.

MR. CONINE: I understand who GE is. But just tell me the numbers he used and the numbers you used, on a per unit basis, for appliances.

MR. KEHOE: Okay. If I understand the underwriting report correctly, on a per unit basis, it is \$1,625 per unit.

MR. CONINE: Okay.

MR. KEHOE: And our actual cost, as evidenced by another transaction we're doing -- Emerald Bay Apartments, which we have just ordered the appliances on -- is \$1,123.26 a unit.

MR. CONINE: Okay. And the insurance question --

MR. KEHOE: The insurance --

MR. CONINE: -- on the expenses side?

MR. KEHOE: The insurance -- originally, we had budgeted \$200 per unit.

MR. CONINE: Right.

MR. KEHOE: We received a firm quote from our insurance company for \$155 per unit, on this project.

MR. CONINE: I'd love to have the name of that insurance company, because mine's running about 300 a unit right now.

MR. KEHOE: Yes, sir. It's Penn Insurance. We have a lot of them that are 250 to 280. In this area of the country, that's not the case. I'm speaking of stuff in Florida, on the coastal areas.

MR. CONINE: Right.

MR. KEHOE: We've been able to get this particular quote at 155.

MR. CONINE: And it has like an A-invest rating. It's not one of these fly-by-night insurance companies?

MR. KEHOE: I don't know their rating, sir. I would assume that -- I mean, they insure all our properties, and they have done so for a long time. I would assume that their rating is --

MR. CONINE: Okay. Thank you.

MR. KEHOE: Yes, sir.

CHAIRMAN JONES: Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chairman. Thank you, Mr. Kehoe. As you have heard stated, staff is not recommending the approval of the issuance of the tax exempt bonds on Hillery Gardens apartments to be located in Burlington, nor the issuance of the 4 percent tax credits.

Mr. Kehoe has pretty well outlined what the

heart of the problem is, from our underwriting standpoint.

And if you would go to tab 4, underwriting report, pages 7 and 8 basically outlines for the board the analysis that our real estate analysis division completed on this transaction and on other transactions that are in this area. And some have been cost certified and some have not.

I would ask Tom Gouris to come up. Basically, our recommendation was based on the fact that we felt that there were insufficient funds to be able to actually complete the transaction.

MR. CONINE: The big bad wolf.

MR. GOURIS: Tom Gouris, director of real estate analysis.

MS. CARRINGTON: And may I say that this was EARAC's recommendation.

MR. GOURIS: And, of course, it's difficult for the department. I hope Mr. Kehoe will recognize -- I believe he recognized in his comments -- that the department and the underwriting staff works real hard to try to find solutions before they come to you, because we do -- you know, our purpose is try to find mitigation to develop affordable housing, not to stop affordable housing.

That being said, I'd be glad to answer, respond to some of the issues that Mr. Kehoe has, or respond to your questions.

MR. BOGANY: Both of these issues, the appliance issue and his waiving his fees, how does that have any impact? And does that improve the cost of doing this project, in your opinion?

MR. GOURIS: The short answer is I don't think it's going to help as much as he anticipates it helps. Let me answer longer to each of the questions. On insurance --

CHAIRMAN JONES: Let me just ask you this. So the short answer, though, is no.

MR. GOURIS: No.

CHAIRMAN JONES: Okay. Thank you. Go ahead. I didn't want to stop you. I just wanted to make sure I understood your first answer.

MR. CONINE: I want to hear whether you double counted contingency and some of the other things.

MR. GOURIS: But I haven't been able to, you know, evaluate those issues formally --

CHAIRMAN JONES: But as best you can answer.

MR. GOURIS: -- but as best I can answer --

CHAIRMAN JONES: Okay. I'm sorry. Thank you.

MR. GOURIS: -- on pencil and paper right now.

I think that one of the key ones was appliances that he mentioned. And the issue there is, yes, in fact, our underwriting box shows an amount of \$1,625 per unit. But there are some adjusters that occur to that number toward the bottom of that section that really reduce that amount to \$1,247, which, you know, is fairly consistent with his 1,123.

You know, we use a consistent methodology. We're not able to price every single piece of this. And our methodology allows us -- though it is a somewhat fixed price per unit, in determining what that fixed price per square foot is, we look at the type of the units being produced, the size of the building, the size of the units in the building, and adjust for a lot of size factors to get to a per foot number.

The other issues that he indicated -- there were two other issues -- were if we reduce contingency on our side -- and our practice is to adopt the contingency that the applicant has provided, so long as it's not more than 5 percent of the hard costs, and 10 percent for rehabilitation development. We adopt those costs, not to double count, but because we take contingency out. Or contingency's not included in the Marshall and Swift

evaluation. And so it generally provides some additional cushion to provide enough funds for the development.

As a matter of practice, we would always include the contingency that they've included. Had they included no contingency, we would have identified that as a possible risk, that there's not enough cushion in the transaction. But had that not included contingency, we would not have included any in ours. And that would have helped the gap somewhat. It would have also reduced the amount of eligible credits, because contingency is an eligible cost amount, and so are the contractor fees that he's now suggesting be reduced.

So by reducing those contractor's fees, or eliminating those, we would actually reduce the amount of credits, and therefore a gap would still remain, because they'd have less sources of funds. And that's why it would continue to be a problem.

MR. CONINE: This falls under the '02 QAP. Is that correct?

MR. GOURIS: Yes, it --

MS. CARRINGTON: It was a forward commitment out of the '02. No, it's an '03 allocation.

MR. GOURIS: It's an '03 bond. They made application for the tax credits under '02.

MR. CONINE: They threw their project in the lottery thing in October. So does it fall in the '02 or '03?

MR. GOURIS: From a bond transaction standpoint, it's an '03 bond transaction. Because they made application before December 31 for tax credits, which they are required to do because they are first tier reservation, they would fall under the '02 tax credit QAP.

MR. CONINE: The reason I was asking is because I remember a discussion in the '03 QAP about the four bedroom issue. And there's four bedrooms here.

MR. GOURIS: Correct. Actually, there are several transactions this month --

MR. CONINE: But they're falling under the old rules, not the new rules?

MR. GOURIS: They're falling under the '02. That's correct.

MR. CONINE: Is this not a quality issue here? You know, I see where they, basically on the hard costs of the loan, submitted a project budget of \$40 a foot. You're recommending \$45 a foot. You can do both, but some things are left out, based on my experience? And to do a project in today's world at \$40 a foot, they're leaving something out. I just don't know what it is. I can't

tell what it is. But they're leaving something out.

Now, granted, they're a big company and get a lot of volume discounts. And the market's terrible out there, and subs are hungry for work. But I still believe they're not putting in things that other similar developments have been putting in. Have you been able to determine what that is?

MR. GOURIS: Well, that's also my contention or my thought, that that has to be occurring as well. And we've talked to the developer. In fact, as late as the day that we met for EARAC, we adjusted some issues, because they confirmed to us, or indicated to us, that their was a change in plan. They didn't want us to underwrite to a nine foot ceiling and adjusted some masonry component that would reduce their cost. That helped. It helped reduce the gaps considerably, but it wasn't sufficient to change our final recommendation.

MR. CONINE: So these are eight foot ceilings?

MR. GOURIS: Correct. Well, that's what they're indicating to us now to underwrite to. I think their intention is, if they can make it work with nine foot ceilings -- if they still think they can do it, they may go back and do that, and add that extra feature. But they've asked us to look at it as if that were not there.

MR. CONINE: Aren't the plans already drawn? To close a bond transactions, don't they have to have plans drawn?

MR. GOURIS: At the stage that we're underwriting, things are in considerable flux. And where underwriting does the best job that it can with the information it has, by the time the bond's closed, typically, plans are significantly more concrete.

MR. CONINE: When's the 120 days run out on the bond?

MS. CARRINGTON: May 9.

MR. CONINE: And as recently as a couple days ago, when EARAC met and talked about it, the plans aren't developed fully enough to understand whether they have eight-foot or nine-foot ceilings?

MR. GOURIS: A week and a half, or a little less than a week and a half ago, we were told that they would be pursuing eight-foot ceilings. But we haven't seen any -- we haven't gotten any new plans to reflect that.

MR. CONINE: Can we get Mr. Kehoe to weigh in on this, please?

MR. KEHOE: I'll try to answer your question, Mr. Conine. That is true. The plans currently that the

department has reflect nine-foot ceilings. That is a component that we felt, for the market, was something we could do for very few dollars. After talking with Mr. Anderson, underwriting department, that's not their contention. Their contention is this is a very high cost item. We haven't seen that in the marketplace. I disagree with them.

But they said, This is a very high cost item. And I believe the number quoted to me over the phone was like \$400,000. And I threw up my arms. And I said, Hold on a second, you know. Eight-foot ceilings -- I mean, we're not married to nine-foot ceilings, you know. This is something we think we can do. And we can build it cheap. But if it's going to mean the difference between getting this project approved or not, I'm fine with going back to eight foot ceilings.

I don't agree with, you know, the cost estimation that you do. But, you know, so be it. Let's do eight-foot ceilings. So I clarified to Mr. Gouris and Mr. Anderson that we're doing eight-foot ceilings. At the same time, I said that we had actually -- the masonry on the exterior, percentage-wise, was 30 percent rather than 50 percent. And they took those into account in the underwriting report.

MR. CONINE: Back to my comments earlier about \$5 a square foot difference, that's \$1.5 million. That's not eight- and nine-foot ceilings. There's something more substantial there. And in the spirit of trying to figure out how to get this thing accomplished, I don't think we want to get in the business of scrimping them down to a point, and when underwriting says they would have been feasible at a higher number and would have recommended, probably, the project at a higher number; why are you trying to bring it in at such a lower number.

MR. KEHOE: Well, that's our actual cost. Now, I guess what I can say that is this project as conceived, as currently designed, is no different than anything else we've built. And I don't know whether you've seen anything we've built personally.

MR. CONINE: I need to go see some of your \$40 a foot stuff. I'd love to see it.

MR. KEHOE: Okay. Actually, if you look in the underwriter report, there's several projects listed there that you're welcome to go look at. They are actually finished, completed, and, you know, actually cost [inaudible].

MR. CONINE: When I use the word 40, I'm talking about just direct construction.

MR. KEHOE: Oh, right; sticks and mortar.

MR. CONINE: I'm not talking about profits, and fees, and overhead, and all that kind of stuff.

MR. KEHOE: Right. And that number is a real number. And to try to answer your question about amenities or quality of construction, I have to go back on our reputation and our previous projects, and say that we're not going to go out there and build something that's not going to improve our image.

MR. CONINE: Can I ask Tom another question?

Tom, if they build this project, would this particular project be similar to the other projects they've done in the past, in your opinion?

MR. GOURIS: No, I think the chart that we have on page 7 reflects that on a cost per unit and a cost per square foot basis, this would at the low end, or the lowest that they either applied for funds from us for, or cost certified for.

MR. BOGANY: So these are the other projects that they've done?

MR. GOURIS: Yes, the first three are transactions that cost-certified in the last year. And they cost-certified at \$46 a foot, \$44 a foot, and \$43.91 a foot.

MR. CONINE: I note that they've got Circle S

here in Austin that's 44 a unit. Forget the footage. The footage gets skewed by the four bedrooms. I know what's happening here.

MR. GOURIS: Well, and that's why I put both down, because of the difference. Some of the developments have larger units and some have smaller units. So I put a footnote to the cost issues there, if there had considerably larger units. And Hillery Gardens has larger units, where Circle S just had smaller units. So the cost per foot was higher.

MR. CONINE: But back to the principal question here. Your fear is that there's not enough money to finish the project under the sources and uses. And that's why you recommend denying it. Is that correct?

MR. GOURIS: Correct. And because our underwriting guidelines, you know, after we'd done all the adjustments we could make, were more than 5 percent difference than theirs. We had to use our costs.

MR. CONINE: His claim is that he can build it for less than what you think he can build it for. And if there's a \$1.5 million gap there, is there some other collateral issue that might make you happier with the circumstances, an LC or something along those lines? Did you explore those sorts of things with the developer?

MR. GOURIS: The problem with any -- he could have another source of funds that could step in to help cover. How would that get repaid, if our estimates came to fruition? That's the problem, because if our estimates come to fruition, they won't have enough developer fee to, well, number one, to defer. They'll have to use deferred contractor fee. And, number two, they won't have enough cash flow to repay that deferral in a reasonable period of time.

And I'll note on that, we use a 15-year period of time at 0 percent. And the industry standard is ten year. And many lenders and syndicators use a half percent up the federal rate as their percent.

MR. CONINE: Well, let's get back to the big bad wolf theory. To a certain extent, this is a one-off deal for an individual developer just doing one project. And you would have valid concerns. This is a very large company with a huge inventory and a high net worth, based on his testimony.

And it would seem to me that if he's willing to forego various fees, and so forth, you could go back and take a look at other collateral issues. The fact that it, in your opinion, would need to be repaid in 15 years. If he's willing to say, I don't care if it's repaid, that

makes a huge difference.

MR. GOURIS: Well, it makes a difference to the tax credits as well, though, because they would be treated differently. Tax credits, if they're not repayable --

MR. CONINE: On the cost-cert, you mean?

MR. GOURIS: It could unwind the allocation of tax credits. So its investors could tax them higher down the road, if they're not able to show that the developer fee that was anticipated was a true developer fee. It's equity and not a developer fee.

MR. CONINE: Once again, on a cost-cert basis, if the construction company is willing to guarantee a specific fixed price contract, and there are no amendments to that as they go through construction, and even if it did cost the construction company another 1.5 million, that doesn't flow through to the partnership, which doesn't effect the tax credits.

MR. GOURIS: Well, it's going to have to be repaid by someone. And if it's not repaid by --

MR. CONINE: It doesn't have to be. That's my point. It doesn't have to be. If he's offering to put his neck on the guillotine, saying he doesn't care.

MR. GOURIS: And that's what --

MR. CONINE: That's why I'm saying, to me, it's

a different animal than one guy doing one project.

MR. GOURIS: My understanding is that that would be considered equity in the project, because it's a grant from a related party is what they're saying it would be. It would be a grant and it would be a capital contribution. I don't know. I'm not a tax attorney. But my understanding is that that would cause some serious consequences to the tax credit investment.

MR. KEHOE: It's done all the time, Mr. Gouris. And as far as -- lenders close transactions all the time, investors take transactions all the time, where projected cash flow, which is at that time simply projected, does not say repay the deferred fee within ten years. But you have to confirm, you have to guarantee that if it's not, the developer, or guarantor in this case, would make a capital contribution to repay that.

So that the problem that Tom mentions about not having eligible basis as cost-certified too is not an issue, because a capital contribution is required to be made. So basically, in our case, we're taking money out of here and putting it in here to solve the problem, you know. Obviously, you know, we don't want to do that.

CHAIRMAN JONES: Tom, is what you're telling me -- if the owner is in a fixed fee construction contract

with the builder, and that builder, you know, made a bad deal, and he loses money on it, then you have to consider that as a capital contribution to the owner. Is that my understanding of your answer to Mr. Conine's question?

MR. GOURIS: I don't think so. In this case, it's a related builder and owner. And in this case -- I suppose if the builder had no anticipation of ever getting that back out of the transaction -- it was truly grant -- we'd be getting into some, you know --

CHAIRMAN JONES: Thank you. I understand.

MR. GOURIS: -- tax issues that are far beyond my --

CHAIRMAN JONES: I just wanted to be sure I understood it.

MR. BOGANY: I have a question.

CHAIRMAN JONES: Yes?

MR. BOGANY: Tom, is it possible -- what kind of timeframe are we looking at, where you could go back and relook at his numbers, and see if it closes this gap any closer? Or do you have to have an answer today?

MR. GOURIS: Board approval has to occur today. So it has to be contingent on some sort of --

MR. CONINE: Can you do it in the next couple of hours?

MR. GOURIS: Sure.

CHAIRMAN JONES: No pressure.

MR. GOURIS: Yes.

MR. CONINE: Can you renegotiate and come back? You know, we can table right this very minute, and we'll bring it back up before we adjourn today?

MR. GOURIS: I'd have a little bit of concern about doing that, only in that -- what number do you need to hear for that line item, instead of, you know, here's my thoughtful application of what we think costs are?

MR. CONINE: I think what I need to hear is staff recommendation to change. You're got to be convinced, not me.

MR. GOURIS: And I'm saying, you know, I don't know that I would be convinced in just a verbal discussion versus a thoughtful, here's the number I'm sticking to and I'm signing off on. For example, we did receive an updated cost estimate subsequent to the EARAC board. And we tried to review that to see if that would help the situation. Cost, in fact -- he did show costs as going up. But because of other ramifications, of which costs went up, our costs on that line item had to go up as well. And so we still had a gap. So, you know, unless I have it in writing -- there's so many pieces -- I would be

rather uncomfortable in signing off on it verbally.

MR. BOGANY: Tom, I have a question. The \$40 per square foot that he thinks he can get this project done, did you see that? And you still thinks it's going to cost more?

MR. SALINAS: Is it \$40 without the property?

MR. BOGANY: I don't remember. I thought it was \$40.

MR. SALINAS: Is that \$40 without the property?

MR. CONINE: Yes, it's a \$35.60 plus \$5.15, or whatever.

MR. GOURIS: I'm sorry. I probably confused the situation. On page 7, I tried to take out the site work costs, and look at a per foot cost without site work in effect.

MR. SALINAS: Yes, without the property.

MR. GOURIS: And the reason I did that is because site work costs vary from property to property. You all remember Circle S was something like \$10,000 a unit. It was high site work costs. So I wanted to take that variable out of there and look at only the hard cost that's included, direct construction other than site work and contractor profit. And with that number, he was at 42. And that was lower than anything he had previously,

on a per-foot basis --

MR. BOGANY: Yes, because I'm looking at his track record. And I'm looking at all the units that have been done. And it just seems if we -- that I have to rely on your thoughts. And that's why I wanted to know had you taken a look at his new numbers on this nine-foot, and waiving all this other stuff, that it's just something that could be made. And if you're saying, hey, I don't believe he can do it at that cost, then we have to relate it to what you have to say.

MS. ANDERSON: He's said it about four times. How many times does he have to say that?

MR. GOURIS: And let me just go back to one point, if I might. I'm not saying that it's impossible to do it at this cost. I just don't know what's going to be left out -- because I'm sort of with Mr. Conine, I believe that there's something we're missing as to how he can get that cost out of there. Or our whole scheme of costing this for the last umpteen [phonetic] years is off because of this one project, when this isn't an issue with any of the other developments we're looking at right now.

CHAIRMAN JONES: Ms. Anderson has a motion to make.

MS. ANDERSON: I move that we confirm staff's

recommendation to decline this project.

CHAIRMAN JONES: Is there a second to the motion?

MR. SALINAS: Second.

CHAIRMAN JONES: Motion's been made and seconded. Further discussion, questions, comments?

Mr. Conine?

MR. CONINE: Is it unusual that the financial information from the participants were not provided to underwriting before now? Normally, that's --

MR. GOURIS: The final information -- it's not unusual for transactions to not be completely firmed up before we have to finalize our underwriting report. It's something we're working on desperately, to try to firm up, because, of course, the better the information we have, you know, the better our estimates are going to be.

MR. CONINE: Okay.

CHAIRMAN JONES: We have a motion that's made and seconded. Any further questions, comments, discussion?

MS. ANDERSON: Mr. Chairman?

CHAIRMAN JONES: Yes.

MS. ANDERSON: You know, I remember last year during the 9 percent round -- and I can't remember where

the deal was. I think it was in Killeen, where a developer was just asserting his position very effectively, up one side and down the other, that, you know, it was a unique situation and, you know, his costs were just different. You know, they just were different.

And, you know, I mean, I think -- you know, there are a lot of variables in this business. And I understand that costs can be different on different projects. But, you know, we charge the real estate asset -- what's it called --

MS. CARRINGTON: Real estate analysis.

MS. ANDERSON: -- real estate analysis division, you know, with giving us an apples to apples, based on a methodology, kind of comparison of, you know, their view of the proposal submitted by developers. And I think that that practice of following that has served us well. Underwriting fails to recommend a project on very rare basis. And that's the reason I made the motion and will support the staff's recommendation.

CHAIRMAN JONES: Again, we have a motion that's been made and seconded. Any further questions, comments, discussion?

MR. KEHOE: Mr. Jones, may I make a comment?

CHAIRMAN JONES: No, you may not. And I'm

sorry.

MR. KEHOE: That's fine.

CHAIRMAN JONES: Public comment's over. I don't mean to be rude. I shouldn't have said it like that.

MR. KEHOE: I understand.

CHAIRMAN JONES: But public comment is over. If a board member wanted to ask you a question, that would be okay.

MR. KEHOE: Okay.

CHAIRMAN JONES: I'm sorry. But once we start debating a motion, public comment's not allowed.

MR. KEHOE: That's okay.

CHAIRMAN JONES: So I apologize and I hope I didn't sound rude.

Any further discussion by the board?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed to the motion, say, Nay.

MR. CONINE: Nay.

CHAIRMAN JONES: The motion carries. And with that -- I don't want to be rude to Delores -- I think it's a good time to break for lunch. They've got it all ready for us. And I don't want to make Delores mad at me. So we will break for lunch.

(Whereupon, at 12:45 p.m., the meeting was adjourned, to reconvene this same day, Thursday, April 10, 2003, at 1:20 p.m.)

A F T E R N O O N S E S S I O N

1:20 p.m.

CHAIRMAN JONES: I'll call the meeting back to order. And we will go to item number 3 on item 4. Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chair. The next item for the board's consideration is the issuance of tax exempt bonds in the amount of \$15,085,000, for a property to be located in Dallas -- the name of the project is Sphinx at Murdeaux -- and also a recommendation on the 4 percent tax credits on this transaction. And that 4 percent tax credit amount is \$973,584.

You do have behind tab 4 a copy of the underwriting report. It is 240 units. And as Mr. Conine has noted on some of these other transactions, this one also does have four bedrooms. But it's the same situation that the other one was in, in that it is out of the '03 allocation for the bond actual allocation amount, but they did apply last year for volume cap. So it is under the '02 QAP, which does allow four bedrooms.

The copy of the transcript of the public hearing is behind tab 8 in your materials. There were some speakers at that public hearing. They had some questions, had some concerns, about a transaction that, I

think, had actually been an application to the department several years ago that didn't move forward. I think Ms. Anderson actually -- this was the hearing that you also attended. And we thank you very much.

And staff is recommending both the issuance of the tax exempt bonds and the allocation of the 4 percent tax credits for Sphinx at Murdeaux.

CHAIRMAN JONES: And we have two public speakers. Reverend Johnson?

MR. JOHNSON: Thank you. And let me, again -- well, let me say my name first. I'm Reverend H.J. Johnson, chair of the Pleasant Wood/Pleasant Grove Community and Economic Development Corporation. Let me start, if you don't mind, by saying, thanks to you, Mr. Chair, and the members of the board, number one, for allowing us this opportunity to appear.

And secondly, I thought I'd be real nervous coming down and speaking before this board. But the hospitality and the personality of all of the persons I've met here today makes this quite comfortable. And that is a comment I want to give to this board --

CHAIRMAN JONES: Thank you, sir.

MR. JOHNSON: -- and to the state of Texas --

CHAIRMAN JONES: We appreciate it.

MR. JOHNSON: -- and to Governor Perry for selecting such a board as this.

The Pleasant Wood/Pleasant Grove Community and Economic Development Corporation is a self-determining corporation that's filed a 1(c)(3). And of course, we have done a comprehensive land use study paralleled by the City of Dallas. The comprehensive land use study covers the area in which this applicant it being made from. And it fits into the scheme of things for that particular area.

The city council persons of that particular area, James Fantroy and Don Hill; and our state rep, Jesse Jones; and Senator Royce West, all of whom support this particular project -- the comprehensive land use study is a study that was voted in by the city council. And, of course, the neighbors participated fully in that particular study. And we are delighted that Sphinx would at least take a look at our area. And now, they're very solidly willing to come into this area, and help us with the need of more than 5,000 housing units that are needed in that particular area.

And, of course, in that area, for more than -- well, since 1940 -- there has not been but one development in the area. So there's a great need. And with the Texas

economy and budget being as it is, this would be a great investment that we could use our money in a very wise way.

So let me thank you in advance for, again, hearing us today. And secondly, we would hope that you will give support to the tax credit, for this would be a very good use of our tax dollars.

Mr. Chair, again, I feel very comfortable. The only thing that bothers me now is that I did not get a chance to go to lunch with you. And I would hope that that will happen in the future. Thank you very kindly, sir. I appreciate it.

CHAIRMAN JONES: Next time.

MR. JOHNSON: Thank you, sir.

CHAIRMAN JONES: Our next speaker is Mr. Eugene Thomas.

MR. THOMAS: Thank you, Mr. Chair and board members. My name is Eugene Thomas. I am the chairperson of the comprehensive land use study for the southeast sector of Dallas, Texas. And due to the interest of time and hunger pains, I'm going to defer my remarks to keep them very brief.

I think Reverend Johnson has adequately given you a picture of what our community is like and why we are excited about having the Sphinx at Murdeaux in our

community. I just do want to let you know for the record that it -- is that it did meet out housing policy recommendations that we made to the City of Dallas, that they meet the needs of housing for low to moderate income families, in rental units and also single-family units.

So we're excited about this fact. And we just want to thank you for allowing us to come before you and approve their application and request. Thank you very much.

CHAIRMAN JONES: Thank you, sir.

MS. ANDERSON: Mr. Chairman?

CHAIRMAN JONES: Yes?

MS. ANDERSON: I move approval of the Sphinx at Murdeaux, with tax credits in the amount of \$973,584 and, I guess in the same motion --

MR. CONINE: Bond resolution --

MS. ANDERSON: -- bond resolution number --

MR. CONINE: -- 03-21.

MS. ANDERSON: -- 03-21.

CHAIRMAN JONES: Okay.

MR. BOGANY: Second.

CHAIRMAN JONES: A motion's been made and seconded. Questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. Item 5, Ms. Carrington?

MS. CARRINGTON: Item 5(a), Mr. Chair, I think you have some public --

CHAIRMAN JONES: Oh, excuse me.

MS. CARRINGTON: -- testimony on this one also.

CHAIRMAN JONES: Oh, I sure do. Mr. Johnson, sorry about that.

MR. JOHNSON: Sox. I did get to eat. I'll try to keep this brief. I know everybody's been here a long time today. But first, I would like to express our appreciation. This was a concept we came up with a little over a year ago, when working on our 2003 credit. And Director Carrington and her staff, as well as ORCA staff, rural development, and our association, Rural Rental Housing Association -- and my name is Sox Johnson with the Rural Rental Housing Association. So you have that for the record.

We came up with a concept of what to do on some of these projects in rural areas that are financed by Farmer's Home, but because of timing elements, it's very difficult to work them through the tax credit deal, with the lack of money for production in Farmer's Home, and renovation.

And we selected to go, as opposed with transfers and identity of interest -- we were only looking at those real hard core that were in the process of being accelerated, or foreclosed, and one of our recommendations here today is that we add those in the inventory process.

Because once they get into inventory, you're still more than two years away from being able to place them with someone, because of -- they've got to go through a lottery process, all the process they go through. Then the year's not right for tax credits, which means they've got to wait until the next year to do the tax credits before they can ever close the deal.

So many of these deals cannot be -- Farmer's Home is going to have to hold them at least two years for us to get them through the process. We are concerned because more and more are being foreclosed. We've had probably a dozen or so since around Christmastime. And we've got more in the pipeline. So we're losing a lot of

these rural properties. And so from an acquiesce for preservation, we're asking it.

This letter was an E-mail sent by Dennis Hoover to Director Carrington last night. It expresses it. But I think the bottom line of it -- hey, there's a time line that you have to go with in order to have a chance of saving. We aren't saving them right now. Very few of these that get into this process can we ever get them to you for tax credits, because timing just doesn't work right for it.

So we're asking that the definition in the paper that's developed here, of rescue deals, include those in inventory as well as those accelerated, and in the process of foreclosure. So that's one request we're making. We like the process that's laid out here.

And then we do have one other question. I know, from apparently the last meeting, you took out -- or suggested that Brooke, I guess it was -- that you still would like to see these scored. We see no benefit -- if we want to go through the paperwork exercise, we can -- because it's not competing with anything else, since they're done on a first come, first served basis is the way we proceed. And that's the only can perceive this system working here.

If that got to be a problem that somebody was getting too many, we think that would have to be addressed in subsequent years, or the process. But we usually can control who's making application, enough that we can tell our guys -- because we've got some that we work with regularly in this thing. And so no one person is getting all the deals.

So we urge you to adopt the open cycle. You've still got your opportunity to decide it timelier in July, when you're deciding on any forward commitments for 2004.

You can decide at that time how many dollars you want to set aside for this purpose, if any. But at least we've got a process set up here, and we'd like to try it this year, and see what we can do.

And if it works, then we'd like to ask that it be incorporated in the 2004 QAP, the same general language that would have this process. So that's our request, is those two things -- to adopt your proposal that was presented by staff. We would like to include that definition change.

And then, we see no need for scoring them. If you want to score them -- you know, whether one makes 34, or 39, or 75, it doesn't matter in the process. So then, you just have a score, if that helps anybody. Thank you.

MR. CONINE: Thank you.

CHAIRMAN JONES: Thank you, sir.

MR. CONINE: I think the reason for the request on the scoring was just for that particular reason, not as a win or lose scenario --

MR. JOHNSON: Yes.

MR. CONINE: -- but as a measure, if you will, of what they would have scored under the normal process without having to be rescued. And are we --

MR. JOHNSON: Treating them --

MR. CONINE: It would indicate to us that we're putting credits into rural deals that would have scored either terribly or would have scored great. And I think we just wanted to know that for our own bank of information, as we go through the process in future years, to decide whether it's really working or not. That was the only reason.

MR. JOHNSON: Well, that makes sense. We place a lot more emphasis on the feasibility. To us, your screening process as opposed to scoring is basically set-asides and your regional allocation. To us, that helps screen your pool of applicants, wherever they are. And I personally like those kind of screening deals as opposed to the scoring deal. But I know we've got a scoring deal,

but I keep seeing us toying around with our scoring system.

It's very difficult, as we've said many times, to score well in these. Because of the small size of the projects, you can't have all the amenities and things that can benefit from scores. But you understand that.

MR. CONINE: I think all that is relative. Again, if they all come in at 30s, that's fine.

MR. JOHNSON: Yes.

MR. CONINE: We just want to know, you know, if there's some 20s, or if there is some 70s out there, what's happening to the 30s. And why are they in the situation. It will just help us, I think, in the long run be able to evaluate why we --

MR. JOHNSON: Well, certainly. I wouldn't want that to be a deal killer on this thing.

MR. CONINE: Right.

MR. JOHNSON: But I did want to express, so we knew in context, what scoring actually is in these deals.

It doesn't have the same meaning it does in other categories, in other properties. But I appreciate your consideration.

Any other questions?

(No response.)

MR. JOHNSON: Thank you.

CHAIRMAN JONES: Thank you so much, appreciate it.

Ms. Carrington?

MS. CARRINGTON: Mr. Chair, we did go back, at the board's direction from the last board meeting, and add language to the policy that would include scoring of these transactions. We do review them for threshold. That was already in there. And if you will look, we have provided the document for you. And we have black-lined this document. And IV, 1, evidencing selection criteria must be submitted. And the selection criteria is that scoring.

We did not include Mr. Johnson's recommendation for those in inventory. Right now, the way this policy does read is for those that are in the foreclosure process or in the loan acceleration process. But we certainly can make that change if the board so desires.

MS. ANDERSON: What are your thoughts on making that change? Did you and staff consider the ones in inventory and decide, for some reason, not to include them?

MS. CARRINGTON: We did consider it. We did discuss it. And we decided that we would not include them, because they were already in inventory. They had

already gone through the foreclosure process, as opposed to those we might be able to save prior to foreclosure.

In further discussions with Mr. Johnson, the way he explains it, those can be in inventory for a couple for years. And I think it makes a pretty compelling case that we ought to include those that have already gone through the foreclosure. But that was kind of our thought process. We wanted to get them before they had actually gone fully through the process.

MS. ANDERSON: Well, what, in your judgment, would be the change in volume of these things that we would see with this expanded definition? I mean, would we, therefore, be seeing a lot more to fund with forward commitments than we see today?

MS. CARRINGTON: Well, this set-aside has historically been an undersubscribed set-aside. And I understand that one of the issues has been the timing -- that our doors are open for a period of time, and the Rural Development's foreclosure process isn't necessarily consistent with, you know, our application and allocation process. As far as what the possible inventory might be, I think maybe Mr. Johnson might have a better answer for that than I would. I really don't know what the universe is.

MS. ANDERSON: Well, I'd be happy to --

MR. CONINE: No, I'd like an answer to that question. Give me an estimate on what the inventory is today, the number of units.

MR. JOHNSON: There are about 200 of the 800 project statewide that have some difficulties and are likely to go.

MR. CONINE: No, what's currently in inventory?

MR. JOHNSON: Currently in inventory?

MR. CONINE: Currently in inventory.

MR. JOHNSON: I don't have that exact number, but there's probably, I'm going to say 12, 15.

MR. CONINE: Projects?

MR. JOHNSON: Projects.

MR. CONINE: Averaging how many units?

MR. JOHNSON: Averaging, say, 25 or 30 units.

MR. CONINE: So the moment we pass this policy, the tax credits are available to those units?

MR. JOHNSON: Well, you'd still go through, obviously the process. Rural development would first have to determine that the projects are suitable to remain in the program. This is after we've already tried to do a transfer deal.

But once they make that determination to go

through that, then it would be -- there's a lot of potential of a project coming in, certainly, with an attitude. And my discussions with the USDA people, and they don't have the production of a lot of money to do these things. So it seems to be more of an attitude to foreclose on these projects.

MR. CONINE: Well, let's follow the bouncing ball for just a minute. There's 15 projects that average 30 units apiece. That's 450 units. And normally, tax credits go out in the 5,000, 6,000, 7,000 unit range, when you do rehabs and those sorts of things. So immediately, you've got \$2.5 million worth of -- 2004 tax credits -- if all those projects that were to come out of the inventory bracket --

MR. JOHNSON: Right.

MR. CONINE: -- almost immediately. Now, under the scenario we have today, where we're not considering that inventory, would we not be catching any other projects in the future that would potentially go to inventory? So that once the current inventory of 450 units, let's say, is cleaned out, there wouldn't be anything else going in the bucket, because we're catching them all with forward tax credits.

MR. JOHNSON: It's going to depend on how much

the board decides to set aside of that 25 percent of the 15 percent, under Texas RD. You might decide you only to spend, say, \$300,000 maximum, to go in this program, because you'd be making forward commitments to the pool, not specific problem projects. So at the time, in July, when you come up, you would decide how many dollars you want to put in there. And then, we'd be trying to work on the best projects we could to get them to come in and compete for those, the 200,000, or 300,000, or whatever.

MR. CONINE: Ms. Carrington, am I reading this wrong? Because the way I'm read it and the way he's saying it are kind of two different things. I read it to be, kind of first come, first served, whenever needed, here it comes. And what he's saying is it's dependent upon the same allocation process. And I don't --

MR. JOHNSON: On forward commitments.

MR. CONINE: Yes. Well --

MR. JOHNSON: It's only what we use for forward commitments -- would be on the only source of funding. Is that not true?

MS. CARRINGTON: Yes.

MR. CONINE: But the way the policy reads, it says, "We may utilize forward commitments," which means everybody's going to show up and tell us that our policy

says that we may use it. So there's no cap. There's no 300,000. We could do whatever we wanted to do.

MS. ANDERSON: Well, 450 units at 5 apiece is 2.25 million.

MR. CONINE: 2.5 million.

MS. ANDERSON: Yes. And if you take 25 percent of the 15 percent against the \$30 million tax credit sort of ceiling, that's 1.1 million. So we've oversubscribed two to one, just out of the box.

MR. CONINE: Out of the chute.

MR. JOHNSON: But we're two years away from these. They just really, in the last six months, started this foreclosure process. So those are a couple years or so away. And that's the reason we wanted those considered in the -- but more will be coming. But you're controlling the dollars that goes into this forward commitment, to be used under this program. You decide how many dollars of, roughly, the million dollars on the Texas RD. You say, we want to use \$250,000 for forward commitments that can be done on a first come, first served basis.

MS. ANDERSON: What if we said, we wanted to use the whole 1.1 million? Would you have a policy issue with that?

MR. JOHNSON: No. And really, it's pretty

consistent with the way we've been processing, because the group that we process first -- we set the priorities and we've done this for several years -- is to work with those in the process of being accelerated foreclosed, or in inventory. That's their first priority on the use of any funds they have available in Farmer's Home. So we give those priority. And then, our lowest priority is, obviously, a transfer with an identity of interest.

MS. ANDERSON: Right.

MR. JOHNSON: It comes on down the deal. So these are our top priority that the agency tries to give to those.

MS. ANDERSON: I guess one of the questions I have is if you opened up --

MR. CONINE: Do I smell a loophole here or not?

MS. ANDERSON: -- if you opened up the -- you know, opened it up like this, without having thought about it a lot -- I mean, one of the things I like about the 9 percent round is the competitive nature of it, that is scored, you know, that leads to some projects that have good amenities, and have good support services, et cetera. And I just, at first blush, wouldn't want to spend all the money in that set-aside to do these, and not have things still go through a competitive process, because I

think competition's good.

MR. CONINE: Since we're not getting a reaction from Ms. Carrington, my suggestion would be that we put a dollar amount in the policy, specifically for 2004, so that we don't have a runaway train.

MS. ANDERSON: And say that we may -- not that we shall, but that we may -- allocate up to that amount?

MR. CONINE: Well, but, you know, the first time one shows up and we turn it down --

MS. ANDERSON: I know.

MR. CONINE: -- guess what?

MS. ANDERSON: I know.

MR. CONINE: Yes.

CHAIRMAN JONES: You don't think anybody would criticize it?

MR. CONINE: Yes, I do. I'm trying to keep from that happening.

CHAIRMAN JONES: I've been here eight years and I've never seen that happen.

MR. JOHNSON: Basically, all the Texas RD funds are going for rehab deals. Now, some of them, most of them are transfers, as opposed to these hardship. But the reason we haven't been able to do the ones in this rescue unit is because of the real serious timing problems. So

you're still dealing with 4 percent deals.

MS. ANDERSON: I mean, I'm just saying, as a policy matter, I'd want to think long and hard. Maybe the dollar cap, you know does it for us.

MR. JOHNSON: That would help us with --

MS. ANDERSON: But I don't like the idea of just taking everything out of a competitive process.

MR. CONINE: Do you and the staff have some sort of recommendation to the board, as to the dollar amount?

MR. JOHNSON: I haven't talked with a lot of our people, or even -- oh, you were talking to her. I'm sorry.

MR. CONINE: I'm talking to both of you.

MR. JOHNSON: I'd say, if we put in there, as a maximum, \$200,000 or \$250,000. And -- about 25 percent of it -- and then let us see. Because we're going to have to educate the people that are involved in the process. So we don't know how much activity there's going to be there. Because we've got to work with, of course, new staff at Farmer's Home, and all this, to make it happen.

MR. CONINE: Are you okay with that, Ms. Carrington?

MS. CARRINGTON: I am. I think it's important

to note that we will still have some of these transactions that will go through the regular 9 percent round. And they're going to be coming out of that particular set-aside. So we'll already have some of those. And then, we'll be looking at the amount that you all would be comfortable with in forward committing, that, of course, then the next year would be subtracted from the amount that's in that set-aside. So if you forward commit, 200,000, 300,000 in '04, then that amount, of course, is going to come off what that set-aside would be.

MS. ANDERSON: I move we adopt this proposed staff policy, with the addition of a \$250,000 cap for the '04 forward commitments.

MS. CARRINGTON: They'd be '03 forward commitments --

MS. ANDERSON: Oh.

MR. JOHNSON: '04, yes.

MS. CARRINGTON: '04 forward commitments, I'm sorry.

MS. ANDERSON: -- '04 forward commitments --

MS. CARRINGTON: That's right.

MS. ANDERSON: -- and amend the definition to the -- include the properties that already is holding in inventory. And that's the end of the motion. For

clarity's sake, this motion, therefore, still follows the staff recommendation that we do want the applications to be scored.

MR. CONINE: Second.

CHAIRMAN JONES: Mr. Conine, I believe. No, it was Conine by a nose. It was very close.

MR. CONINE: It's like we're singing in harmony there.

CHAIRMAN JONES: Further discussion? We have a motion made and seconded. Further discussion, questions, comments?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. Item b, I believe, 5(b)?

MS. CARRINGTON: Yes. Thank you, Mr. Chairman.

At the direction of the board last month, also, we've brought back to you the proposed memorandum of understanding between the department and the Office of

Rural Community Affairs, related to the joint administration on the rural set-aside on the tax credit program.

What the board asked staff to do was go back and do a cost estimate, or a fiscal note as we're fond of calling them at this period of time. And we have completed that. There are six items that we have identified that we participate with ORCA, or that ORCA participates with us in. And we have done estimated hours, based on the work that we did with ORCA last summer related to the tax credit program. And we have also made some assumptions on salaries and dollar figures. And so we have that in front of you for your consideration.

We anticipate that the estimated fiscal impact on our calculations would be \$14,167. However, the maximum amount that would be allowed under the MOU is \$15,150. So that's basically it, for the board's consideration.

MR. BOGANY: So moved.

CHAIRMAN JONES: Thank you.

MS. ANDERSON: Where in the -- oh, I'm sorry.

CHAIRMAN JONES: We have a motion. Excuse me just one second, Ms. Anderson. We have a motion that's been made to approve the staff's recommendation. Is there

a second?

MR. CONINE: Second.

CHAIRMAN JONES: Motion's been made and seconded. Ms. Anderson?

MS. ANDERSON: Where, in the MOU, is this ceiling of \$15,150 reflected?

MS. CARRINGTON: It is 15 percent of the fees collected related to the rural set-aside. It's in section 4, bottom of page 2 of 4. "In carrying out the requirements of this contract, in an amount not to exceed 50 percent of the application fees received from such applicants."

MS. ANDERSON: Thank you.

CHAIRMAN JONES: Any further questions or comments?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. With regard to item 5(c) of the agenda, Ms. Carrington has suggested

to me that maybe we could consider those collectively, if the board members would care to do so. So keep that in mind when you make motions.

Ms. Carrington, item 5(c)?

MS. CARRINGTON: What we have for the board's consideration are eight private activity bond and 4 percent tax credit applications. All eight of these applications have issuers other than the Texas Department of Housing and Community Affairs as the issuer. And behind tab 5(c), we have a summary of these developments, with the development number, the location, who the issuer is, and the recommended tax credit amount.

Six out of eight of these transactions are new construction transactions. Two of them are acquisition rehab. One acquisition rehab is the first one, the Shire Apartments in Port Arthur. And the other acquisition rehab is Wurzbach Manor in San Antonio. And staff is recommending a credit allocation on all eight of these.

CHAIRMAN JONES: And I think Mr. Fisher would like to speak to this. Mr. Bill Fisher?

MR. FISHER: Just a resource witness, if you have any questions.

CHAIRMAN JONES: All right. Thank you so much. We have a motion for approval?

MR. SALINAS: So moved.

CHAIRMAN JONES: Is there a second.

MR. CONINE: Second.

CHAIRMAN JONES: Motion's been made by the mayor. It was seconded by Mr. Conine. And that's the motion to approve the staff's recommendation with regard to all the items in 5(c). Further questions, comments, discussions?

MS. ANDERSON: I have a question, Mr. Chairman --

CHAIRMAN JONES: Certainly.

MS. ANDERSON: -- about the two that are not new construction.

MS. CARRINGTON: Uh-huh.

MS. ANDERSON: Are they acquisitions by the development organizations. Are the development organizations -- would you point, and tell me which ones they are?

MS. CARRINGTON: Yes, I will. The Shire Apartments in Port Arthur is acquisition and rehab of a 32 year old property that is in Port Arthur. And this one is 310 units. The projected amount of the direct construction cost on this particular development is \$13,300 a unit.

And then, the other one that is an acquisition rehab is Wurzbach Manor, Wurzbach Apartments, which is located in San Antonio. And this particular development does have a Section 8 housing assistance payments contract attached with it. It's an old HUD 236 property that has an interest rate reduction and also have some Section 8 project-based. And it was built in 1976. And it's a property that has 161 units. And this one, I think, is doing about \$16,000 a unit rehab on just direct hard costs. That's behind green sheet one.

MS. ANDERSON: I know. That's where I'm -- I don't have any green sheets.

MS. CARRINGTON: One, two -- green sheet --

VOICE: Oh, yours is white, I believe.

MS. CARRINGTON: Oh, that makes it a lot harder for her.

MS. ANDERSON: It makes it a lot harder, yes.

MS. CARRINGTON: Yes. It's like the third one in, I think.

MS. ANDERSON: Oh, wait, here it is. Thank you.

CHAIRMAN JONES: Further questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries.

MS. CARRINGTON: Mr. Chairman, let me read for the record the tax credit allocation amounts.

CHAIRMAN JONES: Certainly.

MS. CARRINGTON: Development number 02-470, Shire Apartments, \$554,837; 02-471, Southside Villas, \$736,847; project number 02-474, allocation amount \$1,039,028; project number 02-476, Wurzbach Manor, \$353,285; project number 02-477, The Oaks Apartments, \$857,388; project number 02-483, Cypress View Villas, \$510,477; project number 02-486, The Villas Apartments, Marble Falls, \$386,686; and project number 02-490, Caspita Apartments, \$628,789.

CHAIRMAN JONES: Thank you. We will now turn to item 6(a) on the agenda.

And, Mr. Bogany, before I turn it over to you, we have one person who'd like to make a public comment. And that's Mr. Bob Buffington. Mr. Buffington?

MR. BUFFINGTON: I'm just here to answer any questions.

CHAIRMAN JONES: Oh, thank you so much.

Mr. Bogany?

MR. BOGANY: Okay. On HOME program, we have an authorization from TDHCA executive director to request the reduction of the State of Texas 2003 HOME investment partnership program; HOME allocation to provide \$199,583 to assist Montgomery County, and to provide \$225,746 to assist the City of Plano in the meeting of HUD requirements to be designated for participating jurisdictions under the HOME program.

Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Bogany. Per HUD regulations and guidelines, to qualify as a participating jurisdiction, communities look at a formula funding based on poverty, population, worst case housing, et cetera. And they have to come up with a dollar amount on that formula of a minimum of \$750,000. And if a community can come up with these factors, and get that formula from HUD of \$750,000, then they are designated a participating jurisdiction; which means for the HOME program, they receive their allocation directly from HUD.

In these two particular areas, what they have

been able to come up with, on a formula basis from HUD, is -- in the situation of Montgomery County, \$550,417, and with the City of Plano, \$524,254. What they are asking the department then, is to make up the difference between what they're eligible for right now from HUD and the \$750,000.

And the reason we would be asking to do it as a reduction in what the state receives from HUD for the HOME program, would be to do it otherwise would mean that it would fall under the regional allocation formula. And, basically, we wouldn't be able to do it. So we can do this, by just having HUD reduce our future allocation by this amount.

There's a couple of benefits to the state. It means that there are other dollars to go around in other non-participating jurisdictions. And I think probably the biggest benefit to the local community is that they know how much they are going to get on an annual basis. And so they're able to do some long range planning related to the money -- as opposed to competing on an annual basis and not knowing whether they're going to be funded or not. And, therefore, they may not be able to have ongoing projects that they fund with the HOME program.

So staff is recommending that the board do

this. We did bring to you last summer, or last fall, Washington/Brazos County. And the board did approve the additional funding to make them eligible to be a participating jurisdiction.

MR. BOGANY: I move that we accept Ms. Carrington's proposal.

CHAIRMAN JONES: We have a motion to approve staff's recommendations.

MR. SALINAS: Second.

CHAIRMAN JONES: It's been seconded by the mayor. Further questions, comments, discussions?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay. Motion carries.

Item 6(b), Mr. Bogany?

MR. BOGANY: Proposed amendments to the board and staff appeals process rules, 10 Texas Administrative Code Section 1.7 and 1.8. And it's in our book. And I'm going to turn this over to Ms. Carrington or Mr. Wittmayer.

MS. CARRINGTON: And I'm going to turn it right over to our general counsel.

MR. BOGANY: Okay.

MR. WITTMAYER: Chris Wittmayer, the department's general counsel. This item proposes amendments to our board and staff appeals process rules, in the 10 Texas Administrative Code Sections 1.7 and 1.8.

Based on our experience last month, with our first and only appeal to the board appeals committee, the staff saw an opportunity to make some amendments and possible improvements in our rules. Amongst these changes that we would propose is to only have one appeals hearing, rather than two. And that would eliminate the board appeals committee.

We propose a clarification that bonds and 4 percent tax credit would be heard under this 1.8 rule, and not under the QAP rule in 49.18(b), which applies to 9 percent credits. We propose to reduce the appeals period in the 1.8 and 1.7 rules, to seven days, to be consistent with the QAP rule.

We propose to clarify that this is de novo review; that is, the board renews their previous decision anew, rather than defer to any of their previous decision.

Concerning public comment and notice, we

propose to clarify that the board will consider a public comment under its usual procedures, but that members making public comment are not parties to the appeal, and no rights accrue to them under these appeal rules. But we are adding a specific notification to neighborhood representatives that appear at the previous committee, and speak at the previous board meeting, and speak either for or against a development. They will receive specific telephonic notification of the appeal. We will say that if we have made three attempts to contact them, that that suffices for notices

Also, to give the board some discretion, we propose to add a good cause exception, where the board could hear the appeal, even if there is some technical shortcoming in meeting the rules. We propose similar amendments to the staff appeals rules.

And if the board concurs, we would put these out for 30 days public comment and then bring them back to the board for your consideration. Questions?

MR. CONINE: Explain the good cause one, again, for me.

MR. WITTMAYER: Let's say that we have a seven-day period for the applicant to make an appeal. Let's say that we have an ice storm, that we had not so long ago,

and the person submits their appeal on the eighth or ninth day. This would give the board discretion to apply this good cause exception, and say, We find in this unusual set of circumstances that we'll consider the appeal on the eighth or ninth day, based on the delay caused by the ice storm, even though it doesn't meet the seven-day period. It gives the board more discretion in considering the appeal.

MR. CONINE: Okay.

CHAIRMAN JONES: What's the board's pleasure?

MS. ANDERSON: Mr. Chairman, I move the adoption of this proposed rule. Right? It's adoption of a proposed rule for -- if we publish it and all that. Isn't it?

MS. CARRINGTON: Yes.

MS. ANDERSON: I move adoption.

CHAIRMAN JONES: We have a motion.

MR. BOGANY: Second.

CHAIRMAN JONES: We have a second. Further discussion, questions, comments?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. Thank you, Chris.

We will then turn to item 7. Ms. Carrington, Mr. Gaines?

MS. CARRINGTON: This will be David Gaines, our internal auditor.

MR. GAINES: Mr. Chairman, members of the committee, Ms. Carrington.

CHAIRMAN JONES: Good afternoon.

MR. GAINES: I understand there may be some other time commitments this afternoon. So if I'm too brief, please slow me down and I'll elaborate.

The first item on the agenda is agenda item number 7. It's proposed amendments to the internal audit charter. And these amendments relate to recommendations coming out of the recent quality control review at the internal audit function. There were several recommendations relating to the function. And although I'm going to focus my comments just on the proposed changes, if you haven't had an opportunity to read through that charter, I'd encourage you to do so.

The proposed changes have been highlighted by redlining the document. And if you will, the first change is on page 2 of 4. The paragraph immediately prior to the responsibility section is noted. This change relates to the recommendations that came out of this review of the internal audit function, that the department's board periodically assess whether resources allocated to the internal audit division are adequate to implement an effective program of the internal auditing.

And this amendment requires that the board periodically make that assessment. And to facilitate this effort, it's requiring the internal audit director to emphasize significant risk to the agency not being addressed in the annual audit plan proposed to the board.

This significant unaddressed risk would be your basis for accepting or adjusting the level of resources allocated to the department. So that ought to make it real easy from your end.

The next and last proposed amendment to the charter is on page 4 of 4. And this amendment adds reference to the internal auditing's responsibility to perform to the Code of Ethics as prescribed by the Institute of Internal Auditors.

Those are the proposed amendments to the

charter. And I'll be glad to take any questions.

MR. BOGANY: I move that we accept the amendments.

MR. CONINE: Second.

CHAIRMAN JONES: We have a motion made and seconded. Questions, comments, discussion?

(No response.)

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

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. We will then turn to item 7(b).

MR. GAINES: And that is the status of current audit issues, which follow in the board book the amendments to the charter. There are 24 issues being reported to you. This is eight more than previously reported. And these are the results of audits recently released. I'll discuss those audits momentarily.

Of the 24 issues listed, eleven have been reported as implemented, leaving 13 that management continues to work on. And I'd like to take a few moments

and direct your attention to some of the more significant issues and events that have happened in the recent past.

Six of these issues, starting on page 2 and going through the first issue on page 5, related to the HOME monitoring report issued in November 2001 -- since the last report to the board on prior audit issues, the client has delivered a letter dated February 27 to the department. And the department personnel have met with HUD officials on March 20. And the results coming out of these communiques, I consider as good news.

The department is going to establish that each house funded under the HOME programs -- HOME buyer's assistance, owner-occupied on contract-for-deed programs, or were funded through the sub-recipient that appeared in question -- has met the state's and HUD's standards at the time the activity was completed. And the funds were expended by sending the home owners and home buyers a simplified house and checklist that's been prepared by the department and approved by HUD.

And I know a draft of that's been prepared. I'm not sure if it's been submitted to HUD yet, or not, for approval. The checklist will ask the home owners and home buyers if their houses met the required standards at the time the activity was completed and the funds were

spent.

For any claims by the home owners or home buyers, the department will conduct onsite inspections. Required corrective actions will taken in those instances where it's determined that the construction was not in conformance with standards. And the department will also provide for an appeals process to any claim by these home owners or home buyers that, upon inspection, the department determines that it's not a legitimate claim.

The good news surrounding this relates to the fact that the department is going to have to inspect only those houses whereby they receive complaints of non-compliance, as opposed to reinspecting all such properties since 1998.

The department's general disagreement with HUD in conducting all inspections since 1998, I believe has been the biggest obstacle to the department in resolving these issues. And with this requirement out of the way, the department is expecting to clear these issues over the next several months and in full by the end of the fiscal year.

I'll be glad to go into the details on any of the particular issues. That's addressed as the biggest challenge. There's other things that management's working

on. And I'll be glad to touch on those if it's your pleasure.

MR. BOGANY: I move we accept the audit report.

MS. ANDERSON: Second.

MR. GAINES: And I'll certainly, if I can interrupt, go along with that. That relates just to the HUD home issues.

MS. ANDERSON: Oh, he's not through.

MR. GAINES: Right. But if you would like to conclude the meeting, I'll certainly accommodate your wishes in that respect.

MS. ANDERSON: Okay.

CHAIRMAN JONES: Well, why don't we go ahead and accept the report, since we have a motion, thus far.

MR. GAINES: Okay.

CHAIRMAN JONES: And so any further discussion of that particular motion?

(No response.)

CHAIRMAN JONES: Hearing none, we'll go ahead and vote. All in favor of that motion, say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: And the motion carries. And then we'll let you complete your report on the other issues.

MR. GAINES: Okay. I'm not sure I understood the motion, but I'll continue on.

CHAIRMAN JONES: Okay. Well, I understand -- what I understood was that you had completed your report with regard to those portions you just stated.

MS. ANDERSON: Okay.

MR. GAINES: Those particular issues, yes. And there are some other issues I'd like to address.

CHAIRMAN JONES: Exactly.

MR. GAINES: Yes, sir.

CHAIRMAN JONES: And then we'll act on that then. We already had a motion.

MR. GAINES: The next issue I'd like to address your attention to is issue referenced 268, at the top of page 6. And this is the soft cost issue reported by KPMG in their single audit for the state for fiscal year 2001.

In their subsequent audit, recently released for fiscal year 2002, KPMG reported that management has taken corrective actions on this issue.

This is some more good news. This implies that KPMG believes that the department soft cost documentation standards are acceptable going forward. Management's reported to me that in their meeting with HUD, that this clears this issue. However, I'd just like to lay out the

caveat that this has not been reduced to writing. And I would suggest that the question of cost may still be something that the department's going to have to deal with on a forward basis. That may be something that will resurface.

The remaining issues I'd like to specifically discuss are those added to the report since the last report provided to you. And these are issues -- well, beginning with issues 282 through 284, on page 8 and 9 of 11 -- these are the audit findings resulting from the peer review of the department's internal audit function. With the board's approval of the charter, under the prior agenda item, these issues are considered implemented and will be dropped from further consideration.

The remaining five issues, beginning on page 298, on page 9 of 11, result from the KPMG federal portion of the statewide single audit for the most recent year that I just referred to. The cumulative question of costs relating to these issues approximates \$34,000. And if you'll notice, while management considers most of these issues as substantially resolved or implemented -- most of them are being reported as implemented -- please note that the department may need to identify sources of funds in the future to satisfy this question of cost if HUD

determines that such costs are unallowable and must be repaid.

The first issue relates to -- issue 298 -- a project being set up under the HOME program in excess of the maximum amount allowable. Management should read the recommendations to establish controls to preclude this type of error in the future, and plans to implement those controls by May 1.

And the next issue -- and I'm discussing just the two that are still outstanding. And the last three have been implemented. The next issue relates to how long the department holds federal funds before disbursing such funds. If held too long, the state owes the federal government interest earned on those funds and, likewise, it will have the liability -- if the federal government holds funds too long before remitting to us, after claims have been made, they may owe interest to the department, or to the state.

In this case, the KPMG noticed a couple of exceptions that could result in interest liabilities to the federal government, and recommended that the department more closely monitor its fund clearance pattern -- and to identify significant changes, at which time they would report those changes to the comptroller's

office that serves as liaison for all the state agencies in this regard with the feds.

The key word here is significant changes. Management believes it had adequate processes in place and never reached that significant threshold for reporting to the comptroller's office. However, it's kind of a moot point at this point in time, in that the department's been reclassified as a Type B agency under the Cash Management Improvement Act, which we were a Category A.

As a Category B, it's a lower threshold of reporting, lower standards of reporting. Management's agreed to assess the requirements associated with Type B and incorporate necessary procedures to comply with the act, being a Type B agency. Right now, they believe they'll continue to act like a Type A agency, which will more than consider the requirements under Type B.

And if you'll look, the remaining three issues have been reported as implemented. I'll be glad to discuss any of those or any other issue. Otherwise, that's the extent of my planned comments.

MR. BOGANY: I move that we accept the remaining part of the internal audit's report.

MR. GAINES: Thank you.

MS. ANDERSON: Second.

CHAIRMAN JONES: Motion's been made and seconded. Further questions, comments, discussion?

(No response.)

CHAIRMAN JONES: Hearing none, I assume we're ready to vote. All in favor, say, Aye.

(A chorus of ayes.)

CHAIRMAN JONES: All opposed, Nay.

(No response.)

CHAIRMAN JONES: Motion carries. With regard to item 8, I have received instructions and advice on how to handle this from our dear general counsel and Ms. Carrington. And we will have an executive session. But prior to the executive session, since we have three people that would like to talk to us, it is my recommendation that we go ahead and let them talk. And that's probably to their benefit.

And the first person that would like to talk to us is Mr. Jim Henderson.

MR. HENDERSON: Good afternoon.

CHAIRMAN JONES: Good afternoon.

MR. HENDERSON: My name is Jim Henderson. And I'm president of Interstate Realty Management Company. And along with Michaels Development Company, we are proposing to preserve, rehabilitate, approximately 800

apartments in three municipalities within the state of Texas.

We believe that the preservation of affordable housing is the single most critical issue facing the housing industry today. And while the real estate is extremely important and must be preserved, meeting the needs of the residents of our communities is equally important. And to that end, we as a company have created what we believe is a social service program that is second to none within the United States.

We currently operate 25,000 apartments in 17 states, the Virgin Islands, and the District of Columbia.

Within those communities, we have established computer learning centers, social services provisions, including job readiness, education, GED programs, basic literacy programs, to meet the needs of our residents. We feel that their well being is what is going to ultimately preserve this housing. Meeting those objectives, we believe, is the single most important thing we can do as a company.

While the real estate is important, the needs of the families that live within our communities is equally important. As part of our program, the last three years, we have created in excess of 1,100 jobs, through

our job training program -- jobs that provide living wages, real jobs. And we did that by partnering with major corporations within the United States. We believe that we can do that here in Texas. We believe that, if afforded the opportunity to come and rehabilitate these properties, that our programs can be successful, as they've been successful in other communities.

From an educational perspective, again, we believe that we do things just a little bit differently than other companies. Starting with a basic literacy program, bringing an individual through a GED program -- last year alone we awarded 63 college scholarships for the residents of our communities.

And, again, we hope that if afforded the opportunity to work with the department, that we can bring those things to the residents of these communities, and, hopefully, preserve what we believe is a real, real asset to the state of Texas.

CHAIRMAN JONES: Thank you, sir.

MR. HENDERSON: Thank you.

CHAIRMAN JONES: Mr. John O'Donnell?

MR. O'DONNELL: Good afternoon. What we're here today for is seeking approval of the proposed settlement. And part of that settlement, I just want to

acknowledge, and take the opportunity to acknowledge the staff and the amount of work that they've put in over the last three weeks, four weeks, to get to this, hopefully, a resolution today. As we were here last month, and the staff were given certain instructions, and had asked us in return for information involving 17, 18 states in which we operate, which they were able to put together in a quick fashion. So I just wanted to acknowledge and appreciate that.

What we're here today is for the proposed settlement and accepting Michaels Development Company organization as a replacement general partner. But what you heard from Jim Henderson and Bob Greer, it's much more than just being a general partner. You now, we bring our development company, we bring our management company, and we bring our resident services, and 30, 35 years of experience in doing so.

And we want to bring that to Texas. We want to help preserve the housing of the 800 families in Texas. We want to bring what we are able to bring to other places in the country to Texas. Through our reputation and experience, we bring top dollars from investors and syndicators throughout the country, and lenders. In stepping in the shoes, we're bringing a minimum of an

additional \$6 million in rehabilitation to these properties than the original general partner was provided for in their tax credit applications.

In closing, I just want everyone here to realize that we have mutual goals, that our organization's motto in our boardroom is helping to change people's lives. And that's what we want to do and bring to the state of Texas. Thank you.

CHAIRMAN JONES: Thank you, sir. Antoinette Jackson?

MS. JACKSON: Good afternoon.

CHAIRMAN JONES: Good afternoon.

MS. JACKSON: I'm here, again, to speak to the settlement proposed. And I am also here to speak to any questions that the board may have regarding the HUD process.

I have been working constantly with HUD in this process in preparing the transfer of physical assets applications, and providing them with information that they have requested regarding The Michaels Group, and the rehabilitation, and the takeover of the properties.

Again, if you have any questions regarding that process, HUD has asked me to let you know, as the board, that they are very interested in having these properties

taken over by The Michaels Group. They advocate this transfer. And they are more than ready to move forward with the transfer at this time.

CHAIRMAN JONES: Thank you.

MS. JACKSON: Thank you.

MS. ANDERSON: Mr. Chairman?

CHAIRMAN JONES: Yes.

MS. ANDERSON: Could I just ask who you're with, who you represent?

MS. JACKSON: Oh, I'm sorry. I apologize. I'm an attorney with Coats, Rose. And I represent The Michaels Group.

MS. ANDERSON: Okay. Thank you.

CHAIRMAN JONES: I believe that's all the public comment we have on that item. And I believe it's now time for executive session. Right, Ms. Carrington?

MS. CARRINGTON: Yes, sir.

MR. WITTMAYER: Director's report?

CHAIRMAN JONES: Oh.

MS. CARRINGTON: No.

CHAIRMAN JONES: No? We can.

MS. CARRINGTON: Well, let's go ahead.

CHAIRMAN JONES: I'm sorry. I got ahead of myself then. I apologize.

I amend now, we'll send us into executive session, on this April 10, 2003, at our regular board meeting of the Texas Department of Housing and Community Affairs, held in Austin, Texas, the Board of Directors adjourning to a closed executive session as evidenced by the following: the Board of Directors begin its executive session today, April 10, at 2:18 p.m. How about that? Is that good enough?

MS. CARRINGTON: Good.

CHAIRMAN JONES: The subject matter of this executive session and deliberation is as follows: the litigation and anticipated litigation, potential or threatened, under Section 551.071 and 551.103, Texas Government Code Litigation Exception, regarding Cause No. GN-202219 and Hiram Clark Civic Club v.7 TDHCA, District Court of Travis County; number two, consultation with attorney pursuant to Section 551.071(2), Texas Government Code, relating to 501(c)(3) multifamily housing mortgage revenue bonds, William Run Apartments, be Young v. Martinez, Civil Action No. P-80-8-CA, U.S. District Court, Eastern District of Texas, analysis of impediments to fair housing, settlement agreement; and board decision making criteria and public input; personnel matters under Section 551.074, Texas Government Code; and, if permitted,

discussion of any item listed on the board meeting agenda of date.

And with that, we will go into executive session.

(Whereupon, at 2:18 p.m., the board meeting was adjourned, to reconvene this same day, April 10, 2003, at 3:05 p.m.)

MR. CONINE: The board of directors has completed its executive session of the Texas Department of Housing and Community Affairs on April 10, 2003 at 3:05 p.m. I hereby certify that this agenda of an executive session of the Texas Department of Housing and Community Affairs was properly authorized pursuant to 551.103 of the Texas Government Code posted at the Secretary of State's office seven days prior to the meeting, pursuant to 551.044, the Texas Government Code, and that all members of the Board of Directors were present, with the exception of Mike Jones, I guess, since he left, and Vidal, and that this is a true and correct record of proceedings, pursuant to the Texas Open Meetings Act, Chapter 551 of Texas Government Code as amended.

Okay. We're out of executive session. And I think we wanted to, I guess, get some clarification from staff relative to the particular projects back in action

item 8, which is discussion on the proposed settlement. Mr. Gouris, could you come up and refresh our memories a little.

MR. GOURIS: Tom Gouris, director of real estate analysis.

MR. CONINE: We understand we're asking you to fly by the seat of your pants here for just a minute. But if you could, refresh our memories as to kind of where the four projects were, the current proposed tax credits that were presented to the board for approval, and the rehabilitation that was going to go on in the four projects.

MR. GOURIS: Okay.

MR. CONINE: And, you know, we heard a few minutes ago, before we went into the executive session, about, you know, \$10,000 more rehab. We'd like to ask a little bit more about that, whether you know anything about it, or whether we have to talk to them. But, just kind of refresh our memory right quick.

MR. GOURIS: Yes, and I checked while we were out, too, and talked to them a little bit about that. Originally, they're looking at rehab of about \$11,000, hard, hard costs, to \$14,000 per unit. In conversations in the hallway there, they indicated that the -- I believe

it was \$6 million, an additional rehabilitation costs for the four projects. That would be on top of what they had proposed. They're still working on those numbers. We haven't reviewed those numbers.

That probably would, or could, effect the credit amount, though the credit amount is fixed based on what was originally allocated. It could effect what they would be eligible for, though, you know, the credit amount was fixed based on the 9 percent credits allocated subject to --

MR. CONINE: These are all 9 percent credits. Is that correct?

MR. GOURIS: These are all 9 percent transactions.

MR. CONINE: So at a future date, you could come back in front of us and say they want some more credits, or not?

MR. GOURIS: No, could not, unless they made a new application for new 9 percent credits --

MR. CONINE: Okay.

MR. GOURIS: -- relinquishing these credits, I suppose.

MR. CONINE: Got you.

MR. GOURIS: You know, they are in varied

shape. Some of them obviously needed more rehabilitation than others. I know that we initially had some safety and soundness concerns with at least one of the transactions.

Suzanne may be able to speak to that a little bit better.

I know at least one of the transactions, you know, most of the rehabilitation was fairly cosmetic. So it rode the gamut there, although the amount that they originally projected was roughly equivalent for all four.

I can give you what --

MR. CONINE: What cities were they in?

MR. GOURIS: Fort Worth, Lubbock, and Houston.

MS. CARRINGTON: Two in Houston.

MR. GOURIS: Two in Houston.

MR. BOGANY: What were the two in Houston? One was Yale and what was the other one?

MR. GOURIS: Kings Row.

MR. BOGANY: Okay. Back in the back, back there?

MR. GOURIS: I can go through each one and tell you how many units they were.

MR. CONINE: No, I think we're -- any board members wanting clarification --

MR. BOGANY: I have a question of Tom.

MR. CONINE: Okay.

MR. BOGANY: So the last time, you did recommend, from staff, that we did accept these? The recommendation was to approve them for credits?

MR. GOURIS: We continued to underwrite, made an underwriting recommendation. That was exclusive of the legal proceedings.

MR. BOGANY: Okay.

MR. GOURIS: And the contention -- you know, staff's overall recommendation was not to move forward with them.

MR. CONINE: If you let the sponsor out of it, and just looked at the properties, your underwriting analysis would have said what?

MR. GOURIS: Would have made an affirmative recommendation, with a bunch of conditions, because they have contracts and other issues that we still needed to get addressed.

MR. BOGANY: Mr. Chairman?

MR. CONINE: Yes?

MR. BOGANY: I have a question for, if I can, The Michaels Group.

MR. CONINE: Sure.

MR. BOGANY: Okay. And I don't know if you can answer this, but I am just very, very curious. What is

the Century development getting out of this deal, besides the \$10 that they're paying? I mean, what's in it for them?

MR. GREER: I'm going to give you a thumbnail answer first.

MR. BOGANY: Okay.

MR. GREER: And then, I'll call on, if you need further detailed information from John O'Donnell.

MR. BOGANY: Okay.

MR. GREER: What they're getting out of this is relief from all their obligations, financial obligations, compliance obligations, on other programs; being saved from being put out of business by our assuming those debts and those obligations to carry these programs forward, and complete them successfully.

MR. BOGANY: So this has an effect on them, other projects, maybe in other states?

MR. GREER: No, we're taking all of the product, not just these four.

MR. BOGANY: Okay. You're buying them out completely?

MR. GREER: That's correct.

MR. BOGANY: Okay. Everything?

MR. GREER: That's correct. And they would

have no further involvement whatsoever --

MS. ANDERSON: In any state?

MR. GREER: -- in any of them, in any state.

MR. BOGANY: Okay. The other --

MR. CONINE: What size portfolio is that, just out of curiosity?

MR. GREER: I think it's about -- what was it, 6,000?

MR. CONINE: Rough. It doesn't have to be accurate.

MR. GREER: 6,300 units.

MR. CONINE: Okay.

MR. BOGANY: Earlier, you mentioned that you guys were going to do a \$10,000 more than what was proposed. I don't know if you all discussed it. But I'd like to have an idea of what extra work you planned on doing.

MR. GREER: That's a very fair question. We have more rehabilitation activity specifically isolated within the units than were demonstrated in the tax credit application. We found, in looking at this opportunity, that we couldn't make an evaluation on whether we wanted to be involved or not until we went and saw the units ourselves. And then we saw the tax credit application.

And then we walked into the units and we saw -- they're leaving a lot of stuff undone.

MR. BOGANY: Okay.

MR. GREER: So we felt the obligation, if we're going to do this, to match everything else we do.

MR. BOGANY: Uh-huh.

MR. GREER: We wanted to do a complete rehab activity, correcting things they were not going to correct --

MR. BOGANY: Okay.

MR. GREER: -- within the buildings --

MR. BOGANY: Okay.

MR. GREER: -- making adjustments to the utility system as it now exists -- a single meter, individual meters for every unit.

MR. BOGANY: Okay.

MR. GREER: It's much more site work than was demonstrated in the tax credit application. And then, the introduction of spaces to accommodate all these family supportive service programs --

MR. BOGANY: Okay.

MR. GREER: -- self-sufficiency programs that were not included.

MR. BOGANY: So would it be possible for you,

in this process, if we approve this settlement, to be able to provide staff with an itemized list of the things that you were going to do --

MR. GREER: Absolutely.

MR. BOGANY: -- in, I guess, a reasonable manner.

MR. GREER: We already have that.

MR. BOGANY: Okay.

MR. GREER: Part of our process here, on being able to accomplish financially this more aggressive approach than they were showing you --

MR. BOGANY: Uh-huh.

MR. GREER: -- is to have a 221(d)(4) mortgage processing with HUD.

MR. BOGANY: Okay.

MR. GREER: And we're in this delicate situation where we have these -- our staff has now gone through every drawing. We have a complete work write-up. We have a complete costing. We have complete architecture. And yet, we can't show it to anybody, or talk to anybody, until you give us the authorization to assume this responsibility.

MR. BOGANY: Okay. Thank you.

MS. ANDERSON: I mean, that's kind of a Catch-

22, isn't it? We're kind of stuck, too, because we might want to consider your commitments as part of our consideration about how to proceed, if we proceed?

MR. GREER: Well, and that would be a fair request. We would approve you conditioned upon receipt of your documentation that demonstrates not only what you're doing, and how much money it's costing extra, but the sources of those funds to show us that it's realistic so they can count on this happening. And by the way, we would not anticipate -- we understand the rules of the game.

In another life, I was a director of the Pennsylvania housing finance agency. And so I have total respect for not only your director, and this situation, but you as members of the board, and what tools you have to make a decision here. You've got a known factor -- that's Century Pacific -- who is all kinds of trouble. And you have an unknown factor, and that's Michaels Development Company. And we have been waiting at the door, to be given an opportunity to come in and tell you what we are, and what we propose, and how we will finance it, in order to comfort you that this is a good decision -- not just for this deal, this transaction, allowing us in as a new GP.

But for the benefit of these 800 families in these three cities, we think this is a tremendous program we're offering. We're very excited about it. And we're dying to be given the chance to talk to you, to help you be comfortable with it.

MS. ANDERSON: Is your acquisition of Century Pacific's entire portfolio contingent upon -- is this sort of like the first shoe to drop? If this doesn't work, then you don't take the rest? Is that a fair question?

MR. GREER: I think that's a fair answer, yes.

MS. ANDERSON: There is, in the agreement, I guess it's an agreement between you and Century Pacific -- unfortunately, I'm not a lawyer -- in the purchase agreement, there's reference made to the owner paying off an approximately \$800,000 note. "The buyer shall cause the limited partnership owner to pay in full a note to Sierra Note Holdings."

MR. GREER: Yes, well, Ms. Anderson, I won't pretend that I understand all those pieces of that obligation. But I would invite John O'Donnell to come forward.

MS. ANDERSON: That would be great.

MR. GREER: And he can give you a more responsible answer.

MR. O'DONNELL: That's basically the investor notes on a property.

MS. ANDERSON: Okay. So is that substantially all of the outstanding indebtedness on those four properties?

MR. GREER: No, we have additional things, legal fees.

MR. O'DONNELL: No, I think the total --

MS. ANDERSON: Maybe I don't understand who --

MR. O'DONNELL: There's first mortgage and then there's notes that investors have been holding for ten, fifteen years, something like that.

MS. ANDERSON: Okay.

MR. O'DONNELL: And part of our financing package, and part of what we're able to do to raise these additional monies --

MS. ANDERSON: Right.

MR. O'DONNELL: -- is pay all that debt off, and put all these improvements. I mean, basically, at the end of the day, improvements are going to be made and you will have a first mortgage, and all the other debt is going to be paid off. And that's all part of our source and uses that we're more than happy, and extremely anxious, to provide you.

MS. ANDERSON: Okay. Could we maybe ask Tom what he -- I'm sorry.

MR. CONINE: Mr. Bogany, did you have one more question for these guys?

MR. BOGANY: No, I'd like to hear what question Beth has for Tom.

MR. CONINE: Okay.

MS. ANDERSON: I guess, Tom, what I'd be interested in hearing from you is -- if we, you know, proceeded here with a sort of a subject to clause, you know subject to provision of additional information, what you would want that to include?

MR. GOURIS: Okay. If I could back up for a second.

MS. ANDERSON: Sure. You bet.

MR. GOURIS: We haven't seen these sources and uses that they're speaking of. We were provided a sources and uses which came with the proposal for transfer agreement. And in those sources and uses, it appeared that there would be seller's notes that would be taken back. And it sounds to me now, that that's not the situation. They'd take all those seller's notes and roll them into a first lien, with new debt.

I guess I'd need a little direction from the

board, since one of the issues that was problematic in our original underwriting report was this was an identity of interest transfer, and there were some concerns about the amount of the then seller notes to a related party, and getting a sense for when we reunderwrite this, if we should look at this as if it were now an arm's length transaction.

And if that's the case, then that whole issue kind of goes by the wayside. But if the board's still concerned about the original applicant, the original seller's notes that were there, that are now going to be taken up with a third lien, then that's something I need to look at.

MR. CONINE: Well, here's the common sense approach, I think, to what you're looking at. Rents are capped, for the most part. Tax credits are capped. Will the -- and they're proposing to spend 10,000 a unit more than was currently anticipated. So can the wipeout of all those seller notes and the first lien note pick up that \$10,000 difference? And if it can --

MR. GOURIS: Right.

MR. CONINE: -- will the debt service now support all of that?

MR. GOURIS: Right.

MR. CONINE: That's really the gut question we need to answer, or we -- at least I'd like to hear from somebody. And I presume they wouldn't be proposing it, unless they answered it that way.

MR. GOURIS: Right. And I would have no ability at this point to make a comment on it.

MR. CONINE: No, you couldn't do it now. But what she was asking was --

MR. GOURIS: But --

MR. CONINE: -- what do you want us to put in a subject to motion that would --

MR. GOURIS: I would expect that we really need to do a full underwriting, since it's really, in essence, a new transaction -- same properties, but new owner, you know, new financing structure. Let us run the gamut of doing our --

MR. CONINE: How much time would you want -- from when they present you with the facts, how much time do you need to turn it back around to them?

MR. GOURIS: If we have them all, two weeks. If we have to keep going back and forth to piece-meal additional information, it will take as long as it takes to get that information. I'm sorry, I'm not being more --

MR. CONINE: No, I guess the next question

would be if we gave ourselves two or three weeks, is that satisfactory?

MR. GREER: Absolutely.

MR. CONINE: Okay.

MS. JACKSON: That would allow us to move forward with HUD.

MR. CONINE: Sure.

MR. BOGANY: I'd like to make a motion that we accept the settlement subject to the new firm coming in and providing underwriting all the information for them to rewrite it within three weeks from this date forward.

MS. ANDERSON: May I ask a question about the motion? Or does it have to be seconded?

MR. CONINE: Sure.

MS. ANDERSON: You mean, to give them three weeks to provide the information? Or are we trying to get the underwriting report issued in the three weeks elapsed time?

MR. BOGANY: I'm trying -- from what I understand is that they're kind of sitting in hold until we agree to a settlement. If we propose it that we agree to this settlement, they --

MR. CONINE: Subject to staff approval and the underwriting.

MR. BOGANY: -- right, subject to staff approval.

MR. SALINAS: I'll second it for the sake of discussion.

MR. CONINE: You'll second, okay.

MR. BOGANY: Okay. Yes --

MR. CONINE: In other words, we'd say okay, as long as -- and the transfer could take place after staff is adequately satisfied with the new financing plan and underwriting.

MR. BOGANY: Right.

MR. CONINE: And we anticipate that to be in a three week period of time.

MR. WITTMAYER: And the details of the settlement language.

MR. CONINE: Yes, that's very important. Does that give everybody what everybody needs?

MR. GOURIS: And I'm just looking -- is there a timeframe for when the information should be received to us? I mean, I don't know how long it's going to take them to get what they're --

MR. CONINE: They're prepared immediately is what we heard earlier. You may not have been in the room. I'm sorry.

MR. GOURIS: Okay.

MR. CONINE: They're prepared to give you a package immediately, a detailed list of all the problems --

MR. GOURIS: Okay.

MR. CONINE: -- in all 800 units. And they have a financing plan. And they know how much tax credits are sitting there. They just need to give you the information and let you turn it back around to them.

MR. GOURIS: Okay.

MR. BOGANY: We need to move them off sooner.

MR. GOURIS: Okay.

MR. WITTMAYER: And if everything is satisfactory to staff, then we would not bring it back to the board. Is that correct?

MR. CONINE: No, this would be a -- the motion is to approve it subject to that --

MR. WITTMAYER: Okay.

MR. CONINE: -- so that the title can be transferred, or the GP interest can be transferred, you know, three weeks from now, or whenever it's feasible for everybody. Is that what we understand the motion to be?

MR. BOGANY: That's what my motion was.

MR. CONINE: And we have a second. Any further

discussion?

(No response.)

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

(A chorus of ayes.)

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Motion carries. Executive director's report -- are you burned out, Ms. Carrington?

MS. CARRINGTON: Yes, sir.

MR. CONINE: You're just totally done.

VOICE: Thank you.

MR. CONINE: You're welcome. Good luck.

VOICE: Thank you very much.

MR. CONINE: If no one has anything else to come before the board, we stand adjourned.

MS. CARRINGTON: Thank you.

(Whereupon, at 3:25 p.m., the meeting was adjourned.)

C E R T I F I C A T E

MEETING OF: TDHCA Board
LOCATION: Austin, Texas
DATE: April 10, 2003

I do hereby certify that the foregoing pages, numbers 1 through 244, 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) 04/22/03
(Date)

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