# BOARD MEETING OF APRIL 7, 2005

**Beth Anderson, Chair**
**C. Kent Conine, Vice-Chair**

TEXAS
DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS

Patrick R. Gordon, Member
Vidal Gonzalez, Member
Shadrick Bogany, Member
Norberto Salinas, Member

# *MISSION*

## *TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS*

## *TO HELP TEXANS ACHIEVE AN IMPROVED QUALITY OF LIFE THROUGH THE DEVELOPMENT OF BETTER COMMUNITIES*

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**BOARD MEETING**

**APRIL 7, 2005**

**ROLL CALL**

| | Present | Absent |
|---|---|---|
| Anderson, Beth, Chair | __________ | __________ |
| Conine, C. Kent, Vice-Chair | __________ | __________ |
| Bogany, Shadrick, Member | __________ | __________ |
| Gonzalez, Vidal, Member | __________ | __________ |
| Gordon, Patrick, Member | __________ | __________ |
| Salinas, Norberto, Member | __________ | __________ |
| Number Present | __________ | |
| Number Absent | | __________ |

_____________________, Presiding Officer

**BOARD MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437 – Boardroom, Austin, Texas 78701**
**Thursday, April 7, 2005 11:30 a.m.**

**A G E N D A**

| | |
|---|---|
| **CALL TO ORDER, ROLL CALL** | Elizabeth Anderson |
| **CERTIFICATION OF QUORUM** | Chair of Board |

**PUBLIC COMMENT**
The Board will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by the department staff and motions made by the Board.

The Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**ACTION ITEMS**

Item 1 Presentation, Discussion and Possible Approval of Minutes of Board Meeting of March 10, 2005 — Elizabeth Anderson

Item 2 Discussion of Alternative Dispute Resolution and Appeals Process for the 2005 Housing Tax Credit Application Cycle — Elizabeth Anderson

Item 3 Presentation, Discussion and Possible Approval of Housing Tax Credit Items: — Elizabeth Anderson

a) Proposed Housing Tax Credit Amendments for:
01011 Oak Timbers – White Settlement, White Settlement, Texas
02007 Portside Villas Apartments, Ingleside, Texas

04024 South Union Place Apts., Houston, Texas
04057 Stone Hollow Village, Lubbock, Texas
04260 Towne Park Fredericksburg II, Fredericksburg, Texas

b) Waiver of §49.12(a)(2) of the 2005 Qualified Allocation Plan for the Four Percent (4%) Housing Tax Credits for: Langwick Seniors, Houston, Texas and Tower Ridge, Corinth, Texas

Item 4 Presentation, Discussion and Possible Approval of Multifamily Bond Program: — Vidal Gonzalez

a) Inducement Resolution Declaring Intent to Issue Multifamily Housing Mortgage Revenue Bonds for Developments Throughout the State of Texas and Authorizing the Filing of Related Applications for the Allocation of Private Activity Bonds with the Texas Bond Review Board For Program Year 2005 **(2005 Waiting List)**

2005-027 Marquee Ranch Apartments, Pflugerville
2005-035 Providence at Marine Creek, Ft. Worth
2005-036 The Plaza at Chase Oaks, Plano

b) Proposed Issuance of Multi-Family Mortgage Revenue Bonds and Four Percent (4%) Housing Tax Credits with TDHCA as the Issuer For Tower Ridge Apartments, Corinth, Texas, in an Amount Not to Exceed $15,000,000 and Issuance of a Determination Notice (Requested Amount of $665,729 and Recommended Amount of $665,729) for #04602, Tower Ridge Apartments

Item 5 Presentation, Discussion and Possible Approval of Report from Programs Committee: — C. Kent Conine

Report on Section 8 Housing Choice Voucher Program

Item 6 Presentation, Discussion and Possible Approval of Programmatic Items: — C. Kent Conine

a) 2005 Bootstrap Funding Recommendations for:

| Economically Distressed Areas | County` | Region | Project Amnt. | Admin Amnt. | #of Units |
|---|---|---|---|---|---|
| Lower Valley Housing Corp. | El Paso | 13 | $600,000 | $24,000 | 30 |
| Habitat for Humanity of Laredo | Webb | 11 | $210,000 | $ 8,400 | 7 |
| Val Verde County Colonia Self-Help Center/Del Rio Hsg. Auth. | Val Verde | 11 | $150,000 | $ 6,000 | 5 |
| Habitat for Humanity of Victoria, Jim Wells & DeWitt Counties | Victoria, Jim Wells DeWitt | 10 | $480,000 | $19,200 | 16 |
| Futuro Communities, Inc. | Zavala/LaSalle | 11 | $300,000 | $12,000 | 10 |
| El Paso Community Action Prg., Project Bravo, Inc. | El Paso | 13 | $300,000 | $12,000 | 10 |
| Rio Grande Habitat for Humanity | Hidalgo | 11 | $150,000 | $ 6,000 | 5 |

| Statewide Applicants | County | Region | Project Amnt. | Admin Amnt. | #of Units |
|---|---|---|---|---|---|
| Waco Habitat for Humanity, inc. | McLennan | 8 | $150,000 | $ 6,000 | 5 |
| Bryan/College Station Habitat for Humanity, Inc | Brazos | 8 | $360,000 | $14,400 | 12 |
| Dallas Area Habitat for Humanity | Dallas | 3 | $600,000 | $24,000 | 20 |

b) Forgiveness of Housing Trust Fund Predevelopment Loan for:

1) East Austin Economic Development Corporation, Austin, Texas (Requested Amount of $30,000 and Recommended Amount of $0)

2) Accessible Communities, Inc., Corpus Christi, Texas (Requested Amount of $22,207 and Recommended Amount of $22,207)

c) Approval of Waiver of Integrated Housing Rule for Predevelopment Loan Applicant, Contract No. 100237, Denton Affordable Housing Corporation, Denton, Texas

d) Award of HOME CHDO Funds in the Amount of $1,500,000 and $50,000 in CHDO Operating Expenses for Affordable Housing of Parker County, Estates of Bridgeport, Phase IV

Item 7 Presentation, Discussion and Possible Approval of Report from Audit Committee: — Shad Bogany

a) Discussion of Audit Results from the Statewide Federal Single Audit for Fiscal Year Ended August 31, 2004

b) Status of Prior Audit Issues

c) Enterprise Risk Management – An Executive Summary

d) Status of TDHCA's Risk Management Program

Item 8 Presentation, Discussion and Possible Approval of Report from Finance Committee: — Vidal Gonzalez

a) Approval of Criteria and Methodology Recommended for the Selection of Co-Senior Managers in Conjunction with the Sale of TDHCA's Single Family Mortgage Revenue Bonds

b) Approval of Program Modifications for Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B

c) Approval of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate) for Program 62

**EXECUTIVE SESSION** — Elizabeth Anderson

If permitted by law, the Board may discuss any item listed on this agenda in Executive Session

**OPEN SESSION** — Elizabeth Anderson

Action in Open Session on Items Discussed in Executive Session

**REPORT ITEMS**

Executive Directors Report

1. Department Outreach Activities – Meetings, Trainings, Conferences, Workshops for March, 2005
2. Freddie Mac Affordable Housing Advisory Committee
3. Quarterly Report on Transfers
4. Update on Legislation Impacting TDHCA
5. Report on Marketing for the Single Family Bond Program
6. Texas Clean Air Challenge – Charter Partner
7. Section 8 Housing Choice Voucher Eligibility Certification Exam/Housing Choice Voucher Rent Calculation Certification Exam
8. Faith-based and Community Initiatives

**ADJOURN** — Elizabeth Anderson

*To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin, Texas 78701, 512-475-3934 and request the information.*

*Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Delores Groneck, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.*

*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

**EXECUTIVE OFFICE**

**BOARD ACTION REQUEST**
**APRIL 7, 2005**

## Action Item

Board Minutes of March 10, 2005.

## Required Action

Review of the minutes of the Board Meetings and make any necessary corrections.

## Background

The Board is required to keep minutes of each of their meetings. Staff recommends approval of the minutes.

## Recommendation

Approve the minutes with any requested corrections.

**BOARD MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437, Austin, Texas 78701**
**March 10, 2005 9:30 a. m.**

**Summary of Minutes**

**CALL TO ORDER, ROLL CALL**
**CERTIFICATION OF QUORUM**

The Board Meeting of the Texas Department of Housing and Community Affairs of March 10, 2005 was called to order by the Chair of the Board Elizabeth Anderson at 9:45 a.m. It was held at the Texas Department of Housing and Community Affairs Boardroom, 507 Sabine, Austin, Texas. Roll Call certified a quorum was present.

Members present:
Beth Anderson -- Chair
C. Kent Conine -- Vice Chair
Shadrick Bogany – Member
Vidal Gonzalez -- Member
Patrick Gordon – Member
Norberto Salinas – Member

Staff of the Texas Department of Housing and Community Affairs was also present.

Ms. Anderson stated she would begin the meeting by giving recognition for the executive director of the Department, Edwina Carrington. On Friday, March 18th, Ms. Carrington will receive an award from the State Agency Council which is the 2005 Outstanding Women in Texas Government award. Ms. Carrington is receiving the award for outstanding management in Texas state government which is a very competitive award as more than 40 nominations for submitted. This Board and staff are very pleased that Ms. Carrington was selected as the recipient of this very prestigious honor.

Ms. Anderson stated: “In the application that was submitted to this State Agency Council, the application traces this history of Ms. Carrington's involvement with the Agency, particularly with her arrival in March 2002, when the Agency was beginning to emerge from some pretty dark days that had discredited the integrity and the effectiveness of the Department. Ms. Carrington directed the Department through the Sunset Advisory Commission Review process, which the Sunset Commission in 2003 came out with a glowing report. The Commission voted unanimously to continue TDHCA for an eight-year period and noted the Department's significant improvement since the last review. She also, along with members of the Multifamily Production staff, instituted significant program improvements to the housing tax credit programs to increase transparency, public confidence in responsiveness to market needs.

She led the extensive reorganization of the Department where it was reorganized by program function rather than by funding stream to eliminate duplication of effort, redundancy, tangled communications for both our staff internally and you as our customers.

Significantly last summer the Governor issued Executive Order number 36 dealing with Agency efforts on waste, fraud and abuse. She, with the leadership of our internal auditor, David Gaines, really came into the forefront with a very comprehensive plan for this Department around waste, fraud and abuse to address the requirements of Executive Order 36 and have been commended by the Governor's Office for the thoroughness of that more recent activity So all of these things and her personal integrity and the relationships that she's built with many of you all and with the Board members and with the larger community make her indeed for deserving of this award. I ask you to join me in saluting Edwina Carrington on her being given this award. Those beautiful flowers are from your staff.”

**PUBLIC COMMENT**

The Board will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Board.

Ms. Anderson called for public comment and the public wished to wait until the agenda items was presented on which they had comments.

**ACTION ITEMS**

**(1) Presentation, Discussion and Possible Approval of Minutes of Board Meeting of February 10, 2005**

Motion made by C. Kent Conine and seconded by Norberto Salinas to approve the minutes of the Board Meeting of February 10, 2005.

Passed Unanimously

**(2) Presentation by the Attorney General's Office and Discussion on Chapter 556, Texas Government Code, on Political Activities by Public Entities and Individuals**

Mr. Kevin Hamby, Assistant Attorney General in the Administrative Law Division, presented information on political activities by public entities and individuals. He stated one of the requirements is to address the subject matter of the Government Code in lobbying versus public information sharing. TDHCA is a State agency under the rules and under the decisions issued by the Attorney General's Office. This meant that the Board has statewide jurisdiction, make final decisions about contracting and disbursement of funds and receive appropriated funds from the Legislature. Even funds that come through that are federal funds, once the Legislature gets a hold of them, they become appropriated funds from the State Agency's perspective, and so the Board is included in the definition under Government Code 556.

One of the key things to remember whenever you serve on a State board, you change the nature a little bit of your position, and you become officers of the State. As a Board member, because you were appointed by the Governor, you are an officer of the State, and so you are governed by Chapter 556, as is the staff.

One of the issues to remember is the officer standard is that you are governed by this statute and you are required to read it, be familiar with it and make sure that you do not violate it. In your role as a State agency you have to be a resource witness when testifying at a hearing. The Legislature needs your input. The difference is that you don't advocate in your role as an officer of the State and that includes in both very formal settings in the Legislature when you're asked to come and testify as a witness. It also includes when you see a friendly or unfriendly legislator staff member at a party or at some other event where you come in contact.

Board members are not allowed to use State owned vehicles or State leased vehicles for political purposes nor can they use State property or funds for political purposes which includes lobbying. This means if one comes to Austin for a Board meeting, they can not run to the Legislature and also lobby people. If a Board member is asked to be there as a resource witness one can do that. You cannot as a board pay or reimburse for lobby activities. One can not pay a lobbyist, nor can one reimburse for lobby activity. The Chapter provides for termination of anybody who violates these rules.

The problem with being an officer of the State is that one is not in the position of advocating, one is providing information. That is not as true to anybody who's in private business, trade industry groups, or the legislators themselves. They can be very aggressive; they can be very antagonistic if they want to be. Given some of the bills that are there now, if someone wants to talk about a rural cap, answer the rural cap question, don't go to the urban affairs question.

If a Board member thinks that a program needs to be expanded one can ask or answer questions in terms of, the Department is unable to meet the needs of the mission because of these factors, whatever the limitations of resources are. He advised the Board members to be comfortable and confident and know the facts. TDHCA has a great staff that will support the Board members. Don't ever hesitate to say "I don't know the answer to that and I'll get back to you", because that's the easiest answer that doesn't get one into any trouble and doesn't make one go into a speculation mode.

**(3) Presentation and Discussion of Status Report on Alternative Dispute Resolution for 2004 Housing Tax Credit Applicants**

Ms. Carrington stated all State agencies that were going through the Sunset review process did have put in their statute language that required the agencies to go through alternative dispute resolution and negotiated rulemaking. TDHCA went through training with the Center for Public Policy Dispute Resolution at the UT law school. The Board adopted an initial ADR rule that is in the 2004 QAP, the HOME Rules and the Housing Trust Fund Rules.

In March of 2004 staff solicited comments on a more comprehensive ADR rule from the 2004 QAP working group. On May 13, 2004, the Board adopted the proposed final ADR rule which went out for public comment. The Board approved the comprehensive ADR rule on July 8, 2004. During October and November 2004 staff conducted mediation on two 2004 tax credit projects with developers at their request. There was a third request that TDHCA was not able to get to mediation. Leonard Spearman did complete the required 40-hour mediation course at the Dispute Resolution Center at the University of Texas.

This was a report item to update the Board on the ADR process.

<u>Mark Feaster, Residential Developer, Topeka, Kansas</u>

Mr. Feaster stated he was speaking on behalf of McGill Development, Hyperion Holdings and the Gardens of Texas. They are the three developers who requested ADR for five of the applications. The Department's general counsel told them at the pre-ADR meeting that the process was unworkable as currently structured and that no one would represent the Department who would have the ability to make a decision and they would not make any recommendations to the Board. He stated he felt the staff is reluctant to make any recommendations to the Board.

He asked that the people in the communities not be penalized by an unworkable process. The Board has the ability to right the wrong that occurred this year by granting either unused 2004 tax credits or 2005 tax credits for five developments.

**(4) Presentation, Discussion and Possible Approval of Housing Tax Credit Items:**

**a) Proposed Housing Tax Credit Amendments for:**

**99197 Sun Meadows Apartments, Alamo, Texas**

Ms. Carrington stated this is a 1999 tax credit development. The Board reviewed this item in December but tabled it at that time. The development has 10 SEER units instead of the 12 SEER A/C units that is required is the QAP. The developer is asking to leave the 10 SEER A/C units but they will add solar screens which should reduce the household heat load. Staff is requesting the Board grant a waiver on this requirement for the QAP for that year.

Motion made by Shad Bogany and seconded by C. Kent Conine to grant the waiver for the QAP requirement for 1999 for Sun Meadows Apartments in Alamo, Texas.
Passed Unanimously

**04268 Lansborough Apartments, Houston, Texas**

Ms. Carrington stated this is a 2004 tax credit allocation and the project is located in Houston. They are requesting to change the size of the site. They are adding 7.62 acres to the original 19.5 acres and the reason for this item being presented to the Board is it changes the density by more than 5%. They are also increasing the size of the two-bedroom units from 950 sq. ft. to 960 sq. ft. and the three bedroom units from 1,100 sq. ft. to 1,200 sq. ft. Staff is recommending approval of this request.

Motion made by C. Kent Conine and seconded by Shad Bogany to approve the request to add the 7.62 acres to the site and to increase the size of the two and three bedroom units for Lansborough Apartments in Houston, Texas.
Passed Unanimously

**b) Approval of 2005 Housing Tax Credit Rural Rescue Policy**

Ms. Carrington stated in March of 2003 the Board approved the first Rural Rescue Policy for RD transactions that are experiencing foreclosure or loan acceleration. It allows applicants to come in and apply to the Department even if it is not during an application round. These developments in many instances do not have time to wait for an application round. This policy was used in 2004 as the Board approved four applications using this Rural Rescue Policy for a total of $185,178. She stated in the 2006 allocation all awards will only go to a total of $250,000. The changes from the 2004 to the 2005 policy are minimal.

Sox Johnson, Exec. Director, Rural Rental Housing Association, Temple, Texas
Mr. Johnson stated he felt the program has worked quite well. There were two things that he felt could strengthen the program and make it better. One is to add a paragraph which would read "an at-risk development that is adjacent or within the same market as an otherwise eligible Rural Rescue Development to be consolidated and transfer process with Texas RHS and form a single new ownership entity for preservation purposes".

Motion made by C. Kent Conine and seconded by Shad Bogany to table this item until later in the meeting to give staff time to come up with language on the market area mentioned by Mr. Johnson.
Passed Unanimously

At this time the Board returned to Agenda Item No. 3 for comments on the ADR topic.

Brian Cogburn, Hyperion Holdings, Developer, Houston, Texas
Mr. Cogburn stated the Essex Gardens Apartments is a 2004 project in Sealy, Texas. Essex Gardens scored the minimum score to receive approved tax credits in Region VI. If the rules had been followed as strictly as were written in the QAP, there would have more than adequate tax credits for Essex Gardens. Documentation was presented to the Department in October but they never got the ADR even though they asked for it.

He stated the city supports this project as there are 600 new jobs and the city does not have enough housing for these people to live in. He asked the Board to reconsider ADR. They made requests and tried to have resolution but the process was unworkable.

Ms. Carrington stated she met with Mr. Cogburn and he gave her a packet of information related to the comments that he made. The staff has been going through these issues to see what information the Department has and to be able to explain one way or the other what they did or did not do.

Ms. Anderson asked that a written response be made to Mr. Cogburn about these issues and perhaps send a copy to the Board members would be the appropriate way to address these particular issues.

George Hopper, Gardens of Texas, Topeka, Kansas
Mr. Hopper stated the three projects they wanted to discuss in ADR all had leading scores in their region. The Gardens of Burkburnett went through the process of ADR but never had the chance to bring up points to discuss like he is doing at this time. On this project they had points deduced with no notification and they could not figure out where they had lost points.

On the Gardens of Maybank it was the top score in underwriting and in the process of preparing for ADR they discovered that the underwriting staff did not use funds that had been awarded by the city. They were told that they could not discuss the funds during the discussions on ADR.

**(5) Presentation, Discussion and Possible Approval of Multifamily Bond Program:**

**a) Inducement Resolution Declaring Intent to Issue Multifamily Housing Mortgage Revenue Bonds for Developments Throughout the State of Texas and Authorizing the Filing of Related Applications for the Allocation of Private Activity Bonds with the Texas Bond Review Board For Program Year 2005 (2005 Waiting List)**

Ms. Carrington stated these applications total $74,500,000 and will sit at the bottom of the waiting list for 2005. At this time TDHCA does not have any other applications at the bottom of the waiting list.

2005-027 Marquee Ranch, Pflugerville

This project was withdrawn from consideration.

Hal Thorne, Attorney/Real Estate Developer, Grand Prairie, Texas

Mr. Thorne stated Prairie Ranch in Grand Prairie has a building permit and the property is zoned and they have met all of the requirements of the local municipality. The City of Grand Prairie is opposing the financing of the project and not the multifamily project.

Bernard Felder, Director of Affordable Housing, Wood Partners, Houston, Texas

Mr. Felder stated within their market area of Alta Northgate in Houston, there is a preponderance of multifamily properties; however, these are market rate multifamily projects. He stated they had a formal market study done on this area and the capture rates were within the boundaries for TDHCA's rules.

2005-029 St. Augustine Estates, Dallas

2005-030 Villas at Henderson Place, Cleburne

2005-031 Prairie Ranch, Grand Prairie

Ms. Carrington stated this project does have a resolution from the city opposing this proposed inducement by the Board.

2005-032 Alta Northgate, Houston

Ms. Robbye Meyer stated this project is in Northwest Houston, west of 45 on 1960 and is close to another project called Sugar Pines.

2005-033 Providence at UT Southwestern, Dallas

2005-034 Park Manor Senior Community, Sherman

Motion made by Shad Bogany and seconded by C. Kent Conine to induce the six projects to be placed on the 2005 waiting list at the Texas Bond Review Board with approval of Resolution No. 05-016.

Passed Unanimously

**b) Proposed Issuance of Multi-Family Mortgage Revenue Bonds and Four Percent (4%) Housing Tax Credits with TDHCA as the Issuer For:**

**1) Alta Cullen Apartments, Houston, Texas in an Amount Not to Exceed $14,000,000 and Issuance of Determination Notice (Requested Amount of $606,365 and Recommended Amount of $606,365) for Alta Cullen Apartments, #04611**

Ms. Carrington stated this project is located in Houston, Texas and will have 240 units of new construction and serves the general population. Staff is recommending tax credits in the amount of $606,365 along with the bond amount not to exceed $14,000,000. There was a correction noted in the resolution which stated that the date should be listed as March 1, 2045 and not September 1, 2048 as listed in the original resolution.

Motion made by C. Kent Conine and seconded by Norberto Salinas to approve the Resolution with the change of the dates and to approve the issuance of Multi-Family bonds in an amount not to exceed $14,000,000 and approval of tax credits in the amount of $606,635 for Alta Cullen Apartments.
Passed Unanimously

2) **Atascocita Pines, Humble, Texas in an Amount Not to Exceed $11,900,000 and Issuance of Determination Notice (Requested Amount of $590,697 and Recommended Amount of $577,587) For Atascocita Pines, #04499**
Ms. Carrington stated this project is in Humble, Texas and will have 192 units which are 100% at 60%. The amount of the bonds is not to exceed $11,900,000 and is new construction serving the general population. The tax credit recommended amount is $577,587 and the Resolution is No. 05-015.

Motion made by C. Kent Conine and seconded by Vidal Gonzalez to approve the issuance of Multi-family Bonds in the amount not to exceed $11,900,000 and issue tax credits in the amount of $577,587 with approval of Resolution No. 05-015 for Atascocita Pines.
Passed Unanimously

**(6) Presentation, Discussion and Possible Approval of Financial Items:**
**Approval of Investment Banking Firms Recommended for Senior Manager Roles in Conjunction with the Sale of TDHCA's Single Family Mortgage Revenue Bonds**
Ms. Carrington stated this is staff's recommendations of the three firms who are being recommended for senior manager for TDHCA's single family mortgage revenue bond issues. Staff is recommending as Senior Managers Citigroup Global Markets, UBS Financial Services and Bear Stearns & Company. The remaining three firms of George K. Baum, Piper Jaffrey, and Siebert Brandford & Shank will be co-managers.

Mr. Byron Johnson stated there will be a recommendation for co-senior managers at a future meeting.

Ms. Anderson stated the Board would expect to see proposed criteria for the co-seniors for review and for public comment from the banking community. At a subsequent month staff could then bring a recommendation for co-senior managers.

Motion made by C. Kent Conine and seconded by Shad Bogany to approve the firms of Citigroup Global Markets, UBS Financial Services and Bear Stearns & Company for Senior Manager roles in conjunction with the sale of TDHCA's Single Family Mortgage Revenue Bonds.
Passed Unanimously

Motion made by C. Kent Conine and seconded by Norberto Salinas to reconsider Item 4b.
Passed Unanimously

b) **Approval of 2005 Housing Tax Credit Rural Rescue Policy**
Ms. Brooke Boston stated staff is recommending making two additions. The first is under Eligibility and after 2d, to add a new e would which say: "is for an application in which two adjacent parcels are involved, of which at least one parcel qualifies under clauses (a) through (d) of this item and which the application is submitted under one ownership structure, one financing plan and for which there are no market rate units".

The second addition would add a No. 3 which would state: "Applicants must be identified as in compliance with TX-USDA-RHS regulations".

<u>Dennis Hoover, Developer, Burnet, Texas</u>
Mr. Hoover stated he was representing himself as a developer and the Rural Rental Housing Association. He stated to be eligible for this program that the project has to be an RD project and if you are out of

compliance, they are not going to fund an acquisition. He asked the Board to state anything in the same town instead of just adjacent to one another. He also felt the amount of funds for this policy should be increased to $500,000.

Motion made by C. Kent Conine and seconded by Shad Bogany to approve the 2005 Housing Tax Credit Rural Rescue Policy as amended using the wording of staff.
Passed Unanimously

Ms. Anderson noted that Michael Gerber from Governor Rick Perry's Office and Scott Sims from Speaker Tom Craddick's Office were in attendance at this meeting.

**(7) Presentation, Discussion and Possible Approval of Programmatic Items:**
**Section 8 Program Public Housing Authority Plan Five Year Plan and FY 2005 Plan**

Ms. Carrington stated this is approval of the Section 8 Public Housing Authority Plan which is both the five-year plan and the FY 2005 plan. This is a requirement of HUD to submit this document and it is due on April 17, 2005.

Motion made by Shad Bogany and seconded by Vidal Gonzalez to approve the Section 8 Program Public Housing Authority Plan Five Year Plan and FY 2005 Plan.

Ms. Anderson stated she would like to table this item until the next Board meeting as she has not had an opportunity to review this is detail. There are a number of questions of the staff which can not be addressed in this Board meeting and she would like an update on items requested by Mr. Conine at the November Programs Committee Meeting.

Original Motion made by Shad Bogany was withdrawn by Mr. Bogany and the second was withdrawn by Mr. Gonzalez.

Motion made by Beth Anderson and seconded by C. Kent Conine to table this item until the next Board meeting.
Passed Unanimously

**(8) Presentation, Discussion and Possible Election of Officers of the Board**

Motion made by Vidal Gonzalez and seconded by Norberto Salinas to elect C. Kent Conine as Vice-Chair of the Board.
Motion made by C. Kent Conine and seconded by Shad Bogany to elect Vidal Gonzalez as Treasure of the Board.
Motion made by Norberto Salinas and seconded by Shad Bogany to elect Delores Groneck as Secretary of the Board.
All motions passed unanimously.

**EXECUTIVE SESSION**

If permitted by law, the Board may discuss any item listed on this agenda in Executive Session
Consultation with Attorney Pursuant to §551.071, Texas Government Code, On Political Activities by Public Entities and Individuals

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

Ms. Anderson announced that the Board would not go into Executive Session.

**REPORT ITEMS**

Executive Directors Report

1. Bills filed in the current Legislative Session
   Ms. Carrington stated several bills have been filed in this current session of the Legislature that affects the business of TDHCA. HB 1167 would rewrite most of the housing finance program operations with particular interest on the tax credit program. There is a hearing on Tuesday of next week of the House Committee on Urban Affairs and they will consider this bill.

   Mr. Bogany asked for a summary or synopsis of that bill, pros and cons of it, what affects TDHCA and how the Department looks at this bill.

   Ms. Carrington stated the Department would give the Board the impact of the proposed legislation.

   Ms. Carrington also stated Senator Lucio has filed SB865 which would move TDHCA's Sunset date to 2013 and changes several functions in the tax credit program.

   A joint filing with Senator Lucio and Rep. Chavez is out of committee and passed to the full House which would transfer the inspection duties of migrant farmworker housing from Health & Human Services Commission to TDHCA. There are 37 of the migrant farmworker communities around the state and those inspections would be done through the Manufactured Housing Division. TDHCA would do this at much less cost than what Health & Human Services Commission is charging now and TDHCA would do these inspections more frequently.

   Senator Lucio also has a bill that would instruct TDHCA to conduct intensive statewide needs survey with bond funds appropriated from the Private Activity Bond Program.

   Senator Ellis has a bill which would charge TDHCA with the statewide oversight of property managers. This would require the Department to create a new division to regulate this area.

   Senator West has a bill that would change several scoring parameters in the Housing Tax Credit Program and would emphasize Fair Housing concerns.

   Rep. Chavez has a bill that would have TDHCA conducting subprime lending studies in five particular areas of Texas and these are: Bexar, Cameron, Dallas, El Paso and Travis Counties.

   Rep. Van Arsdale has a bill which would prohibit TDHCA from awarding Housing Finance Division funds which would be credits, credits and bonds, and housing trust fund to Harris County for two years. He also has a bill that would prohibit TDHCA from holding hearings on tax credits during the legislative session.

   There is a joint bill by Rep. Van Arsdale and Rep. Riddle concerning additional notifications for the Housing Tax Credit Program.

2. Department Outreach Activities – Meetings, Trainings, Conferences, Workshops for February, 2005
   Ms. Carrington stated these activities have been furnished to the Board members for their review.

3. Senate Finance Working Group Meeting, 02-22-05
4. House Committee on Border & International Affairs, 02-23-05
5. Senate Finance Mark Up Hearing, 02-28-05
6. House Appropriations Committee Hearing, 02-28-05
   Ms. Carrington stated the Department is through with the hearings for Senate Finance and House Appropriations. The Legislature is reducing the FTE count from 313 down to 298 for TDHCA.

   Mr. Bogany asked that there be a report on the bond program, the marketing campaign, etc. and he asked that this report be given at the next Board meeting.

7. State Auditor's Office Draft Report Concerning the Federal Compliance Audit for the Section 8 Housing Choice Voucher Program for FY 2004
   Ms. Carrington stated the Department does have a draft from the State Auditors on this program and it will be discussed at the next Audit Committee Meeting. It will be furnished to the Board members.

Ms. Anderson stated that the next meeting will be held on April 7, 2005 and not the second Thursday of April.

**ADJOURN**

Motion made by C. Kent Conine and seconded by Shad Bogany to adjourn the meeting.
Passed Unanimously

The meeting adjourned at 12:00 noon.

Respectfully submitted,

Delores Groneck
Board Secretary

Bdminmar

**EXECUTIVE OFFICE**
**BOARD DISCUSSION**
**APRIL 7, 2005**

## Informational Item

Discussion of Alternative Dispute Resolution and Appeals Process for the 2005 Housing Tax Credit Cycle

## Background

At the March 10, 2005 Board meeting, the Board heard public testimony concerning the implementation of the agency's Alternative Dispute Resolution Process (ADR) as it related to the 2004 tax credit cycle. The witnesses testifying at the Board meeting asked the Board to identify additional options, within the confines of the ADR process, to resolve disputes related to the 2005 housing tax credit cycle. A number of ideas have been generated over the last several months in an effort to improve the process. The Board is interested in listening to the public and to continuing the discussion for possible options related to ADR for the 2005 housing tax credit cycle.

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**
**April 7, 2005**

## Action Item

Requests for amendments to Housing Tax Credit (HTC) applications involving material changes.

## Requested Action

Approve or deny the requests for amendments.

## Background and Recommendations

§2306.6712, Texas Government Code, classifies some changes as "material alterations" that must be approved by the Board. Each request below includes one or more material alterations. Pertinent facts about the developments requesting approval are summarized below. The recommendation of staff is given at the end of each write-up.

### Oak Timbers – White Settlement Apartments, HTC Development No. 01011

Summary of Request: Applicant requests approval to change the bedroom mix and unit mix and to amend the requirement that the unit-based applicable fraction be no greater than 60%. During the completion of construction and lease-up, the applicant found that there was more demand for two-bedroom market rate units than anticipated. To match demand, a number of two-bedroom units were changed from rent-restricted to market rate and a number of one-bedroom units were changed from market rate to rent-restricted. To arrive at the most appropriate unit mix, from application to cost certification, the unit-based applicable fraction has changed from 59.6% to 61.5%. Therefore, as built, the development would have been eligible for only six points at application instead of the ten points that were awarded. Despite the loss of four points, the development would still have received an award of tax credits. The changes in unit mix that have been made are indicated in the table below:

| Income Level Served | No. of BRs | Sq.Ft. per Unit | No. of Units at Application | No. of Units at Cost Certification | Difference in Units from Application to Cost Cert. | Rentable Sq.Ft. at Application | Rentable Sq.Ft. at Cost Certification |
|---|---|---|---|---|---|---|---|
| 50% | 1 | 663 | 40 | 51 | +11 | 26,520 | 33,813 |
| 60% | 1 | 663 | 0 | 12 | +12 | 0 | 7,956 |
| 50% | 2 | 835 | 12 | 1 | -11 | 10,020 | 835 |
| 60% | 2 | 835 | 10 | 0 | -10 | 8,350 | 0 |
| Subtotal | | | 62 | 64 | +2 | 44,890 | 42,604 |
| Market | 1 | 663 | 42 | 19 | -23 | 27,846 | 12,597 |
| Market | 2 | 835 | 0 | 21 | +21 | 0 | 17,535 |
| Subtotal | | | 42 | 40 | -2 | | |
| Total Units & Sq.Ft. | | | 104 | 104 | | 72,736 | 72,736 |

| | |
|---|---|
| Governing Law: | §2306.6712, Texas Government Code. The code indicates that material alterations include a modification of the number of units or bedroom mix of units. |
| Applicant: | Oak Timbers – White Settlement, L.P. |
| General Partner: | Oak Timbers (managing GP) |
| Developers: | White Settlement Senior Living, Inc. (co-GP) |
| Principals/Interested Parties: | Oak Timbers is a nonprofit corporation with Lynda Pittman as executive director; Vaughn Mitchell (developer and owner of co-GP) |
| Syndicator: | Simpson Housing Solutions |
| Construction Lender: | MuniMae Midland |
| Permanent Lender: | MuniMae Midland |
| Other Funding: | NA |
| City/County: | White Settlement/Tarrant |
| Set-Aside: | General |
| Type of Area: | Urban/Exurban |
| Type of Development: | New Construction |
| Population Served: | Elderly |
| Units: | 64 HTC units and 40 market rate units |
| 2001 Allocation: | $247,675 |
| Allocation per HTC Unit: | $3,870 |
| Prior Board Actions: | 7/31/01 - Approved award of tax credits |
| Underwriting Reevaluation: | The financial feasibility of the development would not be impaired by the change requested. The amount of the allocation recommended remains the same. |

| | |
|---|---|
| **Staff Recommendation:** | **Staff recommends approving the request because the requested modification would not materially alter the development in a negative manner and actually increases the number of low income units. Additionally, it would not have adversely affected the selection of the application in the application round.** |

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS**
# MULTI FAMILY CREDIT UNDERWRITING ANALYSIS ADDENDUM

**DATE:** March 28, 2005 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 01011

## DEVELOPMENT NAME

Oak Timbers - White Settlement

## APPLICANT

**Name:** Oak Timbers - White Settlement, L.P. **Type:** ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other

**Address:** 1833 Wildwood **City:** Grand Prairie **State:** TX

**Zip:** 75050 **Contact:** Vaughn Mitchell **Phone:** (972) 641-3900 **Fax:** (972) 641-1996

## PRINCIPALS of the APPLICANT

| Name | (%) | Title |
|---|---|---|
| Oak Timbers | .0051 | Managing General Partner |
| White Settlement Senior Living, Inc. | .0049 | Co-General Partner |
| Simpson Housing Solutions, LLC | 99.99 | Initial Limited Partner |
| A. Vaughn Mitchell | | Developer, owner of Co-G.P. |

## GENERAL PARTNER

**Name:** Oak Timbers **Type:** ☐ For Profit ☒ Non-Profit ☐ Municipal ☐ Other

**Address:** 1904 Papeete **City:** Plano **State:** TX

**Zip:** 75075 **Contact:** Lynda Pittman **Phone:** (972) 596-7335 **Fax:** (972) 596-5244

## PROPERTY LOCATION

**Location:** 8401 Tumbleweed Trail ☐ **QCT** ☐ **DDA**

**City:** White Settlement **County:** Tarrant **Zip:** 76108

## REQUEST

| Amount | Interest Rate | Amortization | Term |
|---|---|---|---|
| $247,675 | N/A | N/A | N/A |

**Other Requested Terms:** Annual ten-year allocation of low-income housing tax credits-allocated in 2001

**Proposed Use of Funds:** New construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

## RECOMMENDATION

X RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $247,675 ANNUALLY FOR TEN YEARS

## ADDENDUM

Oak Timbers-White Settlement was originally underwritten during the 2001 9% HTC cycle. The Applicant's adjusted estimate of eligible basis was used to determine a HTC recommendation of no more than $255,794 annually for ten years. This was $8,119 over what was requested based on the Applicant's use of a lower applicable percentage of 8.23% rather than the July 2001 underwriting rate of 8.51%. Despite this increase, the TDHCA Board awarded the Applicant's original requested annual amount of $247,675.

In conjunction with the submission of the cost certification for Oak Timbers-White Settlement, the Owner has requested an amendment to the original application with respect to the unit mix for the project and a waiver of the requirement to have a unit-based applicable fraction of no greater than 60%. It should be noted that in July 2003 the Owner submitted a request to the Department to change one unit in the development from market rate to tax credit. The Owner explained that the request resulted from the fact that a Federal Home Loan Bank grant was available to the development conditioned on more than 60% of the units being set-aside for 50% tenants. This condition is contrary to the representation in the application that scored points for having a unit-based applicable fraction no greater than 60%. The Department approved the Owner's request via a letter dated September 3, 2003 indicating that at construction completion, the relevant applicable fraction under Section 42 of the Internal Revenue Code will be the square foot fraction, which is less than 60%. Further, the Department confirmed that the Development had satisfied both the scoring criterion of having an applicable fraction of 60% or less and the grant condition of having more than 60% of the units set aside as very low income tax credit units, thus, the change was approved. Therefore, the Owner's request to have the requirement of a unit-based applicable fraction of no greater than 60% waived has already been addressed. It should be noted that at cost certification the Owner's final sources and uses of funds statement does not identify any grant amount for this development. This analysis will focus primarily on the Owner's request to change the unit mix for the project and the impact this change will have, if any, on the development's feasibility.

The Owner submitted a formal request letter to the Department dated February 24, 2005 indicating the reason for the unit mix change was due to the fact that during construction completion and lease-up of the property, there was more demand for 2-bedroom market rate apartments than anticipated, and less demand for 1-bedroom market rate units. The development was originally approved with the following unit mix:

| Type of Unit | # of Units | # of Bedrooms | Unit Size | Total NRA |
|---|---|---|---|---|
| TC50% | 40 | 1 | 663 | 26,520 |
| TC50% | 12 | 2 | 835 | 10,020 |
| TC60% | 10 | 2 | 835 | 8,350 |
| **Rent Restricted** | **62** | | | 44,890 |
| MR | 42 | 1 | 663 | 27,846 |
| **Market Rate** | **42** | | | 27,846 |
| **Total Units** | **104** | | | **72,736** |

At cost certification, the Owner requests approval for the following change to the unit mix:

| Type of Unit | # of Units | # of Bedrooms | Unit Size | Total NRA |
|---|---|---|---|---|
| TC50% | 51 | 1 | 663 | 33,813 |
| TC60% | 12 | 1 | 663 | 7,956 |
| TC50% | 1 | 2 | 835 | 835 |
| **Rent Restricted** | **64** | | | 42,604 |
| MR | 19 | 1 | 663 | 12,597 |
| MR | 21 | 2 | 835 | 17,535 |
| **Market Rate** | **40** | | | 30,132 |
| **Total Units** | **104** | | | **72,736** |

The Owner's rent schedule at cost certification shows that the rent limits on the 50% one-bedroom units are set at the maximum 2004 rents of $588. The 60% one-bedroom units and the 50% two-bedroom units are set at $632 and $728, respectively. It is not clear where these rents originate from as they are not the 2004 or 2005 maximum tax credit rents and are actually $73 less than the maximum rent for the 60% one-bedroom units and $23 more than the maximum rent for the 50% two-bedroom units. The Underwriter utilized the 2004 maximum rents on all rent restricted units and used the Owner's net rent of $610 and $735 for the market rate one and two-bedroom units, respectively. As a result, the Underwriter's potential gross rent estimate exceeds the Owner's by $10K or slightly over 1%. Should the unit mix remain the same as approved originally the Underwriter's potential gross rent estimate would exceed the Owner's by $4K or less than 1%. The Owner's estimate of secondary income of $30/unit/month for laundry and vending and cable income is above the Underwriter's standard. The owner provided 2004 draft audited financials for the property which supports secondary income of $13/unit/month. The Underwriter's analysis will therefore use The standard $15/unit/month for secondary income. The net result is that the Owner's effective gross income estimate is 1% over the Underwriter's estimate.

The Owner's total operating expense estimate submitted as a cost certification exhibit is 4% lower than the Underwriter's TDHCA database-derived estimate, an acceptable deviation. Based on the historical statements provided for 2004, which are not yet finalized, the property's total actual operating expenses amounted to $383K, which is about $37K more than the Underwriter's database-derived estimate. While this analysis used the actual historical statements as a reference point in evaluating total expenses for the project, the Underwriter did not rely heavily on the data provided. It should be noted that while the Owner provided copies of the property's 2003 audited and 2004 draft audited financials it was emphasized that the project has not yet stabilized and was in lease-up in 2003. Overall the Owner's estimated income and operating expense estimates as presented in the cost certification documentation are both within 5% of the Underwriter's expectations and the Owner's net operating income is within 5% or $7K more than the Underwriter's estimated NOI.

At application the Owner's total development costs were considered to be understated by $436K or 7% than the Underwriter's cost estimate. At cost certification, the Owner's total actual development costs have increased by approximately $400K, which amounts to $35K less or 1% lower than the Underwriter's original cost estimate. In comparing the Owner's original cost estimate to what was actually spent on the project, the increase in total costs is primarily attributed to an increase in direct construction cost by $213K, an increase in indirect costs by $53K and an increase in interim financing costs by $506K. Actual sitework costs decreased from that anticipated at application by $133K and ineligible costs decreased by $52K. Additionally, the Owner's CPA, Novogradac & Company, LLP, provided an independent auditor's report which is a required cost certification exhibit, and certified to total development costs of $6,081,342 and an eligible basis of $5,537,772.

As stated earlier in this addendum, although the Owner requested a change to the unit mix back in July 2003 based on the availability of a Federal Home Loan Bank grant, the final sources and uses of funds summary submitted at cost certification does not identify any amount of grant funds for this development. Final total sources of funds consist of a permanent mortgage loan in the amount of $3,597,600 (8% interest rate and 30-year amortization period), syndication proceeds in the amount of $1,925,481 and deferred developer fee in the amount of $558,261. The information provided in the cost certification documentation reflects the Owner's total actual costs qualify the development to receive an annual tax credit allocation of $252,357. This is $4,682 more than the development was eligible for at the time of application and awarded by the TDHCA Board. Since this development received an allocation from the 2001 9% HTC cycle, the Owner will be limited to receive the originally requested and awarded amount of $247,675. Based on the Underwriter's analysis, the Owner's deferred developer fee amount should be repayable by year 10 of stabilized occupancy. Additionally, both the Owner's and the Underwriter's NOI suggests that the project is able to support the debt service for the permanent mortgage loan at an acceptable DCR.

As a result of this analysis, the Owner's requested change in unit mix would not negatively affect the financial feasibility of the project.

## SUMMARY OF SALIENT RISKS AND ISSUES

- None noted

| | | | |
|---|---|---|---|
| **Underwriter:** | *Raquel Morales* | **Date:** | March 28, 2005 |
| **Director of Real Estate Analysis:** | *Tom Gouris* | **Date:** | March 28, 2005 |

# COST CERTIFICATION: Comparative Analysis

***Oak Timbers Apartments, White Settlement, HTC#1011***
**Reviewed by: Lisa Vecchietti**
**Date: 10/21/2004**

| Type of Unit | Number | Bedrooms | No. of Baths | Size in SF | Gross Rent Lmt. | Net Rent per Unit | UW Net Rent | Rent per Month | CC Net Rent | | Rent per SF | Tnt Pd Util | Wtr, Swr, Trsh |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TC 50% | 51 | 1 | | 663 | $588 | $496 | $484 | $25,296 | $496 | | $0.75 | $92.00 | $46.00 |
| TC 60% | 12 | 1 | | 663 | 705 | $613 | | 7,356 | $613 | | 0.92 | 92.00 | 46.00 |
| MR | 19 | 1 | | 663 | | $610 | | 11,590 | $610 | | 0.92 | 92.00 | 46.00 |
| TC50% | 1 | 2 | | 835 | 705 | $587 | $484 | 587 | $587 | | 0.70 | 118.00 | 57.00 |
| MR | 21 | 2 | | 835 | | $735 | | 15,435 | $735 | | 0.88 | 118.00 | 57.00 |
| | | | | | | | | 0 | | | | | |
| | | | | | | | | 0 | | | | | |
| | | | | | | | | 0 | | | | | |
| TOTAL: | 104 | | AVERAGE: | 699 | $376 | $579 | | $60,264 | | | $0.83 | $97.50 | $48.33 |
| | 64 | | | | | | | | | | | | |

| | | | | | TDHCA-CC | TDHCA-UW | APPLICATION | COST CERT | 2003 Actuals | 2004 Actuals | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | 40 | Total Net Rentable Sq Ft: | 72,736 | | | | | | | | | | |
| POTENTIAL GROSS RENT | | | | | $723,168 | $702,960 | $680,040 | $712,932 | $189,144 | $636,887 | | | |
| Secondary Income | | | Per Unit Per Month: | $15.00 | 18,720 | 12,480 | 12,480 | 37,440 | 1,235 | 17,268 | $30.00 | Per Unit Per Month | |
| Other Support Income: (describe) | | | | | 0 | 0 | 0 | 0 | | | $0.00 | Per Unit Per Month | |
| POTENTIAL GROSS INCOME | | | | | $741,888 | $715,440 | $692,520 | $750,372 | $190,379 | $654,155 | | | |
| Vacancy & Collection Loss | | | % of Potential Gross Income: | -7.50% | (55,642) | (53,658) | (51,936) | (56,280) | | | -7.50% | of Potential Gross Income | |
| Employee or Other Non-Rental Units or Concessions | | | | | 0 | 0 | 0 | 0 | | | | | |
| EFFECTIVE GROSS INCOME | | | | | $686,246 | $661,782 | $640,584 | $694,092 | $190,379 | $654,155 | | | |
| **EXPENSES** | | % OF EGI | PER UNIT | PER SQ FT | | | | | | | PER SQ FT | PER UNIT | % OF EGI |
| General & Administrative | | 4.33% | $286 | $0.41 | $29,723 | $29,723 | $20,600 | $21,000 | $117,707 | $61,825 | $0.29 | $202 | 3.03% |
| Management | | 4.00% | 264 | 0.38 | 27,450 | 33,089 | 32,232 | 28,800 | 29,353 | 26,969 | 0.40 | 277 | 4.15% |
| Payroll & Payroll Tax | | 11.77% | 777 | 1.11 | 80,775 | 20,920 | 58,000 | 60,490 | 48,067 | 63,365 | 0.83 | 582 | 8.71% |
| Repairs & Maintenance | | 5.07% | 335 | 0.48 | 34,801 | 34,801 | 38,400 | 55,200 | 17,495 | 44,819 | 0.76 | 531 | 7.95% |
| Utilities | | 4.52% | 298 | 0.43 | 31,028 | 25,949 | 20,300 | 23,060 | 18,394 | 41,448 | 0.32 | 222 | 3.32% |
| Water, Sewer, & Trash | | 6.20% | 409 | 0.58 | 42,518 | 33,696 | 25,000 | 33,300 | 15,745 | 35,478 | 0.46 | 320 | 4.80% |
| Property Insurance | | 2.03% | 134 | 0.19 | 13,899 | 13,899 | 13,000 | 25,200 | 14,207 | 68,225 | 0.35 | 242 | 3.63% |
| Property Tax | 2.94 | 7.55% | 498 | 0.71 | 51,800 | 51,800 | 48,400 | 69,000 | 8,511 | 40,871 | 0.95 | 663 | 9.94% |
| Reserve for Replacements | | 3.03% | 200 | 0.29 | 20,800 | 20,800 | 20,800 | 20,800 | | | 0.29 | 200 | 3.00% |
| Other: Compliance Fees | | 0.38% | 25 | 0.04 | 2,600 | 6,600 | 6,600 | 2,600 | 720 | | 0.04 | 25 | 0.37% |
| TOTAL EXPENSES | | 48.87% | $3,225 | $4.61 | $335,394 | $271,277 | $283,332 | $339,450 | $270,199 | $383,000 | $4.67 | $3,264 | 48.91% |
| NET OPERATING INC | | 51.13% | $3,374 | $4.82 | $350,852 | $390,505 | $357,252 | $354,642 | ($79,820) | $271,155 | $4.88 | $3,410 | 51.09% |
| **DEBT SERVICE** | | | | | | | | | | | | | |
| First Lien Mortgage | | 46.16% | $3,046 | $4.36 | $316,775 | $308,767 | $308,760 | $316,775 | $129,459 | $323,141 | $4.36 | $3,046 | 45.64% |
| Asset Mgt Fee | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | | | | $0.00 | $0 | 0.00% |
| Asset Mgt Fee | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | | | | $0.00 | $0 | 0.00% |
| NET CASH FLOW | | 4.97% | $328 | $0.47 | $34,077 | $81,738 | $48,492 | $37,867 | ($209,279) | ($51,986) | $0.52 | $364 | 5.46% |
| AGGREGATE DEBT COVERAGE RATIO | | | | | 1.11 | 1.26 | 1.16 | 1.12 | (0.62) | 0.84 | | | |
| ALTERNATIVE DEBT COVERAGE RATIO | | | | | | | | 1.12 | | | | | |

**CONSTRUCTION COST**

| Description | Factor | % of TOTAL | PER UNIT | PER SQ FT | TDHCA-CC | TDHCA-UW | APPLICATION | COST CERT | PER SQ FT | PER UNIT | % of TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition Cost (site or bldg) | | 7.02% | $4,105 | $5.87 | $426,946 | $419,600 | $419,600 | $426,946 | $5.87 | $4,105 | 7.02% |
| Off-Sites | | 0.00% | 0 | 0.00 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00% |
| Sitework | | 8.72% | 5,101 | 7.29 | 530,526 | 663,504 | 663,504 | 530,526 | 7.29 | 5,101 | 8.72% |
| Direct Construction | | 47.23% | 27,617 | 39.49 | 2,872,141 | 3,095,508 | 2,659,496 | 2,872,141 | 39.49 | 27,617 | 47.23% |
| Contingency | | | | | | 156,250 | 156,250 | | | | |
| General Req'ts | 5.51% | 3.08% | 1,803 | 2.58 | 187,500 | 187,500 | 187,500 | 187,500 | 2.58 | 1,803 | 3.08% |
| Contractor's G & A | 1.92% | 1.07% | 628 | 0.90 | 65,362 | 62,500 | 62,500 | 65,362 | 0.90 | 628 | 1.07% |
| Contractor's Profit | 5.76% | 3.22% | 1,885 | 2.70 | 196,086 | 187,500 | 187,500 | 196,086 | 2.70 | 1,885 | 3.22% |
| Indirect Construction | | 4.94% | 2,887 | 4.13 | 300,204 | 200,600 | 200,600 | 300,204 | 4.13 | 2,887 | 4.94% |
| Ineligible Costs | | 1.92% | 1,121 | 1.60 | 116,624 | 116,360 | 116,360 | 116,624 | 1.60 | 1,121 | 1.92% |
| Developer's G & A | 0.53% | 0.43% | 249 | 0.36 | 25,890 | 330,000 | 330,000 | | 0.00 | 0 | 0.00% |
| Developer's Profit | 13.00% | 10.43% | 6,097 | 8.72 | 634,110 | 330,000 | 330,000 | 660,000 | 9.07 | 6,346 | 10.85% |
| Interim Financing | | 11.94% | 6,980 | 9.98 | 725,953 | 267,000 | 267,000 | 725,953 | 9.98 | 6,980 | 11.94% |
| Reserves | | 0.00% | 0 | 0.00 | 0 | 100,000 | 100,000 | 0 | 0.00 | 0 | 0.00% |
| TOTAL RESIDENTIAL COST | | 100.00% | $58,474 | $83.61 | $6,081,342 | $6,116,322 | $5,680,310 | $6,081,342 | $83.61 | $58,474 | 100.00% |
| COMMERCIAL SPACE COST | | 0.00% | $0 | $0.00 | $0 | | | | $0.00 | $0 | 0.00% |
| TOTAL DEVELOPMENT COST | | 100.00% | $58,474 | $83.61 | $6,081,342 | $6,116,322 | $5,680,310 | $6,081,342 | $83.61 | $58,474 | 100.00% |
| **SOURCES OF FUNDS** | | | | | | | | | GAP ANALYSIS | | |
| First Lien Mortgage | | 59.16% | $34,592 | $49.46 | $3,597,600 | $3,500,000 | $3,500,000 | $3,597,600 | $3,597,600 | | |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | 0 | | |
| LIHTC Net Syndication Proceeds | | 31.66% | $18,514 | $26.47 | 1,925,481 | 1,906,906 | 1,906,906 | 1,925,481 | 1,925,481 | | |
| Deferred Developer Fees | | 9.18% | $5,368 | $7.68 | 558,261 | 273,404 | 273,404 | 558,261 | 558,261 | | |
| Additional (excess) Funds Req'd | | 0.00% | $0 | $0.00 | 0 | 436,012 | 0 | 0 | 0 | | |
| TOTAL SOURCES | | | | | $6,081,342 | $6,116,322 | $5,680,310 | $6,081,342 | $6,081,342 | | |

# COST CERTIFICATION: Comparative Analysis

***Oak Timbers Apartments, White Settlement, HTC#1011***

**OPTIONAL**

**DIRECT CONSTRUCTION COST ESTIMATE**

Residential Cost Handbook

Average Quality Multiple Residence Basis

| CATEGORY | FACTOR | UNITS/SQ FT | PER SF | AMOUNT |
|---|---|---|---|---|
| Base Cost | | | | $0 |
| Adjustments | | | | |
| Exterior Wall Finish | | | $0.00 | $0 |
| Elderly | | | 0.00 | 0 |
| Roofing | | | 0.00 | 0 |
| Subfloor | | | (2.03) | (147,654) |
| Floor Cover | | | 2.00 | 145,472 |
| Porches/Balconies | | | 0.00 | 0 |
| Plumbing | $605 | | 0.00 | 0 |
| Built-In Appliances | $1,650 | 104 | 2.36 | 171,600 |
| Stairs/Fireplaces | | | 0.00 | 0 |
| Floor Insulation | | | 0.00 | 0 |
| Heating/Cooling | | | 1.53 | 111,286 |
| Garages/Carports | | 0 | 0.00 | 0 |
| Comm &/or Aux Bldgs | | | 0.00 | 0 |
| Other: | | | 0.00 | 0 |
| SUBTOTAL | | | 3.86 | 280,704 |
| Current Cost Multiplier | 1.03 | | 0.12 | 8,421 |
| Local Multiplier | | | (3.86) | (280,704) |
| TOTAL DIRECT CONSTRUCTION COSTS | | | $0.12 | $8,421 |
| Plans, specs, survy, bld prmts | 3.90% | | ($0.00) | ($328) |
| Interim Construction Interest | 3.38% | | (0.00) | (284) |
| Contractor's OH & Profit | 11.50% | | (0.01) | (968) |
| NET DIRECT CONSTRUCTION COSTS | | | $0.09 | $6,840 |

**PAYMENT COMPUTATION**

| | | | |
|---|---|---|---|
| **Primary** | $3,597,600 | Amort | 360 |
| Int Rate | 8.00% | DCR | 1.11 |

| | | | |
|---|---|---|---|
| **Secondary** | $0 | Amort | |
| Int Rate | 0.00% | Subtotal DCR | 1.11 |

| | | | |
|---|---|---|---|
| **Additional** | | Amort | |
| Int Rate | | Aggregate DCR | 1.11 |

**RECOMMENDED FINANCING STRUCTURE**

| |
|---|
| $316,775 |
| 0 |
| 0 |
| $34,077 |

| | | | |
|---|---|---|---|
| **Primary** | $3,597,600 | Amort | 360 |
| Int Rate | 8.00% | DCR | 1.12 |

| | | | |
|---|---|---|---|
| **Secondary** | $0 | Amort | 0 |
| Int Rate | 0.00% | Subtotal DCR | 1.12 |

| | | | |
|---|---|---|---|
| **Additional** | $0 | Amort | 0 |
| Int Rate | 0.00% | Aggregate DCR | 1.12 |

**30-YEAR PROFORMA**

| INCOME at 3.00% | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |
|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | $723,168 | $744,863 | $767,209 | $790,225 | $813,932 | $943,570 | $1,093,856 | $1,268,079 | $1,704,193 |
| Secondary Income | 18,720 | 19,282 | 19,860 | 20,456 | 21,070 | 24,425 | 28,316 | 32,826 | 44,115 |
| Other Support Income: (describe) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| POTENTIAL GROSS INCOME | 741,888 | 764,145 | 787,069 | 810,681 | 835,001 | 967,996 | 1,122,172 | 1,300,905 | 1,748,308 |
| Vacancy & Collection Loss | (55,642) | (57,311) | (59,030) | (60,801) | (62,625) | (72,600) | (84,163) | (97,568) | (131,123) |
| Employee or Other Non-Rental Unit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EFFECTIVE GROSS INCOME | $686,246 | $706,834 | $728,039 | $749,880 | $772,376 | $895,396 | $1,038,009 | $1,203,337 | $1,617,185 |
| EXPENSES at 4.00% | | | | | | | | | |
| General & Administrative | $29,723 | $30,912 | $32,149 | $33,435 | $34,772 | $42,305 | $51,471 | $62,622 | $92,696 |
| Management | 27,450 | 28,273 | 29,122 | 29,995 | 30,895 | 35,816 | 41,520 | 48,133 | 64,687 |
| Payroll & Payroll Tax | 80,775 | 84,006 | 87,366 | 90,861 | 94,495 | 114,968 | 139,876 | 170,181 | 251,909 |
| Repairs & Maintenance | 34,801 | 36,193 | 37,641 | 39,146 | 40,712 | 49,532 | 60,264 | 73,320 | 108,532 |
| Utilities | 31,028 | 32,270 | 33,560 | 34,903 | 36,299 | 44,163 | 53,731 | 65,372 | 96,767 |
| Water, Sewer & Trash | 42,518 | 44,219 | 45,988 | 47,827 | 49,741 | 60,517 | 73,628 | 89,580 | 132,600 |
| Insurance | 13,899 | 14,455 | 15,033 | 15,634 | 16,260 | 19,782 | 24,068 | 29,282 | 43,345 |
| Property Tax | 51,800 | 53,872 | 56,026 | 58,268 | 60,598 | 73,727 | 89,700 | 109,134 | 161,545 |
| Reserve for Replacements | 20,800 | 21,632 | 22,497 | 23,397 | 24,333 | 29,605 | 36,019 | 43,822 | 64,868 |
| Other | 2,600 | 2,704 | 2,812 | 2,925 | 3,042 | 3,701 | 4,502 | 5,478 | 8,108 |
| TOTAL EXPENSES | $335,394 | $348,535 | $362,194 | $376,390 | $391,146 | $474,116 | $574,780 | $696,925 | $1,025,058 |
| NET OPERATING INCOME | $350,852 | $358,299 | $365,845 | $373,489 | $381,230 | $421,280 | $463,229 | $506,412 | $592,127 |
| DEBT SERVICE | | | | | | | | | |
| First Lien Financing | $316,775 | $316,775 | $316,775 | $316,775 | $316,775 | $316,775 | $316,775 | $316,775 | $316,775 |
| Second Lien | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH FLOW | $34,077 | $41,524 | $49,070 | $56,715 | $64,455 | $104,505 | $146,454 | $189,637 | $275,352 |
| DEBT COVERAGE RATIO | 1.11 | 1.13 | 1.15 | 1.18 | 1.20 | 1.33 | 1.46 | 1.60 | 1.87 |
| | | | | | | 84,480 | 125,479 | 168,046 | 232,494 |
| Cumulative Cash Flow | 34,077 | 75,601 | 124,671 | 181,385 | 245,841 | 668,240 | 1,295,637 | 2,135,865 | 4,460,808 |

**Portside Villas Apartments, HTC Development No. 02007 (forward commitment, fka 01105**

Summary of Request: Applicant requests approval to change the unit mix by decreasing the number of two-bedroom units by two units and increasing the number of one-bedroom units by two units. The need for the changes was caused by an error in the application in calculating the total number of one and two bedroom units that would result from building fourplexes with the same unit types in each building. The unit mix would change from 42 one-bedroom, 58 two-bedroom and 44 three-bedroom units to 44 one-bedroom, 56 two-bedroom and 44 three-bedroom units. Despite the change in the number of bedrooms, the net rentable area would actually increase slightly from 132,290 square feet to 133,284 square feet, an increase of less than one percent.

| | |
|---|---|
| Governing Law: | §2306.6712, Texas Government Code. The code indicates that material alterations include a modification of the number of units or bedroom mix of units. |
| Applicant: | Portside Villas, L.P. |
| General Partner: | Portside Villas Developers, L.P. (GP) |
| Developer: | Portside Villas Builders, L.L.C. |
| Principals/Interested Parties: | Cynthia Ford (100% interest in GP); Granger MacDonald (principal of developer) |
| Syndicator: | SunAmerica |
| Construction Lender: | SunAmerica |
| Permanent Lender: | GMAC |
| Other Funding: | NA |
| City/County: | Ingleside/San Patricio |
| Set-Aside: | General |
| Type of Area: | Urban/Exurban |
| Type of Development: | New Construction |
| Population Served: | Family |
| Units: | 108 HTC units and 36 market rate units |
| 2002 Allocation: | $563,846 |
| Allocation per HTC Unit: | $5,221 |
| Prior Board Actions: | 7/31/01 - Approved award of tax credits as a forward commitment. |
| Underwriting Reevaluation: | The financial feasibility of the development would not be negatively affected by the changes. Based on the underwriting analysis conducted for the changes requested, the recommended allocation has been reduced to $550,734. |

| | |
|---|---|
| **Staff Recommendation:** | **Staff recommends approving the request because the requested modification would not materially alter the development in a negative manner and would not have adversely affected the selection of the application in the application round.** |

# TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
# MULTI FAMILY CREDIT UNDERWRITING ANALYSIS ADDENDUM

**DATE:** March 17, 2005 **PROGRAM:** 9% LIHTC **FILE NUMBER:** 02007

## DEVELOPMENT NAME

Portside Villas

## APPLICANT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name:** | Portside Villas, L.P. | | | **Type:** | ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other | | |
| **Address:** | 1800 Bering, Suite 850 | | | **City:** | Houston | **State:** | TX |
| **Zip:** | 77057 | **Contact:** | Steve Ford | **Phone:** | (713) 334-5514 | **Fax:** | (713) 334-5614 |

## PRINCIPALS of the APPLICANT

| | | | | | |
|---|---|---|---|---|---|
| **Name:** | Resolution, Inc. | **(%):** | 0.01 | **Title:** | Managing General Partner |
| **Name:** | Boston Capital Partners, Inc. | **(%):** | 99.99 | **Title:** | Limited Partner |
| **Name:** | Cynthia Ford | **(%):** | n/a | **Title:** | President & 100% owner of G.P. |
| **Name:** | J. Steve Ford | **(%):** | n/a | **Title:** | Vice President of G.P. |

## GENERAL PARTNER

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name:** | Resolution, Inc. | | | **Type:** | ☒ For Profit ☐ Non-Profit ☐ Municipal ☐ Other | | |
| **Address:** | 1800 Bering, Suite 850 | | | **City:** | Houston | **State:** | TX |
| **Zip:** | 77057 | **Contact:** | Cynthia Ford | **Phone:** | (713) 334-5514 | **Fax:** | (713) 334-5614 |

## PROPERTY LOCATION

**Location:** 2698 Highway 361 East ☐ **QCT** ☐ **DDA**

**City:** Ingleside **County:** San Patricio **Zip:** 78362

## REQUEST

| Amount | Interest Rate | Amortization | Term |
|---|---|---|---|
| $563,846 | n/a | n/a | n/a |

**Other Requested Terms:** Annual ten-year allocation of low-income housing tax credits- 2002 Forward Commitment allocated in 2001

**Proposed Use of Funds:** New construction **Set-Aside:** ☒ General ☐ Rural ☐ Non-Profit

## RECOMMENDATION

☑ RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED $550,734 ANNUALLY FOR TEN YEARS

## ADDENDUM

Portside Villas was originally underwritten during the 2001 9% HTC cycle and requested a total annual tax credit allocation of $563,846. Based on the original analysis, the Owner's estimated total development costs at application were $562K or 6% higher than the Underwriter's estimate. As a result, the Underwriter's total development cost estimate was used to determine the project's eligible basis of $8,474,334 and recommended annual tax credit allocation. The development was awarded a 2002 Forward Commitment for the originally requested amount of $563,846.

In conjunction with the submission of the cost certification for Portside Villas, the Owner has requested an amendment to the original application with respect to the unit mix for the project. This analysis will focus on the Owner's request to change the unit mix for the project and the impact this change will have, if any, on the development's feasibility. The Owner submitted a formal request letter to the Department dated February 17, 2005 indicating that in completing the construction plans for the Development, it was discovered that in order to build four-plexes with same unit types in each building, the calculation done for the application of one and two bedrooms was incorrect. To remedy this, the unit mix was revised to construct four-plex buildings of consistent unit types. The development was originally approved with the following unit mix:

| # of Units | # of Bedrooms | Unit Size | Total NRA |
|---|---|---|---|
| 42 | 1 | 760 | 31,920 |
| 58 | 2 | 915 | 53,070 |
| 44 | 3 | 1,075 | 47,300 |
| **144** | | | **132,290** |

At cost certification, the Owner requests approval for the following change to the unit mix:

| # of Units | # of Bedrooms | Unit Size | Total NRA |
|---|---|---|---|
| 44 | 1 | 677 | 29,788 |
| 56 | 2 | 943 | 52,808 |
| 44 | 3 | 1,152 | 50,688 |
| **144** | | | **133,284** |

The Owner's rent schedule submitted at cost certification shows net rents for the 50% one, two and three-bedroom units are $12, $15 and $17 lower than the maximum 2004 net tax credit rents. Likewise, the rents for the 60% one, two and three-bedroom units are $14, $18 and $20 less than the maximum net rents. For purposes of this analysis the Underwriter utilized the 2004 maximum tax credit rents for all rent restricted units and the Owner's net rents of $595, $715 and $795 for the market rate one, two and three-bedroom units. This results in a potential gross rent of $965K, which exceeds the Owner's rent estimate by $21K or 2%. Should the unit mix remain as originally proposed, the Underwriter's potential gross rent estimate would amount to $969K. The Owner's change in unit mix would yield a loss of about $3,600 in potential rental income which would stem from the reduction of two 2-bedroom units and the maximum rents for those units. It should be noted that the Owner provided a copy of the most current rent roll for the property (dated as of January 25, 2005) which shows actual rents collected for the rent restricted units ranging in price, with the highest rent in each range set at the maximum tax credit net rents for each unit type. For example, actual rents collected for the 50% one-bedroom units range from $354-$368, with $368 being the maximum tax credit net rent for this unit type. Estimates of secondary income and vacancy and collection losses are in line with the TDHCA underwriting guidelines. The net result is that the Owner's effective gross income estimate is $10K or 1% less than the Underwriter's estimate. The Owner's total operating expense estimate is $42K or 9% lower than the Underwriter's TDHCA database-derived estimate. The Owner's estimated NOI is 7% higher than the Underwriter's estimate. At application the Owner's total development cost estimate was 6% over the Underwriter's, which exceeded the 5% tolerance range. The Owner originally estimated total development costs of $9,729,766. At cost certification the Owner's actual total development costs amount to $9,837,479 which is $108K more than originally estimated. The difference in costs is attributed to an increase in direct costs by $616K from that estimated at application, an increase in indirect costs by $120K, an increase in developer fee by $14K and an increase in interim financing costs by $115K. Sitework costs actually decreased by $214K. When compared to the Underwriter's current Marshall & Swift *Residential Cost Handbook*-derived estimate, the Owner's total development costs are $14K or less than 1% lower, an acceptable deviation.

As stated earlier, although the Owner's estimated income is within 5% of the Underwriter's estimate, the Owner's total expense estimate and NOI are not within 5%. Based on the Underwriter's analysis and the Owner's final sources of funds summary provided in the cost certification there is sufficient cash flow in either scenario to support the annual debt service for the permanent mortgage loan at an acceptable debt coverage ratio. Additionally, deferred developer fees in the amount of $502,164 appear to be repayable within 10 years. Therefore, the Owner's actual total development costs results in total eligible basis of $9,225,026 which qualifies the development for an annual tax credit allocation of $550,734. This is the exact amount requested by the Owner at cost certification, but $13,112 less than the Owner was originally awarded. Since this is a 9% housing tax credit transaction the Department would be able to recapture credits in this amount. However, according to the cost certification documentation the Owner has elected to initiate the credit period for this development in 2003, which is the same year the buildings were placed in service. The deadline to recapture credits for any 9% transaction is 180 days after the end of the first taxable year. Therefore, the deadline to recapture credits for this transaction was June 30, 2004, thus the Department has passed the recapture deadline.

As a result of this analysis, the Owner's requested change in unit mix would not negatively affect the financial feasibility of the project.

| | | | |
|---|---|---|---|
| **Underwriter:** | *Raquel Morales* | **Date:** | March 17, 2005 |
| **Director of Real Estate Analysis:** | *Tom Gouris* | **Date:** | March 17, 2005 |

# COST CERTIFICATION: Comparative Analysis

***Portside Villas, Ingleside, HTC#02007***
**Reviewed by: David Burrell**
**Date: 2/1/05**

| Type of Unit | Number | Bedrooms | No. of Baths | Size in SF | Gross Rent Lmt. | Net Rent per Unit | UW Net Rent | Rent per Month | CC Net Rent | Rent per SF | Tnt Pd Util | Trash |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TC50 | 10 | 1 | 1 | 677 | $440 | $368 | $328 | $3,680 | $368 | $0.54 | $72.00 | $15.00 |
| TC60 | 23 | 1 | 1 | 677 | 528 | $456 | $407 | 10,488 | $456 | 0.67 | $72.00 | 15.00 |
| MR | 11 | 1 | 1 | 677 | | $595 | $595 | 6,545 | $595 | 0.88 | $72.00 | 15.00 |
| TC50 | 13 | 2 | 2 | 943 | 528 | $439 | $389 | 5,707 | $439 | 0.47 | $89.00 | 15.00 |
| TC60 | 29 | 2 | 2 | 943 | 634 | $545 | $484 | 15,805 | $545 | 0.58 | $89.00 | 15.00 |
| MR | 14 | 2 | 2 | 943 | | $715 | $715 | 10,010 | $715 | 0.76 | $89.00 | 15.00 |
| TC50 | 11 | 3 | 2 | 1,152 | 611 | $508 | $452 | 5,588 | $508 | 0.44 | $103.00 | 15.00 |
| TC60 | 22 | 3 | 2 | 1,152 | 733 | $630 | $562 | 13,860 | $630 | 0.55 | $103.00 | 15.00 |
| MR | 11 | 3 | 2 | 1,152 | | $795 | $795 | 8,745 | $795 | 0.69 | $103.00 | 15.00 |
| TOTAL: | 144 | | AVERAGE: | 926 | $449 | $559 | | $80,428 | | $0.60 | $88.08 | $15.00 |
| 44 | 56 | 44 | | | | | | | | | | |

| INCOME | Factor | Total Net Rentable Sq Ft: | 133,284 | | TDHCA-CC | TDHCA-UW | APPLICATION | COST CERT | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | | | | $21,432 | $965,136 | $895,608 | $921,168 | $943,704 | | | |
| Secondary Income | | | Per Unit Per Month: | $10.00 | 17,280 | 17,280 | 17,280 | 25,920 | $15.00 | Per Unit Per Month | |
| Other Support Income: (describe) | | | | | 0 | | | | $0.00 | Per Unit Per Month | |
| POTENTIAL GROSS INCOME | | | | | $982,416 | $912,888 | $938,448 | $969,624 | | | |
| Vacancy & Collection Loss | | | % of Potential Gross Income: | -7.50% | (73,681) | (68,467) | (70,380) | (72,720) | -7.50% | of Potential Gross Income | |
| Employee or Other Non-Rental Units or Concessions | | | | | 0 | | | | | | |
| EFFECTIVE GROSS INCOME | | | | $11,831 | $908,735 | $844,421 | $868,068 | $896,904 | | | |
| **EXPENSES** | | % OF EGI | PER UNIT | PER SQ FT | | | | | PER SQ FT | PER UNIT | % OF EGI |
| General & Administrative | | 5.18% | $327 | $0.35 | $47,096 | $46,915 | $20,600 | $31,930 | $0.24 | $222 | 3.56% |
| Management | | 4.75% | 300 | 0.32 | 43,165 | 42,221 | 43,403 | 42,675 | 0.32 | 296 | 4.76% |
| Payroll & Payroll Tax | | 14.15% | 893 | 0.96 | 128,617 | 100,540 | 95,000 | 128,870 | 0.97 | 895 | 14.37% |
| Repairs & Maintenance | | 6.08% | 384 | 0.41 | 55,244 | 55,029 | 64,166 | 38,980 | 0.29 | 271 | 4.35% |
| Utilities | | 3.77% | 238 | 0.26 | 34,293 | 18,946 | 9,480 | 21,950 | 0.16 | 152 | 2.45% |
| Water, Sewer, & Trash | | 3.35% | 211 | 0.23 | 30,440 | 36,288 | 31,360 | 13,610 | 0.10 | 95 | 1.52% |
| Property Insurance | | 2.42% | 153 | 0.17 | 22,017 | 21,932 | 17,820 | 38,400 | 0.29 | 267 | 4.28% |
| Property Tax | 2.9226 | 9.00% | 568 | 0.61 | 81,741 | 81,435 | 103,058 | 84,000 | 0.63 | 583 | 9.37% |
| Reserve for Replacements | | 3.17% | 200 | 0.22 | 28,800 | 28,800 | 28,800 | 28,800 | 0.22 | 200 | 3.21% |
| Other Expenses: Compliance fees, Security | | 0.43% | 27 | 0.03 | 3,900 | 3,900 | 3,900 | 3,900 | 0.03 | 27 | 0.43% |
| TOTAL EXPENSES | | 52.30% | $3,301 | $3.57 | $475,314 | $436,006 | $417,587 | $433,115 | $3.25 | $3,008 | 48.29% |
| NET OPERATING INC | | 47.70% | $3,010 | $3.25 | $433,421 | $408,415 | $450,481 | $463,789 | $3.48 | $3,221 | 51.71% |
| **DEBT SERVICE** | | | | | | | | | | | |
| GMAC | | 42.66% | $2,692 | $2.91 | $387,653 | $372,336 | $372,336 | $387,648 | $2.91 | $2,692 | 43.22% |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | | | | $0.00 | $0 | 0.00% |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | | | | $0.00 | $0 | 0.00% |
| NET CASH FLOW | | 5.04% | $318 | $0.34 | $45,768 | $36,079 | $78,145 | $76,141 | $0.57 | $529 | 8.49% |
| AGGREGATE DEBT COVERAGE RATIO | | | | | 1.12 | 1.10 | 1.21 | 1.20 | | | |
| ALTERNATIVE DEBT COVERAGE RATIO | | | | | | | | 1.20 | | | |

**CONSTRUCTION COST**

| Description | Factor | % of TOTAL | PER UNIT | PER SQ FT | TDHCA-CC | TDHCA-UW | APPLICATION | COST CERT | PER SQ FT | PER UNIT | % of TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition Cost (site or bldg) | | 3.50% | $2,392 | $2.58 | $344,500 | $330,000 | $330,000 | $344,500 | $2.58 | $2,392 | 3.50% |
| Off-Sites | | 0.00% | 0 | 0.00 | 0 | | | 0 | 0.00 | 0 | 0.00% |
| Sitework | | 8.48% | 5,798 | 6.26 | 834,966 | 936,000 | 1,049,500 | 834,966 | 6.26 | 5,798 | 8.49% |
| Direct Construction | | 57.46% | 39,314 | 42.48 | 5,661,240 | 4,737,672 | 5,030,300 | 5,646,872 | 42.37 | 39,214 | 57.40% |
| Contingency | | | | | | 273,000 | 273,000 | | | | |
| General Req'ts | 5.98% | 3.94% | 2,699 | 2.92 | 388,628 | 340,420 | 391,868 | 388,628 | 2.92 | 2,699 | 3.95% |
| Contractor's G & A | 1.99% | 1.31% | 898 | 0.97 | 129,376 | 113,473 | 123,956 | 129,376 | 0.97 | 898 | 1.32% |
| Contractor's Profit | 5.98% | 3.94% | 2,699 | 2.92 | 388,628 | 340,420 | 371,868 | 388,628 | 2.92 | 2,699 | 3.95% |
| Indirect Construction | | 3.54% | 2,420 | 2.61 | 348,408 | 228,000 | 228,000 | 348,408 | 2.61 | 2,420 | 3.54% |
| Ineligible Costs | | 2.40% | 1,643 | 1.78 | 236,662 | 242,000 | 242,000 | 236,662 | 1.78 | 1,643 | 2.41% |
| Developer's G & A | 1.97% | 1.61% | 1,099 | 1.19 | 158,322 | 147,380 | 158,570 | | 0.00 | 0 | 0.00% |
| Developer's Profit | 13.00% | 10.60% | 7,255 | 7.84 | 1,044,725 | 957,968 | 1,030,704 | 1,203,047 | 9.03 | 8,354 | 12.23% |
| Interim Financing | | 2.89% | 1,980 | 2.14 | 285,101 | 400,000 | 400,000 | 285,101 | 2.14 | 1,980 | 2.90% |
| Reserves | | 0.32% | 217 | 0.23 | 31,291 | 121,748 | 100,000 | 31,291 | 0.23 | 217 | 0.32% |
| TOTAL RESIDENTIAL COST | | 100.00% | $68,416 | $73.92 | $9,851,847 | $9,168,081 | $9,729,766 | $9,837,479 | $73.81 | $68,316 | 100.00% |
| COMMERCIAL SPACE COST | | 0.00% | $0 | $0.00 | $0 | | | | $0.00 | $0 | 0.00% |
| TOTAL DEVELOPMENT COST | | 100.00% | $68,416 | $73.92 | $9,851,847 | $9,168,081 | $9,729,766 | $9,837,479 | $73.81 | $68,316 | 100.00% |

| SOURCES OF FUNDS | | | | | | | | GAP ANALYSIS |
|---|---|---|---|---|---|---|---|---|
| GMAC | 49.99% | $34,201 | $36.95 | $4,925,000 | $4,352,000 | $4,352,000 | $4,925,000 | $4,925,000 |
| Additional Financing | 0.00% | $0 | $0.00 | 0 | | | | 0 |
| LIHTC Net Syndication Proceeds | 45.83% | $31,356 | $33.88 | 4,515,317 | 4,397,558 | 4,397,558 | 4,515,317 | 4,410,315 |
| Deferred Developer Fees | 4.03% | $2,758 | $2.98 | 397,162 | 980,208 | 980,208 | 397,162 | |
| Additional (excess) Funds Req'd | 0.15% | $100 | $0.11 | 14,368 | (561,685) | 0 | 0 | 502,164 |
| TOTAL SOURCES | | | | $9,851,847 | $9,168,081 | $9,729,766 | $9,837,479 | $9,837,479 |

# COST CERTIFICATION: Comparative Analysis

***Portside Villas, Ingleside, HTC#02007***

**OPTIONAL**

**DIRECT CONSTRUCTION COST ESTIMATE**

Residential Cost Handbook

Average Quality Multiple Residence Basis

| CATEGORY | FACTOR | UNITS/SQ FT | PER SF | AMOUNT |
|---|---|---|---|---|
| Base Cost | | | $ 45.11 | $6,012,452 |
| Adjustments | | | | |
| Exterior Wall Finish | 2.75% | | $1.24 | $165,342 |
| Elderly | | | 0.00 | 0 |
| Roofing | | | 0.00 | 0 |
| Subfloor | | | (2.03) | (270,567) |
| Floor Cover | | | 2.00 | 266,568 |
| Porches/Balconies | $23.60 | 18983 | 3.36 | 447,999 |
| Plumbing | $605 | 300 | 1.36 | 181,500 |
| Built-In Appliances | $1,650 | 144 | 1.78 | 237,600 |
| Stairs/Fireplaces | $1,450 | 36 | 0.39 | 52,200 |
| Floor Insulation | | | 0.00 | 0 |
| Heating/Cooling | | | 1.53 | 203,925 |
| Garages/Carports | | 0 | 0.00 | 0 |
| Comm &/or Aux Bldgs | $63.40 | 3,114 | 1.48 | 197,415 |
| Other: | | | 0.00 | 0 |
| SUBTOTAL | | | 56.23 | 7,494,435 |
| Current Cost Multiplier | 1.10 | | 5.62 | 749,443 |
| Local Multiplier | 0.83 | | (9.56) | (1,274,054) |
| TOTAL DIRECT CONSTRUCTION COSTS | | | $52.29 | $6,969,824 |
| Plans, specs, survy, bld prmts | 3.90% | | ($2.04) | ($271,823) |
| Interim Construction Interest | 3.38% | | (1.76) | (235,232) |
| Contractor's OH & Profit | 11.50% | | (6.01) | (801,530) |
| NET DIRECT CONSTRUCTION COSTS | | | $42.48 | $5,661,240 |

**PAYMENT COMPUTATION**

| | | | |
|---|---|---|---|
| **Primary** | $4,925,000 | Amort | 360 |
| Int Rate | 6.86% | DCR | 1.12 |
| **Secondary** | $0 | Amort | |
| Int Rate | 0.00% | Subtotal DCR | 1.12 |
| **Additional** | | Amort | |
| Int Rate | | Aggregate DCR | 1.12 |

**RECOMMENDED FINANCING STRUCTURE**

| |
|---|
| $387,653 |
| 0 |
| 0 |
| $45,768 |

| | | | |
|---|---|---|---|
| **Primary** | $4,925,000 | Amort | 360 |
| Int Rate | 6.86% | DCR | 1.20 |
| **Secondary** | $0 | Amort | 0 |
| Int Rate | 0.00% | Subtotal DCR | 1.20 |
| **Additional** | $0 | Amort | 0 |
| Int Rate | 0.00% | Aggregate DCR | 1.20 |

**30-YEAR PROFORMA**

| INCOME at 3.00% | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |
|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | $965,136 | $994,090 | $1,023,913 | $1,054,630 | $1,086,269 | $1,259,284 | $1,459,855 | $1,692,372 | $2,274,406 |
| Secondary Income | 17,280 | 17,798 | 18,332 | 18,882 | 19,449 | 22,546 | 26,138 | 30,301 | 40,721 |
| Other Support Income: (describe) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| POTENTIAL GROSS INCOME | 982,416 | 1,011,888 | 1,042,245 | 1,073,512 | 1,105,718 | 1,281,830 | 1,485,992 | 1,722,672 | 2,315,128 |
| Vacancy & Collection Loss | (73,681) | (75,892) | (78,168) | (80,513) | (82,929) | (96,137) | (111,449) | (129,200) | (173,635) |
| Employee or Other Non-Rental Units | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EFFECTIVE GROSS INCOME | $908,735 | $935,997 | $964,077 | $992,999 | $1,022,789 | $1,185,693 | $1,374,543 | $1,593,472 | $2,141,493 |
| EXPENSES at 4.00% | | | | | | | | | |
| General & Administrative | $47,096 | $48,980 | $50,939 | $52,977 | $55,096 | $67,033 | $81,556 | $99,225 | $146,877 |
| Management | 43,165 | 44,460 | 45,794 | 47,167 | 48,582 | 56,320 | 65,291 | 75,690 | 101,721 |
| Payroll & Payroll Tax | 128,617 | 133,762 | 139,112 | 144,677 | 150,464 | 183,062 | 222,723 | 270,977 | 401,112 |
| Repairs & Maintenance | 55,244 | 57,454 | 59,752 | 62,142 | 64,628 | 78,630 | 95,665 | 116,392 | 172,288 |
| Utilities | 34,293 | 35,665 | 37,091 | 38,575 | 40,118 | 48,810 | 59,384 | 72,250 | 106,948 |
| Water, Sewer & Trash | 30,440 | 31,658 | 32,924 | 34,241 | 35,610 | 43,326 | 52,712 | 64,132 | 94,932 |
| Insurance | 22,017 | 22,898 | 23,813 | 24,766 | 25,757 | 31,337 | 38,126 | 46,386 | 68,663 |
| Property Tax | 81,741 | 85,010 | 88,411 | 91,947 | 95,625 | 116,343 | 141,549 | 172,215 | 254,921 |
| Reserve for Replacements | 28,800 | 29,952 | 31,150 | 32,396 | 33,692 | 40,991 | 49,872 | 60,677 | 89,817 |
| Other | 3,900 | 4,056 | 4,218 | 4,387 | 4,562 | 5,551 | 6,754 | 8,217 | 12,163 |
| TOTAL EXPENSES | $475,314 | $493,894 | $513,206 | $533,276 | $554,135 | $671,403 | $813,632 | $986,162 | $1,449,442 |
| NET OPERATING INCOME | $433,421 | $442,102 | $450,871 | $459,723 | $468,654 | $514,290 | $560,911 | $607,310 | $692,051 |
| DEBT SERVICE | | | | | | | | | |
| First Lien Financing | $387,653 | $387,653 | $387,653 | $387,653 | $387,653 | $387,653 | $387,653 | $387,653 | $387,653 |
| Second Lien | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH FLOW | $45,768 | $54,450 | $63,218 | $72,070 | $81,001 | $126,637 | $173,258 | $219,657 | $304,398 |
| DEBT COVERAGE RATIO | 1.12 | 1.14 | 1.16 | 1.19 | 1.21 | 1.33 | 1.45 | 1.57 | 1.79 |
| | | | | | | 103,819 | 149,948 | 196,458 | 262,028 |
| Cumulative Cash Flow | 45,768 | 100,218 | 163,437 | 235,507 | 316,508 | 835,604 | 1,585,342 | 2,567,629 | 5,187,908 |
| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |

# COST CERTIFICATION - Portside Villas, Ingleside, HTC#02007

Reviewed by: David Burrell Date: 2/1/05

| CATEGORY | APPLICANT'S TOTAL AMOUNTS | TDHCA TOTAL AMOUNTS | APPLICANT'S ACQUISITION ELIGIBLE BASIS | TDHCA ACQUISITION ELIGIBLE BASIS | APPLICANT'S REHAB/NEW ELIGIBLE BASIS | TDHCA REHAB/NEW ELIGIBLE BASIS |
|---|---|---|---|---|---|---|
| **(1) Acquisition Cost** | | | | | | |
| Purchase of land | $344,500 | $344,500 | | | | |
| Purchase of buildings | $0 | $0 | | | | |
| **(2) Rehabilitation/New Construction Cost** | | | | | | |
| On-site work | $834,966 | $834,966 | | | $834,966 | $834,966 |
| Off-site improvements | $0 | $0 | | | | |
| **(3) Construction Hard Costs** | | | | | | |
| New structures/rehabilitation hard costs | $5,646,872 | $5,661,240 | | | $5,646,872 | $5,661,240 |
| **(4) Contractor Fees & General Requirements** | | | | | | |
| Contractor overhead | $129,376 | $129,376 | | | $129,376 | $129,376 |
| Contractor profit | $388,628 | $388,628 | | | $388,628 | $388,628 |
| General requirements | $388,628 | $388,628 | | | $388,628 | $388,628 |
| **(6) Eligible Indirect Fees** | $348,408 | $348,408 | | | $348,408 | $348,408 |
| **(7) Eligible Financing Fees** | $285,101 | $285,101 | | | $285,101 | $285,101 |
| **(8) All Ineligible Costs** | $236,662 | $236,662 | | | | |
| **(9) Developer Fees** | | | $0 | $0 | $0 | $0 |
| Developer overhead | $0 | $158,322 | $0 | $0 | $0 | $158,322 |
| Developer fee | $1,203,047 | $1,044,725 | $0 | $0 | $1,203,047 | $1,044,725 |
| **(10) Development Reserves** | $31,291 | $31,291 | | | | |
| **TOTAL DEVELOPMENT COSTS** | $9,837,479 | $9,851,847 | $0 | $0 | $9,225,026 | $9,239,394 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Deduct from Basis:** | | | | | | |
| All grant proceeds used to finance costs in eligible basis | | | | | $0 | $0 |
| B.M.R. loans used to finance cost in eligible basis | | | | | | |
| Non-qualified non-recourse financing | | | | | $0 | $0 |
| Non-qualified portion of higher quality units [42(d)(3)] | | | | | $0 | $0 |
| Commercial Space Cost | | | | | $0 | $0 |
| **TOTAL ELIGIBLE BASIS** | | | $0 | $0 | $9,225,026 | $9,239,394 |
| High Cost Area Adjustment | | | | | 100% | 100% |
| **TOTAL ADJUSTED BASIS** | | | $0 | $0 | $9,225,026 | $9,239,394 |
| Applicable Fraction | | | 75% | 75% | 75% | 75% |
| **TOTAL QUALIFIED BASIS** | | | $0 | $0 | $6,918,770 | $6,929,545 |
| Applicable Percentage | | | 0.00% | 0.00% | 7.96% | 7.96% |
| **TOTAL AMOUNT OF TAX CREDITS** | | | $0 | $0 | $550,734 | $551,592 |
| **Syndication Proceeds** | | **0.80081** | **$0** | **$0** | **$4,410,316** | **$4,417,185** |

| | Application | Approved | Cost Cert Reques | TDHCA/Reconciled | GAP |
|---|---|---|---|---|---|
| **Total Tax Credits** | 563,846 | 563,846 | 550,734 | 550,734 | 62,707 |
| **Net Syndication Proceeds** | 4,397,558 | 4,515,317 | 4,410,315 | 4,410,315 | 502,164 |

**Balance to be Recaptured**

13,112

**South Union Place Apartments, HTC Development No. 04024**

Summary of Request: Applicant requests approval for the development to contain 100% tax credit units without having 25% of the units set aside for transitional tenants as proposed in the application. The proposed development consists of only one building and it is not clear that Section 42 of the Internal Revenue Code allows transitional units to be mixed with any other type of units in the same building. The applicant did not include transitional housing in the PreApplication, but after reviewing the competition, he decided to abandon the seven points for a PreApplication in favor of seeking fifteen points for reserving 25% of the units to be transitional housing. Because the points for pledging to have 25% transitional housing were reduced from fifteen to five (pursuant to the Attorney General's opinion) after the choice was made, applicant did not benefit from the choice, losing two points instead of gaining eight as had been expected when the attempt to obtain PreApplication points was abandoned. Additionally, applicant did not realize that Section 42 may preclude mixing 25% transitional units with other unit types in a one building development.

| | |
|---|---|
| Governing Law: | §2306.6712, Texas Government Code. The code indicates that material alterations include any changes that would materially alter the development in a negative manner. |
| Applicant: | South Union Place Limited Partnership |
| General Partner: | Scott Street Group, LLC (managing GP with 51% interest in GP); Scott Street Properties, LLC (administrative GP with 48% interest in GP) |
| Developer: | RMI Developers, Ltd. |
| Principals/Interested Parties: | Pamela P. Barineau, 51% of managing GP; Willie J. Alexander, 49% of managing GP; Mark H. Barineau, 66% of administrative GP and 33% of developer; John N. Barineau, III, 20% of administrative GP and 33% of developer; John N. Barineau IV, 14% of administrative GP and 33% of developer |
| Syndicator: | MMA Financial |
| Construction Lender: | MMA Financial |
| Permanent Lender: | MMA Financial |
| Other Funding: | NA |
| City/County: | Houston/Harris |
| Set-Aside: | NA |
| Type of Area: | Urban/Exurban |
| Type of Development: | New Construction |
| Population Served: | Elderly (with 25% Elderly-Transitional) |
| Units: | 100 HTC units and 25 market rate units |
| 2004 Allocation: | $739,345 |
| Allocation per HTC Unit: | $7,393 |
| Prior Board Actions: | 7/28/04 - Approved award of tax credits. |
| Underwriting Reevaluation: | If the request is approved, no change in the credit allocation is recommended but the condition that specific sources of rental assistance be documented is withdrawn. |
| **Staff Recommendation:** | **Staff recommends that the amendment request be denied for the following reason. The loss of the five points would decrease the Applicant's score from 142 to 137. In Region 6 Urban, this would have created a tie among three developments with a score of 137: Las Villas de Magnolia (HTC No. 04214) proposed by Rogelio Santos and Essex Gardens (HTC No. 04270) proposed by Brian Cogburn are the other** |

**two developments in the tie. Applying the Tie Breaker Factors in order of priority as given in §50.9(h)(1), the points awarded for amenities under subsection (g)(7)(C), the first tie breaker, were twelve points for all three developments. Likewise, for amenities described in subsection (g)(7)(D), the second tie breaker, six points were awarded to all three developments. Applying the third tie breaker, credit amount requested per rentable square foot, indicated $9.31 for Las Villas de Magnolia, $7.74 for South Union Place and $4.69 for Essex Gardens. Therefore, South Union Place would not have been recommended for an award without the five points for transitional housing – Essex Gardens would have. Based on this evaluation, staff is unable to grant a favorable recommendation for the amendment.**

# Memorandum

**Date:** March 10, 2005

**To:** Ben Sheppard

**From**: Brenda Hull

Tom Gouris

**RE:** Review of Proposed Changes to South Union Place, Houston, 9% HTC #04024

---

I have reviewed the request for changes to the above referenced property and the documentation submitted to support that request and have determined the following:

1. The deletion of the 25% transitional set aside does not affect the income analysis or market demand calculation of the property.

   Income Analysis: The proposed change has no impact on the original income analysis. The property was originally underwritten to include rental assistance income for the transitional units from two sources. A nonprofit corporation, Service of the Emergency Aid Resource Center for the Homeless (SEARCH) had agreed to provide need-based rental assistance through the federally funded Shelter Plus Care and Supportive Housing Programs; and Houston SRO was providing rental assistance for units targeting extremely low income persons or families. Originally, the underwriter assumed the full tax credits rent amounts for the transitional units with rental assistance; therefore, converting the transitional units has no impact on the total income.

   Market Demand: The proposed change has no impact on the original market demand and capture rate. The total demand for the primary market area is 501 units. The original capture rate of 20% included the transitional units. This is well below 100%, the recommended tolerance for elderly developments.

   In conclusion, there is no change from the original underwriting recommendation.

As a result of this analysis, ***no change in the credit allocation is recommended***. The original recommendation included the statement that documentation reflecting the specific sources of rental assistance funding is a condition of the report; this condition is no longer required.

Please let me know if you need any additional information regarding this matter.

**Stone Hollow Village Apartments, HTC Development No. 04057**

Summary of Request: Applicant requests approval to change the number of buildings and the site plan. Applicant stated that the cost of the original proposal to build 35 residential buildings in a rowhouse design was significantly underestimated by the development's former contractor. The applicant has obtained a new contractor. The amended design contains 10 residential buildings and can be built in conformity with the original estimate. The number of units would remain the same and the net rentable area would not decrease.

| | |
|---|---|
| Governing Law: | §2306.6712, Texas Government Code. The code indicates that material alterations include (1) a significant modification of the site plan and (2) a significant modification of the architectural design of the development. |
| Applicant: | LHA Stone Hollow, LP |
| General Partner: | LSHD-1, LLC (GP) |
| Developers: | LH Development, L.P. |
| Principals/Interested Parties: | City of Lubbock Housing Initiatives (100% interest in GP); Kent Hance (principal of GP and 49.5% interest in developer); Kent R. Hance, Jr. (24.75% of developer); Susan Sorrells (24.75% of developer) |
| Syndicator: | MMA Financial |
| Construction Lender: | JPMorgan Chase |
| Permanent Lender: | JPMorgan Chase |
| Other Funding: | NA |
| City/County: | Lubbock/Lubbock |
| Set-Aside: | NA |
| Type of Area: | Urban/Exurban |
| Type of Development: | New Construction |
| Population Served: | Family |
| Units: | 112 HTC units and 28 market rate units |
| 2004 Allocation: | $845,849 |
| Allocation per HTC Unit: | $7,552 |
| Prior Board Actions: | 7/28/04 - Approved award of tax credits. |
| Underwriting Reevaluation: | The changes requested do not negatively impact the financial feasibility of the development. No change in the credit allocation is recommended. |
| **Staff Recommendation:** | **Staff recommends approving the request because the requested modification would not materially alter the development in a negative manner and would not have adversely affected the selection of the application in the application round.** |

TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
Real Estate Analysis
# INTEROFFICE MEMORANDUM

**Date:** March 29, 2005

**To:** Ben Sheppard

**From**: Phillip Drake
Tom Gouris

**RE:** Review of Proposed Changes to Stone Hollow Village Apartments, Lubbock, 2004, 9% HTC #04057

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I have reviewed the request for the second set of changes to the above referenced property and the documentation submitted to support that request and have determined the following:

1. The change in number of buildings does not affect the unit breakdown or net rentable square footage, but shifts design from single story townhouses to multi-family garden style. The design change should affect a reduction in direct cost. Though a reduction is not forecasted by the Applicant's latest cost estimates, the Applicant's current total costs are still within 5% of the Underwriter's, and as a result no charge to the credit amount is recommended.

Applicant's Explanation: The change in plans is due to an initial contractor cost estimate that was "misestimated", and that contractor has subsequently been removed. The original "row-house" design called for 35 buildings, and the actual cost has recently been estimated to be $837,516 above that initial estimate. The applicant suggests that converting building plans to 10 apartment-style buildings would lower the actual cost of the development to a level more in line with original cost estimates. The Applicant provided a revised hard cost estimate for the "town house" design of $8,706,253 and an estimate based on the garden style of $7,885,602. Though the letter was not provided in the standard TDHCA format, a revised cost schedule for the requested garden style change was subsequently provided reflecting hard costs of $8,231,812. It should also be noted that the Applicant submitted an amendment request in November of 2004 which called for a two percent increase in square footage, a change from vinyl to ceramic tile and a shift from two bedroom- one bath to two bedroom- two bath. The changes increased costs, but did not significantly impact the original underwriting recommendation, and were approved by the TDHCA Board.

Cost Analysis: The Applicant's total development cost for this property, revised after original application, was $11,169,695. The Applicant is now showing total development costs of $11,325,119, based on the "row-house" style development. The Applicant's newly revised cost estimate is $155,424 or 1.4% higher than the applicant's previously revised estimate. The Underwriter's new total cost estimate is $492,519 or 4.6% less than the Applicant's current estimate.

Financing Analysis: The Applicant did not submit a new syndication commitment, but indicated that an increase in the syndication rate of $.88, is anticipated. Currently, the Underwriter shows the cost overage to be absorbed by deferred developer fee which will represent 21% of the available fee without the requested change the Applicant would have to defer an estimated additional $693,233 which could be absorbed by available developer fee as well and remain feasible.

Conclusion: In conclusion, the applicant's costs remain reasonable and the development is projected to remain feasible. The total development cost increase can be absorbed. The Applicant provides that the permanent conventional loan amount and debt service will remain unchanged, resulting in an acceptable DCR of between 1.10 and 1.30.

As a result of this analysis, ***no change in the credit allocation is recommended***. The change proposed does seem reasonable, and will not hinder the financial feasibility of the development.

Please let me know if you need any additional information regarding this matter.

# MULTIFAMILY COMPARATIVE ANALYSIS

***Stone Hollow Village Apartments, Lubbock, 9% HTC # 04057 CHANGE MEMO***

| Type of Unit | Number | Bedrooms | No. of Baths | Size in SF | Gross Rent Lmt. | Net Rent per Unit | Rent per Month | Rent per SF | Tnt Pd Util | Wtr, Swr, Trsh |
|---|---|---|---|---|---|---|---|---|---|---|
| TC30% | 5 | 1 | 1 | 750 | 262 | $192 | $960 | $0.26 | $70.00 | $49.00 |
| TC50% | 8 | 1 | 1 | 750 | 438 | 368 | 2,944 | 0.49 | 70.00 | 49.00 |
| TC60% | 17 | 1 | 1 | 750 | 525 | 455 | 7,735 | 0.61 | 70.00 | 49.00 |
| MKT | 6 | 1 | 1 | 750 | | 525 | 3,150 | 0.70 | 70.00 | 49.00 |
| TC30% | 6 | 2 | 2 | 1,000 | 315 | 225 | 1,350 | 0.23 | 90.00 | 52.00 |
| TC40% | 4 | 2 | 2 | 1,000 | 420 | 330 | 1,320 | 0.33 | 90.00 | 52.00 |
| TC50% | 12 | 2 | 2 | 1,000 | 525 | 435 | 5,220 | 0.44 | 90.00 | 52.00 |
| MKT | 6 | 2 | 2 | 1,000 | | 600 | 3,600 | 0.60 | 90.00 | 52.00 |
| TC60% | 22 | 2 | 2 | 1,000 | 630 | 540 | 11,880 | 0.54 | 90.00 | 52.00 |
| MKT | 6 | 2 | 2 | 1,000 | | 630 | 3,780 | 0.63 | 90.00 | 52.00 |
| TC30% | 2 | 3 | 2 | 1,100 | 364 | 256 | 512 | 0.23 | 108.00 | 58.00 |
| TC50% | 8 | 3 | 2 | 1,100 | 606 | 498 | 3,984 | 0.45 | 108.00 | 58.00 |
| TC60% | 28 | 3 | 2 | 1,100 | 728 | 620 | 17,360 | 0.56 | 108.00 | 58.00 |
| MKT | 10 | 3 | 2 | 1,100 | | 728 | 7,280 | 0.66 | 108.00 | 58.00 |
| TOTAL: | 140 | | AVERAGE: | 970 | $453 | $508 | $71,075 | $0.52 | $91.03 | $53.29 |

| INCOME | Total Net Rentable Sq Ft: 135,800 | | | | TDHCA 3-29-05 | TDHCA @ ORIG AP | ORIG. APP | 11-17-04 Change Request | 3-9-05 Change | | Comptroller's Region | 1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | | | | | $852,900 | $852,900 | $855,036 | $855,036 | $855,036 | | IREM Region | |
| Secondary Income | | Per Unit Per Month: | $10.00 | | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | $10.00 | Per Unit Per Month | |
| Other Support Income: | | | | | 0 | 0 | 0 | 0 | 0 | | | |
| POTENTIAL GROSS INCOME | | | | | $869,700 | $869,700 | $871,836 | $871,836 | $871,836 | | | |
| Vacancy & Collection Loss | | % of Potential Gross Income: | -7.50% | | (65,228) | (65,228) | (65,388) | (65,388) | (65,388) | -7.50% | of Potential Gross Rent | |
| Employee or Other Non-Rental Units or Concessions | | | | | 0 | 0 | 0 | 0 | 0 | | | |
| EFFECTIVE GROSS INCOME | | | | | $804,473 | $804,473 | $806,448 | $806,448 | $806,448 | | | |
| **EXPENSES** | | % OF EGI | PER UNIT | PER SQ FT | | | | | | PER SQ FT | PER UNIT | % OF EGI |
| General & Administrative | | 5.94% | $341 | 0.35 | $47,747 | $47,192 | $43,000 | $43,000 | $43,000 | $0.32 | $307 | 5.33% |
| Management | | 5.16% | 296 | 0.31 | 41,491 | 41,013 | 40,322 | 40,322 | 40,322 | 0.30 | 288 | 5.00% |
| Payroll & Payroll Tax | | 16.61% | 955 | 0.98 | 133,637 | 132,083 | 129,500 | 129,500 | 129,500 | 0.95 | 925 | 16.06% |
| Repairs & Maintenance | | 6.54% | 376 | 0.39 | 52,637 | 52,044 | 53,900 | 53,900 | 53,900 | 0.40 | 385 | 6.68% |
| Utilities | | 4.76% | 273 | 0.28 | 38,284 | 37,827 | 35,000 | 35,000 | 35,000 | 0.26 | 250 | 4.34% |
| Water, Sewer, & Trash | | 4.26% | 245 | 0.25 | 34,238 | 33,843 | 39,900 | 39,900 | 39,900 | 0.29 | 285 | 4.95% |
| Property Insurance | | 4.22% | 243 | 0.25 | 33,950 | 33,250 | 42,000 | 42,000 | 42,000 | 0.31 | 300 | 5.21% |
| Property Tax | 2.5281 | 0.00% | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00% |
| Reserve for Replacements | | 3.48% | 200 | 0.21 | 28,000 | 28,000 | 28,000 | 28,000 | 28,000 | 0.21 | 200 | 3.47% |
| Supp. Serv contract fees, Complian | | 1.99% | 114 | 0.12 | 16,000 | 16,000 | 16,000 | 16,000 | 16,000 | 0.12 | 114 | 1.98% |
| TOTAL EXPENSES | | 52.95% | $3,043 | $3.14 | $425,983 | $421,252 | $427,622 | $427,622 | $427,622 | $3.15 | $3,054 | 53.03% |
| NET OPERATING INC | | 47.05% | $2,703 | $2.79 | $378,489 | $383,221 | $378,826 | $378,826 | $378,826 | $2.79 | $2,706 | 46.97% |
| **DEBT SERVICE** | | | | | | | | | | | | |
| First Lien Mortgage | | 39.40% | $2,264 | $2.33 | $316,986 | $316,986 | $321,389 | $316,986 | $316,986 | $2.33 | $2,264 | 39.31% |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | 0 | $0.00 | $0 | 0.00% |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | 0 | $0.00 | $0 | 0.00% |
| NET CASH FLOW | | 7.65% | $439 | $0.45 | $61,503 | $66,234 | $57,437 | $61,840 | $61,840 | $0.46 | $442 | 7.67% |
| AGGREGATE DEBT COVERAGE RATIO | | | | | 1.19 | 1.21 | 1.18 | 1.20 | 1.20 | | | |
| RECOMMENDED DEBT COVERAGE RATIO | | | | | | | | | 1.20 | | | |

**CONSTRUCTION COST**

| Description | Factor | % of TOTAL | PER UNIT | PER SQ FT | TDHCA 3-29-05 | TDHCA @ ORIG AP | ORIG. APP | 11-17-04 Change | 3-9-05 "Row House" | 3-9-05 "Garden" | PER SQ FT | PER UNIT | % of TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition Cost (site or bldg) | | 0.98% | $757 | $0.78 | $106,000 | $106,000 | $106,000 | $106,000 | $106,000 | $106,000 | $0.78 | $757 | 0.94% |
| Off-Sites | | 0.00% | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00% |
| Sitework | | 6.33% | 4,893 | 5.04 | 685,000 | 798,000 | 798,000 | 811,200 | 981,743 | 685,000 | 5.04 | 4,893 | 6.05% |
| Direct Construction | | 55.37% | 42,829 | 44.15 | 5,996,104 | 5,883,478 | 5,981,075 | 6,091,425 | 6,801,878 | 6,278,870 | 46.24 | 44,849 | 55.46% |
| Contingency | 5.00% | 3.08% | 2,386 | 2.46 | 334,055 | 309,126 | 309,126 | 393,450 | 354,519 | 354,519 | 2.61 | 2,532 | 3.13% |
| General Req'ts | 6.00% | 3.70% | 2,863 | 2.95 | 400,866 | 400,889 | 406,745 | 414,158 | 323,100 | 446,618 | 3.29 | 3,190 | 3.94% |
| Contractor's G & A | 2.00% | 1.23% | 954 | 0.98 | 133,622 | 133,630 | 135,582 | 138,053 | 141,805 | 141,805 | 1.04 | 1,013 | 1.25% |
| Contractor's Profit | 4.86% | 3.00% | 2,321 | 2.39 | 325,000 | 400,889 | 406,745 | 414,158 | 325,000 | 325,000 | 2.39 | 2,321 | 2.87% |
| Indirect Construction | | 4.36% | 3,374 | 3.48 | 472,367 | 301,657 | 301,657 | 424,867 | 472,367 | 472,367 | 3.48 | 3,374 | 4.17% |
| Ineligible Costs | | 3.31% | 2,558 | 2.64 | 358,161 | 349,102 | 349,102 | 350,352 | 358,161 | 358,161 | 2.64 | 2,558 | 3.16% |
| Developer's G & A | 2.00% | 1.61% | 1,247 | 1.29 | 174,551 | 172,664 | 174,890 | 181,357 | 181,357 | 181,357 | 1.34 | 1,295 | 1.60% |
| Developer's Profit | 13.00% | 10.48% | 8,104 | 8.35 | 1,134,583 | 1,122,418 | 1,134,833 | 1,176,872 | 1,176,872 | 1,176,872 | 8.67 | 8,406 | 10.39% |
| Interim Financing | | 3.51% | 2,718 | 2.80 | 380,550 | 405,550 | 405,550 | 380,550 | 380,550 | 380,550 | 2.80 | 2,718 | 3.36% |
| Reserves | | 3.04% | 2,348 | 2.42 | 328,739 | 237,652 | 237,652 | 287,253 | 415,000 | 415,000 | 3.06 | 2,964 | 3.67% |
| TOTAL COST | | 100.00% | $77,354 | $79.75 | $10,829,599 | $10,621,055 | $10,746,957 | $11,169,695 | $12,018,352 | $11,322,119 | $83.37 | $80,872 | 100.00% |
| ***Recap-Hard Construction Costs*** | | *72.71%* | ***$56,247*** | ***$57.99*** | ***$7,874,647*** | ***$7,926,012*** | ***$8,037,273*** | ***$8,262,444*** | ***$8,928,045*** | ***$8,231,812*** | ***$60.62*** | ***$58,799*** | *72.71%* |

| SOURCES OF FUNDS | % | Per Unit | Per Sq Ft | TDHCA 3-29-05 | TDHCA @ ORIG AP | ORIG. APP | 11-17-04 Change | 3-9-05 "Row House" | 3-9-05 "Garden" | RECOMMENDED | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| First Lien Mortgage | 33.24% | $25,714 | $26.51 | $3,600,000 | $3,600,000 | $3,600,000 | $3,600,000 | $3,600,000 | $3,600,000 | $3,600,000 | Developer Fee Available |
| Additional Financing | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | $1,357,064 |
| HTC Syndication Proceeds | 68.73% | $53,164 | $54.81 | 7,443,000 | 6,766,000 | 6,766,000 | 7,443,000 | 7,443,000 | 7,443,000 | 7,443,000 | % of Dev. Fee Deferred |
| Deferred Developer Fees | 2.61% | $2,015 | $2.08 | 282,119 | 380,957 | 380,957 | 126,692 | 282,119 | 282,119 | 279,119 | 21% |
| Additional (excess) Funds Required | -4.58% | ($3,539) | ($3.65) | (495,520) | (125,902) | 0 | 3 | 693,233 | (3,000) | 0 | 15-Yr Cumulative Cash Flow |
| TOTAL SOURCES | | | | $10,829,599 | $10,621,055 | $10,746,957 | $11,169,695 | $12,018,352 | $11,322,119 | $11,322,119 | $1,700,174 |

## MULTIFAMILY COMPARATIVE ANALYSIS (continued)

***Stone Hollow Village Apartments, Lubbock, 9% HTC # 04057 CHANGE MEMO***

### DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Basis

| CATEGORY | FACTOR | UNITS/SQ FT | PER SF | AMOUNT |
|---|---|---|---|---|
| Base Cost | | | $43.98 | $5,972,666 |
| Adjustments | | | | |
| Exterior Wall Finish | 5.60% | | $2.46 | $334,469 |
| Elderly/9-Ft. Ceilings | | | 0.00 | 0 |
| Roofing | | | 0.00 | 0 |
| Subfloor | | | (1.02) | (137,837) |
| Floor Cover | | | 2.53 | 343,574 |
| Porches/Balconies | $19.41 | 12136 | 1.73 | 235,560 |
| Plumbing | $605 | 312 | 1.39 | 188,760 |
| Built-In Appliances | $1,650 | 140 | 1.70 | 231,000 |
| Stairs/Fireplaces | $1,475 | 30 | 0.33 | 44,250 |
| Floor Insulation | | | 0.00 | 0 |
| Heating/Cooling | | | 1.53 | 207,774 |
| Garages/Carports | | 0 | 0.00 | 0 |
| Comm &/or Aux Bldgs | $63.40 | 3,000 | 1.40 | 190,188 |
| Other: | | | 0.00 | 0 |
| SUBTOTAL | | | 56.04 | 7,610,404 |
| Current Cost Multiplier | 1.11 | | 6.16 | 837,144 |
| Local Multiplier | 0.86 | | (7.85) | (1,065,457) |
| TOTAL DIRECT CONSTRUCTION COSTS | | | $54.36 | $7,382,092 |
| Plans, specs, survy, bld prm | 3.90% | | ($2.12) | ($287,902) |
| Interim Construction Interes | 3.38% | | (1.83) | (249,146) |
| Contractor's OH & Profit | 11.50% | | (6.25) | (848,941) |
| NET DIRECT CONSTRUCTION COSTS | | | $44.15 | $5,996,104 |

### PAYMENT COMPUTATION

| | | | | | |
|---|---|---|---|---|---|
| **Primary** | | | $3,600,000 | Term | 360 |
| Int Rate | | | 8.00% | DCR | 1.19 |
| **Secondary** | | | $0 | Term | |
| Int Rate | | | 0.00% | Subtotal DCR | 1.19 |
| **Additional** | | | | Term | |
| Int Rate | | | | Aggregate DCR | 1.19 |

### RECOMMENDED FINANCING STRUCTURE APPLICANT'S NOI:

| | |
|---|---|
| Primary Debt Service | $316,986 |
| Secondary Debt Service | 0 |
| Additional Debt Service | 0 |
| NET CASH FLOW | $61,840 |

| | | | | | |
|---|---|---|---|---|---|
| **Primary** | | | $3,600,000 | Term | 360 |
| Int Rate | | | 8.00% | DCR | 1.20 |
| **Secondary** | | | $0 | Term | 0 |
| Int Rate | | | 0.00% | Subtotal DCR | 1.20 |
| **Additional** | | | $0 | Term | 0 |
| Int Rate | | | 0.00% | Aggregate DCR | 1.20 |

### OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE (APPLICANT'S NOI)

| INCOME at 3.00% | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |
|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | $855,036 | $880,687 | $907,108 | $934,321 | $962,351 | $1,115,628 | $1,293,319 | $1,499,311 | $2,014,948 |
| Secondary Income | 16,800 | 17,304 | 17,823 | 18,358 | 18,909 | 21,920 | 25,412 | 29,459 | 39,590 |
| Contractor's Profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| POTENTIAL GROSS INCOME | 871,836 | 897,991 | 924,931 | 952,679 | 981,259 | 1,137,548 | 1,318,730 | 1,528,770 | 2,054,539 |
| Vacancy & Collection Loss | (65,388) | (67,349) | (69,370) | (71,451) | (73,594) | (85,316) | (98,905) | (114,658) | (154,090) |
| Developer's G & A | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EFFECTIVE GROSS INCOME | $806,448 | $830,642 | $855,561 | $881,228 | $907,665 | $1,052,232 | $1,219,825 | $1,414,112 | $1,900,448 |
| EXPENSES at 4.00% | | | | | | | | | |
| General & Administrative | $43,000 | $44,720 | $46,509 | $48,369 | $50,304 | $61,202 | $74,462 | $90,595 | $134,102 |
| Management | 40,322 | 41531.6754 | 42777.62571 | 44060.95448 | 45382.78312 | 52611.08389 | 60990.66557 | 70704.89737 | 95021.46968 |
| Payroll & Payroll Tax | 129,500 | 134,680 | 140,067 | 145,670 | 151,497 | 184,319 | 224,252 | 272,837 | 403,865 |
| Repairs & Maintenance | 53,900 | 56,056 | 58,298 | 60,630 | 63,055 | 76,717 | 93,337 | 113,559 | 168,095 |
| Utilities | 35,000 | 36,400 | 37,856 | 39,370 | 40,945 | 49,816 | 60,609 | 73,740 | 109,153 |
| Water, Sewer & Trash | 39,900 | 41,496 | 43,156 | 44,882 | 46,677 | 56,790 | 69,094 | 84,063 | 124,434 |
| Insurance | 42,000 | 43,680 | 45,427 | 47,244 | 49,134 | 59,779 | 72,730 | 88,488 | 130,983 |
| Property Tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reserve for Replacements | 28,000 | 29,120 | 30,285 | 31,496 | 32,756 | 39,853 | 48,487 | 58,992 | 87,322 |
| Other | 16,000 | 16,640 | 17,306 | 17,998 | 18,718 | 22,773 | 27,707 | 33,710 | 49,898 |
| TOTAL EXPENSES | $427,622 | $444,324 | $461,681 | $479,721 | $498,469 | $603,860 | $731,669 | $886,688 | $1,302,875 |
| NET OPERATING INCOME | $378,826 | $386,318 | $393,880 | $401,507 | $409,196 | $448,372 | $488,156 | $527,424 | $597,573 |
| DEBT SERVICE | | | | | | | | | |
| First Lien Financing | $316,986 | $316,986 | $316,986 | $316,986 | $316,986 | $316,986 | $316,986 | $316,986 | $316,986 |
| Second Lien | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH FLOW | $61,840 | $69,332 | $76,893 | $84,521 | $92,209 | $131,386 | $171,170 | $210,438 | $280,587 |
| DEBT COVERAGE RATIO | 1.20 | 1.22 | 1.24 | 1.27 | 1.29 | 1.41 | 1.54 | 1.66 | 1.89 |

**TownePark Fredericksburg II Apartments, HTC Development No. 04260**

Summary of Request: Applicant requests approval to change the bedroom mix and unit mix from 24 one-bedroom and 20 two-bedroom units to build all 44 units as one-bedroom units. Applicant reports that demand is much stronger for one-bedroom than two-bedroom units. Phase I of the subject development contains only two-bedroom units and has a waiting list for units with one-bedroom. Applicant also expects significant demand from voucher holders with vouchers that can only be used for one-bedroom units.

| | |
|---|---|
| Governing Law: | §2306.6712, Texas Government Code. The code indicates that material alterations include a modification of the number of units or bedroom mix of units. |
| Applicant: | TownePark Fredericksburg II, LP |
| General Partner: | Fredericksburg Housing II, LLC (managing GP) |
| Developers: | MFHA Development Company LLC; Kilday Partners, LLC |
| Principals/Interested Parties: | Marble Falls Housing Development Corporation (owner of GP); R.R. Kilday and Diane Kilday (owners of Kilday Partners, LLC) |
| Syndicator: | Paramount Financial Group |
| Construction Lender: | Mitchell Mortgage |
| Permanent Lender: | Mitchell Mortgage |
| Other Funding: | City of Marble Falls (grant) |
| City/County: | Fredericksburg/Gillespie |
| Set-Aside: | Nonprofit |
| Type of Area: | Rural |
| Type of Development: | New Construction |
| Population Served: | Elderly |
| Units: | 39 HTC units and 5 market rate units |
| 2004 Allocation: | $257,151 |
| Allocation per HTC Unit: | $6,594 |
| Prior Board Actions: | 7/28/04 - Approved award of tax credits. |
| Underwriting Reevaluation: | The changes requested do not negatively impact the financial feasibility of the development. No change in the credit allocation is recommended. |
| **Staff Recommendation:** | **Staff recommends approving the request because the requested modification would not materially alter the development in a negative manner and would not have adversely affected the selection of the application in the application round. Note that because this is an elderly development, no ineligible building type rules are violated by the change.** |

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS**

# MULTIFAMILY UNDERWRITING ADDENDUM

**DATE:** March 28, 2005 **PROGRAM:** 9% HTC **FILE NUMBER:** 04260

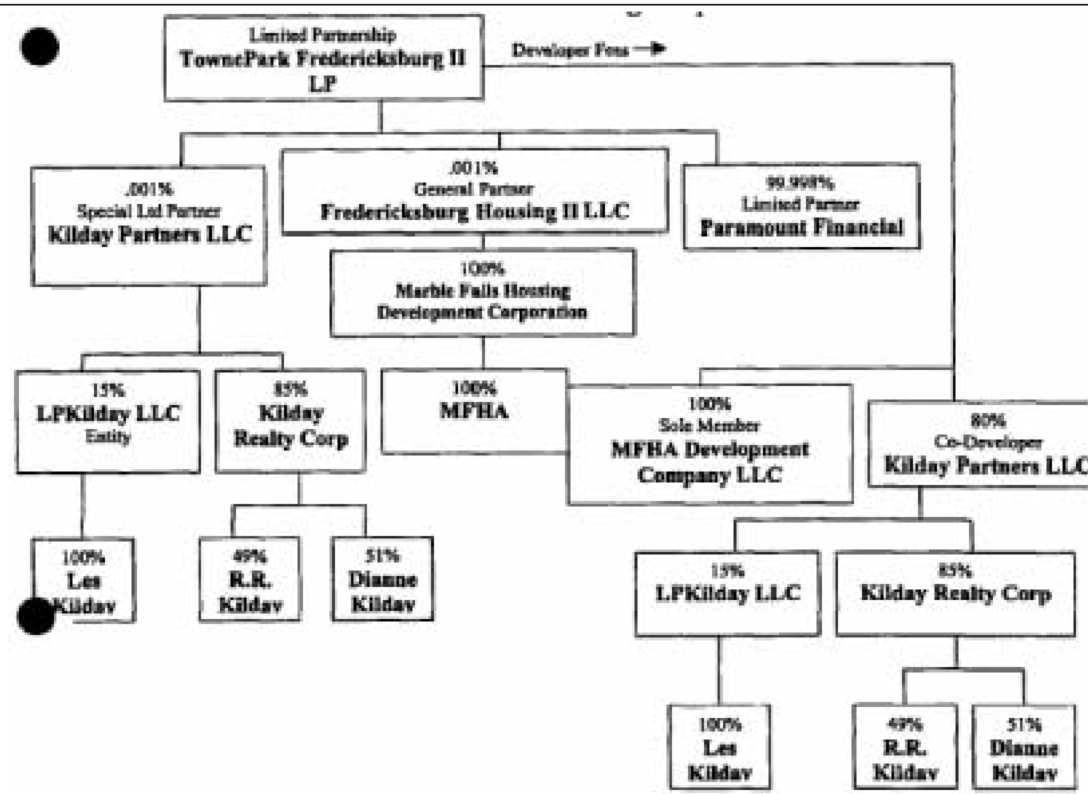
## DEVELOPMENT NAME

Townepark in Fredericksburg II Apartments

## APPLICANT

| | | | | | |
|---|---|---|---|---|---|
| **Name:** | Townepark Fredericksburg II, LP | **Type:** | For-profit | | |
| **Address:** | 1110 Broadway | **City:** | Marble Falls | **State:** | TX |
| **Zip:** | 78654 **Contact:** Mark Mayfield | **Phone:** | (830) 693-4521 | **Fax:** | (830) 693-5128 |

## PRINCIPALS of the APPLICANT/ KEY PARTICIPANTS




## PROPERTY LOCATION

| | | | | | |
|---|---|---|---|---|---|
| **Location:** | 1100 Block of South Adams | ☐ **QCT** | | ☐ **DDA** | |
| **City:** | Fredericksburg | **County:** | Gillespie | **Zip:** | 78624 |

## REQUEST

| Amount | Interest Rate | Amortization | Term |
|---|---|---|---|
| $233,332 | N/A | N/A | N/A |

**Other Requested Terms:** Annual ten-year allocation of housing tax credits; original request of $257,151, awarded $225,361

**Proposed Use of Funds:** New construction **Property Type:** Multifamily

**Special Purpose (s):** Elderly, Non-Profit, Rural

## RECOMMENDATION

☒ RECOMMEND CONTINUED APPROVAL OF A HOUSING TAX CREDIT ALLOCATION NOT TO EXCEED $225,361 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

## CONDITIONS

Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the credit/allocation amount may be warranted.

## ADDENDUM

The development was submitted during the 2004 9% tax credit cycle and awarded an annual allocation of $225,361. The original proposal included 24 one-bedroom and 20 two-bedroom units. On March 3, 2005, a request was submitted to convert the two-bedroom units to one-bedroom units. The applicant has indicated there is a strong demand for one-bedroom elderly units based on the traffic at the Phase I (TDHCA #01072) development which is comprised of a total of 48 two-bedroom units. The submitted packet includes a revised rent schedule, sources and uses of funds, development cost schedule, annual operating expenses, proforma, and architectural plans.

**Income and Expenses:** The new projected income is within the Underwriter's current estimate but $22K less than the original projection. The decrease in income is due to the difference between rent limits for two-bedroom units compared to one-bedroom units. However, the difference is slightly offset by the increase in 2005 to the rent limits. The applicant maintained expense estimates similar to those originally submitted. The Underwriter's expense estimates are lower due to the difference in utility estimates for a one-bedroom household compared to that of a two-bedroom household and a lower property insurance estimate based on the smaller square footage.

**Direct Construction Cost:** The Applicant's direct construction cost estimate is 17% higher than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate. However, the Underwriter reviewed the final costs of the 48-unit Phase I. The cost certification packet submitted for Townepark in Fredericksburg-Phase I indicate direct construction costs of approximately $37,565 per unit and $38.50 per square foot after sitework costs and the cost of the relatively larger community building are deducted from the cost certified values. Since the number of units and average unit size for Phase II is different, the direct construction cost estimate used in this underwriting analysis is based on the average final costs for Phase I on a per unit and per square foot basis. A cost multiplier of 1.08 was determined to be required to apply to the current Marshall and Swift costs for Phase I to the actual Phase I cost as adjusted for inflation and this same multiplier was therefore used for this phase. The net result is a cost that is still 108% of the adjusted Marshall and Swift calculation for direct construction.

**Fees and Contingency:** The Applicant incorrectly characterized $80K in soft contingency cost as an eligible indirect cost. The Underwriter moved this contingency and added it to the $80K already included in the direct cost contingency. The total of $160K exceeded the limit of 5% of site work and direct construction costs by $68K in eligible basis. The Underwriter noted that the contractor fees included were below the maximums allowed and therefore made adjustments to absorb and allow to claim as eligible $36,442 of this excess contingency. As a result, the Applicant's eligible basis is reduced to $3,129,993 which calculates to a maximum tax credit of $226,384 or slightly more than originally allocated.

**Financing:** The Underwriter requested a financing commitment for $176K in grant funds as reflected in the new sources and uses of funds. A commitment by the Federal Home Loan Bank of Dallas was submitted. The subsidy is conditioned upon providing 15 units for households with incomes at or below 50% of AMGI and 24 units for households with incomes between 51% and 60% of AMGI. The current rent schedule indicates the development will meet these set-asides.

The Applicant's current sources and uses of funds also reflects a first lien mortgage that has been reduced from $1,430,000 to $1,150,000. The calculated debt service results in a debt coverage ratio within the Department's guideline of 1.10 to 1.30 based on both the Applicant's and the Underwriter's year one proforma.

**Market Study:** The Underwriter also requested a supplement to the original Market Study due to the change in unit type and a change in the targeted household size. A supplement prepared by Darrell Jack of Apartment MarketData states, "…we reviewed the current demographic information of the 5.0 mile radius that we designated as the primary trade area for the subject site. Based on this review, we conclude that the demand forecast supplied in the original market study dated March 22, 2004 is still valid; thus no amendment is necessary at this time." The market rent conclusion of $560 for one-bedroom units supports the net rent projections based on the 2005 gross rent limits.

**Conclusion:** The proposed changes do not negatively impact the overall financial feasibility of the development. The current total development cost is within 5% of the Underwriter's estimate. Therefore, the Applicant's current cost schedule as further adjusted by the Underwriter, is used to determine the need for permanent funds and eligible basis. It should be noted, the total development cost was adjusted to reflect a reduced acquisition cost due to the identity of interest land sale as was the case in the original underwriting report. An eligible basis of $3,129,993 results in a recommended allocation of $226,384 in annual tax credits based on the underwriting applicable percentage of 8.16% for all 2004 9% tax credit applications. The Applicant's request for $233,332 annually was additionally overstated since it was based on an applicable percentage of 8.20%. The current analysis with the originally allocated credits of $225,361 indicates the developer will defer $204,402 in fees, which appear to be repayable from cashflow within 10 years of stabilized operation.

## SUMMARY OF SALIENT RISKS AND ISSUES

- The Applicant's estimated operating expenses and net operating income are more than 5% outside of the Underwriter's verifiable ranges.
- The Applicant's direct construction costs differ from the Underwriter's *Marshall and Swift*-based estimate by more than 5%.
- The development would need to capture a majority of the projected market area demand (i.e., capture rate exceeds 50%).
- The seller of the property has an identity of interest with the Applicant.

| | | | |
|---|---|---|---|
| **Underwriter:** | *Brenda Hull* | **Date:** | March 28, 2005 |
| **Underwriter:** | *Lisa Vecchietti* | **Date:** | March 28, 2005 |
| **Director of Real Estate Analysis:** | *Tom Gouris* | **Date:** | March 28, 2005 |

# MULTIFAMILY COMPARATIVE ANALYSIS

## *Townepark in Fredericksburg II, Fredericksburg, HTC #04260* ADDENDUM

| Type of Unit | Number | Bedrooms | No. of Baths | Size in SF | Gross Rent Lmt. | Net Rent per Unit | Rent per Month | Rent per SF | Tnt Pd Util | Wtr, Swr, Trsh |
|---|---|---|---|---|---|---|---|---|---|---|
| TC 30% | 4 | 1 | 1 | 650 | $303 | $240 | $960 | $0.37 | $63.00 | $49.00 |
| TC 40% | 1 | 1 | 1 | 650 | 405 | 342 | 342 | 0.53 | 63.00 | 49.00 |
| TC 50% | 10 | 1 | 1 | 650 | 506 | 443 | 4,430 | 0.68 | 63.00 | 49.00 |
| TC 60% | 24 | 1 | 1 | 650 | 607 | 544 | 13,056 | 0.84 | 63.00 | 49.00 |
| MR | 5 | 1 | 1 | 650 | | 550 | 2,750 | 0.85 | 63.00 | 49.00 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| TOTAL: | 44 | | AVERAGE: | 650 | $483 | $490 | $21,538 | $0.75 | $63.00 | $49.00 |

| INCOME | Total Net Rentable Sq Ft: 28,600 | | TDHCA | TDHCA-APP | APPLICANT-APP | APPLICANT | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Comptroller's Region | 9 |
| POTENTIAL GROSS RENT | | | $258,456 | $280,092 | $280,068 | $258,456 | IREM Region | 6 |
| Secondary Income | Per Unit Per Month: | $15.00 | 7,920 | 7,920 | 7,920 | 7,920 | $15.00 | Per Unit Per Month |
| Other Support Income: (describe) | | | 0 | 0 | 0 | 0 | | |
| POTENTIAL GROSS INCOME | | | $266,376 | $288,012 | $287,988 | $266,376 | | |
| Vacancy & Collection Loss | % of Potential Gross Income: | -7.50% | (19,978) | (21,601) | (21,600) | (19,980) | -7.50% | of Potential Gross Rent |
| Employee or Other Non-Rental Units or Concessions | | | 0 | 0 | 0 | 0 | | |
| EFFECTIVE GROSS INCOME | | | $246,398 | $266,411 | $266,388 | $246,396 | | |

| EXPENSES | | % OF EGI | PER UNIT | PER SQ FT | TDHCA | TDHCA-APP | APPLICANT-APP | APPLICANT | PER SQ FT | PER UNIT | % OF EGI |
|---|---|---|---|---|---|---|---|---|---|---|---|
| General & Administrative | | 5.12% | $286 | 0.44 | $12,605 | $12,605 | $9,200 | $11,600 | $0.41 | $264 | 4.71% |
| Management | | 5.00% | 280 | 0.43 | 12,320 | 13,321 | 13,300 | 13,300 | 0.47 | 302 | 5.40% |
| Payroll & Payroll Tax | | 13.46% | 754 | 1.16 | 33,165 | 35,781 | 29,800 | 29,800 | 1.04 | 677 | 12.09% |
| Repairs & Maintenance | | 6.51% | 365 | 0.56 | 16,051 | 16,051 | 15,544 | 15,544 | 0.54 | 353 | 6.31% |
| Utilities | | 2.28% | 128 | 0.20 | 5,621 | 6,108 | 8,800 | 8,800 | 0.31 | 200 | 3.57% |
| Water, Sewer, & Trash | | 5.06% | 283 | 0.44 | 12,473 | 13,522 | 12,300 | 12,300 | 0.43 | 280 | 4.99% |
| Property Insurance | | 2.90% | 163 | 0.25 | 7,150 | 8,420 | 13,200 | 13,200 | 0.46 | 300 | 5.36% |
| Property Tax | 2.1514 | 7.00% | 392 | 0.60 | 17,250 | 18,659 | 19,360 | 19,360 | 0.68 | 440 | 7.86% |
| Reserve for Replacements | | 3.57% | 200 | 0.31 | 8,800 | 8,800 | 8,800 | 8,800 | 0.31 | 200 | 3.57% |
| Supportive Services, Compliance | | 1.95% | 109 | 0.17 | 4,796 | 4,796 | 4,796 | 4,796 | 0.17 | 109 | 1.95% |
| TOTAL EXPENSES | | 52.85% | $2,960 | $4.55 | $130,232 | $138,063 | $135,100 | $137,500 | $4.81 | $3,125 | 55.80% |
| NET OPERATING INC | | 47.15% | $2,640 | $4.06 | $116,165 | $128,348 | $131,288 | $108,896 | $3.81 | $2,475 | 44.20% |
| **DEBT SERVICE** | | | | | | | | | | | |
| First Lien Mortgage | | 37.26% | $2,087 | $3.21 | $91,812 | $114,166 | $114,186 | $94,141 | $3.29 | $2,140 | 38.21% |
| Federal Home Loan | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | $0.00 | $0 | 0.00% |
| Federal Home Loan | | 0.00% | $0 | $0.00 | 0 | 0 | 0 | 0 | $0.00 | $0 | 0.00% |
| NET CASH FLOW | | 9.88% | $553 | $0.85 | $24,354 | $14,182 | $17,102 | $14,755 | $0.52 | $335 | 5.99% |
| AGGREGATE DEBT COVERAGE RATIO | | | | | 1.27 | 1.12 | 1.15 | 1.16 | | | |
| RECOMMENDED DEBT COVERAGE RATIO | | | | | 1.27 | | 1.15 | | | | |

**CONSTRUCTION COST**

| Description | Factor | % of TOTAL | PER UNIT | PER SQ FT | TDHCA | TDHCA-APP | APPLICANT-APP | APPLICANT | PER SQ FT | PER UNIT | % of TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition Cost (site or bldg) | | 2.73% | $2,025 | $3.11 | $89,081 | $89,081 | $125,000 | $125,000 | $4.37 | $2,841 | 3.65% |
| Off-Sites | | 0.00% | 0 | 0.00 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00% |
| Sitework | | 8.90% | 6,598 | 10.15 | 290,290 | 302,386 | 302,386 | 290,290 | 10.15 | 6,598 | 8.48% |
| Direct Construction | | 43.76% | 32,434 | 49.90 | 1,427,076 | 1,470,181 | 1,692,062 | 1,547,351 | 54.10 | 35,167 | 45.21% |
| Contingency | 5.00% | 2.63% | 1,952 | 3.00 | 85,868 | 190,659 | 190,659 | 110,000 | 3.85 | 2,500 | 3.21% |
| General Req'ts | 6.00% | 3.16% | 2,342 | 3.60 | 103,042 | 106,354 | 141,765 | 116,082 | 4.06 | 2,638 | 3.39% |
| Contractor's G & A | 2.00% | 1.05% | 781 | 1.20 | 34,347 | 35,451 | 43,171 | 38,678 | 1.35 | 879 | 1.13% |
| Contractor's Profit | 6.00% | 3.16% | 2,342 | 3.60 | 103,042 | 87,092 | 87,092 | 116,082 | 4.06 | 2,638 | 3.39% |
| Indirect Construction | | 8.19% | 6,068 | 9.34 | 267,000 | 295,000 | 295,000 | 267,000 | 9.34 | 6,068 | 7.80% |
| Ineligible Costs | | 4.78% | 3,546 | 5.45 | 156,012 | 197,589 | 197,589 | 105,800 | 3.70 | 2,405 | 3.09% |
| Developer's G & A | 2.38% | 1.88% | 1,395 | 2.15 | 61,380 | 54,189 | 90,800 | 81,400 | 2.85 | 1,850 | 2.38% |
| Developer's Profit | 12.62% | 9.98% | 7,400 | 11.38 | 325,600 | 352,226 | 363,200 | 325,600 | 11.38 | 7,400 | 9.51% |
| Interim Financing | | 8.26% | 6,118 | 9.41 | 269,200 | 222,311 | 222,311 | 269,200 | 9.41 | 6,118 | 7.87% |
| Reserves | | 1.50% | 1,114 | 1.71 | 49,032 | 56,328 | 40,000 | 30,000 | 1.05 | 682 | 0.88% |
| TOTAL COST | | 100.00% | $74,113 | $114.02 | $3,260,970 | $3,458,848 | $3,791,035 | $3,422,483 | $119.67 | $77,784 | 100.00% |
| ***Recap-Hard Construction Costs*** | | *62.67%* | ***$46,447*** | ***$71.46*** | ***$2,043,666*** | ***$2,192,124*** | ***$2,457,135*** | ***$2,218,483*** | ***$77.57*** | ***$50,420*** | *64.82%* |

| SOURCES OF FUNDS | % | PER UNIT | PER SQ FT | TDHCA | TDHCA-APP | APPLICANT-APP | APPLICANT | RECOMMENDED | |
|---|---|---|---|---|---|---|---|---|---|
| First Lien Mortgage | 35.27% | $26,136 | $40.21 | $1,150,000 | $1,430,000 | $1,430,000 | $1,150,000 | $1,150,000 | Developer Fee Available |
| Federal Home Loan | 5.40% | $4,000 | $6.15 | 176,000 | 70,000 | 70,000 | 176,000 | 176,000 | $386,980 |
| HTC Syndication Proceeds | 60.80% | $45,063 | $69.33 | 1,982,780 | 2,108,219 | 2,108,219 | 1,982,780 | 1,856,162 | % of Dev. Fee Deferred |
| Deferred Developer Fees | 3.49% | $2,584 | $3.98 | 113,701 | 182,816 | 182,816 | 113,701 | 204,402 | 53% |
| Additional (excess) Funds Required | -4.95% | ($3,671) | ($5.65) | (161,511) | (332,187) | 0 | 2 | 0 | 15-Yr Cumulative Cash Flow |
| TOTAL SOURCES | | | | $3,260,970 | $3,458,848 | $3,791,035 | $3,422,483 | $3,386,564 | $603,366.41 |

**MULTIFAMILY COMPARATIVE ANALYSIS** (continued)

*Townepark in Fredericksburg II, Fredericksburg, HTC #04260 ADDENDUM*

## DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

| CATEGORY | FACTOR | UNITS/SQ FT | PER SF | AMOUNT |
|---|---|---|---|---|
| Base Cost | | | $48.81 | $1,395,909 |
| Adjustments | | | | |
| Exterior Wall Finish | 2.00% | | $0.98 | $27,918 |
| Elderly | 3.00% | | 1.46 | 41,877 |
| Roofing | | | 0.00 | 0 |
| Subfloor | | | (2.03) | (58,058) |
| Floor Cover | | | 2.00 | 57,200 |
| Porches/Balconies | $16.36 | 3,736 | 2.14 | 61,121 |
| Plumbing | $605 | | 0.00 | 0 |
| Built-In Appliances | $1,650 | 44 | 2.54 | 72,600 |
| Stairs/Fireplaces | | | 0.00 | 0 |
| Floor Insulation | | | 0.00 | 0 |
| Heating/Cooling | | | 1.53 | 43,758 |
| Garages/Carports | | | 0.00 | 0 |
| Maintenance Building | $48.81 | 1,095 | 1.87 | 53,445 |
| Other: | | | 0.00 | 0 |
| SUBTOTAL | | | 59.29 | 1,695,770 |
| Current Cost Multiplier | 1.11 | | 6.52 | 186,535 |
| Local Multiplier | 0.85 | | (8.89) | (254,365) |
| TOTAL DIRECT CONSTRUCTION COSTS | | | $56.92 | $1,627,939 |
| Plans, specs, survy, bld prm | 3.90% | | ($2.22) | ($63,490) |
| Interim Construction Interest | 3.38% | | (1.92) | (54,943) |
| Contractor's OH & Profit | 11.50% | | (6.55) | (187,213) |
| NET DIRECT CONSTRUCTION COSTS | | | $46.23 | $1,322,294 |
| Cost multiplier Based on Phase I Costs | | 1.08 | 49.90 | 1,427,076 |

## PAYMENT COMPUTATION

| | | | |
|---|---|---|---|
| **Primary** | $1,150,000 | Amort | 360 |
| Int Rate | 7.00% | DCR | 1.27 |

| | | | |
|---|---|---|---|
| **Secondary** | $176,000 | Amort | |
| Int Rate | | Subtotal DCR | 1.27 |

| | | | |
|---|---|---|---|
| **Additional** | $1,982,780 | Amort | |
| Int Rate | | Aggregate DCR | 1.27 |

## RECOMMENDED FINANCING STRUCTURE:

| | |
|---|---|
| Primary Debt Service | $91,812 |
| Secondary Debt Service | 0 |
| Additional Debt Service | 0 |
| NET CASH FLOW | $24,354 |

| | | | |
|---|---|---|---|
| **Primary** | $1,150,000 | Amort | 360 |
| Int Rate | 7.00% | DCR | 1.27 |

| | | | |
|---|---|---|---|
| **Secondary** | $0 | Amort | 0 |
| Int Rate | 0.00% | Subtotal DCR | 1.27 |

| | | | |
|---|---|---|---|
| **Additional** | $1,982,780 | Amort | 0 |
| Int Rate | 0.00% | Aggregate DCR | 1.27 |

## OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

| INCOME at 3.00% | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |
|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | $258,456 | $266,210 | $274,196 | $282,422 | $290,895 | $337,226 | $390,938 | $453,204 | $609,068 |
| Secondary Income | 7,920 | 8,158 | 8,402 | 8,654 | 8,914 | 10,334 | 11,980 | 13,888 | 18,664 |
| Other Support Income: (describ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| POTENTIAL GROSS INCOME | 266,376 | 274,367 | 282,598 | 291,076 | 299,809 | 347,560 | 402,918 | 467,092 | 627,732 |
| Vacancy & Collection Loss | (19,978) | (20,578) | (21,195) | (21,831) | (22,486) | (26,067) | (30,219) | (35,032) | (47,080) |
| Employee or Other Non-Rental | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EFFECTIVE GROSS INCOME | $246,398 | $253,790 | $261,403 | $269,246 | $277,323 | $321,493 | $372,699 | $432,060 | $580,653 |
| EXPENSES at 4.00% | | | | | | | | | |
| General & Administrative | $12,605 | $13,110 | $13,634 | $14,179 | $14,747 | $17,941 | $21,828 | $26,558 | $39,312 |
| Management | 12,320 | 12,689 | 13,070 | 13,462 | 13,866 | 16,075 | 18,635 | 21,603 | 29,033 |
| Payroll & Payroll Tax | 33,165 | 34,492 | 35,871 | 37,306 | 38,798 | 47,204 | 57,431 | 69,874 | 103,430 |
| Repairs & Maintenance | 16,051 | 16,693 | 17,361 | 18,055 | 18,777 | 22,845 | 27,795 | 33,817 | 50,057 |
| Utilities | 5,621 | 5,846 | 6,080 | 6,323 | 6,576 | 8,001 | 9,734 | 11,843 | 17,531 |
| Water, Sewer & Trash | 12,473 | 12,972 | 13,491 | 14,031 | 14,592 | 17,754 | 21,600 | 26,280 | 38,900 |
| Insurance | 7,150 | 7,436 | 7,733 | 8,043 | 8,364 | 10,177 | 12,381 | 15,064 | 22,298 |
| Property Tax | 17,250 | 17,940 | 18,658 | 19,404 | 20,180 | 24,553 | 29,872 | 36,344 | 53,798 |
| Reserve for Replacements | 8,800 | 9,152 | 9,518 | 9,899 | 10,295 | 12,525 | 15,239 | 18,540 | 27,444 |
| Other | 4,796 | 4,988 | 5,187 | 5,395 | 5,611 | 6,826 | 8,305 | 10,104 | 14,957 |
| TOTAL EXPENSES | $130,232 | $135,319 | $140,604 | $146,098 | $151,807 | $183,901 | $222,821 | $270,027 | $396,761 |
| NET OPERATING INCOME | $116,165 | $118,471 | $120,799 | $123,148 | $125,516 | $137,592 | $149,877 | $162,033 | $183,892 |
| DEBT SERVICE | | | | | | | | | |
| First Lien Financing | $91,812 | $91,812 | $91,812 | $91,812 | $91,812 | $91,812 | $91,812 | $91,812 | $91,812 |
| Second Lien | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH FLOW | $24,354 | $26,659 | $28,987 | $31,336 | $33,704 | $45,780 | $58,066 | $70,221 | $92,080 |
| DEBT COVERAGE RATIO | 1.27 | 1.29 | 1.32 | 1.34 | 1.37 | 1.50 | 1.63 | 1.76 | 2.00 |

## LIHTC Allocation Calculation - Townepark in Fredericksburg II, Fredericksburg, HTC #04260 AD

| CATEGORY | APPLICANT'S TOTAL AMOUNTS | TDHCA TOTAL AMOUNTS | APPLICANT'S REHAB/NEW ELIGIBLE BASIS | TDHCA REHAB/NEW ELIGIBLE BASIS |
|---|---|---|---|---|
| **(1) Acquisition Cost** | | | | |
| Purchase of land | $125,000 | $89,081 | | |
| Purchase of buildings | | | | |
| **(2) Rehabilitation/New Construction Cost** | | | | |
| On-site work | $290,290 | $290,290 | $290,290 | $290,290 |
| Off-site improvements | | | | |
| **(3) Construction Hard Costs** | | | | |
| New structures/rehabilitation hard costs | $1,547,351 | $1,427,076 | $1,547,351 | $1,427,076 |
| **(4) Contractor Fees & General Requirements** | | | | |
| Contractor overhead | $38,678 | $34,347 | $36,753 | $34,347 |
| Contractor profit | $116,082 | $103,042 | $110,258 | $103,042 |
| General requirements | $116,082 | $103,042 | $110,258 | $103,042 |
| **(5) Contingencies** | $110,000 | $85,868 | $91,882 | $85,868 |
| **(6) Eligible Indirect Fees** | $267,000 | $267,000 | $267,000 | $267,000 |
| **(7) Eligible Financing Fees** | $269,200 | $269,200 | $269,200 | $269,200 |
| **(8) All Ineligible Costs** | $105,800 | $156,012 | | |
| **(9) Developer Fees** | | | | |
| Developer overhead | $81,400 | $61,380 | $81,400 | $61,380 |
| Developer fee | $325,600 | $325,600 | $325,600 | $325,600 |
| **(10) Development Reserves** | $30,000 | $49,032 | | |
| **TOTAL DEVELOPMENT COSTS** | $3,422,483 | $3,260,970 | $3,129,993 | $2,966,846 |

| | | | |
|---|---|---|---|
| **Deduct from Basis:** | | | |
| All grant proceeds used to finance costs in eligible basis | | | |
| B.M.R. loans used to finance cost in eligible basis | | | |
| Non-qualified non-recourse financing | | | |
| Non-qualified portion of higher quality units [42(d)(3)] | | | |
| Historic Credits (on residential portion only) | | | |
| **TOTAL ELIGIBLE BASIS** | | $3,129,993 | $2,966,846 |
| High Cost Area Adjustment | | 100% | 100% |
| **TOTAL ADJUSTED BASIS** | | $3,129,993 | $2,966,846 |
| Applicable Fraction | | 89% | 89% |
| **TOTAL QUALIFIED BASIS** | | $2,774,312 | $2,629,704 |
| Applicable Percentage | | 8.16% | 8.16% |
| **TOTAL AMOUNT OF TAX CREDITS** | | $226,384 | $214,584 |
| **Syndication Proceeds** | **0.8199** | **$1,856,162** | **$1,759,411** |

| | | |
|---|---|---|
| **Total Credits (Eligible Basis Method)** | **$226,384** | **$214,584** |
| **Syndication Proceeds** | **$1,856,162** | **$1,759,411** |
| **Previously Apporved Credits** | **$225,361** | |
| **Syndication Proceeds** | **$1,847,775** | |
| **Gap of Syndication Proceeds Needed** | **$2,096,483** | |
| **Credit Amount** | **$255,694** | |

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February 24, 2005

Mr. Ben Sheppard
Texas Department of Housing and Community Affairs
507 Sabine Street, Suite 400
Austin, Texas 78711-3941

**RE: Oak Timbers – White Settlement**
**TDHCA #01011**

Dear Mr. Sheppard,

Please accept this letter as a request to amend the application for Oak Timbers – White Settlement, L.P., TDHCA # 01011 (the "Partnership"), the owner of Oak Timbers Apartments (the "Project"), a 104-unit affordable housing development in White Settlement, Texas. The purpose of our request for an application amendment is to change the unit and bedroom mix for the Project, as well as waiving the requirement to have a unit-based applicable fraction of no greater than 60%. We are submitting for consideration at the March 10th, 2005 Board Meeting.

At the time of application, the unit mix for the Project was anticipated to be as follows:

| Type of Unit | Income Level Served | # of Units (A) | # of Bedrooms | # of Baths | Unit Size (NRA) (B) | Total NRA (A) x (B) |
|---|---|---|---|---|---|---|
| TC | 50% | 40 | 1 | 1 | 663 | 26,520 |
| TC | 50% | 12 | 2 | 1 | 835 | 10,020 |
| TC | 60% | 10 | 2 | 1 | 835 | 8,350 |
| **Rent Restricted Total** | | 62 | | | | 44,890 |
| Market Rate | | 42 | 1 | 1 | 663 | 27,846 |
| Market Rate | | 0 | 2 | 1 | 835 | 0 |
| **Market Rate Total** | | 42 | | | | 27,846 |
| **Employee/Owner Occupied*** | | | | | | 0 |
| **Total Units** | | 104 | | | | 72,736 |

During construction completion and lease-up, there was more demand for 2-bedroom market rate apartments than anticipated, and, therefore less demand for 1-bedroom market rate units. In order to preserve the low-income applicable fraction of 60% or less, as promised in the original application, the final unit mix was as follows:

| Type of Unit | Income Level Served | # of Units (A) | # of Bedrooms | # of Baths | Unit Size (NRA) (B) | Total NRA (A) x (B) |
|---|---|---|---|---|---|---|
| TC | 50% | 51 | 1 | 1 | 663 | 33,813 |
| TC | 60% | 12 | 1 | 1 | 663 | 7,956 |
| TC | 50% | 1 | 2 | 1 | 835 | 835 |
| **Rent Restricted Total** | | 64 | | | | 42,604 |
| Market Rate | | 19 | 1 | 1 | 663 | 12,597 |
| Market Rate | | 21 | 2 | 1 | 835 | 17,535 |
| **Market Rate Total** | | 40 | | | | 30,132 |
| **Employee/Owner Occupied*** | | | | | | 0 |
| **Total Units** | | 104 | | | | 72,736 |

The differences between the original application and the final unit mix are summarized in the following table:

| Type of Unit | Income Level Served | # of Units | | Original Application | Current Unit Mix | Variance |
|---|---|---|---|---|---|---|
| TC | 50% | 1 | | **40** | **51** | **+ 11** |
| TC | 60% | 1 | | **0** | **12** | **+ 12** |
| TC | 50% | 2 | | **12** | **1** | **- 11** |
| TC | 60% | 2 | | **10** | **0** | **- 10** |
| **Rent Restricted Totals** | | | | **62** | **64** | **+ 2** |
| Market Rate | | 1 | | **42** | **19** | **- 23** |
| Market Rate | | 2 | | **0** | **21** | **+ 21** |
| **Market Rate Total** | | | | **42** | **40** | **- 2** |
| | | | | | | |
| **Total Units** | | | | **104** | **104** | **0** |

The 2001 QAP awarded 10 points for maintaining a unit-based applicable fraction of no greater than 60%. While the project does meet the requirement on a square footage basis, the unit-based applicable fraction would be 61.53%, which would not allow the project to claim the points under this section of selection criteria. The Project would still qualify to score 6 points under this section by maintaining a unit-based applicable fraction of no greater than 75%. Since the Project received a final score of 78 points and the lowest-scoring awarded project in the general set-aside in Region 3 scored 70 points, the loss of 4 points would not have changed the results of the allocation round.

Since the Project does have a square-footage-based applicable fraction that is no greater than 60%, we respectfully request that you allow the Project to waive the requirement for a unit-based applicable fraction of no greater than 60%.

To assist you with your evaluation of our request and in conformance with agency instructions, please find enclosed the following documents:

1. Exhibit 9A – placed-in-service analysis and calculation of credits
2. Exhibit 9B – individual building description and unit mix
3. Exhibit 10C – Development cost schedule
4. Exhibit 11A – Rent schedule reflecting the most current effective restricted rents and market rents
5. Exhibit 11C - Statement of annual expenses
6. Exhibit 11D – 30 year operating pro forma
7. Unit Status Reports for each building
8. 2005 Property Operating Budget

As we stated above, the proposed changes were not foreseeable at the initial application stage and were needed to provide the unit mix that was most appropriate for the market at the time of construction completion. This request would not have changed the outcome of the 2001 allocation round and would not change the percentage and/or number of deep-targeted units. Therefore, we respectfully ask that you grant our request for an application amendment to change the unit and bedroom mix for the Project, as well as waiving the requirement to have a unit-based applicable fraction of no greater than 60%.

If you have any questions, please call me at (817) 542-0043.

Sincerely,
Oak Timbers – White Settlement, L.P., a Texas limited partnership

By: Oak Timbers, as general partner

By: ______________________

Enclosures

# Portside Villas, L. P.

*1800 Bering, Suite 501* *Houston, Texas 77057*


February 17, 2005

Mr. Ben Sheppard
Texas Department of Housing and Community Affairs
507 Sabine
Austin, TX 78701

RE: Portside Villas, TDHCA #02007

Dear Mr. Sheppard:

In completing the Cost Certification for Portside Villas, Ingleside, Texas, it has come to our attention that there was a change in the unit mix of one and two bedroom units from the submitted application to actual construction of the Development. Following is a summary of the change made:

| Application | | Actual | |
|---|---|---|---|
| # of Units | Type | # of Units | Type |
| 42 | 1B1B | 44 | 1B1B |
| 58 | 2B2B | 56 | 2B2B |
| 44 | 3B2B | 44 | 3B2B |
| 144 | | 144 | |

In completing the construction plans for the Development, it was discovered that in order to build four-plexes with same unit types in each building, the calculation done for the application of one and two bedrooms was incorrect. To remedy this, the unit mix was revised to construct four-plex buildings of consistent unit types, hence, the change in unit mix.

Aside from the total rents projected, this modification did not change the overall development in any way. This change did not affect any of the selection criteria in the submitted application. I have attached a revised rent schedule based on the actual unit mix as prepared for the Cost Certification. For your reference, I have also attached the Operating Expenses and 30-year proforma as submitted in the Cost Certification.

Portside Villas was a 2002 Forward Commitment that was approved by the Board prior to September 1, 2001, therefore, approval of this change would only require consent by the Executive Director.

Should you have any questions, or require more information, please don't hesitate to call.

Sincerely,

Lucille Jones

Lucille Jones
For Portside Villas, L.P.

Attachments


*(713) 334-5514*
*(830) 257-5323*

*Fax (713) 334-5614*
*Fax (830) 257-3168*

**South Union Place Limited Partnership**

Home Office:
800 Bering Drive, Suite 410
Houston, TX 77057

Phone: (713) 425-2960
Fax: (713) 917-0965

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February 16 2005

Ben Sheppard
Low Income Housing Tax Credit Program
Texas Department of Housing & Community Affairs
507 Sabine Street, Suite 300
Austin, Texas 78701

Via Federal Express Overnight, Email and Fax

Re: TDHCA #04024, South Union Place

Dear Mr. Sheppard:

Further to our recent phone conversations with you and Patricia Murphy, this is to request that the approved application for low income tax credits on South Union Place Apartments be amended pursuant to the procedure specified under paragraph 50.18 ( c ) on page 48 of 56 of the 2004 QAP (Amendment of Application Subsequent to Allocation by Board) as follows:

Requested Amendment: Delete the proposal to set aside 25% of the units in the development as transitional housing for homeless persons for which the application received scoring points pursuant to subparagraph 50.9 (g) (11) (F) (ii).

Reason(s) for Amendment: The approved new construction qualified elderly development has always been proposed as a single three story elevator building consisting of 125-units plus a detached rental office/community building. It was planned that the 31 transitional housing residents (25%) would be commingled with other low income residents to satisfy the QAP requirement for application points. However, we have recently been advised by TDHCA's compliance staff that pursuant to Code Section 42 (i) (3) (B) (iii) that in order for transitional housing units to qualify for tax credits such units must be in a building used exclusively for this purpose. Therefore, the proposed and TDHCA approved plan submitted under the 2004 QAP now appears to be in conflict with Code Section 42.

Justification for Amendment: Unfortunately, our well intended response to TDHCA's published 2004 QAP point incentive to provide 25% homeless housing units has now "backfired" on us in two respects: First, our decision to forfeit 7 pre-application points for final application scoring (Option B, Tab 4P) to earn the published 15 points for transitional housing (intended for a net gain of 8 points) actually cost us 2 points. [At the end of the day, TDHCA made an after the fact reduction in points awarded for 25% transitional/homeless housing from 15 to only 5 points following the Attorney General's ruling.] Second, we have now learned that commingling transitional/homeless units in a one building tax credit development is contrary to Code Section 42. Apparently, including transitional housing for homeless on a partial basis in South Union Place is not meant to be.

The requested Amendment (deleting the 25% transitional housing component) would not materially alter the Development in a negative manner nor would the loss of 5 points from the approved 142 at time of allocation have adversely affected its selection among the 13 approved U/E projects for Region 6. The resulting 137 points would have changed the project's ranking but would have been sufficient to keep it on the approved list. Except for the transitional housing amendment, all other elements of the application would remain unchanged, including, but not limited to, architectural design, unit mix, economic projections and the number of units to be set aside for qualified elderly residents earning 30%, 40% and 50% of AMGI.

Please note that in addition to having previously submitted our Commitment Fee and Carryover package as required by TDHCA procedure, we have already acquired the land, prepared complete architectural and engineering plans and specifications, expect to have a building permit issued within the next two weeks and were scheduled to close with our equity syndicator and construction lender on or about March 1, 2005. We had planned to break ground on construction early next month.

In light of this new situation, our schedule for closing and construction start will have to be delayed. Therefore, we would appreciate this request being processed on a fast track basis in time to be considered by the TDHCA Board at its next meeting scheduled for March 10, 2005.

Thank you for your cooperation.

Sincerely yours,

Willie J. Alexander, Vice President
Scott Street Group, LLC
Managing General Partner

John N. Barineau, III, President
Scott Street Properties, LLC
Administrative General Partner

cc: John Cochran
Marie Keutmann, MMA Financial

John cell:
713 2486239

# South Union Place Limited Partnership

Home Office:
800 Bering Drive, Suite 410
Houston, TX 77057

Phone: (713) 425-2960
Fax: (713) 917-0965

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MAR 18 2005
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Called ✓

March 17, 2005

**Via Federal Express, Fax and Email**

Brooke Boston
Texas Department of Housing and Community Affairs
507 Sabine
Austin, Texas 78711

Re: South Union Place Apartments
TDHCA #04024

Dear Ms. Boston:

This letter is in follow-up to Willie Alexander's and my letter to Ben Sheppard dated February 16, 2005 requesting TDHCA Board approval to delete the 25% transitional housing set-aside from the referenced approved application for tax credits.

Per our meeting with you , Edwina Carrington and Tom Gouris after last week's Board Meeting on March 10, 2005, we understand that the staff will be meeting soon to discuss and decide on whether to recommend approval of the requested amendment. Action on this item will be taken at the next meeting of the Board scheduled for April 7, 2005. The staff's recommendation will be posted on the Department's website 15 days before this board meeting.

The central issue in this request for amendment is what the Department intended relative to an applicant receiving points for setting aside 25% of its units for transitional housing on a "non-transient basis" under 50.9(g)(II)(F)(ii) of the 2004 QAP. We learned only last month that TDHCA's Compliance Department feels that all transitional housing tenants must be housed in a separate building exclusively designed for this purpose to be in compliance with Section 42 (i)(3)(B)(iii). The plan in our application is to commingle the transitional tenants in the same single residential building with other tax credit tenants on a "non-transient" basis by putting all tenants on at least a six month lease. It is our understanding that using six month leases would preclude the need for housing transitional tenants in a separate building.

Support for our position is provided in the attached letter from Holland & Knight, LLP, attorneys for MMA Financial, our proposed equity syndicator for the Project. As you will see, it is Holland & Knight's opinion that housing transitional tenants under six month leases is sufficient in itself to comply with Section 42, making it unnecessary to house these tenants in a separate building.

Notwithstanding Holland & Knight's and our views that that we do not need a separate building, on our plan to commingle transitional tenants in the same building is apparently at odds with TDHCA's intent under the QAP and/or contrary to the Compliance Department's interpretation of requirements under Section 42. These differences of opinion (or uncertainties of interpretation) are resolved if our request for deleting the 25% transitional feature from our application is approved. Of course, we understand that TDHCA staff must also conclude that the loss of 5 points would not have affected the approval of the Project.

Meantime, please be advised that a complete set of plans and specifications have been prepared for this Project, a construction price has been agreed upon with our general contractor, we are in the final days of obtaining a building permit and attorney's have prepared all equity syndicator and loan documents. Closing and construction start are now, however, on hold pending resolution of this unexpected issue relative to transitional housing.

Please let me know if you have any further questions. And we look forward to resolving this matter before the Board on April 7th.

Thank you for your cooperation.

Sincerely yours,

John N. Barineau, III
President of Scott Street Properties, LLC
Administrative General Partner

cc: Willie Alexander
Marie Keutmann, MMA Financial

Holland & Knight

Tel 617 523 2700
Fax 617 523 6850

Holland & Knight LLP
10 St. James Avenue, 11th Floor
Boston, MA 02116
www.hklaw.com

William F. Machen
617 573 5847
william.machen@hklaw.com

March 17, 2005

RECEIVED
MAR 1 8 2005
LIHTC

South Union Place Limited Partnership
800 Bering Drive
Suite 410
Houston, TX 77057

Re: South Union Place Apartments – TDHCA No. 04024

Ladies and Gentlemen:

As you know, we are representing MMA Financial in connection with the equity syndication of South Union Place Limited Partnership (the "**Partnership**"), a Texas limited partnership formed to develop, construct, own and operate a multifamily apartment complex in Houston, Texas (the "**Project**"). The Project is expected to be eligible for low-income housing tax credits ("**Housing Tax Credits**") under Section 42 of the Internal Revenue Code of 1986, as amended (the "**Code**").

In its application for Housing Tax Credits submitted to the Texas Department of Housing and Community Affairs ("**TDHCA**"), the Partnership agreed to set aside 25% of the units in the Project as transitional housing for homeless persons and received scoring points for such agreement under the TDHCA QAP. At the request of MMA, we have reviewed the provisions of Section 42 of the Code relating to transient housing and their applicability to the Project.

Section 42(i)(3)(B)(i) of the Code provides that a unit shall not be treated as a "low-income unit" for purposes of Section 42 unless the unit "is suitable for occupancy and used other than on a transient basis" (emphasis added). Although Section 42 of the Code does not specifically address when a unit is used "other than on a transient basis," the General Explanation of the Tax Reform Act of 1986 prepared by the Staff of the Joint Committee on Taxation provided that "generally, a unit is considered to be used on a nontransient basis if the initial lease term is six months or greater."

The Omnibus Reconciliation Act of 1993 ("**OBRA**") amended Section 42 to provide that, for purposes of Section 42(i)(3)(B)(i), a single-room occupancy unit will not be treated as used on a transient basis merely because it is rented on a month-by-month basis. In addition, OBRA added Section 42(i)(3)(B)(iii) to the Code. This section provided a special new exception to the requirement that units not be used on a transient basis. It provided:

"For purposes of clause (i), a unit shall be considered to be used other than on a transient basis if the unit contains sleeping accommodations and kitchen and bathroom facilities and is located in a building—

(I) which is used exclusively to facilitate the transition of homeless individuals (within the meaning of section 103 of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11302, as in effect on the date of the enactment of this clause) [December 19, 1989] to independent living within 24 months, and

(II) in which a governmental entity or qualified nonprofit organization (as defined in subsection (h)(5)) provides such individuals with temporary housing and supportive services designed to assist such individuals in locating and retaining permanent housing."

It is noteworthy that Section 42(i)(3)(B)(iii) is an exception to the general rule relating to transient occupancy. That is, if a unit is not otherwise deemed to be used on a transient basis, there is no need to rely on Section 42(i)(3)(B)(iii). In the present case, it is our understanding that all tenants in the Project will sign leases having a term of at least six months. Accordingly, based on the foregoing statutory provisions and legislative history, none of the units in the Project should be treated as being used on a transient basis. As a result, for purposes of complying with the applicable provisions of Section 42, the Project does not need to satisfy the provisions of the exception described in Section 42(i)(3)(B)(iii). This is important because Section 42(i)(3)(B)(iii) requires that a building be used exclusively to facilitate the transition of homeless individuals and that a governmental entity or qualified nonprofit organization provides temporary housing and supportive services to the tenants. The condition that the building be used exclusively to facilitate the transition of homeless individuals is not satisfied in the case of the Project since the Project consists of only one building and not all of the units in the building are reserved for homeless individuals.

Please feel free to contact me if you have any questions concerning the foregoing.

Sincerely yours,

HOLLAND & KNIGHT LLP

William F. Machen

WFM:lc

cc: James E. McDermott, Esq.
Tara Colangione, Esq.
Ms. Marie Keutmann

# 2639261_v3

# STONE HOLLOW VILLAGE

March 3, 2005

Ms. Edwina Carrington, Executive Director
Texas Department of Housing and Community Affairs
507 Sabine, Suite 400
Austin, TX 78711-3941

Re: Request for site plan and building number change, Stone Hollow Village, TDHCA # 04057

Dear Ms. Carrington:

We respectfully submit this request for the following change to the application for tax credits for Stone Hollow Village.

**Change in building number / site plan from 35 residential buildings to 10 residential buildings.**

This change does not affect the number of units, reduce the square footage of the project, or the scoring of the application. This request is only for a change in the number of buildings, which will change the site plan.

In the application for Housing Tax Credits, the Design Items submitted for the Stone Hollow were for "row-house" type buildings, four units per building, thirty-five buildings on the site for a total of 140 units. The contractor used to estimate the cost of building the site as planned in the application grossly misestimated. We are no longer using this contractor. The increase in the construction cost is due to additional dirt, utility, concrete and plumbing work. In addition to these increases, there has also been an increase in the cost of commodities. These increases were neither foreseeable nor preventable by the applicant. We estimate that the cost to construct the "row-house" four-plex is approximately ten percent greater than we anticipated, budgeted for and were underwritten for, this amounts to about $837,516.

The project will be able to bring the cost of construction back in line with the budget by building apartment type buildings containing 12-16 units per building.

Enclosed:

1) Revised site, unit, and building plans
2) Amended page 2 of the Uniform Application (changes highlighted)
3) Bid from contractor for the original design
4) Bid from contractor for the revised plan

Thank you for your time and attention.

Sincerely,

Ron Hance
Vice-President of Operations
LSHD-1, LLC – General Partner

8140 N. Mopac, Suite 4-270
Austin, Texas 78759
(512) 527-9335 Phone (512) 527-9337 Fax

KILDAY REALTY CORP.

March 3, 2005

Mr. Ben Sheppard
Multifamily Housing Specialist
Texas Department of Housing & Community Affairs
P.O. Box 13941
Austin, Texas 78711-3941

Re: Request for amendment to TownePark Fredericksburg II Apartments, HTC Application #04260

Dear Mr. Sheppard:

Please accept this letter as the formal request for amendment to TownePark Fredericksburg II Apartments, HTC Application #04260.

The current planned unit mix for TownePark Fredericksburg II is 24 one-bedroom units and 20 two-bedroom units. We are requesting that all of the two-bedroom units be converted to one-bedroom units. The result would be a development with all (44) one-bedroom units.

TownePark Fredericksburg (TDHCA # 01072), the Phase 1 sister property is a total of 48 units. All of these units are two-bedroom units. We are currently over 90% leased, but lease-up has taken much longer than we anticipated (20 months so far). Reality is that there is a strong demand for one-bedroom elderly units, based on the traffic at the Phase 1 development. Our manager has a waiting list of those seeking one-bedroom units. Also, for the two-bedroom units, there is a resistance to pay rents any higher than around $500. So, we have had to reduce our rents in several cases. Also, most voucher holders have a one-bedroom voucher and cannot qualify for the two-bedroom unit.

Based on this information, we believe that one-bedroom units would be a better fit for the Phase II development and the community. Once TownePark in Fredericksburg II is built, the combined development would have a total mix of 44 one-bedroom units and 48 two-bedroom units. Based on the actual demand we have seen, this mix of one and two bedroom units suits the market better than what was originally proposed.

If you have any questions regarding our request, or need us to furnish any other information, please contact me at 713-914-9400.

Thank you for considering our request.

Sincerely,

Les Kilday

Les Kilday
Vice President, Kilday Realty Corp.

5005 RIVERWAY SUITE 330 HOUSTON, TEXAS 77056 (713) 914-9400 FAX (713) 914-9439

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Item

Presentation, Discussion and Possible Approval of a waiver of the 60-day submission requirement in the 2004 and 2005 Qualified Allocation Plans ("QAP") for Tower Ridge Apartments and Langwick Senior Apartments.

## Background

10 TAC §50.12(a)(2) and §49.12(a)(2) states applicants which receive advance notice of a Program Year 2005 reservation after being placed on the waiting list as a result of the Texas Bond Review Board lottery for private activity volume cap must submit Volume 1 and Volume 2 of the Application and the Application fee described in 10 TAC §50.21 and §49.20 of this title prior to the Applicant's bond reservation date as assigned by the TBRB. Any outstanding documentation required under this section must be **submitted to the Department at least 60 days prior to the Board meeting at which the decision to issue a Determination Notice would be made**. The two applicants are currently requesting that this rule be waived.

## Summary

Tower Ridge Apartments received a reservation of allocation on November 24, 2004 for the 2004 Private Activity Bond Program. The applicant submitted the required documents on time however due to calculation of market concentration and capture rate issues a new market study was submitted to the TDHCA which was not within the 60-day requirement. The reservation of allocation will expire on April 22, 2005 preventing the application from being presented at a later Board meeting. Therefore, the applicant is requesting a waiver of the 60-day rule so that the application may be presented to the Board at the April 7, 2005 meeting which is 39 days later than permissible under the rule. 10 TAC §50.23(a) states the Board, in its discretion, may waive any one or more of these Rules if the Board finds that waiver is appropriate to fulfill the purposes or policies of Chapter 2306, Texas Government Code, or for other good cause, as determined by the Board. If the waiver is not granted, the reservation of allocation will expire prior to the next scheduled Board meeting.

Langwick Senior Apartments received a reservation of allocation on November 30, 2004 through TDHCA as an issuer for the 2004 Private Activity Bond Program. The applicant submitted the required documents on time for the TDHCA reservation, however, due to a restructure of the general partner, the allocation was withdrawn. The applicant resubmitted an application with a local issuer under the 2005 Private Activity Bond Program and subsequently received a reservation of allocation on March 2, 2004. The applicant is requesting a waiver of the 60-day rule so that the application may be presented to the Board at their May 12, 2005 meeting, which is 4 days later than permissible under the rule. 10 TAC §49.22(a) states the Board, in its discretion, may waive any one or more of these Rules if the Board finds that waiver is appropriate to fulfill the purposes or policies of Chapter 2306, Texas Government Code, or for other good cause, as determined by the Board. The waiver will allow the development to remain on the same schedule without any additional costs incurred.

## Recommendation

Staff recommends that the Board waive the 60-day rule to allow the applications for Tower Ridge Apartments to be presented at the April 7, 2005 meeting and Langwick Senior Apartments to be presented at the May 12, 2005 meeting for consideration of a Determination Notice for Housing Tax Credits.

TEXAS
DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS

WWW.TDHCA.STATE.TX.US

# REQUEST FOR BOARD APPROVAL
# Multifamily Finance Production

**2005 Private Activity Bond Program – Waiting List**

**1 Priority 1C Application**
**2 Priority 2 Applications**
**3 Total Applications Received**

## TABLE OF EXHIBITS

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Item

Inducement resolution for Multifamily Revenue Bonds and Authorization for Filing Applications for the Year 2005 Private Activity Bond Authority for three (3) applications – Waiting List.

## Requested Action

Approve the Inducement Resolution to proceed with application to the Texas Bond Review Board for possible receipt of State Volume Cap issuance authority in the 2005 Private Activity Bond Program for three (3) applications.

## Background

Each year, the State of Texas is notified of the cap on the amount of private activity tax-exempt revenue bonds that may be issued within the state. Approximately $389 million will be set aside for the use of multifamily development until August 15, 2005 for the 2005 program year. The lottery held on November 4, 2004 had a decrease of approximately ninety (90) applications from the 2004 program year. Due to the large amount of authority to be Carried Forward into 2005 and the decrease in applications for the 2005 program year, it is expected that there will be a shortage of applications to use the full state issuance authority. The Department will be accepting applications for the 2005 Waiting List through September of 2005.

The Inducement Resolution includes three (3) applications that were received by March 7, 2005. These three (3) applications will be added to the 2005 Waiting List. Each application is reviewed, scored and ranked according to the Department's published scoring criteria. Upon Board approval, the applications will be placed in priority and rank order and submitted to the Texas Bond Review Board for placement on the 2005 Waiting List. The Department currently has six (6) applications awaiting reservations. The Department has two (2) outstanding reservations of allocation for 2005 program year. TDHCA has approximately $112 million in allocation waiting for these applications. These three (3) applications will be placed on the waiting list in ranked order once all public comment has been received on April 8, 2005.

## Recommendation

Approve the Inducement Resolution as presented by staff.

# Texas Department of Housing and Community Affairs

2005 Multifamily Private Activity Bond Program - Waiting List

| Application # | Development Information | Units | Bond Amount | Developer Information | Comments |
|---|---|---|---|---|---|
| 2005-027<br><br>Priority 1C<br>Inc-$ 74,142 | Marquee Ranch<br>SE corner of Schultz and Meister Lane<br>City: Pflugerville<br>County: Travis<br>*New Construction* | 252<br><br>Family | $ 16,600,000 | Manish Verma<br>P T Schultz-Meister<br>45 NE Loop 410, Suite 290<br>San Antonio, Texas 78216<br>(210) 240-8376 | Recommend |
| 2005-035<br><br>Priority 2 | Providence at Marine Creek<br>Intersection of Old Decatur & IH 820<br>City: Fort Worth<br>County: Tarrant<br>*New Construction* | 252<br><br>Family | $ 15,000,000 | Matt Harris<br>Cottonwood Hammer, L.P.<br>975 One Lincoln Centre, 5400 LBJ Freeway<br>Dallas, Texas 75240<br>(972) 239-8500 X 131 | Recommend |
| 2005-036<br><br>Priority 2 | The Plaza at Chase Oaks<br>NEQ of Chase Oaks Blvd. & Legacy<br>City: Plano<br>County: Collin<br>*New Construction* | 240<br><br>Elderly | $ 15,000,000 | David Krukiel<br>UHF Chase Oaks Housing, L.P.<br>1755 Wittington Place, Suite 340<br>Dallas, Texas 75234<br>972-243-4205 | Recommend |
| **Totals for Recommended Applications** | | **744** | **$ 46,600,000** | | |

## RESOLUTION NO. 05-022

RESOLUTION DECLARING INTENT TO ISSUE MULTIFAMILY REVENUE BONDS WITH RESPECT TO RESIDENTIAL RENTAL PROJECTS; AUTHORIZING THE FILING OF APPLICATIONS FOR ALLOCATIONS OF PRIVATE ACTIVITY BONDS WITH THE TEXAS BOND REVIEW BOARD; AND AUTHORIZING OTHER ACTION RELATED THERETO

WHEREAS, the Texas Department of Housing and Community Affairs (the "Department") has been duly created and organized pursuant to and in accordance with the provisions of Chapter 2306, Texas Government Code, as amended, (the "Act") for the purpose, among others, of providing a means of financing the costs of residential ownership, development and rehabilitation that will provide decent, safe, and affordable living environments for persons and families of low and very low income (as defined in the Act) and families of moderate income (as described in the Act and determined by the Governing Board of the Department (the "Board") from time to time); and

WHEREAS, the Act authorizes the Department: (a) to make mortgage loans to housing sponsors to provide financing for multifamily residential rental housing in the State of Texas (the "State") intended to be occupied by persons and families of low and very low income and families of moderate income, as determined by the Department; (b) to issue its revenue bonds, for the purpose, among others, of obtaining funds to make such loans and provide financing, to establish necessary reserve funds and to pay administrative and other costs incurred in connection with the issuance of such bonds; and (c) to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such multifamily residential rental project loans, and to mortgage, pledge or grant security interests in such loans or other property of the Department in order to secure the payment of the principal or redemption price of and interest on such bonds; and

WHEREAS, it is proposed that the Department issue its revenue bonds for the purpose of providing financing for multi-family residential rental developments (each a "Project" and collectively, the "Projects") as more fully described in Exhibit "A" attached hereto. The ownership of each Project as more fully described in Exhibit "A" will consist of the ownership entity and its principals or a related person (each an "Owner" and collectively, the "Owners") within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, each Owner has made not more than 60 days prior to the date hereof, payments with respect to its respective Project and expects to make additional payments in the future and desires that it be reimbursed for such payments and other costs associated with each respective Project from the proceeds of tax-exempt and taxable obligations to be issued by the Department subsequent to the date hereof; and

WHEREAS, each Owner has indicated its willingness to enter into contractual arrangements with the Department providing assurance satisfactory to the Department that 100 percent of the units of its Project will be occupied at all times by eligible tenants, as determined by the Board of the Department pursuant to the Act ("Eligible Tenants"), that the other requirements of the Act and the Department will be satisfied and that its Project will satisfy State law, Section 142(d) and other applicable Sections of the Code and Treasury Regulations; and

WHEREAS, the Department desires to reimburse each Owner for the costs associated with its Project listed on Exhibit "A" attached hereto, but solely from and to the extent, if any, of the proceeds of tax-exempt and taxable obligations to be issued in one or more series to be issued subsequent to the date hereof; and

WHEREAS, at the request of each Owner, the Department reasonably expects to incur debt in the form of tax-exempt and taxable obligations for purposes of paying the costs of each respective Project described on Exhibit "A" attached hereto; and

WHEREAS, in connection with the proposed issuance of the Bonds (defined below), the Department, as issuer of the Bonds, is required to submit for each Project an Application for Allocation of Private Activity Bonds (the "Application") with the Texas Bond Review Board (the "Bond Review Board") with respect to the tax-exempt Bonds to qualify for the Bond Review Board's Allocation Program in connection with the Bond Review Board's authority to administer the allocation of the authority of the state to issue private activity bonds; and

WHEREAS, the Board intends that the issuance of Bonds for any particular Project is not dependent or related to the issuance of Bonds (as defined below) for any other Project and that a separate Application shall be filed with respect to each Project; and

WHEREAS, the Board has determined to declare its intent to issue its multifamily revenue bonds for the purpose of providing funds to each Owner to finance its Project on the terms and conditions hereinafter set forth; NOW, THEREFORE,

BE IT RESOLVED BY THE GOVERNING BOARD OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS THAT:

Section 1--Certain Findings. The Board finds that:

(a) each Project is necessary to provide decent, safe and sanitary housing at rentals that eligible tenants can afford;

(b) each Owner will supply, in its Project, well-planned and well-designed housing for eligible tenants;

(c) the financing of each Project pursuant to the provisions of the Act will constitute a public purpose and will provide a public benefit;

(d) each owner is financially responsible; and

(e) each Project will be undertaken within the authority conferred by the Act upon the Department and each Owner.

Section 2--Authorization of Issue. The Department declares its intent to issue its Multifamily Housing Revenue Bonds (the "Bonds") in amounts estimated to be sufficient to (a) fund a loan or loans to each Owner to provide financing for its Project in an aggregate principal amount not to exceed those amounts, corresponding to each respective Project, set forth in Exhibit "A"; (b) fund a reserve fund with respect to the Bonds if needed; and (c) pay certain costs incurred in connection with the issuance of the Bonds. Such Bonds will be issued as qualified residential rental project bonds. Final approval of the Department to issue the Bonds shall be subject to: (i) the review by the Department's credit underwriters for financial feasibility; (ii) review by the Department's staff and legal counsel of compliance with federal income tax regulations and state law requirements regarding tenancy in each Project; (iii) approval by the Bond Review Board, if required; (iv) approval by the Texas Attorney General; (v) satisfaction of the Board that each Project meets the Department's public policy criteria; and (vi) the ability of the Department to issue such Bonds in compliance with all federal and state laws applicable to the issuance of such Bonds.

Section 3--Terms of Bonds. The proposed Bonds shall be issuable only as fully registered bonds in authorized denominations to be determined by the Department; shall bear interest at a rate or rates to be determined by the Department; shall mature at a time to be determined by the Department but in no event later than 40 years after the date of issuance; and shall be subject to prior redemption upon such terms and conditions as may be determined by the Department.

Section 4--Reimbursement. The Department reasonably expects to reimburse each Owner for all costs that have been or will be paid subsequent to the date that is 60 days prior to the date hereof in connection with the acquisition of real property and construction of its Project and listed on Exhibit "A" attached hereto ("Costs of each respective Project") from the proceeds of the Bonds, in an amount which is reasonably estimated to be sufficient: (a) to fund a loan to provide financing for the acquisition and construction of its Project, including reimbursing each Owner for all costs that have been or will be paid subsequent to the date that is 60 days prior to the date hereof in connection with the acquisition and construction of its Project; (b) to fund any reserves that may be required for the benefit of the holders of the Bonds; and (c) to pay certain costs incurred in connection with the issuance of the Bonds.

Section 5--Principal Amount. Based on representations of each Owner, the Department reasonably expects that the maximum principal amount of debt issued to reimburse each Owner for the costs of its respective Project will not exceed the amount set forth in Exhibit "A" which corresponds to its Project.

Section 6--Limited Obligations. The Owner may commence with the acquisition and construction of its Project, which Project will be in furtherance of the public purposes of the Department as aforesaid. On or prior to the issuance of the Bonds, each Owner will enter into a loan agreement on an installment payment basis with the Department under which the Department will make a loan to the Owner for the purpose of reimbursing each Owner for the costs of its Project and each Owner will make installment payments sufficient to pay the principal of and any premium and interest on the applicable Bonds. The proposed Bonds shall be special, limited obligations of the Department payable solely by the Department from or in connection with its loan or loans to each Owner to provide financing for the Owner's Project, and from such other revenues, receipts and resources of the Department as may be expressly pledged by the Department to secure the payment of the Bonds.

Section 7--The Project. Substantially all of the proceeds of the Bonds shall be used to finance the Projects, each of which is to be occupied entirely by Eligible Tenants, as determined by the Department, and each of which is to be occupied partially by persons and families of low income such that the requirements of Section 142(d) of the Code are met for the period required by the Code.

Section 8--Payment of Bonds. The payment of the principal of and any premium and interest on the Bonds shall be made solely from moneys realized from the loan of the proceeds of the Bonds to reimburse each Owner for costs of its Project.

Section 9--Costs of Project. The Costs of each respective Project may include any cost of acquiring, constructing, reconstructing, improving, installing and expanding the Project. Without limiting the generality of the foregoing, the Costs of each respective Project shall specifically include the cost of the acquisition of all land, rights-of-way, property rights, easements and interests, the cost of all machinery and equipment, financing charges, inventory, raw materials and other supplies, research and development costs, interest prior to and during construction and for one year after completion of construction whether or not capitalized, necessary reserve funds, the cost of estimates and of engineering and legal services, plans, specifications, surveys, estimates of cost and of revenue, other expenses necessary or incident to determining the feasibility and practicability of acquiring, constructing, reconstructing, improving and expanding the Project, administrative expenses and such other expenses as may be necessary or incident to the acquisition, construction, reconstruction, improvement and expansion of the Project, the placing of the Project in operation and that satisfy the Code and the Act. Each Owner shall be responsible for and pay any costs of its Project incurred by it prior to issuance of the Bonds and will pay all costs of its Project which are not or cannot be paid or reimbursed from the proceeds of the Bonds.

Section 10--No Commitment to Issue Bonds. Neither the Owners nor any other party is entitled to rely on this Resolution as a commitment to issue the Bonds and to loan funds, and the Department reserves the right not to issue the Bonds either with or without cause and with or without notice, and in such event the Department shall not be subject to any liability or damages of any nature. Neither the Owners nor any one claiming by, through or under each Owner shall have any claim against the Department whatsoever as a result of any decision by the Department not to issue the Bonds.

Section 11--No Indebtedness of Certain Entities. The Board hereby finds, determines, recites and declares that the Bonds shall not constitute an indebtedness, liability, general, special or moral obligation or pledge or loan of the faith or credit or taxing power of the State of Texas, the Department or any other political subdivision or municipal or political corporation or governmental unit, nor shall the Bonds ever be deemed to be an obligation or agreement of any officer, director, agent or employee of the Department in his or her individual capacity, and none of such persons shall be subject to any personal liability by reason of the issuance of the Bonds.

Section 12--Conditions Precedent. The issuance of the Bonds following final approval by the Board shall be further subject to, among other things: (a) the execution by each Owner and the Department of contractual arrangements providing assurance satisfactory to the Department that 100 percent of the units for each Project will be occupied at all times by Eligible Tenants, that all other requirements of the Act will be satisfied and that each Project will satisfy the requirements of Section 142(d) of the Code (except for portions to be financed with taxable bonds); (b) the receipt of an opinion from Vinson & Elkins L.L.P. or other nationally recognized bond counsel acceptable to the Department, substantially to the effect that the interest on the tax-exempt Bonds is excludable from gross income for federal income tax purposes under existing law; and (c) receipt of the approval of the Texas Bond Review Board, if required, and the Attorney General of the State of Texas.

Section 13--Certain Findings. The Board hereby finds, determines, recites and declares that the issuance of the Bonds to provide financing for each Project will promote the public purposes set forth in the Act, including, without limitation, assisting persons and families of low and very low income and families of moderate income to obtain decent, safe and sanitary housing at rentals they can afford.

Section 14--Authorization to Proceed. The Board hereby authorizes staff, Bond Counsel and other consultants to proceed with preparation of each Project's necessary review and legal documentation for the filing of an Application for the 2005 program year and the issuance of the Bonds, subject to satisfaction of the conditions specified in Section 2(i) and (ii) hereof.

Section 15--Related Persons. The Department acknowledges that financing of all or any part of each Project may be undertaken by any company or partnership that is a "related person" to the respective Owner within the meaning of the Code and applicable regulations promulgated pursuant thereto, including any entity controlled by or affiliated with the respective Owner.

Section 16--Declaration of Official Intent. This Resolution constitutes the Department's official intent for expenditures on Costs of each respective Project which will be reimbursed out of the issuance of the Bonds within the meaning of Sections 1.142-4(b) and 1.150-2, Title 26, Code of Federal Regulations, as amended, and applicable rulings of the Internal Revenue Service thereunder, to the end that the Bonds issued to reimburse Costs of each respective Project may qualify for the exemption provisions of Section 142 of the Code, and that the interest on the Bonds (except for any taxable Bonds) will therefore be excludable from the gross incomes of the holders thereof under the provisions of Section 103(a)(1) of the Code.

Section 17--Authorization of Certain Actions. The Department hereby authorizes the filing of and directs the filing of each Application in such form presented to the Board with the Bond Review Board and each director of the Board are hereby severally authorized and directed to execute each Application on behalf of the Department and to cause the same to be filed with the Bond Review Board.

Section 18--Effective Date. This Resolution shall be in full force and effect from and upon its adoption.

Section 19--Books and Records. The Board hereby directs this Resolution to be made a part of the Department's books and records that are available for inspection by the general public.

Section 20--Notice of Meeting. Written notice of the date, hour and place of the meeting of the Board at which this Resolution was considered and of the subject of this Resolution was furnished to the Secretary of State and posted on the Internet for at least seven (7) days preceding the convening of such meeting; that during regular office hours a computer terminal located in a place convenient to the public in the office of the Secretary of State was provided such that the general public could view such posting; that such meeting was open to the public as required by law at all times during which this Resolution and the subject matter hereof was discussed, considered and formally acted upon, all as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended; and that written notice of the date, hour and place of the meeting of the Board and of the subject of this Resolution was published in the Texas Register at least seven (7) days preceding the convening of such meeting, as required by the Administrative Procedure and Texas Register Act, Chapters 2001 and 2002, Texas Government Code, as amended. Additionally, all of the materials in the possession of the Department relevant to the subject of this Resolution were sent to interested persons and organizations, posted on the Department's website, made available in hard-copy at the Department, and filed with the Secretary of State for publication by reference in the Texas Register not later than seven (7) days before the meeting of the Board as required by Section 2306.032, Texas Government Code, as amended.

PASSED AND APPROVED this 7th day of April, 2005.

[SEAL]

By:__________________________________
Elizabeth Anderson, Chair

Attest:_________________________
Delores Groneck, Secretary

EXHIBIT "A"

Description of each Owner and its Project

| Project Name | Owner | Principals | Amount Not to Exceed |
|---|---|---|---|
| Marquee Ranch Apartments | P.T. Schultz - Meister, LP | CIS Schultz-Meister Development, LLC, the General Partner, to be formed, or other entity, the Sole Member of which will be Manish Verma, or other entity | $16,600,000 (tax exempt bonds will not exceed $15,000,000 and taxable bonds will not exceed $1,600,000) |
| Costs: (i) acquisition of real property located approximately at the southeast corner of Shultz Road and Meister Lane, on the east side of Shultz Lane, partially in Pflugerville, Travis County, Texas and partially in Round Rock, Williamson County, Texas; and (ii) the construction thereon of an approximately 252-unit multifamily residential rental housing project, in the amount not to exceed $16,600,000 (tax-exempt bonds will not exceed $15,000,000 and taxable bonds will not exceed $1,600,000). | | | |
| Project Name | Owner | Principals | Amount Not to Exceed |
| The Plaza at Chase Oaks Apartments | UHF Chase Oaks Housing, L.P. | Unified Housing of Chase Oaks, LLC, the General Partner, to be formed, or other entity, the Sole Member of which will be Unified Housing Foundation, Inc., or other entity | $15,000,000 |
| Costs: (i) acquisition of real property located at approximately the northeast quadrant of Chase Oaks Boulevard and Legacy Drive, Plano, Collin County, Texas; and (ii) the construction thereon of an approximately 240-unit multifamily senior residential rental housing project, in the amount not to exceed $15,000,000. | | | |
| Project Name | Owner | Principals | Amount Not to Exceed |
| Providence at Marine Creek Apartments | Cottonwood Hammer, LP | Cottonwood Hammer GP, LLC, the General Partner, or other entity, a Member of which will be Leon J. Backes, or other entity | $15,000,000 |
| Costs: (i) acquisition of real property located at approximately the 2200 block of NW Loop 820, near the southwest corner of the intersection of Old Decatur & Interstate Highway 820, Fort Worth, Tarrant County, Texas; and (ii) the construction thereon of an approximately 252-unit multifamily residential rental housing project, in the amount not to exceed $15,000,000. | | | |

**TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS**
**MULTIFAMILY FINANCE DIVISION**
**PREQUALIFICATION ANALYSIS**

**Marquee Ranch, Pflugerville (#2005-027) Priority 1C**

### Unit Mix and Rent Schedule

| Unit Type | Beds/Bath | # Units | Rents | Unit Size S.F. | Rent/S.F. |
|---|---|---|---|---|---|
| 60% AMI | 1BD/1BA | 72 | $ 729 | 650 | 1.12 |
| 60% AMI | 2BD/2BA | 80 | $ 862 | 1,000 | 0.86 |
| 60% AMI | 2BD/2.5BA | 32 | $ 862 | 1,144 | 0.75 |
| 60% AMI | 3BD/2BA | 20 | $ 986 | 1,245 | 0.79 |
| 60% AMI | 3BD/2BA | 24 | $ 986 | 1,260 | 0.78 |
| 60% AMI | 3BD/2.5BA | 24 | $ 986 | 1,472 | 0.67 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| Totals | | 252 | $ 2,592,960 | 253,876 | $ 0.85 |
| Averages | | | $ 857 | 1,007 | |

### Uses of Funds/Project Costs

| | Costs | Per Unit | Per S.F. | Percent |
|---|---|---|---|---|
| Acquisition | $ 1,524,000 | $ 6,048 | $ 6.00 | 0.06 |
| Off-sites | 0 | 0 | 0.00 | 0.00 |
| **Subtotal Site Costs** | $ 1,524,000 | $ 6,048 | $ 6.00 | 0.06 |
| Sitework | 1,855,584 | 7,363 | 7.31 | 0.08 |
| Hard Construction Costs | 10,451,624 | 41,475 | 41.17 | 0.44 |
| General Requirements (6%) | 738,432 | 2,930 | 2.91 | 0.03 |
| Contractor's Overhead (2%) | 246,144 | 977 | 0.97 | 0.01 |
| Contractor's Profit (6%) | 738,432 | 2,930 | 2.91 | 0.03 |
| Constr Contg & Other | 708,173 | 2,810 | 2.79 | 0.03 |
| **Subtotal Construction** | $ 14,738,390 | $ 58,486 | $ 58.05 | 0.61 |
| Indirect Construction | 1,235,590 | 4,903 | 4.87 | 0.05 |
| Developer's Fee | 2,712,677 | 10,765 | 10.69 | 0.11 |
| Financing | 3,438,030 | 13,643 | 13.54 | 0.14 |
| Reserves | 366,300 | 1,454 | 1.44 | 0.02 |
| **Subtotal Other Costs** | $ 7,752,597 | $ 30,764 | $ 31 | $ 0 |
| **Total Uses** | $ 24,014,987 | $ 95,298 | $ 94.59 | 1.00 |

### Applicant - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 5,905,000 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 16,600,000 | 6.75% | 40 | $1,201,887 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 1,640,547 | 60.5% | $1,072,130 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | | | | $ - |
| **Total Sources** | $ 24,145,547 | | | $1,201,887 |

### TDHCA - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 5,905,000 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 16,600,000 | 6.75% | 40 | $ 1,201,887 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 1,509,987 | 55.7% | $ 1,202,690 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | $ - | | | $ - |
| **Total Sources** | $ 24,014,987 | | | $ 1,201,887 |

### Applicant - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,592,960 | $10.21 | |
| Other Income & Loss | | 45,360 | 0.18 | 180 |
| Vacancy & Collection | -7.50% | (197,880) | -0.78 | -785 |
| Effective Gross Income | | $2,440,440 | 9.61 | 9,684 |
| Total Operating Expenses | | $1,101,144 | $4.34 | $4,370 |
| Net Operating Income | | $1,339,296 | $5.28 | $5,315 |
| Debt Service | | 1,201,887 | 4.73 | 4,769 |
| Net Cash Flow | | $137,409 | $0.54 | $545 |
| Debt Coverage Ratio | | 1.11 | | |
| TDHCA/TSAHC Fees | | $0 | $0.00 | $0 |
| Net Cash Flow | | $137,409 | $0.54 | $545 |
| DCR after TDHCA Fees | | 1.11 | | |
| Break-even Rents/S.F. | | 0.76 | | |
| Break-even Occupancy | | 88.82% | | |

### TDHCA - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,592,960 | $10.21 | |
| Other Income & Loss | | 45,360 | 0.18 | 180 |
| Vacancy & Collection | 7.50% | (197,874) | -0.78 | -785 |
| Effective Gross Income | | 2,440,446 | 9.61 | 9,684 |
| Total Operating Expenses | 45.1% | $1,101,144 | $4.34 | $4,370 |
| Net Operating Income | | $1,339,302 | $5.28 | $5,315 |
| Debt Service | | 1,201,887 | 4.73 | 4,769 |
| Net Cash Flow | | $137,415 | $0.54 | $545 |
| Debt Coverage Ratio | | 1.11 | | |
| TDHCA/TSAHC Fees | | | $0.00 | $0 |
| Net Cash Flow | | $137,415 | $0.54 | $545 |
| DCR after TDHCA Fees | | 1.11 | | |
| Break-even Rents/S.F. | | 0.76 | | |
| Break-even Occupancy | | 88.82% | | |

### Applicant - Annual Operating Expenses

| | | Per S.F. | Per Unit |
|---|---|---|---|
| General & Administrative Expenses | $99,740 | 0.39 | 396 |
| Management Fees | 122,023 | 0.48 | 484 |
| Payroll, Payroll Tax & Employee Exp. | 221,400 | 0.87 | 879 |
| Maintenance/Repairs | 103,956 | 0.41 | 413 |
| Utilities | 162,456 | 0.64 | 645 |
| Property Insurance | 63,469 | 0.25 | 252 |
| Property Taxes | 248,900 | 0.98 | 988 |
| Replacement Reserves | 50,400 | 0.20 | 200 |
| Other Expenses | 28,800 | 0.11 | 114 |
| Total Expenses | $1,101,144 | $4.34 | $4,370 |

### Staff Notes/Comments

**TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS**
**MULTIFAMILY FINANCE DIVISION**
**PREQUALIFICATION ANALYSIS**

## Providence at Marine Creek, Fort Worth (#2005-035) Priority 2

### Unit Mix and Rent Schedule

| Unit Type | Beds/Bath | # Units | Rents | Unit Size S.F. | Rent/S.F. |
|---|---|---|---|---|---|
| 60% AMI | 1BD/1BA | 51 | $ 650 | 750 | 0.87 |
| 60% AMI | 2BD/2BA | 113 | $ 777 | 975 | 0.80 |
| 60% AMI | 3BD/2BA | 88 | $ 897 | 1,200 | 0.75 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| Totals | | 252 | $ 2,398,644 | 254,025 | $ 0.79 |
| Averages | | | $ 793 | 1,008 | |

### Uses of Funds/Project Costs

| | Costs | Per Unit | Per S.F. | Percent |
|---|---|---|---|---|
| Acquisition | $ 1,325,000 | $ 5,258 | $ 5.22 | 0.05 |
| Off-sites | 0 | 0 | 0.00 | 0.00 |
| **Subtotal Site Costs** | $ 1,325,000 | $ 5,258 | $ 5.22 | 0.05 |
| Sitework | 1,888,740 | 7,495 | 7.44 | 0.08 |
| Hard Construction Costs | 11,960,438 | 47,462 | 47.08 | 0.50 |
| General Requirements (6%) | 830,951 | 3,297 | 3.27 | 0.03 |
| Contractor's Overhead (2%) | 276,984 | 1,099 | 1.09 | 0.01 |
| Contractor's Profit (6%) | 830,951 | 3,297 | 3.27 | 0.03 |
| Construction Contingency | 692,459 | 2,748 | 2.73 | 0.03 |
| **Subtotal Construction** | $ 16,480,522 | $ 65,399 | $ 64.88 | 0.68 |
| Indirect Construction | 1,104,900 | 4,385 | 4.35 | 0.05 |
| Developer's Fee | 2,747,937 | 10,905 | 10.82 | 0.11 |
| Financing | 2,103,711 | 8,348 | 8.28 | 0.09 |
| Reserves | 359,108 | 1,425 | 1.41 | 0.01 |
| **Subtotal Other Costs** | $ 6,315,656 | $ 25,062 | $ 25 | $ 0 |
| **Total Uses** | $ 24,121,178 | $ 95,719 | $ 94.96 | 1.00 |

### Applicant - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 8,530,132 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 15,000,000 | 6.75% | 40 | $1,086,042 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 91,047 | 3.3% | $2,656,890 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | | | | $ - |
| **Total Sources** | $ 23,621,179 | | | $1,086,042 |

### TDHCA - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 8,530,132 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 15,000,000 | 6.75% | 40 | $ 1,086,042 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 591,046 | 21.5% | $ 2,156,891 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | $ - | | | $ - |
| **Total Sources** | $ 24,121,178 | | | $ 1,086,042 |

### Applicant - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,398,644 | $9.44 | |
| Other Income & Loss | | 45,360 | 0.18 | 180 |
| Vacancy & Collection | 7.55% | 184,440 | 0.73 | 732 |
| Effective Gross Income | | $2,628,444 | 10.35 | 10,430 |
| Total Operating Expenses | | $1,027,711 | $4.05 | $4,078 |
| Net Operating Income | | $1,600,733 | $6.30 | $6,352 |
| Debt Service | | 1,086,042 | 4.28 | 4,310 |
| Net Cash Flow | | $514,691 | $2.03 | $2,042 |
| Debt Coverage Ratio | | 1.47 | | |
| TDHCA/TSAHC Fees | | $0 | $0.00 | $0 |
| Net Cash Flow | | $514,691 | $2.03 | $2,042 |
| DCR after TDHCA Fees | | 1.47 | | |
| Break-even Rents/S.F. | | 0.69 | | |
| Break-even Occupancy | | 88.12% | | |

### TDHCA - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,398,644 | $9.44 | |
| Other Income & Loss | | 45,360 | 0.18 | 180 |
| Vacancy & Collection | 7.50% | (183,300) | -0.72 | -727 |
| Effective Gross Income | | 2,260,704 | 8.90 | 8,971 |
| Total Operating Expenses | 45.5% | $1,027,711 | $4.05 | $4,078 |
| Net Operating Income | | $1,232,993 | $4.85 | $4,893 |
| Debt Service | | 1,086,042 | 4.28 | 4,310 |
| Net Cash Flow | | $146,950 | $0.58 | $583 |
| Debt Coverage Ratio | | 1.14 | | |
| TDHCA/TSAHC Fees | | | $0.00 | $0 |
| Net Cash Flow | | $146,950 | $0.58 | $583 |
| DCR after TDHCA Fees | | 1.14 | | |
| Break-even Rents/S.F. | | 0.69 | | |
| Break-even Occupancy | | 88.12% | | |

### Applicant - Annual Operating Expenses

| | | Per S.F. | Per Unit |
|---|---|---|---|
| General & Administrative Expenses | $68,884 | 0.27 | 273 |
| Management Fees | 113,734 | 0.45 | 451 |
| Payroll, Payroll Tax & Employee Exp. | 240,373 | 0.95 | 954 |
| Maintenance/Repairs | 87,160 | 0.34 | 346 |
| Utilities | 126,960 | 0.50 | 504 |
| Property Insurance | 56,700 | 0.22 | 225 |
| Property Taxes | 239,400 | 0.94 | 950 |
| Replacement Reserves | 50,400 | 0.20 | 200 |
| Other Expenses | 44,100 | 0.17 | 175 |
| Total Expenses | $1,027,711 | $4.05 | $4,078 |

### Staff Notes/Comments

Other expenses include supportive service contract fees and compliance fees.

**TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS**
**MULTIFAMILY FINANCE DIVISION**
**PREQUALIFICATION ANALYSIS**

**The Plaza at Chase Oaks, Plano (#2005-036) Priority 2**

### Unit Mix and Rent Schedule

| Unit Type | Beds/Bath | # Units | Rents | Unit Size S.F. | Rent/S.F. |
|---|---|---|---|---|---|
| 60% AMI | 1BD/1BA | 120 | $ 666 | 777 | 0.86 |
| 60% AMI | 2BD/2BA | 120 | $ 798 | 982 | 0.81 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| | | | | | 0.00 |
| Totals | | 240 | $ 2,108,160 | 211,080 | $ 0.83 |
| Averages | | | $ 732 | 880 | |

### Uses of Funds/Project Costs

| | Costs | Per Unit | Per S.F. | Percent |
|---|---|---|---|---|
| Acquisition | $ 1,400,000 | $ 5,833 | $ 6.63 | 0.06 |
| Off-sites | 0 | 0 | 0.00 | 0.00 |
| **Subtotal Site Costs** | $ 1,400,000 | $ 5,833 | $ 6.63 | 0.06 |
| Sitework | 1,565,782 | 6,524 | 7.42 | 0.07 |
| Hard Construction Costs | 10,581,698 | 44,090 | 50.13 | 0.49 |
| General Requirements (6%) | 728,849 | 3,037 | 3.45 | 0.03 |
| Contractor's Overhead (2%) | 242,950 | 1,012 | 1.15 | 0.01 |
| Contractor's Profit (6%) | 728,849 | 3,037 | 3.45 | 0.03 |
| Construction Contingency | 301,963 | 1,258 | 1.43 | 0.01 |
| **Subtotal Construction** | $ 14,150,090 | $ 58,959 | $ 67.04 | 0.65 |
| Indirect Construction | 1,227,581 | 5,115 | 5.82 | 0.06 |
| Developer's Fee | 2,408,914 | 10,037 | 11.41 | 0.11 |
| Financing | 2,495,400 | 10,398 | 11.82 | 0.12 |
| Reserves | 0 | 0 | 0.00 | 0.00 |
| **Subtotal Other Costs** | $ 6,131,895 | $ 25,550 | $ 29 | $ 0 |
| **Total Uses** | $ 21,681,985 | $ 90,342 | $ 102.72 | 1.00 |

### Applicant - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 5,485,085 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 15,000,000 | 6.00% | 30 | $1,079,191 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 898,999 | 37.3% | $1,509,915 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | $ 297,901 | Interest Inc & Lease-Up | | $ - |
| **Total Sources** | $ 21,681,985 | | | $1,079,191 |

### TDHCA - Sources of Funds

| **Source I** | **Net Proceeds** | **Sale Price** | **Applicable Percentage** | |
|---|---|---|---|---|
| Tax Credits | $ 5,485,085 | $0.80 | 3.55% | |
| **Source II** | **Proceeds** | **Rate** | **Amort** | **Annual D/S** |
| Bond Proceeds | $ 14,921,673 | 6.00% | 30 | $ 1,073,556 |
| **Source III** | **Proceeds** | **% Deferred** | **Remaining** | |
| Deferred Developer Fee | $ 977,326 | 40.6% | $ 1,431,588 | |
| **Source IV** | **Proceeds** | **Description** | | **Annual D/S** |
| Other | $ 297,901 | | | $ - |
| **Total Sources** | $ 21,681,985 | | | $ 1,073,556 |

### Applicant - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,108,160 | $9.99 | |
| Other Income & Loss | | 43,200 | 0.20 | 180 |
| Vacancy & Collection | -7.50% | (161,448) | -0.76 | -673 |
| Effective Gross Income | | $1,989,912 | 9.43 | 8,291 |
| Total Operating Expenses | | $810,063 | $3.84 | $3,375 |
| Net Operating Income | | $1,179,849 | $5.59 | $4,916 |
| Debt Service | | 1,079,191 | 5.11 | 4,497 |
| Net Cash Flow | | $100,658 | $0.48 | $419 |
| Debt Coverage Ratio | | 1.09 | | |
| TDHCA/TSAHC Fees | | $0 | $0.00 | $0 |
| Net Cash Flow | | $100,658 | $0.48 | $419 |
| DCR after TDHCA Fees | | 1.09 | | |
| Break-even Rents/S.F. | | 0.75 | | |
| Break-even Occupancy | | 89.62% | | |

### TDHCA - Operating Proforma/Debt Coverage

| | | | Per S.F. | Per Unit |
|---|---|---|---|---|
| Potential Gross Income | | $2,108,160 | $9.99 | |
| Other Income & Loss | | 43,200 | 0.20 | 180 |
| Vacancy & Collection | 7.50% | (161,352) | -0.76 | -672 |
| Effective Gross Income | | 1,990,008 | 9.43 | 8,292 |
| Total Operating Expenses | 40.7% | $810,000 | $3.84 | $3,375 |
| Net Operating Income | | $1,180,008 | $5.59 | $4,917 |
| Debt Service | | 1,073,556 | 5.09 | 4,473 |
| Net Cash Flow | | $106,452 | $0.50 | $444 |
| Debt Coverage Ratio | | 1.10 | | |
| TDHCA/TSAHC Fees | | | $0.00 | $0 |
| Net Cash Flow | | $106,452 | $0.50 | $444 |
| DCR after TDHCA Fees | | 1.10 | | |
| Break-even Rents/S.F. | | 0.74 | | |
| Break-even Occupancy | | 89.35% | | |

### Applicant - Annual Operating Expenses

| | | Per S.F. | Per Unit |
|---|---|---|---|
| General & Administrative Expenses | $85,152 | 0.40 | 355 |
| Management Fees | 89,600 | 0.42 | 373 |
| Payroll, Payroll Tax & Employee Exp. | 196,320 | 0.93 | 818 |
| Maintenance/Repairs | 102,000 | 0.48 | 425 |
| Utilities | 127,790 | 0.61 | 532 |
| Property Insurance | 54,881 | 0.26 | 229 |
| Property Taxes | 85,680 | 0.41 | 357 |
| Replacement Reserves | 48,000 | 0.23 | 200 |
| Other Expenses | 20,640 | 0.10 | 86 |
| Total Expenses | $810,063 | $3.84 | $3,375 |

### Staff Notes/Comments

Other expenses include cable TV, supportive service contract fees, compliance fees, and security.

TEXAS
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
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# MULTIFAMILY FINANCE PRODUCTION DIVISION

**2004 Private Activity Multifamily Revenue Bonds**

**Tower Ridge Apartments**
**Approximately the 2000 block of Tower Ridge Road**
**Corinth, Texas**
**Tower Ridge Corinth 1, Ltd.**
**224 Units**
**Priority 1C – 100% of units at 60% AMFI**

**$15,000,000 Tax Exempt – Series 2005**

## TABLE OF EXHIBITS

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Item

Presentation, Discussion and Possible Approval for the issuance of Multifamily Housing Mortgage Revenue Bonds, Series 2005 and Housing Tax Credits for the Tower Ridge Apartments development.

## Summary of the Tower Ridge Apartments Transaction

The pre-application was received on September 23, 2004. The application was scored and ranked by staff. The application was induced at the October Board meeting and submitted to the Texas Bond Review Board for addition to the 2004 Waiting List. The application received a Reservation of Allocation on November 24, 2004. This application was submitted under the Priority 1C category. A public hearing was held on February 8, 2005. There were thirty-two people in attendance with eight people speaking for the record. There were concerns about possible tax abatements in the future, too much income restricted housing in Corinth, no public transportation, developer requesting variances from city, concern for feasibility of the development, and concerns about who will live in the complex. A copy of the transcript is located in Tab 9 of this presentation. The proposed site is located in the Corinth Independent School District.

## Summary of the Financial Structure

The applicant is requesting the Department's approval and issuance of variable rate tax exempt bonds in the amount of $15,000,000. The bonds will be credit enhanced by JPMorgan Chase Bank during the Construction Phase. At Conversion, Red Stone Partners, LLC or Prudential Mortgage Capital Company, LLC, will arrange for a permanent credit enhancer or purchase the Bonds. The Bonds will carry a Aa3/VMIG1 rating. Red Stone Partners will underwrite the transaction using a debt coverage ratio of 1.15 to 1 (Net Operating Income 1.2 times the debt service) amortized over 30 years. The term of the bonds will be for 33 years. The construction and lease up period will be for thirty months plus one 6 month optional extension with payment terms of interest only, followed by a 30 year term and amortization.

## Recommendation

Staff recommends the Board approve the issuance of Multifamily Housing Mortgage Revenue Bonds, Series 2005 and Housing Tax Credits for the Tower Ridge Apartments development because of the demonstrated quality of construction of the proposed 224 unit general population development, the feasibility of the development (as demonstrated by the financial commitments from Red Stone Partners, JPMorgan Chase Bank and Boston Capital and the underwriting report by the Department's Real Estate Analysis Division), the tenant and social services provided by the development and the demand for affordable units as demonstrated by the market area.

**MULTIFAMILY FINANCE PRODUCTION DIVISION**
**BOARD MEMORANDUM**
**April 7, 2005**

**DEVELOPMENT:** Tower Ridge Apartments, Corinth, Denton County, Texas

**PROGRAM:** Texas Department of Housing & Community Affairs
2004 Private-Activity Multifamily Revenue Bonds
(Reservation received 11/24/2004)

**ACTION REQUESTED:** Approve the issuance of multifamily housing revenue bonds (the "Bonds") by the Texas Department of Housing and Community Affairs (the "Department"). The Bonds will be issued under Chapter 1372 of the Texas Government Code and under Chapter 2306 of the Texas Government Code, the Department's enabling legislation which authorizes the Department to issue its revenue bonds for its public purposes as defined therein.

**PURPOSE:** The proceeds of the Bonds will be used to fund a mortgage loan (the "Mortgage Loan") to Tower Ridge Corinth 1, Ltd., a Texas limited partnership (the "Borrower"), to finance the acquisition, construction, equipping and long-term financing of a new, 224-unit multifamily residential rental development to be located on the west side of Tower Ridge Road, approximately the 2000 block of Tower Ridge Road, Corinth, Denton County, Texas (the "Development"). The Bonds will be tax-exempt by virtue of the Development qualifying as a residential rental Development. *As a conduit issuer in the Private Activity Bond Program, this transaction does not constitute an obligation or liability for the State of Texas.*

**BOND AMOUNT:** $15,000,000 Series 2005 Tax Exempt bonds (*)
$15,000,000 Total bonds

The aggregate principal amount of the Bonds will be determined by the Department based on its rules, underwriting, the cost of construction of the Development and the amount for which Bond Counsel can deliver its Bond Opinion.

**ANTICIPATED CLOSING DATE:** The Department received a volume cap allocation for the Bonds on November 24, 2004, pursuant to the Texas Bond Review Board's 2004 Private Activity Bond Allocation Program. While the Department is required to deliver the Bonds on or before April 23, 2005, the anticipated closing date is April 19, 2005.

** Preliminary - Represents Maximum Amount*

**BORROWER:** Tower Ridge Corinth 1, Ltd., of which the general partner is NDG-Tower Ridge Corinth 1, LLC the members of which are Robert G. Hoskins with 50% Ownership and Sandra Hoskins with 50% Ownership. Boston Capital or an affiliate thereof will be providing the equity for the transaction by purchasing a 99.99% limited partnership interest in the Borrower.

**COMPLIANCE HISTORY:** The Compliance Status Summary completed on February 24, 2005 reveals that the principals of the general partner above have a total of three (3) properties being monitored by the Department. 0 of the properties have been monitored at this time.

**ISSUANCE TEAM:**
Red Stone Partners, LLC or Prudential Mortgage Capital Company (Credit Facility Provider)
Boston Capital (Equity Provider)
Merchant Capital, LLC (Underwriter)
JPMorgan Chase Bank (Construction Lender)
J. P. Morgan Chase Trust Company (Trustee)
Vinson & Elkins L.L.P. (Bond Counsel)
RBC Dain Rauscher, Inc. (Financial Advisor)
McCall, Parkhurst & Horton, L.L.P. (Issuer Disclosure Counsel)

**BOND PURCHASER:** The Bonds will be publicly offered for sale on or about April 19, 2005 at which time the final pricing and Bond Purchaser(s) will be determined.

**DEVELOPMENT DESCRIPTION:** The Development is a 224 unit apartment community to be constructed on approximately 17.48 acres located on the west side of Tower Ridge Road, approximately the 2000 block of Tower Ridge Road, Corinth, Denton County, Texas. The Development will consist of fifteen (15) two-story buildings buildings with a total of 235,328 net rentable square feet and an average unit size of approximately 1050 square feet. The property will also have a community building consisting of a kitchen, a fitness center, business center and leasing office. The development will include a laundry room, a swimming pool, barbeque grills and picnic area, and perimeter fencing with access gates. The complex will have 464 open parking spaces, 144 garages.

| Units | Unit Type | Sq Ft | Proposed | AMFI |
|---|---|---|---|---|
| 56 | 1-Bed/1-Baths | 868 | $640.00 | 60% |
| 96 | 2-Bed/2-Baths | 1057 | $740.00 | 60% |
| 72 | 3-Bed/2-Baths | 1184 | $850.00 | 60% |
| 224 | Total Units | | | |

| | |
|---|---|
| **SET-ASIDE UNITS:** | For Bond covenant purposes, forty percent (40%) of the units in the Development will be restricted to occupancy by persons or families earning not more than sixty percent (60%) of the area median income. Five percent (5%) of the units in the Development will be set aside on a priority basis for persons with special needs. *(The Borrower has elected to set-aside 100% of the units for tax credit purposes)* |
| **RENT CAPS:** | For Bond covenant purposes, the rental rates on 100% of the units will be restricted to a maximum rent that will not exceed thirty percent (30%) of the income, adjusted for family size, for a family whose income equals sixty percent (60%) of the area median income which is a Priority 1C category of the private activity bond program. |
| **TENANT SERVICES:** | Tenant Services will be provided by the developer according to the requirements as outlined in the Departments Land Use Restriction Agreement. |
| **DEPARTMENT ORIGINATION FEES:** | $1,000 Pre-Application Fee (Paid)<br>$10,000 Application Fee (Paid)<br>$75,000 Issuance Fee (.50% of the bond amount paid at closing) |
| **DEPARTMENT ANNUAL FEES:** | $15,000 Bond Administration (0.10% of first year bond amount)<br>$5,600 Compliance ($25/unit/year adjusted annually for CPI)<br>*(Department's annual fees may be adjusted, including deferral, to accommodate underwriting criteria and Development cash flow. These fees will be subordinated to the Mortgage Loan and paid outside of the cash flows contemplated by the Indenture)* |
| **ASSET OVERSIGHT FEE:** | $5,600 to TDHCA or assigns ($25/unit/year adjusted annually for CPI)*)* |
| **TAX CREDITS:** | The Borrower has applied to the Department to receive a Determination Notice for the 4% tax credit that accompanies the private-activity bond allocation. The tax credit equates to $665,729 per annum and represents equity for the transaction. To capitalize on the tax credits, the Borrower will sell a substantial portion of the limited partnership, typically 99.99%, to raise equity funds for the Development. Although a tax credit sale has not been finalized, the Borrower anticipates raising approximately $6,257,227 of equity for the transaction. |

**BOND STRUCTURE & SECURITY FOR THE BONDS:**

The Bonds are proposed to be issued under a Trust Indenture (the "Trust Indenture") that will describe the fundamental structure of the Bonds, permitted uses of Bond proceeds and procedures for the administration, investment and disbursement of Bond proceeds and program revenues.

As stated above, the Bonds are being issued to fund a Mortgage Loan to finance the acquisition, construction, equipping and long-term financing of the Development. The Mortgage Loan will be secured by, among other things, a Deed of Trust and other security instruments on the Development. The Mortgage Loan and security instruments will be assigned to the Trustee and JPMorgan Chase Bank and will become part of the Trust Estate securing the Bonds.

During the construction period (the “Construction Phase”), credit enhancement and liquidity support for the Bonds will be provided by JPMorgan Chase Bank, National Association pursuant to an irrevocable direct pay letter of credit (the “Letter of Credit”). If conversion (“Conversion”) from the Construction Phase to the permanent mortgage period (the “Permanent Phase”), occurs, Red Stone Partners, LLC (“Red Stone”) or Prudential Mortgage Capital Company (“PMCC”) (the “conversion obligation”). If Conversion does not occur, Red Stone will have no obligation to arrange the conversion obligation. If Conversion does not occur and JPMorgan Chase Bank has not extended the term of the Letter of Credit and there is no alternate credit facility in effect, the Bonds will be subject to mandatory tender.

In addition to the credit enhanced Mortgage Loan, other security for the Bonds during the Construction Phase consists of the net bond proceeds, the revenues and any other monies received by the Trustee for payment of principal and interest on the Bonds, and amounts otherwise on deposit in the Funds and Accounts (excluding the Rebate Fund, the Fees Account of the Revenue Fund and the Cost of Issuance Fund) and any investment earnings thereon (see Funds and Accounts section, below).

Upon Conversion to the Permanent Phase, Red Stone Partners will determine the final Mortgage Loan amount. If the final Mortgage Loan amount is less than the original Mortgage Loan amount, the Borrower will be required to either pay the difference which will be used to correspondingly reduce the amount of the outstanding Bonds, or deposit monies in a cash collateral account equal to the final Mortgage Loan Amount. All or a portion of this payment amount may be financed through a Letter of Credit by JPMorgan Chase Bank.

**CREDIT ENHANCEMENT:** The credit enhancement by JPMorgan Chase Bank allows for an anticipated rating by the Rating Agency of Aa3/VMIG1 and an anticipated variable interest rate of 3.75% per annum. Without the credit enhancement, the Bonds would not be investment grade and therefore command a higher interest rate from investors on similar maturity bonds. If Red Stone or PMCC is unable to secure an alternate Credit Facility then the Red Stone or PMCC will purchase the Bonds.

**FORM OF BONDS:** The Bonds will be issued in book-entry form and will be in authorized denominations of, during any Weekly Variable Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 or during any Reset Period or the Fixed Rate Period, \$5,000 or any integral multiple of \$5,000.

**TERMS OF THE MORTGAGE LOAN:** The Mortgage Loan is a non-recourse obligation of the Owner, which means, subject to certain exceptions, that the Owner is not liable for the payment thereof beyond the amount realized from the pledged security. The Mortgage Loan provides for monthly payments of interest during the Construction Phase and level monthly payments of principal and interest following conversion to the Permanent Phase.

During the Construction Phase, the Borrower will be required to make payments on the Mortgage Loan directly to the Trustee (to the extent that capitalized interest funds deposited at closing into the Mortgage Loan Fund are insufficient to make the semi-annual interest payments on the Bonds) along with all other bond and credit enhancement fees. Upon Conversion, the Borrower will be required to pay mortgage payments on the Mortgage Loan to the Servicer, who will remit the principal and interest components of the mortgage payments to the Trustee. The Borrower will continue to pay certain other fees, including the Department's fees, directly to the Trustee.

Effective on the Conversion Date, which is anticipated to occur thirty months from the closing date of the Bonds with one six-month extension option, the Mortgage Loan will convert from the Construction Phase to the Permanent Phase upon satisfaction the conversion requirements set forth in the Construction Phase Financing Agreement. Among other things, these requirements include completion of the Development according to plans and specifications and achievement of certain occupancy thresholds.

**MATURITY/SOURCES & METHODS OF REPAYMENT:**

The Bonds will bear interest at a variable rate until maturity, which is April 1, 2038.

The Bonds will be payable from: (1) revenues earned from the Mortgage Loan (which during the Construction Phase will be payable as to interest only); (2) earnings derived from amounts held in Funds & Accounts (discussed below) on deposit in an investment agreement; (3) funds deposited to the Mortgage Loan Fund specifically for capitalized interest during a portion of the Construction Phase; (4) or payments made by credit provider under the applicable credit facility.

The credit provider (initially JPMorgan Chase Bank) is obligated under the credit enhancement agreement to fund the payment of the Bonds, regardless of whether the Borrower makes the scheduled principal and interest payments on the Mortgage Loan. The Borrower is obligated to reimburse the credit provider for any moneys advanced by the credit provider for such payments.

**REDEMPTION OF BONDS PRIOR TO MATURITY:**

The Bonds are subject to redemption under any of the following circumstances:

***Optional Redemption:***

The Bonds are subject to optional redemption in whole or in part upon optional prepayment of the Loan by the Borrower:

(1) On any Interest Payment Date within a Weekly Variable Rate Period and on any Adjustment Date at a redemption price equal to 100 percent of the principle amount redeemed plus accrued interest to the Redemption Date.

(2) On any date within a Reset Period at the respective redemption prices set forth in the Indenture as expressed as a percentage of the principal amount of the Bonds.

(3) On any date within the Fixed Rate Period, at the respective redemption prices set forth in the Indenture as expressed as percentages of the principal amounts of the Bonds.

***Mandatory Redemption:***

(1) The Bonds shall be redeemed in whole or in part in the event and to the extent that proceeds of insurance from any casualty to, or proceeds of any award from any condemnation of, or any award as part of a settlement in lieu of condemnation of, the Mortgaged Property are applied in accordance with the Security Instrument to the prepayment of the Mortgage Loan.

(2) The Bonds shall be redeemed in whole or in part in an amount specified by and at the direction of the credit provider requiring that the Bonds be redeemed pursuant to the Indenture following any Event of Default under the Reimbursement Agreement.

(3) The Bonds shall be redeemed on and after the Transition Date, if any, at the times and in the amounts set forth in the sinking fund Schedule attached as Exhibit E to the Indenture

(4) The Bonds shall be redeemed during the Fixed Rate Period if the Issuer has established a sinking fund schedule, at the times and in the amounts set forth in the sinking fund schedule.

(5) The Bonds shall be redeemed in whole or in part in the event and to the extent that amounts on deposit in the Loan Fund are transferred to the Redemption Account.

**FUNDS AND ACCOUNTS/FUNDS ADMINISTRATION:**

Under the Trust Indenture, J.P. Morgan Trust Company, National Association, (the "Trustee") will serve as registrar and authenticating agent for the Bonds, trustee of certain of the funds created under the Trust Indenture (described below), and will have responsibility for a number of loan administration and monitoring functions.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully registered securities and when issued will be registered in the name of Cede & Co., as nominee for DTC. One fully registered global bond in the aggregate principal amount of each stated maturity of the Bonds will be deposited with DTC.

Monies on deposit in Trust Indenture funds are required to be invested in eligible investments prescribed in the Trust Indenture until needed for the purposes for which they are held.

The Trust Indenture will create up to five (5) funds with the following general purposes:

1. Loan Fund – Consists of the Mortgaged Property Account and Capitalized Moneys Account, each of which has a Bond Proceeds Subaccount and a Borrower Equity Subaccount. Monies in the Loan fund will be withdrawn to pay the costs of construction of the Development and interest on the Bonds and certain other fees during the Construction Phase.

2. Revenue Fund - General receipts and disbursement account for revenues to pay principal and interest on the Bonds. Sub-accounts created within the Revenue Fund for redemption provisions, credit facility purposes, the payment of interest and certain ongoing fees.

3. Costs of Issuance Fund – A temporary fund into which amounts for the payment of the costs of issuance are deposited and disbursed by the Trustee.

4. Rebate Fund - Fund into which certain investment earnings are transferred that are required to be rebated periodically to the federal government to preserve the tax-exempt status of the Bonds. Amounts in this fund are held apart from the trust estate and are not available to pay debt service on the Bonds.

5. Bond Purchase Fund - so moneys held uninvested and exclusively for the payment of the purchase price of Tendered Bonds (subject to provisions in the Indenture allowing reimbursement of the amounts owed to the Credit Provider).

Essentially, all of the bond proceeds will be deposited into the Loan Fund and disbursed during the Construction Phase (over 18 to 24 months) to finance the construction of the Development. Although costs of issuance of up to two percent (2%) of the principal amount of the Bonds may be paid from Bond proceeds, it is currently expected that all costs of issuance will be paid by an equity contribution of the Borrower.

**DEPARTMENT ADVISORS:**

The following advisors have been selected by the Department to perform the indicated tasks in connection with the issuance of the Bonds.

1. Bond Counsel - Vinson & Elkins L.L.P. ("V&E") was most recently selected to serve as the Department's bond counsel through a request for proposals ("RFP") issued by the Department in August 2003. V&E has served in such capacity for all Department or Agency bond financings since 1980, when the firm was selected initially (also through an RFP process) to act as Agency bond counsel.

2. Bond Trustee – J.P. Morgan Trust Company, National Association was selected as bond trustee by the Department pursuant to a request for proposal process in December 2003.

3. Financial Advisor - Dain Rauscher, Inc., formerly Rauscher Pierce Refsnes, was selected by the Department as the Department's financial advisor through a request for proposals process in June 2003.

4. Underwriter – Merchant Capital, LLC. was selected by the Borrower from the Department's list of approved senior managers for multifamily bond issues. The underwriter list was compiled and approved by the Department September 2003.

**ATTORNEY GENERAL REVIEW OF BONDS:**

No preliminary written review of the Bonds or the Subordinate Refunding Bonds by the Attorney General of Texas has yet been made. Department bonds, however, are subject to the approval of the Attorney General, and transcripts of proceedings with respect to the Bonds and the Subordinate Refunding Bonds will be submitted for review and approval prior to the issuance of the Bonds and the Subordinate Refunding Bonds.

# RESOLUTION NO. 05-023

RESOLUTION AUTHORIZING AND APPROVING THE ISSUANCE, SALE AND DELIVERY OF VARIABLE RATE DEMAND MULTIFAMILY HOUSING REVENUE BONDS (TOWER RIDGE APARTMENTS) SERIES 2005; APPROVING THE FORM AND SUBSTANCE AND AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS AND INSTRUMENTS PERTAINING THERETO; AUTHORIZING AND RATIFYING OTHER ACTIONS AND DOCUMENTS; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

WHEREAS, the Texas Department of Housing and Community Affairs (the "Department") has been duly created and organized pursuant to and in accordance with the provisions of Chapter 2306, Texas Government Code, as amended (the "Act"), for the purpose, among others, of providing a means of financing the costs of residential ownership, development and rehabilitation that will provide decent, safe, and affordable living environments for individuals and families of low and very low income (as defined in the Act) and families of moderate income (as described in the Act and determined by the Governing Board of the Department (the "Board") from time to time); and

WHEREAS, the Act authorizes the Department: (a) to make mortgage loans to housing sponsors to provide financing for multifamily residential rental housing in the State of Texas (the "State") intended to be occupied by individuals and families of low and very low income and families of moderate income, as determined by the Department; (b) to issue its revenue bonds, for the purpose, among others, of obtaining funds to make such loans and provide financing, to establish necessary reserve funds and to pay administrative and other costs incurred in connection with the issuance of such bonds; and (c) to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such multi-family residential rental project loans, and to mortgage, pledge or grant security interests in such loans or other property of the Department in order to secure the payment of the principal or redemption price of and interest on such bonds; and

WHEREAS, the Board has determined to authorize the issuance of the Texas Department of Housing and Community Affairs Variable Rate Demand Multifamily Housing Revenue Bonds (Tower Ridge Apartments) Series 2005 (the "Bonds"), pursuant to and in accordance with the terms of a Trust Indenture (the "Indenture") by and between the Department and J.P. Morgan Trust Company, National Association (the "Trustee"), for the purpose of obtaining funds to finance the Development (defined below), all under and in accordance with the Constitution and laws of the State of Texas; and

WHEREAS, the Department desires to use the proceeds of the Bonds to fund a mortgage loan to Tower Ridge Corinth 1, Ltd., a Texas limited partnership (the "Borrower"), in order to finance the cost of acquisition, construction and equipping of a qualified residential rental project described on Exhibit A attached hereto (the "Development") located within the State of Texas required by the Act to be occupied by individuals and families of low and very low income and families of moderate income, as determined by the Department; and

WHEREAS, the Board, by resolution adopted on October 14, 2004, declared its intent to issue its revenue bonds to provide financing for the Development; and

WHEREAS, it is anticipated that the Department, the Borrower and the Trustee will execute and deliver a Financing Agreement (the "Financing Agreement") pursuant to which (i) the Department will agree to make a mortgage loan funded with the proceeds of the Bonds (the "Loan") to the Borrower to enable the Borrower to finance the cost of acquisition and construction of the Development and related costs, and (ii) the Borrower will execute and deliver to the Department a promissory note (the "Note") in an original principal amount equal to the original aggregate principal amount of the Bonds, and providing for payment of interest on such principal amount equal to the interest on the Bonds and to pay other costs described in the Agreement; and

WHEREAS, it is anticipated that the Note will be secured by a Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (the "Deed of Trust") from the Borrower for the benefit of the Department and JPMorgan Chase Bank (the "Bank"); and

WHEREAS, the Department's interest (except for certain reserved rights) in the Loan, including the Note and the Deed of Trust, will be assigned to the Trustee pursuant to an Assignment of Deed of Trust Documents and an Assignment of Note (collectively, the "Assignments") from the Department to the Trustee; and

WHEREAS, it is anticipated that initial credit enhancement for the Bonds will be provided for initially by an irrevocable direct pay letter of credit issued by the Bank; and

WHEREAS, the Board has determined that the Issuer shall enter into a Bond Purchase Agreement (the "Purchase Agreement") with the Borrower and Merchant Capital, L.L.C. (the "Underwriter") and any other party to the Purchase Agreement as authorized by the execution thereof by the officers of the Issuer, setting forth certain terms and conditions upon which the Underwriter or another party will purchase all or their respective portion of the Bonds from the Issuer and the Issuer will sell the Bonds to the Underwriter or another party; and

WHEREAS, the Board has been presented with a draft of, has considered and desires to ratify, approve, confirm and authorize the use and distribution in the public offering of the Bonds of an Official Statement (the "Official Statement") and to deem the Official Statement "final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission and to approve the making of such changes in the Official Statement as may be required to provide a final Official Statement for use in the public offering and sale of the Bonds; and

WHEREAS, in connection with the preparation of the Official Statement, the Issuer has furnished the information to the Underwriter set forth in such offering documents concerning the Issuer under the captions "The Issuer" and "Absence of Litigation" (as it relates to the Issuer), and the Board now desires to authorize the use of such information in the Official Statement; and

WHEREAS, the Board has determined that the Department, the Trustee and the Borrower will execute a Regulatory and Land Use Restriction Agreement (the "Regulatory Agreement"), with respect to the Development which will be filed of record in the real property records of Denton County, Texas; and

WHEREAS, the Board has determined that the Department and the Borrower will execute an Asset Oversight Agreement (the "Asset Oversight Agreement"), with respect to the Development for the purpose of monitoring the operation and maintenance of the Development; and

WHEREAS, the Department's interest in the Loan (except for certain reserved rights), including the Note and the Deed of Trust, will be assigned to the Trustee, as its interests may appear, and, initially, to the Bank, as its interests may appear, pursuant to an Assignment and Intercreditor Agreement (the "Intercreditor Agreement") among the Department, the Trustee and the Bank; and

WHEREAS, the Board has examined proposed forms of the Indenture, the Financing Agreement, the Assignments, the Regulatory Agreement, the Purchase Agreement, the Asset Oversight Agreement and the Intercreditor Agreement, all of which are attached to and comprise a part of this Resolution; has found the form and substance of such documents to be satisfactory and proper and the recitals contained therein to be true, correct and complete; and has determined, subject to the conditions set forth in Section 1.15, to authorize the issuance of the Bonds, the execution and delivery of such documents and the taking of such other actions as may be necessary or convenient in connection therewith; NOW, THEREFORE,

BE IT RESOLVED BY THE GOVERNING BOARD OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS:

## ARTICLE I

## ISSUANCE OF BONDS; APPROVAL OF DOCUMENTS

Section 1.1--Issuance, Execution, Sale and Delivery of the Bonds. That the issuance of the Bonds is hereby authorized, under and in accordance with the conditions set forth herein and in the Indenture, and that, upon execution and delivery of the Indenture, the authorized representatives of the Department named in this Resolution each are authorized hereby to execute, attest and affix the Department's seal to the Bonds and to deliver the Bonds to the Attorney General of the State of Texas for approval, the Comptroller of Public Accounts of the State of Texas for registration and the Trustee for authentication (to the extent required in the Indenture), and thereafter to sell the Bonds to and deliver the Bonds to the order of the initial purchaser thereof.

Section 1.2--Interest Rate, Principal Amount, Maturity and Price. (a) That the Chair or Vice Chairman of the Board or the Executive Director of the Department are hereby authorized and empowered, in accordance with Chapter 1371, Texas Government Code, to fix and determine the interest rate, principal amount and maturity of, the redemption provisions related to, and the price at which the Department will sell to the Underwriter or another party to the Bond Purchase Agreement, the Bonds, all of which determinations shall be conclusively evidenced by the execution and delivery by the Chair or Vice Chairman of the Board or the Executive Director of the Department of the Indenture and the Bond Purchase Agreement; provided, however, that (i) the Bonds shall bear interest at the rates determined from time to time by the Remarketing Agent (as such term is defined in the Indenture) in accordance with the provisions of the Indenture; provided that in no event shall the interest rate on the Bonds (including any default interest rate) exceed the maximum interest rate permitted by applicable law; and provided further that the initial interest rate on the Bonds shall not exceed 6.5%; (ii) the aggregate principal amount of the Bonds shall not exceed $15,000,000; and (iii) the final maturity of the Bonds shall occur not later than April 1, 2038 and (iv) the price at which the Bonds are sold to the initial purchasers thereof under the Bond Purchase Agreement shall not exceed 103% of the principal amount thereof.

Section 1.3--Approval, Execution and Delivery of the Indenture. That the form and substance of the Indenture are hereby approved, and that the authorized representatives of the Department named in this Resolution each are authorized hereby to execute the Indenture and to deliver the Indenture to the Trustee.

Section 1.4--Approval, Execution and Delivery of the Financing Agreement and Regulatory Agreement. That the form and substance of the Financing Agreement and the Regulatory Agreement are hereby approved, and that the authorized representatives of the Department named in this Resolution each are authorized hereby to execute the Financing Agreement and execute, attest and affix the Department's seal to the Regulatory Agreement and deliver the Financing Agreement and the Regulatory Agreement to the Borrower and the Trustee.

Section 1.5--Acceptance of the Deed of Trust and Note. That the Deed of Trust and the Note are hereby accepted by the Department and that the authorized representatives of the Department named in this Resolution each are authorized to endorse and deliver the Note to the order of the Trustee and the Bank, as their interests may appear, without recourse.

Section 1.6--Approval, Execution and Delivery of the Assignments. That the form and substance of the Assignments are hereby approved and that the authorized representatives of the Department named in this Resolution each are hereby authorized to execute, attest and affix the Department's seal to the Assignments and to deliver the Assignments to the Trustee.

Section 1.7--Official Statement Deemed Final. The Official Statement is deemed to be "final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

Section 1.8--Approval, Use and Distribution of the Official Statement. The use and distribution of the Official Statement in connection with the offering of the Bonds in substantially the form presented to the Board, in accordance with the terms, conditions and limitations contained therein, are hereby approved, confirmed and authorized, subject to such amendments or additions thereto as may be approved from time to time by the Chair or Vice Chair of the Governing Board or Executive Director of the Department upon the advice of Bond Counsel to the Department, such approval to be conclusively evidenced by the distribution of the Official Statement and subject to receipt of evidence satisfactory to the financial advisor regarding the ratings on the Bonds and evidence satisfactory to Bond Counsel regarding certain tax compliance matters; that such officers of the Department each are authorized hereby to make or approve such changes in the Official Statement as may be required to provide a final Official Statement for the Bonds; and that the distribution and circulation of the Official Statement by the Underwriter hereby is authorized and approved, subject to the terms, conditions and limitations contained therein, and further subject to such amendments or additions thereto as may be required by the Purchase Agreement and as may be approved by the Chair or Executive Director of the Department upon the advice of Bond Counsel to the Department.

Section 1.9--Approval, Execution and Delivery of the Purchase Agreement. That the form and substance of the Purchase Agreement are hereby approved, and that the authorized representatives of the Department named in this Resolution each are authorized hereby to execute and deliver the Purchase Agreement to the Borrower and the Purchaser.

Section 1.10--Approval, Execution and Delivery of the Asset Oversight Agreement. That the form and substance of the Asset Oversight Agreement are hereby approved, and that the authorized representatives of the Department named in this Resolution each are authorized hereby to execute and deliver the Asset Oversight Agreement to the Borrower.

Section 1.11--Approval, Execution and Delivery of the Intercreditor Agreement. That the form and substance of the Intercreditor Agreement are hereby approved, and that the authorized representatives of the Department named in this Resolution each are authorized hereby to execute and deliver the Intercreditor Agreement to the Trustee and the Bank.

Section 1.12--Taking of Any Action; Execution and Delivery of Other Documents. That the authorized representatives of the Department named in this Resolution each are authorized hereby to take any actions and to execute, attest and affix the Department's seal to, and to deliver to the appropriate parties, all such other agreements, commitments, assignments, bonds, certificates, contracts, documents, instruments, releases, financing statements, letters of instruction, notices of acceptance, written requests and other papers, whether or not mentioned herein, as they or any of them consider to be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution.

Section 1.13--Exhibits Incorporated Herein. That all of the terms and provisions of each of the documents listed below as an exhibit shall be and are hereby incorporated into and made a part of this Resolution for all purposes:

Exhibit B – Indenture
Exhibit C – Financing Agreement
Exhibit D – Regulatory Agreement
Exhibit E – Deed of Trust
Exhibit F – Note
Exhibit G – Assignments
Exhibit H – Official Statement
Exhibit I – Purchase Agreement
Exhibit J – Asset Oversight Agreement
Exhibit K – Intercreditor Agreement

Section 1.14--Power to Revise Form of Documents. That notwithstanding any other provision of this Resolution, the authorized representatives of the Department named in this Resolution each are authorized hereby to make or approve such revisions in the form of the documents attached hereto as exhibits as, in the judgment of such authorized representative or authorized representatives, and in the opinion of Vinson & Elkins L.L.P., Bond Counsel to the

Department, may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution, such approval to be evidenced by the execution of such documents by the authorized representatives of the Department named in this Resolution.

Section 1.15--Authorized Representatives. That the following persons are each hereby named as authorized representatives of the Department for purposes of executing, attesting, affixing the Department's seal to, and delivering the documents and instruments and taking the other actions referred to in this Article I: Chair and Vice Chairman of the Board, Executive Director of the Department, Deputy Executive Director of Housing Operations of the Department, Deputy Executive Director of Programs of the Department, Chief of Agency Administration of the Department, Director of Financial Administration of the Department, Director of Bond Finance of the Department, Director of Multifamily Finance Production of the Department and the Secretary of the Board.

Section 1.16--Conditions Precedent. That the issuance of the Bonds shall be further subject to, among other things: (a) the Development's meeting all underwriting criteria of the Department, to the satisfaction of the Executive Director or the Acting Executive Director; and (b) the execution by the Borrower and the Department of contractual arrangements satisfactory to the Department staff requiring that community service programs will be provided at the Development.

## ARTICLE II

## APPROVAL AND RATIFICATION OF CERTAIN ACTIONS

Section 2.1--Approval and Ratification of Application to Texas Bond Review Board. That the Board hereby ratifies and approves the submission of the application for approval of state bonds to the Texas Bond Review Board on behalf of the Department in connection with the issuance of the Bonds in accordance with Chapter 1231, Texas Government Code.

Section 2.2--Approval of Submission to the Attorney General of Texas. That the Board hereby authorizes, and approves the submission by the Department's Bond Counsel to the Attorney General of the State of Texas, for his approval, of a transcript of legal proceedings relating to the issuance, sale and delivery of the Bonds.

Section 2.3--Certification of the Minutes and Records. That the Secretary and the Assistant Secretary of the Board hereby are severally authorized to certify and authenticate minutes and other records on behalf of the Department for the Bonds and all other Department activities.

Section 2.4--Authority to Invest Proceeds. That the Department is authorized to invest and reinvest the proceeds of the Bonds and the fees and revenues to be received in connection with the financing of the Development in accordance with the Indenture and to enter into or direct the Trustee to enter into any agreements relating thereto only to the extent permitted by the Indenture.

Section 2.5--Approving Initial Rents. That the initial maximum rent charged by the Borrower for the units of the Development shall not exceed the amounts attached as Exhibit G to the Regulatory Agreement and shall be annually redetermined by the Issuer as stated in the Regulatory Agreement.

Section 2.6--Ratifying Other Actions. That all other actions taken by the Executive Director or Acting Executive Director of the Department and the Department staff in connection with the issuance of the Bonds and the financing of the Development are hereby ratified and confirmed.

## ARTICLE III

## CERTAIN FINDINGS AND DETERMINATIONS

Section 3.1--Findings of the Board. That in accordance with Section 2306.223 of the Act, and after the Department's consideration of the information with respect to the Development and the information with respect to the proposed financing of the Development by the Department, including but not limited to the information submitted by the Borrower, independent studies commissioned by the Department, recommendations of the Department staff and such other information as it deems relevant, the Board hereby finds:

(a) Need for Housing Development.

(i) that the Development is necessary to provide needed decent, safe, and sanitary housing at rentals or prices that individuals or families of low and very low income or families of moderate income can afford,

(ii) that the Borrower will supply well-planned and well-designed housing for individuals or families of low and very low income or families of moderate income,

(iii) that the Borrower is financially responsible,

(iv) that the financing of the Development is a public purpose and will provide a public benefit, and

(v) that the Development will be undertaken within the authority granted by the Act to the housing finance division and the Borrower.

(b) Findings with Respect to the Borrower.

(i) that the Borrower, by operating the Development in accordance with the requirements of the Regulatory Agreement, will comply with applicable local building requirements and will supply well-planned and well-designed housing for individuals or families of low and very low income or families of moderate income,

(ii) that the Borrower is financially responsible and has entered into a binding commitment to repay the loan made with the proceeds of the Bonds in accordance with its terms, and

(iii) that the Borrower is not, or will not enter into a contract for the Development with, a housing developer that: (A) is on the Department's debarred list, including any parts of that list that are derived from the debarred list of the United States Department of Housing and Urban Development; (B) breached a contract with a public agency; or (C) misrepresented to a subcontractor the extent to which the developer has benefited from contracts or financial assistance that has been awarded by a public agency, including the scope of the developer's participation in contracts with the agency and the amount of financial assistance awarded to the developer by the Department.

(c) Public Purpose and Benefits.

(i) that the Borrower has agreed to operate the Development in accordance with the Financing Agreement and the Regulatory Agreement, which require, among other things, that the Development be occupied by individuals and families of low and very low income and families of moderate income, and

(ii) that the issuance of the Bonds to finance the Development is undertaken within the authority conferred by the Act and will accomplish a valid public purpose and will provide a public benefit by assisting individuals and families of low and very low income and families of moderate income in the State of Texas to obtain decent, safe, and sanitary housing by financing the costs of the Development, thereby helping to maintain a fully adequate supply of sanitary and safe dwelling accommodations at rents that such individuals and families can afford.

Section 3.2--Determination of Eligible Tenants. That the Board has determined, to the extent permitted by law and after consideration of such evidence and factors as it deems relevant, the findings of the staff of the Department, the laws applicable to the Department and the provisions of the Act, that eligible tenants for the Development shall be (1) individuals and families of low and very low income, (2) persons with special needs, and (3) families of moderate income, with the income limits as set forth in the Financing Agreement and the Regulatory Agreement.

Section 3.3--Sufficiency of Mortgage Loan Interest Rate. That the Board hereby finds and determines that the interest rate on the loan established pursuant to the Financing Agreement will produce the amounts required, together with other available funds, to pay for the Department's costs of operation with respect to the Bonds and the Development and enable the Department to meet its covenants with and responsibilities to the holders of the Bonds.

Section 3.4--No Gain Allowed. That, in accordance with Section 2306.498 of the Act, no member of the Board or employee of the Department may purchase any Bond in the secondary open market for municipal securities.

Section 3.5--Waiver of Rules. That the Board hereby waives the rules contained in Sections 33 and 39, Title 10 of the Texas Administrative Code to the extent such rules are inconsistent with the terms of this Resolution and the bond documents authorized hereunder.

## ARTICLE IV

## GENERAL PROVISIONS

Section 4.1--Limited Obligations. That the Bonds and the interest thereon shall be limited obligations of the Department payable solely from the trust estate created under the Indenture, including the revenues and funds of the Department pledged under the Indenture to secure payment of the Bonds and under no circumstances shall the Bonds be payable from any other revenues, funds, assets or income of the Department.

Section 4.2--Non-Governmental Obligations. That the Bonds shall not be and do not create or constitute in any way an obligation, a debt or a liability of the State of Texas or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State of Texas. Each Bond shall contain on its face a statement to the effect that the State of Texas is not obligated to pay the principal thereof or interest thereon and that neither the faith or credit nor the taxing power of the State of Texas is pledged, given or loaned to such payment.

Section 4.3--Effective Date. That this Resolution shall be in full force and effect from and upon its adoption.

Section 4.4--Notice of Meeting. Written notice of the date, hour and place of the meeting of the Board at which this Resolution was considered and of the subject of this Resolution was furnished to the Secretary of State and posted on the Internet for at least seven (7) days preceding the convening of such meeting; that during regular office hours a computer terminal located in a place convenient to the public in the office of the Secretary of State was provided such that the general public could view such posting; that such meeting was open to the public as required by law at all times during which this Resolution and the subject matter hereof was discussed, considered and formally acted upon, all as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended; and that written notice of the date, hour and place of the meeting of the Board and of the subject of this Resolution was published in the Texas Register at least seven (7) days preceding the convening of such meeting, as required by the Administrative Procedure and Texas Register Act, Chapters 2001 and 2002, Texas Government Code, as amended. Additionally, all of the materials in the possession of the Department relevant to the subject of this Resolution were sent to interested persons and organizations, posted on the Department's website, made available in hard-copy at the Department, and filed with the Secretary of State for publication by reference in the Texas Register not later than seven (7) days before the meeting of the Board as required by Section 2306.032, Texas Government Code, as amended.

*[Remainder of page intentionally left blank.]*

PASSED AND APPROVED this ____ day of ___________, 2005.

By: ________________________________
Elizabeth Anderson, Chair

Attest: ______________________________
Delores Groneck, Secretary

[SEAL]

EXHIBIT A

DESCRIPTION OF DEVELOPMENT

Section 1. Development and Owner.

Owner: Tower Ridge Corinth 1, Ltd., a Texas limited partnership

Development: The Development is a 224-unit multifamily facility to be known as Tower Ridge Apartments and to be located south of the southwest corner of Tower Ridge Road and Meadows Oak Drive, Corinth, Denton County, Texas 76210. The Development will include a total of 15 two-story residential apartment buildings with a total of approximately 235,328 net rentable square feet and an average unit size of approximately 1050 square feet. The unit mix will consist of:

| | |
|---|---|
| 56 | one-bedroom/one-bath units |
| 96 | two-bedroom/two-bath units |
| 72 | three-bedroom/two and one half-bath units |
| 224 | Total Units |

Unit sizes will range from approximately 868 square feet to approximately 1184 square feet.

The Development will include resident amenities consisting of a fitness room, swimming pool, designated playground area with age-appropriate equipment and a combined community center and leasing office containing a computer facilities area, and a furnished community room. All of the units include range, refrigerator, air conditioning, dishwasher, carpet, disposal, mini-blinds, wall-to-wall carpeting in the bedrooms and living areas and vinyl tile in the foyer, kitchen and bath areas.

Section 2. Development Amenities.

Development Amenities shall include:

- Washer/Dryer connections
- Storage room (outside each unit)
- Ceiling Fans in living area and all bedrooms
- 75% or greater masonry (includes rock, stone, brink, stucco, and cementious board product, excludes efis)
- Playground and equipment
- BBQ grills and tables (one each per 50 Units)

- Computers with internet access/Business Facilities
- Games Room or TV Lounge
- Workout Facilities
- Library (with equal square footage as workout facilities)

# Housing Tax Credit Program
# Board Action Request
# April 7, 2005

## Action Item

Request, review, and board determination of one (1) four percent (4%) tax credit application with TDHCA as the Issuer.

## Recommendation

Staff is recommending that the board review and approve the issuance of one (1) four percent (4%) Tax Credit Determination Notice with **TDHCA** as the Issuer for tax exempt bond transaction known as:

| Development No. | Name | Location | Issuer | Total Units | LI Units | Total Development | Applicant Proposed Tax Exempt Bond Amount | Requested Credit Allocation | Recommended Credit Allocation |
|---|---|---|---|---|---|---|---|---|---|
| 04602 | Tower Ridge Apartments | Corinth | TDHCA | 224 | 224 | $21,207,507 | $15,000,000 | $665,729 | $665,729 |

**HOUSING TAX CREDIT PROGRAM**

# 2005 HTC/TAX EXEMPT BOND DEVELOPMENT PROFILE AND BOARD SUMMARY

Texas Department of Housing and Community Affairs

Development Name: **Tower Ridge Apartments** TDHCA#: 04602

## DEVELOPMENT AND OWNER INFORMATION

| | | | | |
|---|---|---|---|---|
| Development Location: | Corinth | QCT: N | DDA: N | TTC: N |
| Development Owner: | Tower Ridge Corinth 1, Ltd. | | | |
| General Partner(s): | NDG - Tower Ridge Corinth 1, LLC., 100%, Contact: Robert G. Hoskins | | | |
| Construction Category: | New | | | |
| Set-Aside Category: | Tax Exempt Bond Bond Issuer: TDHCA | | | |
| Development Type: | General Population | | | |

**Annual Tax Credit Allocation Calculation**

Applicant Request: $665,729 Eligible Basis Amt: $681,166 Equity/Gap Amt.: $723,637

**Annual Tax Credit Allocation Recommendation: $665,729**

Total Tax Credit Allocation Over Ten Years: $ 6,657,290

## PROPERTY INFORMATION

**Unit and Building Information**

Total Units: 224 HTC Units: 224 % of HTC Units: 100

Gross Square Footage: 233,214 Net Rentable Square Footage: 229,184

Average Square Footage/Unit: 1023

Number of Buildings: 14

Currently Occupied: N

**Development Cost**

Total Cost: $21,207,507 Total Cost/Net Rentable Sq. Ft.: $92.53

**Income and Expenses**

Effective Gross Income:[1] $2,064,600 Ttl. Expenses: $924,126 Net Operating Inc.: $1,140,474

Estimated 1st Year DCR: 1.10

## DEVELOPMENT TEAM

| | | | |
|---|---|---|---|
| Consultant: | SBG Development Services, LP | Manager: | NuRock Management, Inc. |
| Attorney: | Arnall, Golden & Gregory | Architect: | GTF Designs |
| Accountant: | To Be Determined | Engineer: | Jones & Carter, Inc. |
| Market Analyst: | James Sawyer & Associates, Inc. | Lender: | JPMorgan Chase |
| Contractor: | NuRock Construction, LLC | Syndicator: | Boston Capital |

## PUBLIC COMMENT[2]

| From Citizens: | From Legislators or Local Officials: |
|---|---|
| # in Support: 1<br># in Opposition: 27 | Sen. Jane Nelson, District 12 - NC<br>Rep. Myra Crownover, District 64 - NC<br>Mayor Vic Burgess - NC<br>Karen Gandy, Director of Planning and Economic Development; City of Cornith; The City of Corinth does not have a consolidated plan.<br>Nature of Opposition includes: no public transportation, infeasibility, nature of tenants, possible tax abatement, concentration of low income housing in area, and variances requested by developer from city codes. |

1. Gross Income less Vacancy
2. NC - No comment received, O - Opposition, S - Support

## CONDITION(S) TO COMMITMENT

1. Per §49.12(c) of the Qualified Allocation Plan and Rules, all Tax Exempt Bond Development Applications "must provide an executed agreement with a qualified service provider for the provision of special supportive services that would otherwise not be available for the tenants. The provision of such services will be included in the Declaration of Land Use Restrictive Covenants ("LURA").
2. Board waiver of its QAP rule under Section 50.12 (a)(2) regarding the submission of all documentation (including the market study) at least 60 days prior to the scheduled Board meeting at which the decision to issue a determination notice would be made.
3. Acceptance by the Board of the anticipated possible redemption of up to $1,582,656 in bonds at the conversion to permanent.
4. Reeipt, review, and acceptance of documentation confirming the details of the Applicant's settlement with the City of Corinth regarding the issues of the required number of garages and parking spaces and the offsite access road.
5. Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the credit amount may be warranted.
6.
7.
8.
9.
10.
11.
12.
13.

## DEVELOPMENT'S SELECTION BY PROGRAM MANAGER & DIVISION DIRECTOR IS BASED ON:

☐ Score ☐ Utilization of Set-Aside ☐ Geographic Distrib. ☒ Tax Exempt Bond. ☐ Housing Type

Other Comments including discretionary factors (if applicable).

Robbye Meyer, Mgr. of Multifamily Finance Production Date

Brooke Boston, Dir. of Multifamily Finance Production Date

## DEVELOPMENT'S SELECTION BY EXECUTIVE AWARD AND REVIEW ADVISORY COMMITTEE IS BASED ON:

☐ Score ☐ Utilization of Set-Aside ☐ Geographic Distrib. ☒ Tax Exempt Bond ☐ Housing Type

Other Comments including discretionary factors (if applicable).

Edwina P. Carrington, Executive Director
Chairman of Executive Award and Review Advisory Committee

Date

☐ **TDHCA Board of Director's Approval and description of discretionary factors (if applicable).**

Chairperson Signature: Elizabeth Anderson,
Chairman of the Board Date

# Tower Ridge Apartments

## Estimated Sources & Uses of Funds

| Sources of Funds | |
|---|---|
| Series 2005 Tax-Exempt Bond Proceeds | $ 15,000,000 |
| Tax Credit Proceeds | 6,257,227 |
| Deferred Developer's Fee | 1,395,576 |
| Estimated Interest Earning | |
| **Total Sources** | **$ 22,652,803** |

| Uses of Funds | |
|---|---|
| Acquisition and Site Work Costs | $ 1,356,800 |
| Direct Hard Construction Costs | 12,194,251 |
| Other Construction Costs (General Require, Overhead, Profit) | 1,882,743 |
| Indirect Construction Costs | 2,821,473 |
| Developer Fees | 2,486,081 |
| Direct Bond Related | 247,600 |
| Bond Purchaser Costs | 1,312,382 |
| Other Transaction Costs | - |
| Real Estate Closing Costs | 351,473 |
| **Total Uses** | **$ 22,652,803** |

## Estimated Costs of Issuance of the Bonds

| Direct Bond Related | |
|---|---|
| TDHCA Issuance Fee (.50% of Issuance) | $ 75,000 |
| TDHCA Application Fee | 11,000 |
| TDHCA Bond Administration Fee (2 years) | 30,000 |
| TDHCA Bond Compliance Fee ($25 per unit) | 5,600 |
| TDHCA Bond Counsel and Direct Expenses (Note 1) | 75,000 |
| TDHCA Financial Advisor and Direct Expenses | 25,000 |
| Disclosure Counsel ($5k Pub. Offered, $2.5k Priv. Placed. See Note 1) | 5,000 |
| Trustee Fee | 5,000 |
| Trustee's Counsel (Note 1) | 3,500 |
| Attorney General Transcript Fee ($1,250 per series, max. of 2 series) | 1,250 |
| Texas Bond Review Board Application Fee | 5,000 |
| Texas Bond Review Board Issuance Fee (.025% of Reservation) | 3,750 |
| TEFRA Hearing Publication Expenses | 2,500 |
| **Total Direct Bond Related** | **$ 247,600** |

# Tower Ridge Apartments

| | |
|---|---|
| **Bond Purchase Costs** | |
| Underwriter's Fees (Merchant Capital) | 135,000 |
| Underwritier's Counsel | 32,500 |
| LOC (JPMorgan Chase Bank) | 318,345 |
| LOC Counsel | 43,000 |
| Credit Facility Provider (Red Stone Partners, LLC) | 362,500 |
| Credit Facility Provider Counsel | 20,000 |
| Equity Provider Counsel (Boston Capital) | 25,000 |
| Rating Agency and Printing | 15,500 |
| Interest Rate Cap | 357,037 |
| Misecclaneous expenses (DTC,CUSIP,SDF) | 3,500 |
| Borrower's Bond Counsel | |
| **Total Bond Purchase Costs** | **$ 1,312,382** |
| | |
| **Other Transaction Costs** | |
| Tax Credit Application and Determination Fees | |
| Miscellaneous | |
| **Total Other Transaction Costs** | **$ -** |
| | |
| **Real Estate Closing Costs** | |
| Title & Recording (Const.& Perm.) | 28,000 |
| Building Permits Fees | 123,473 |
| Impact Fees | 200,000 |
| **Total Real Estate Costs** | **$ 351,473** |
| | |
| **Estimated Total Costs of Issuance** | **$ 1,911,455** |

Costs of issuance of up to two percent (2%) of the principal amount of the Bonds may be paid from Bond proceeds. Costs of issuance in excess of such two percent must be paid by an equity contribution of the Borrower.

Note 1: These estimates do not include direct, out-of-pocket expenses (i.e. travel). Actual Bond Counsel and Disclosure Counsel are based on an hourly rate and the above estimate does not include on-going administrative fees.

# TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS
# MULTIFAMILY UNDERWRITING ANALYSIS

| | | | | | |
|---|---|---|---|---|---|
| **DATE:** | March 30, 2005 | **PROGRAM:** | Multifamily Bonds<br>4% HTC | **FILE NUMBER:** | 2004-048<br>04602 |

## DEVELOPMENT NAME

Tower Ridge Apartments

## APPLICANT

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Name:** | Tower Ridge Corinth 1, Ltd. | | | **Type:** | For-profit | | |
| **Address:** | 700 E. Sandy Lake Road, Suite 146 | | | **City:** | Coppell | **State:** | TX |
| **Zip:** | 75019 | **Contact:** | Robert Voelker | **Phone:** | (972) 745-0756 | **Fax:** | (972) 745-2190 |

### PRINCIPALS of the APPLICANT/ KEY PARTICIPANTS

| | | | | | |
|---|---|---|---|---|---|
| **Name:** | NDG-Tower Ridge Corinth 1, LLC | **(%):** | 0.01 | **Title:** | Managing General Partner |
| **Name:** | NuRock Development Group, Inc. | **(%):** | N/A | **Title:** | Developer |
| **Name:** | Robert Hoskins | **(%):** | N/A | **Title:** | 50% owner of MGP & Developer |
| **Name:** | Sandra Hoskins | **(%):** | N/A | **Title:** | 50% owner of MGP & Developer |
| **Name:** | Robert Sherman (SBG Development Services, L.P.) | **(%):** | N/A | **Title:** | Consultant |

## PROPERTY LOCATION

| | | | | | |
|---|---|---|---|---|---|
| **Location:** | South of the southwest corner of Tower Ridge Road & Meadows Oak Drive | | | ☐ **QCT** | ☐ **DDA** |
| **City:** | Corinth | **County:** | Denton | **Zip:** | 76210 |

## REQUEST

| **Amount** | **Interest Rate** | **Amortization** | **Term** |
|---|---|---|---|
| 1) $15,000,000 | Variable | 30 yrs | 30 yrs |
| 2) $665,729 | N/A | N/A | N/A |

**Other Requested Terms:**
1) Tax-exempt private activity mortgage revenue bonds
2) Annual ten-year allocation of housing tax credits

**Proposed Use of Funds:** New construction **Property Type:** Multifamily

**Special Purpose (s):** General population

## RECOMMENDATION

☒ RECOMMEND APPROVAL OF ISSUANCE OF $15,000,000 IN TAX-EXEMPT MORTGAGE REVENUE BONDS WITH A VARIABLE INTEREST RATE UNDERWRITTEN AT 6.43% AND A REPAYMENT TERM AND AMORTIZATION SCHEDULE OF 30 YEARS, SUBJECT TO CONDITIONS.

☒ RECOMMEND APPROVAL OF A HOUSING TAX CREDIT ALLOCATION NOT TO EXCEED $665,729 ANNUALLY FOR TEN YEARS, SUBJECT TO CONDITIONS.

**CONDITIONS**

1. Board waiver of its QAP rule under Section 49.12(a)(2) regarding the submission of all documentation (including the market study report) at least 60 days prior to the scheduled Board meeting at which the decision to issue a determination notice would be made.
2. Acceptance by the Board of the anticipated possible redemption of up to $1,582,656 in bonds at the conversion to permanent;
3. Receipt, review, and acceptance of documentation confirming the details of the Applicant's settlement with the City of Corinth regarding the issues of the required number of garages and parking spaces and the offsite access road.
4. Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the credit allocation amount may be warranted.

**REVIEW of PREVIOUS UNDERWRITING REPORTS**

The subject was submitted and underwritten earlier in the 2004 4% HTC cycle as a 240-unit development named Corinth Estates Apartments (#04413), with the bonds to be issued by the Denton County Housing Finance Corporation. The underwriting analysis recommended the project be approved subject to the following conditions:

1. Receipt, review, and acceptance of a copy of the updated title commitment showing clear title prior to the initial closing on the property;
2. Receipt, review, and acceptance of revisions to the market study to conform to the Department's market study guidelines prior to this market analyst returning to approved market analyst status for the Department (this condition is not a requirement of the Applicant);
3. Receipt, review, and acceptance of a revised cost schedule that clearly identifies the costs of demolishing the existing house on the adjacent site and construction of the stormwater detention pond, prior to cost certification; and
4. Should the terms and rates of the proposed debt or syndication change, the transaction should be re-evaluated and an adjustment to the credit amount may be warranted.

The development received an allocation of $662,566 but did not close due to a building permitting dispute with the City of Corinth. The Applicant has indicated that a settlement has been reached with the city (although the specifics are not known as of the date of this report), and the Applicant has re-applied to TDHCA for the issuance of tax-exempt bonds and the allocation of 4% tax credits.

**DEVELOPMENT SPECIFICATIONS**

**IMPROVEMENTS**

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Units:** | 224 | **# Rental Buildings** | 14 | **# Non-Res. Buildings** | 1 | **# of Floors** | 2 | **Age:** | 0 yrs | **Vacant:** | N/A at / / |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net Rentable SF:** | 229,184 | **Av Un SF:** | 1,023 | **Common Area SF:** | 4,030 | **Gross Bldg SF:** | 233,214 |

**STRUCTURAL MATERIALS**

The structures will be wood frame on concrete slabs on grade. According to the plans provided in the application the exterior will be comprised as follows: 50% brick veneer/50% cement fiber siding. The interior wall surfaces will be painted or papered drywall. The pitched roofs will be finished with composite shingles.

**APPLIANCES AND INTERIOR FEATURES**

The interior flooring will be a combination of carpeting & vinyl. Each unit will include: range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, fiberglass tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters, & cable TV.

## ONSITE AMENITIES

A 4,030-square foot community building will include: activity & media rooms, management offices, fitness facilities, kitchen, restrooms, computer/business center, swimming pool, & equipped children's play area are to be located at the entrance to the property. In addition, a sports courts and perimeter fencing with limited access gate are also planned for the site.

**Uncovered Parking:** 448 spaces **Carports:** 0 spaces **Garages:** 144 spaces

## PROPOSAL and DEVELOPMENT PLAN DESCRIPTION

**Description:** Tower Ridge Apartments is a 12.8-unit per acre new construction development of 224 units of affordable housing located in south central Corinth. The development is comprised of 14 evenly distributed, two story, medium size, garden style, walk-up residential buildings as follows:

- Seven Building Type A with eight each one-bedroom/one-bath units and three-bedroom/two-bath units;
- Five Building Type B with 16 two-bedroom/two-bath units; and
- Two Building Type C with eight each two-bedroom/two-bath units and three-bedroom/two-bath units.

**Architectural Review:** The elevations are functional and attractive, with pitched roofs and mixed brick veneer and cement fiber siding exterior wall finish. The units are accessed from interior breezeways. Half of each unit type features a patio or balcony and the other half uses the same area as an enclosed sunroom.

## SITE ISSUES

### SITE DESCRIPTION

**Size:** 17.48 acres 761,429 square feet **Zoning/ Permitted Uses:** MF-3, Multifamily District

**Flood Zone Designation:** Zone X **Status of Off-Sites:** Partially improved

### SITE and NEIGHBORHOOD CHARACTERISTICS

**Location:** Corinth is located in north Texas, approximately 32 miles northeast of downtown Fort Worth in Denton County. The site is shaped as a 16-acre rectangle with a 1.478-acre rectangularly-shaped parcel extending north from the northwest corner. The site is located in the south central area of the city, approximately one mile from the central business district. The site is situated on the west side of Tower Ridge Road.

**Adjacent Land Uses:**

- **North:** an abandoned single-family residence and outbuildings on nine acres also owned by the land seller immediately adjacent, with Meadows Oak Drive and vacant land reportedly pending development as a major retail center beyond;
- **South:** single-family residential;
- **East:** Tower Ridge Road immediately adjacent and single-family residential, a recreational vehicle park, and IH-35E beyond; and
- **West:** single-family residential.

**Site Access:** Access to the property is from the north or south from Tower Ridge Road, from which the development is to have two entries. Access to Interstate Highway 35E is one-quarter mile east, which provides connections to all other major roads serving the Metroplex.

**Public Transportation:** Public transportation is not available in Corinth.

**Shopping & Services:** The site is within 1.5 miles of a grocery/pharmacy and five miles of two regional shopping centers. A variety of other retail establishments and restaurants as well as schools, churches, and hospitals and health care facilities are located within a short driving distance from the site.

**Special Adverse Site Characteristics:** The following issues have been identified as potentially bearing on the viability of the site for the proposed development:

- **Zoning:** The city's zoning ordinance requires at least one 240-square foot enclosed garage, attached or detached, per apartment unit. The Applicant intends to construct only 144 garages and is in negotiations with the city regarding this issue. The Applicant has indicated that this issue will be on the city council agenda prior to closing, therefore, receipt, review, and acceptance of documentation verifying the resolution of this issue is a condition of this report.

**Site Inspection Findings:** TDHCA staff performed a site inspection on February 8, 2005 and found the location to be acceptable for the proposed development. The inspector noted the site is in a rural residential area with widely separated homesites and that a public elementary school is within walking distance.

## HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)

Two Phase I Environmental Site Assessment reports dated December 5, 2003 and February 20, 2004, along with an Environmental Site Assessment Update report dated January 4, 2005, were prepared by Rone Engineers, Ltd. The reports contained the following findings and recommendations: "This assessment has revealed no evidence of recognized environmental conditions in connection with the property. Based upon the results of the ESA, Rone recommends no further environmental investigation at this time."

## POPULATIONS TARGETED

**Income Set-Aside:** The Applicant has elected the 40% at 60% or less of area median gross income (AMGI) set-aside, although 100% of the units will be reserved for households earning 60% or less of AMGI.

| MAXIMUM ELIGIBLE INCOMES | | | | | | |
|---|---|---|---|---|---|---|
| | 1 Person | 2 Persons | 3 Persons | 4 Persons | 5 Persons | 6 Persons |
| 60% of AMI | $27,960 | $31,920 | $35,940 | $39,900 | $43,080 | $46,260 |

## MARKET HIGHLIGHTS

A market feasibility study dated December 31, 2004 was prepared by National Realty Consultants ("Market Analyst") and highlighted the following findings:

**Definition of Primary Market Area (PMA):** "The market area for our preliminary analysis is the "Lake Cities" (Corinth, Hickory Creek, Lake Dallas, and Shady Shores) and Denton" (p. 2). This area encompasses approximately 75 square miles and is equivalent to a circle with a radius of 4.9 miles.

**Population:** The estimated 2004 population of the PMA was 142,580 and is expected to increase by 21.6% to approximately 173,355 by 2009. Within the primary market area there were estimated to be 53,976 households in 2004.

**Total Primary Market Demand for Rental Units:** The Market Analyst calculated a total demand of 1,898 qualified households in the PMA, based on the current estimate of 53,976 households, the projected annual household growth rate of 4.5%, renter households estimated at 38.6% of the population, income-qualified households estimated at 21.9%, and an annual renter turnover rate of 35 % (p. 63). The Market Analyst used an income band of $21,943 to $41,490 (p. 62).

| ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY | | | | |
|---|---|---|---|---|
| | Market Analyst | | Underwriter | |
| Type of Demand | Units of Demand | % of Total Demand | Units of Demand | % of Total Demand |
| Household Growth | 186 | 10% | 202 | 11% |
| Resident Turnover | 1,662 | 88% | 1,662 | 89% |
| Other Sources: turnover demand from other sources | 50 | 2% | 0 | 0% |
| **TOTAL ANNUAL DEMAND** | **1,898** | **100%** | **1,864** | **100%** |

Ref: p. 63

**Inclusive Capture Rate:** The Market Analyst initially calculated an inclusive capture rate of 15.6% based upon 1,898 units of demand and 297 unstabilized affordable housing units in the PMA (the subject plus 73 unstabilized rent-restricted units in three affordable properties with occupancy levels below 90%

(Pebblebrook, Rosemont at Pecan Creek, and Autumn Oaks of Corinth (elderly))) (p. 63). The Analyst, however, failed to include the 264-unit Providence Place Apartments (#02074, fka Quail Creek), completed in July 2004, and the recently-approved 120-unit Renaissance Courts Apartments (#04151). When queried by the Underwriter regarding the failure to include these two unstabilized properties, as well as the failure to use the TDHCA inclusive capture rate formula, the Analyst included the Renaissance units as unstabilized and noted the existence of the Providence Place property but again failed to count its units as unstabilized. The Market Analyst calculated a revised inclusive capture rate of 22.1% based on 1,898 units of demand and 419 unstabilized affordable housing units. The Underwriter calculated an inclusive capture rate of 45.8% based upon 854 unstabilized comparable affordable units (the subject, Providence Place, Rosemont at Pecan Creek, and Renaissance Courts) divided by a slightly lower demand estimate of 1,864 households.

**Local Housing Authority Waiting List Information:** No information provided.

**Market Rent Comparables:** The Market Analyst surveyed 11 comparable apartment properties (five conventional and six affordable) totaling 2,476 units in the market area. Two of the affordable properties, however, are restricted to elderly tenants and are therefore of questionable comparability to a family property. "The subject property will be at the lower end of the market in regards to rental rates…The subject property will be a superior product to other properties in the market." (p. 68)

| RENT ANALYSIS (net tenant-paid rents) | | | | | |
|---|---|---|---|---|---|
| **Unit Type (% AMI)** | **Proposed** | **Program Max** | **Differential** | **Est. Market** | **Differential** |
| **1-Bedroom (60%)** | $690 | $690 | $0 | $735 | -$45 |
| **2-Bedroom (60%)** | $810 | $810 | $0 | $910 | -$100 |
| **3-Bedroom (60%)** | $920 | $920 | $0 | $1,000 | -$80 |

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

**Primary Market Occupancy Rates:** "A total of 11 [multifamily] projects have been surveyed, five of which were market projects with an average occupancy of 91% for the 1,256 units. Six of the projects offer affordable housing through either TDHCA or a HUD bond program. These projects had an average occupancy of 86% for the 1,220 units. It should be noted that several of these units are elderly housing that has recently been constructed and which are still in the lease-up stage…The five market projects within the primary market area have been at a stable occupancy level for several years, with rental rates increasing during that time. One of the projects had a new management team placed, as they went from 95% occupancy in 2003 to 85% occupancy in 2004." (p. 31).

The Underwriter used the data presented by the Market Analyst to perform the following additional analysis of occupancy among the five other family HTC properties in the market (excluding the two elderly properties):

| OCCUPANCY OF EXISTING HTC PROPERTIES | | | |
|---|---|---|---|
| **Name** | **Year Built** | **# Units** | **Occupancy** |
| Country Park (#94138) | 1996 | 120 | 91% |
| Waterford at Spencer Oaks (#96003) | 1998 | 208 | 93% |

| | | | |
|---|---|---|---|
| Pebblebrook (#98-02T) | 1999 | 250 | ***80%*** |
| Rosemont at Pecan Creek (#01409) | 2002 | 264 | ***73%*** |
| Providence Place (fka Quail Creek, #02074) | 2004 | 264 | 97% |
| **TOTAL** | | **1,106** | ***86.03%*** |

Ref: p. 41-46

Although the Analyst attributes the low occupancy at Pebblebrook to a "poor location" and at Rosemont at Pecan Creek to "mismanagement", this 86% overall occupancy rate among other apparently well-maintained affordable family housing developments in the PMA must be regarded as indicative of a soft market.

**Absorption Projections:** "…it is our opinion that the subject property's units will likely be absorbed within a 12-month period upon completion of the improvements." (p. 3)

**Known Planned Development:** "Based on our research, there are no projects currently proposed or under construction in the market area" (p. 67). The Analyst subsequently acknowledged in an addendum dated February 15, 2005 that the Renaissance Courts Apartments are proposed units.

**Effect on Existing Housing Stock:** "The high occupancy rates of existing product, the rate of growth in the market, and pent-up demand indicates that there will be minimal impact on the existing market area." (p. 3)

**Market Study Analysis/Conclusions:** The market study does not meet the requirements of the Department's Market Study Policy and does not provide sufficient information to support a funding recommendation. Specifically, the Market Analyst did not use the TDHCA definition of unstabilized units in calculating the inclusive capture rate, and failed to include two unstabilized developments in the calculation.

In response to the Underwriter's concerns with the original market study report, a second market feasibility study dated March 14, 2005 was prepared by Apartment MarketData Research Services, LLC ("Second Market Analyst") and highlighted the following findings:

**Definition of Revised Primary Market Area (Revised PMA):** "For this analysis we defined the primary market area as a custom trade area as represented by the [trade area] map. This trade area map was developed by analyzing the average commute times to and from the subject project. The trade area is based on a 15-minute commute using 25 mph for local roads, 40 mph for arterial roads, and 55 mph for freeways. This area was utilized as it was felt that the drive times defined the housing needs and the demographic data applicable to the existing supply and demand factors for affordable housing…The population of the primary trade area exceeds the TDHCA's guideline of 100,000, but is less than the maximum population of 250,000. This larger population was used due to the concentration of the population within the cities of Corinth and Lewisville. The proximity of the site in relationship to all other areas within the cities of Corinth and Lewisville justifies the use of this area as the primary trade area. At the same time the trade area is not exclusionary and residents will also be drawn from outside the primary trade area" (p. 27). This area encompasses approximately 108 square miles and is equivalent to a circle with a radius of 5.9 miles.

**Population:** The estimated 2004 population of the Revised PMA was 174,913 and is expected to increase by 23.5% to approximately 215,953 by 2009. Within the Revised PMA there were estimated to be 64,086 households in 2004.

**Total Primary Market Demand for Rental Units:** The Second Market Analyst calculated a total demand of 3,126 qualified households in the Revised PMA, based on the current estimate of 64,086 households, the projected annual household growth rate of 4.9%, renter households estimated at 46.9% of the population, income-qualified households estimated at 15.19%, and an annual renter turnover rate of 63.6% (p. 46). The Second Market Analyst used an income band of $25,611 to $43,080 (p. 40). The Second Market Analyst's renter tenure of 46.9% is the American Housing Survey's *statewide average*; the Underwriter has used the figure of 29% provided in the report for the total population in the Revised PMA.

**ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY *(2ND ANALYST)***

| | Second Market Analyst | | Underwriter | |
|---|---|---|---|---|
| **Type of Demand** | **Units of Demand** | **% of Total Demand** | **Units of Demand** | **% of Total Demand** |
| Household Growth | 222 | 7% | 135 | 7% |
| Resident Turnover | 2,904 | 93% | 1,883 | 93% |
| Other Sources: | 0 | 0% | 0 | 0% |
| **TOTAL ANNUAL DEMAND** | **3,126** | **100%** | **2,018** | **100%** |

Ref: p. 46

**Inclusive Capture Rate:** The Second Market Analyst calculated an inclusive capture rate of 7.17% based upon 3,126 units of demand and 224 unstabilized affordable housing units in the Revised PMA (the subject) (p. 47). The Underwriter has calculated an inclusive capture rate of 11.1% based upon a lower demand estimate of 2,018 households. In light of the Revised PMA's population of approximately 175,000, significantly in excess of the TDHCA maximum guideline of 100,000, the Underwriter performed a second analysis with the population reduced by 50% and the inclusive capture rate remained less than 25%.

**Local Housing Authority Waiting List Information:** No information provided.

**Market Rent Comparables:** The Second Market Analyst surveyed 11 comparable apartment properties (five conventional and six affordable) totaling 2,331 units in the market area. "Tower Ridge Apartments, in comparison to its proposed competition, is well positioned in regards to unit types, sizes, and rental rates. The 'base rent' (street asking rate) for each unit type is significantly lower than other comparable projects. It is thus identified as affordable when compared to the overall market. Additionally, the subject property would be substantially newer than many of the competing projects, and because it would be much moiré desirable to prospective renters, it would have a much greater perceived value in the eyes of prospective renters who would be comparing it with existing competitors." (p. 78)

| **RENT ANALYSIS (net tenant-paid rents) *(2ND ANALYST)*** | | | | | |
|---|---|---|---|---|---|
| **Unit Type (% AMI)** | **Proposed** | **Program Max** | **Differential** | **Est. Market** | **Differential** |
| **1-Bedroom (60%)** | $690 | $690 | $0 | $723 | -$33 |
| **2-Bedroom (60%)** | $810 | $810 | $0 | $865 | -$55 |
| **3-Bedroom (60%)** | $920 | $920 | $0 | $1,075 | -$155 |

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent =$500, program max =$600, differential = -$100)

**Primary Market Occupancy Rates:**

- "The current occupancy of the market area is 93.3%" (p. 81)
- "Apartment MarketData surveyed the six LIHTC family projects within the PMA totaling 982 income-restricted units. All of the existing LIHTC projects were constructed prior to 2000 and four of the six were built prior to 1990…The occupancy rate for the income-restricted one-bedrooms is 92.3%, for income-restricted two-bedrooms it is 85.1%, the occupancy for the income-restricted three-bedrooms is 82.9%, and the overall average occupancy for income-restricted units is 86.2%. Three of the income-restricted projects report occupancy in excess of 94%. The other three are experiencing lower occupancy due to several factors, including management problems, poor physical condition, and competition from new market rate lease-up projects offering move-in specials and concessions. Since most of the existing affordable projects were constructed prior to 1990, they do not offer the same quality and amenities offered by newer projects in the area. As a result, many residents choose to live in newer market rate projects when lease-up concessions are being offered, making them more affordable. As these new projects stabilize, concessions are phased out, making these newer units more expensive and forcing many residents to seek more affordable housing. Apartment MarketData conducted an analysis of some 1,349 conventional (market rate) [in five family projects] within the primary trade area. These projects

were all built from 2000 to 2003. The reported occupancy rate for these projects was 95.2%" (p. 85).

| OCCUPANCY OF EXISTING HTC PROPERTIES (2ND *ANALYST*) | | | |
|---|---|---|---|
| **Name** | **Year Built** | **# Units** | **Occupancy** |
| St. Charles (Lewisville #70027) | 1990 | 126 | 95% |
| Ashley Village (Lake Dallas, #92011) | 1992 | 184 | ***73%*** |
| Valley Ridge (Lewisville, #93076) | 1993 | 192 | ***76%*** |
| Oak Tree Village (Lewisville, #93108) | 1993 | 272 | 94% |
| Tuscany at Lakepointe (Lewisville, #97010T) | 1997 | 168 | ***89%*** |
| Shady Shores (Lake Dallas, #97078) | 1997 | 40 | 100% |
| **TOTAL** | | **982** | ***86.06%*** |

Ref: p. 79

The Underwriter learned from Valley Ridge management that the property had been at approximately 93% occupancy one year ago and that the current low occupancy was due to a significant number of recent evictions, combined with the recent openings of two nearby market rate properties. The Tuscany at Lakepointe property has been under operation by a financial institution following removal of the original general partner; if these two properties are excluded, the overall affordable occupancy rate increases to 88.4%, and if the poorly maintained Ashley Village property is excluded the rate improves further to 94.8%. This analysis suggests that, although vacancy concerns exist, the occupancy rate for well maintained and operated affordable developments is strong.

**Absorption Projections:** "We estimate that the project would achieve a lease rate of approximately 7% to 10% of its units per month as they come on line for occupancy from construction [resulting in a 12-month lease-up period]." (p. 78)

**Known Planned Development:** The report listed four market rate properties in lease-up totaling 1,084 units and another 230-unit property under construction. (p. 55)

**Effect on Existing Housing Stock:** "The subject should not have a detrimental effect on any existing projects, as occupancies are strong throughout the trade area." (p. 79)

**Market Study Analysis/Conclusions:** The Underwriter found the market study provided sufficient information on which to base a funding recommendation.

## OPERATING PROFORMA ANALYSIS

**Income:** The Applicant's rent projections are the maximum rents allowed under HTC program guidelines, and are achievable according to the Market Analyst. The Applicant's initial secondary income estimate of $15/unit/month was in line with TDHCA underwriting guidelines, but the Applicant utilized a vacancy and collection loss rate of 8% which is slightly higher than the TDHCA underwriting guideline of 7.5%. As a result of this difference the Applicant's initial effective gross income estimate was $11,160 less than the Underwriter's estimate. However, in an effort to increase estimated net operating income and debt service capacity, the Applicant on March 28 provided a revised secondary income estimate of $100.87/unit/month. As substantiation the Applicant provided operating statements from three affordable properties located in Georgia and Florida which evidenced secondary income of $79-$110/unit/month, but the Underwriter has used a secondary income estimate of $15 based on comparable properties in this region. Therefore, the Applicant's effective gross income estimate exceeds the underwriter's by $201,180 or 9.7%.

**Expenses:** The Applicant's total expense estimate of $3,877 per unit is 6% lower than the Underwriter's database-derived estimate of $4,126 per unit for comparably-sized developments in this area. The Applicant's budget shows several line item estimates that deviate significantly when compared to the database averages, particularly general and administrative ($17.4K lower), payroll ($18.6K lower), utilities ($25.8K lower), and water, sewer, and trash ($17.6K lower). The Underwriter discussed these differences with the Applicant but was unable to reconcile them even with additional information provided by the Applicant.

**Debt Service:** The Underwriter's anticipated annual debt service amount of $1,129,449 is significantly ($164,949) larger than the Applicant's estimate of $964,500; this is discussed in the "Financing Structure Analysis" section below.

**Conclusion:** The Applicant's income and total operating expense estimates are inconsistent with the Underwriter's expectations and the Applicant's estimated net operating income (NOI) is not within 5% of the Underwriter's estimate. Therefore, the Underwriter's NOI will be used to evaluate debt service capacity. As the permanent lender's commitment includes a permanent takeout sizing restriction based on NOI, there are two potential limitations on debt service for this development:

- The permanent lender (Redstone Partners, LLC) has indicated that the permanent takeout will be sized at the NOI divided by 8.5%. Using the Underwriter's NOI estimate a maximum takeout amount of $13,417,343 is calculated, and the Underwriter has therefore completed this analysis assuming a comparable likely redemption of the bond amount.
- Due to the differences in income, operating expense, and debt service estimates, the Underwriter's estimated debt coverage ratio (DCR) of 1.01 is less than the TDHCA minimum standard of 1.10. Therefore, if the NOI cap discussed above is not implemented, the maximum debt service for this project should be limited to $1,036,670 by a mandatory redemption of the bond amount and/or a reduction in the interest rate. This would require a redemption of a portion of the bond amount resulting in a final anticipated bond amount of $13,767,820 or a potential redemption of $1,582,656.

## ACQUISITION VALUATION INFORMATION

### ASSESSED VALUE

| | | | |
|---|---|---|---|
| **Land: 26.0 acres** | $738,400 | **Assessment for the Year of:** | 2004 |
| **Per Acre:** | $28,400 | **Valuation by:** | Denton County Appraisal District |
| **Total Value, 17.48 acres:** | $496,432 | **Tax Rate:** | 2.61042 |

### EVIDENCE of SITE or PROPERTY CONTROL

| | | | |
|---|---|---|---|
| **Type of Site Control:** | Standard contract for sale and purchase with 2 amendments (17.5 acres) | | |
| **Contract Expiration Date:** | 9/ 15/ 2005 | **Anticipated Closing Date:** | 6/ 15/ 2005 |
| **Acquisition Cost:** | $1,295,888 | **Other Terms/Conditions:** | $5K earnest money + $25K deposit, other conditions discussed below |
| **Seller:** | Estate of Virgil T. Griffith | **Related to Development Team Member:** | No |

## CONSTRUCTION COST ESTIMATE EVALUATION

**Acquisition Value:** The site cost of $1,295,888 ($1.70/SF, $74,144/acre, or $5,400/unit), although over three times the tax assessed value, is assumed to be reasonable since the acquisition is an arm's-length transaction. The original purchase contract is for 15.0 acres at $1.9833 per net square foot; an amendment adds an additional 2.478 acres at no additional cost if the Applicant fulfills the following conditions:

- Constructs a stormwater detention pond on the added acreage, adjacent to the seller's retained land, sufficient to accommodate drainage from both tracts.
- Fills an existing pond on the seller's retained land with the soil excavated during construction of the detention pond.

If these "pond conditions" are not met the additional 2.478 acres would be sold to the Applicant at the same price of $1.9833/NSF, resulting in an increase of $214,081. The amendment also requires the Applicant to demolish and remove an existing house on the seller's retained land.

**Offsite Costs:** The Applicant is in negotiations with the City of Corinth regarding the city's requirement that the Applicant improve an offsite access road. These costs are not included in the application and if the Applicant is required to perform this work the construction costs and funding requirement would increase. Therefore, receipt, review, and acceptance of documentation verifying the resolution of this issue is a condition of this report.

**Sitework Cost:** The Applicant's claimed sitework costs of $5,804 per unit are considered reasonable compared to historical sitework costs for multifamily developments.

**Direct Construction Cost:** The Applicant's direct construction cost estimate is $39K or 0.4% lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate, and is therefore regarded as reasonable as submitted. However, the Applicant is in negotiations with the City of Corinth regarding the city's requirement that the Applicant, in compliance with zoning requirements, provide one enclosed garage per unit. As the current application includes only 144 garages, the costs of constructing the additional 80 garages are not included in the application and if the Applicant is required to perform this work the construction costs and funding requirement would increase. Therefore, receipt, review, and acceptance of documentation verifying the resolution of this issue is a condition of this report.

**Fees:** The Applicant's contractor's and developer's fees for general requirements, contractor general and administrative fees, and profit are all within the maximums allowed by TDHCA guidelines.

**Conclusion:** The Applicant's total development cost estimate is within 5% of the Underwriter's verifiable estimate and is therefore generally acceptable. Since the Underwriter has been able to verify the Applicant's projected costs to a reasonable margin, the Applicant's total cost breakdown, as adjusted by the Underwriter, is used to calculate eligible basis and determine the HTC allocation. As a result, an eligible basis of $19,296,487 is used to estimate a credit allocation of $681,166 from this method. The resulting syndication proceeds will be used to compare to the Applicant's request and to the gap of need using the Applicant's costs to determine the recommended credit amount.

## FINANCING STRUCTURE

### INTERIM CONSTRUCTION FINANCING

**Source:** JPMorgan Chase **Contact:** Linda McMahon

**Principal Amount:** Up to $3,746,782 **Interest Rate:** LIBOR + 2.5%

**Additional Information:** Bridge loan, interest-only payments

**Amortization:** N/A yrs **Term:** 16 mos **Commitment:** ☐ LOI ☐ Firm ☒ Conditional

**INTERIM CREDIT ENHANCEMENT**

**Source:** JPMorgan Chase **Contact:** Linda McMahon

**Principal Amount:** $15,110,959* **Annual Fee:** 1% of face amount

**Additional Information:** Standby letter of credit (*inclusive of 45 days interest)

**Amortization:** N/A yrs **Term:** 16 mos **Commitment:** ☐ LOI ☐ Firm ☒ Conditional

**PERMANENT CREDIT ENHANCEMENT**

**Source:** Redstone Partners, LLC **Contact:** Davin Vounasis

**Principal Amount:** $15,000,000 **Interest Rate:** Variable

**Additional Information:** Commitment reflects 8.5% NOI cap on takeout & sinking fund amortization based on 9% rate

**Amortization:** 40 yrs **Term:** 15 yrs **Commitment:** ☐ LOI ☐ Firm ☒ Conditional

**Annual Payment:** TBD **Lien Priority:** 1st **Date:** 2/ 14/ 2005

**TAX CREDIT SYNDICATION**

**Source:** Boston Capital **Contact:** Scott Arrighi

**Net Proceeds:** $6,227,498 **Net Syndication Rate (per $1.00 of 10-yr HTC)** 94¢

**Commitment:** ☐ LOI ☐ Firm ☒ Conditional **Date:** 2/ 16/ 2005

**Additional Information:** Based on allocation of $662,566

**APPLICANT EQUITY**

**Amount:** $574,008 **Source:** Deferred developer fee

**FINANCING STRUCTURE ANALYSIS**

**Interim to Permanent Bond Financing:** The tax-exempt bonds are to be issued by TDHCA and purchased by Redstone Partners, LLC, a subsidiary of Prudential Mortgage Capital Company, LLC or an acceptable alternative provided by Redstone. A letter dated December 14, 2004 from Merchant Capital, LLC, the bond underwriter, does not describe the terms of the acquisition other than to identify that the bonds will be issued with a variable interest rate and for a term of not less than 30 years. The only mention of the anticipated interest rate is that it will be determined weekly by Merchant Capital, LLC, although an earlier Merchant Capital letter dated October 4, 2004 provided an estimated built-up, all-in underwriting rate of 6.43%. This rate is explained as a rate of 5.75% used to determine the interest component and a debt service constant of 0.68% used to compute the principal component. The debt service constant is said to be based upon the principal payment on a $15M loan at 9.5% over 40 years. This back end loading of principal repayment results in a lower constant than a 30-year 6.43% fixed rate amortization structure. The resulting annual debt service amount computed using this debt service constant method is $964,500, which has been used by the Applicant. The Applicant has indicated an intention to purchase an interest rate cap of 6% and escrow funds for follow-on caps. The Underwriter has performed two analyses to test the feasibility of this financing structure.

- First, the all-in rate of 6.43% was used as a worst case simulated fixed rate (including fees), which yields an annual debt service amount of $1,129,449. Due to the Underwriter's lower NOI estimate, this yields an unacceptably low DCR of 1.01, which would require reducing the debt amount to approximately $13.4M at conversion to permanent. In a previous transaction similar to this the Department required the difference in bonds to be placed in reserve until takeout occurred.
- Second, the Underwriter was provided with a draft sinking fund payment schedule which starts out at $100K in years 1-8 and increases periodically in increments of $100K to $800K in years 25-29, with a balloon payment of $4.1M in year 30. This yields a much higher DCR over 1.5 initially but in the later years this DCR is projected to decline but still remain acceptable. These minimum principal payments should be fixed to occur under the bond documents as a minimum principal reduction strategy. A higher

principal repayment structure would also be acceptable.

The draft reimbursement agreement requires the Applicant, starting in 2008, to place funds into a reimbursement account in amounts sufficient to cover the debt service as specified in the amortization schedule, as recommended above.

JPMorgan Chase will provide interim credit enhancement for 30 months in the form of an irrevocable standby letter of credit, and will also provide a bridge loan of up to $3,746,782, to be repaid by the second equity installment. While JPMorgan Chase will technically keep any bonds that are not taken out by Redstone or its successor, the General Partner will in essence guarantee to take out and fund any shortage by deferral of developer fee.

Redstone Partners, LLC will provide permanent takeout credit enhancement with a direct pay letter of credit or bank liquidity facility. The takeout commitment reflects that the maximum takeout amount will be sized at the NOI at the time of takeout divided by 8.5%. The Underwriter's estimate of this takeout amount is $13,417,343, or $1.6M less than the initial bond amount. In addition, the takeout commitment reflects a sinking fund amortization based upon a 9% rate (increased to 9.5% on later documents), to establish the minimum principal redemption amount.

The Underwriter has learned that it is intended to offer the transaction to Fannie Mae at successful conversion to permanent but no documentation was provided to confirm this.

**HTC Syndication:** The tax credit syndication commitment is consistent with the terms reflected in the sources and uses of funds listed in the application.

**Deferred Developer's Fees:** The Applicant's proposed deferred developer's fees of $574,008 amount to approximately 24% of the total fees.

**Financing Conclusions:** Based on the Applicant's adjusted estimate of eligible basis, the HTC allocation would not exceed $681,166 annually for ten years, resulting in syndication proceeds of approximately $6,402,320. However, due to the Applicant's use of an applicable percentage of 3.45% instead of the underwriting rate of 3.53% used for applications submitted in November 2004, the Applicant's request of $665,729 will determine the recommended allocation. Due to the difference in estimated net operating income, the Underwriter's debt coverage ratio (DCR) of 1.01 is less than the TDHCA minimum standard of 1.10. Therefore, the Underwriter anticipates that permanent debt may be reduced to approximately $13,767,820 by a mandatory redemption of bonds, or even further to approximately $13,417,343 due to the permanent lender's NOI cap takeout sizing. If the full amount of the permanent debt is converted, the required deferral of developer fee would be reduced to $544,280, which represents approximately 23% of the total eligible fee and which would be repayable within four years. However, if the bond amount were reduced by the 1.10 DCR limitation to $13,767,820, the Applicant's deferred developer fee would need to be increased to $1,776,460, which would amount to approximately 73% of the total fee and which should be repayable within five years. Finally, if the bond amount is limited to $13,417,343 by the permanent lender's NOI cap, the fee deferral requirement would increase to $2,126,937 or 88% of the total fee. This amount is expected to be repayable within ten years.

## DEVELOPMENT TEAM

### IDENTITIES of INTEREST

The Applicant, Developer, General Contractor, Property Manager, and supportive services firm are all related entities. These are common relationships for HTC-funded developments.

### APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE

**Financial Highlights:**

- The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and therefore have no material financial statements.
- The Developer, NuRock Development Group, Inc., submitted an unaudited financial statement as of December 31, 2004 reporting total assets of $23.2M and consisting of $3.6M in cash and $19.6M in receivables. Liabilities totaled $18.5K, resulting in a net worth of $23.1M.
- The principals of the General Partner and the Developer, Robert and Sandra Hoskins, submitted an

unaudited financial statement as of December 1, 2004 and are anticipated to be guarantors of the development.

**Background & Experience:** Multifamily Production Finance Staff have verified that the Department's experience requirements have been met and Portfolio Management and Compliance staff will ensure that the proposed owners have an acceptable record of previous participation.

## SUMMARY OF SALIENT RISKS AND ISSUES

- Specifics of the Applicant's legal settlement with the City of Corinth regarding access road and garage requirements are not known and may require additional development costs not considered in this analysis.
- The Applicant's estimated income, operating expenses, and operating proforma are more than 5% outside of the Underwriter's verifiable ranges.
- Significant inconsistencies in the application could affect the financial feasibility of the development.
- The development could potentially achieve an excessive profit level (i.e., a DCR above 1.30) if the Applicant's proposed financing structure is used.
- The significant financing structure changes being proposed have not been reviewed/accepted by the Applicant, lenders, and syndicators, and acceptable alternative structures may exist.

| | | | |
|---|---|---|---|
| **Underwriter:** | *Jim Anderson* | **Date:** | March 30, 2005 |
| **Director of Real Estate Analysis:** | *Tom Gouris* | **Date:** | March 30 , 2005 |

# MULTIFAMILY COMPARATIVE ANALYSIS

***Tower Ridge Apartments, Corinth, MFB #2004-048/4% HTC #04602***

| Type of Unit | Number | Bedrooms | No. of Baths | Size in SF | Gross Rent Lmt. | Net Rent per Unit | Rent per Month | Rent per SF | Tnt-Pd Util | Wtr, Swr, Trsh |
|---|---|---|---|---|---|---|---|---|---|---|
| TC 60% | 56 | 1 | 1 | 850 | $748 | $690 | $38,640 | $0.81 | $57.64 | $47.06 |
| TC 60% | 96 | 2 | 2 | 1,029 | 898 | $810 | 77,760 | 0.79 | 88.29 | 65.28 |
| TC 60% | 72 | 3 | 2 | 1,150 | 1,037 | $920 | 66,240 | 0.80 | 116.95 | 73.64 |
| **TOTAL:** | 224 | | **AVERAGE:** | 1,023 | $905 | $815 | $182,640 | $0.80 | $89.84 | $63.41 |

| **INCOME** | | | **TDHCA** | **APPLICANT** | | |
|---|---|---|---|---|---|---|
| Total Net Rentable Sq Ft: 229,184 | | | | | Comptroller's Region | 3 |
| POTENTIAL GROSS RENT | | | $2,191,680 | $2,191,680 | IREM Region | Dallas |
| Secondary Income | Per Unit Per Month: | $15.00 | 40,320 | 271,128 | $100.87 | Per Unit Per Month |
| Other Support Income: | | | 0 | 0 | | |
| POTENTIAL GROSS INCOME | | | $2,232,000 | $2,462,808 | | |
| Vacancy & Collection Loss | % of Potential Gross Income: | -7.50% | (167,400) | (197,028) | -8.00% | of Potential Gross Rent |
| Employee or Other Non-Rental Units or Concessions | | | 0 | 0 | | |
| EFFECTIVE GROSS INCOME | | | $2,064,600 | $2,265,780 | | |

| **EXPENSES** | | % OF EGI | PER UNIT | PER SQ FT | TDHCA | APPLICANT | PER SQ FT | PER UNIT | % OF EGI |
|---|---|---|---|---|---|---|---|---|---|
| General & Administrative | | 4.43% | $408 | 0.40 | $91,390 | $74,000 | $0.32 | $330 | 3.27% |
| Management | | 5.00% | 461 | 0.45 | 103,230 | 111,928 | 0.49 | 500 | 4.94% |
| Payroll & Payroll Tax | | 10.36% | 954 | 0.93 | 213,790 | 195,208 | 0.85 | 871 | 8.62% |
| Repairs & Maintenance | | 3.84% | 354 | 0.35 | 79,319 | 75,200 | 0.33 | 336 | 3.32% |
| Utilities | | 1.98% | 182 | 0.18 | 40,838 | 15,000 | 0.07 | 67 | 0.66% |
| Water, Sewer, & Trash | | 4.14% | 382 | 0.37 | 85,563 | 67,913 | 0.30 | 303 | 3.00% |
| Property Insurance | | 2.78% | 256 | 0.25 | 57,296 | 59,908 | 0.26 | 267 | 2.64% |
| Property Tax | 2.61042 | 8.50% | 783 | 0.77 | 175,420 | 183,641 | 0.80 | 820 | 8.10% |
| Reserve for Replacements | | 2.17% | 200 | 0.20 | 44,800 | 44,809 | 0.20 | 200 | 1.98% |
| Other: spt svcs, compl fees | | 1.57% | 145 | 0.14 | 32,480 | 40,880 | 0.18 | 183 | 1.80% |
| TOTAL EXPENSES | | 44.76% | $4,126 | $4.03 | $924,126 | $868,487 | $3.79 | $3,877 | 38.33% |
| NET OPERATING INC | | 55.24% | $5,091 | $4.98 | $1,140,474 | $1,397,293 | $6.10 | $6,238 | 61.67% |
| **DEBT SERVICE** | | | | | | | | | |
| Bonds Based on Redstone NOI Cap | | 54.71% | $5,042 | $4.93 | $1,129,449 | $964,500 | $4.21 | $4,306 | 42.57% |
| Potential Bond Redemption | | 0.00% | $0 | $0.00 | 0 | 0 | $0.00 | $0 | 0.00% |
| Additional Financing | | 0.00% | $0 | $0.00 | 0 | 0 | $0.00 | $0 | 0.00% |
| NET CASH FLOW | | 0.53% | $49 | $0.05 | $11,025 | $432,793 | $1.89 | $1,932 | 19.10% |
| AGGREGATE DEBT COVERAGE RATIO | | | | | 1.01 | 1.45 | | | |
| RECOMMENDED DEBT COVERAGE RATIO | | | | | 1.10 | | | | |

**CONSTRUCTION COST**

| Description | Factor | % of TOTAL | PER UNIT | PER SQ FT | TDHCA | APPLICANT | PER SQ FT | PER UNIT | % of TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Acquisition Cost (site or bldg) | | 5.87% | $5,785 | $5.65 | $1,295,888 | $1,295,888 | $5.65 | $5,785 | 5.94% |
| Off-Sites | | 0.00% | 0 | 0.00 | 0 | 0 | 0.00 | 0 | 0.00% |
| Sitework | | 5.89% | 5,804 | 5.67 | 1,300,119 | 1,300,119 | 5.67 | 5,804 | 5.96% |
| Direct Construction | | 49.56% | 48,839 | 47.73 | 10,939,977 | 10,901,046 | 47.56 | 48,665 | 50.00% |
| Contingency | 4.78% | 2.65% | 2,610 | 2.55 | 584,554 | 584,554 | 2.55 | 2,610 | 2.68% |
| General Req'ts | 5.75% | 3.19% | 3,140 | 3.07 | 703,360 | 703,360 | 3.07 | 3,140 | 3.23% |
| Contractor's G & A | 1.92% | 1.06% | 1,047 | 1.02 | 234,453 | 234,453 | 1.02 | 1,047 | 1.08% |
| Contractor's Profit | 5.75% | 3.19% | 3,140 | 3.07 | 703,360 | 703,360 | 3.07 | 3,140 | 3.23% |
| Indirect Construction | | 3.37% | 3,324 | 3.25 | 744,553 | 744,553 | 3.25 | 3,324 | 3.42% |
| Ineligible Costs | | 4.41% | 4,347 | 4.25 | 973,806 | 973,806 | 4.25 | 4,347 | 4.47% |
| Developer's G & A | 1.30% | 0.99% | 980 | 0.96 | 219,442 | 0 | 0.00 | 0 | 0.00% |
| Developer's Profit | 13.00% | 9.96% | 9,818 | 9.60 | 2,199,183 | 2,418,625 | 10.55 | 10,797 | 11.09% |
| Interim Financing | | 7.73% | 7,618 | 7.45 | 1,706,417 | 1,706,417 | 7.45 | 7,618 | 7.83% |
| Reserves | | 2.12% | 2,090 | 2.04 | 468,266 | 235,326 | 1.03 | 1,051 | 1.08% |
| TOTAL COST | | 100.00% | $98,542 | $96.31 | $22,073,378 | $21,801,507 | $95.13 | $97,328 | 100.00% |
| ***Recap-Hard Construction Costs*** | | *65.54%* | ***$64,580*** | ***$63.12*** | ***$14,465,823*** | ***$14,426,892*** | ***$62.95*** | ***$64,406*** | *66.17%* |

| **SOURCES OF FUNDS** | | | | | | RECOMMENDED | |
|---|---|---|---|---|---|---|---|
| Bonds Based on Redstone NOI Cap | 67.96% | $66,964 | $65.45 | $15,000,000 | $15,000,000 | $13,417,343 | Developer Fee Available |
| Add'l Bonds Based on NOI Capacity | 0.00% | $0 | $0.00 | $0 | $0 | $350,476 | |
| Potential Bond Redemption | 0.00% | $0 | $0.00 | 0 | 0 | 1,232,180 | $2,418,625 |
| HTC Syndication Proceeds | 28.21% | $27,801 | $27.17 | 6,227,498 | 6,227,498 | 6,257,227 | % of Dev. Fee Deferred |
| Deferred Developer Fees | 2.60% | $2,563 | $2.50 | 574,008 | 574,008 | 544,280 | 23% |
| Additional (Excess) Funds Req'd | 1.23% | $1,214 | $1.19 | 271,872 | 1 | 0 | 15-Yr Cumulative Cash Flow |
| TOTAL SOURCES | | | | $22,073,378 | $21,801,507 | $21,801,507 | $4,351,732 |

## MULTIFAMILY COMPARATIVE ANALYSIS (continued)

***Tower Ridge Apartments, Corinth, MFB #2004-048/4% HTC #04602***

### DIRECT CONSTRUCTION COST ESTIMATE

Residential Cost Handbook

Average Quality Multiple Residence Basis

| CATEGORY | FACTOR | UNITS/SQ FT | PER SF | AMOUNT |
|---|---|---|---|---|
| Base Cost | | | $43.47 | $9,962,770 |
| Adjustments | | | | |
| Exterior Wall Finish | 4.00% | | $1.74 | $398,511 |
| 9-Ft. Ceilings | 3.50% | | 1.52 | 348,697 |
| Roofing | | | 0.00 | 0 |
| Subfloor | | | (1.02) | (232,622) |
| Floor Cover | | | 2.00 | 458,368 |
| Porches/Balconies | $20.86 | 15,092 | 1.37 | 314,819 |
| Plumbing | $605 | 504 | 1.33 | 304,920 |
| Built-In Appliances | $1,650 | 224 | 1.61 | 369,600 |
| Stairs | $1,475 | 56 | 0.36 | 82,600 |
| Breezeways | $20.86 | 19,712 | 1.79 | 411,192 |
| Heating/Cooling | | | 1.53 | 350,652 |
| Garages | $13.05 | 34,560 | 1.97 | 450,835 |
| Comm &/or Aux Bldgs | $61.64 | 4,030 | 1.08 | 248,389 |
| Other: | | | 0.00 | 0 |
| SUBTOTAL | | | 58.77 | 13,468,731 |
| Current Cost Multiplier | 1.11 | | 6.46 | 1,481,560 |
| Local Multiplier | 0.89 | | (6.46) | (1,481,560) |
| TOTAL DIRECT CONSTRUCTION COSTS | | | $58.77 | $13,468,731 |
| Plans, specs, survy, bld prm | 3.90% | | ($2.29) | ($525,281) |
| Interim Construction Interest | 3.38% | | (1.98) | (454,570) |
| Contractor's OH & Profit | 11.50% | | (6.76) | (1,548,904) |
| NET DIRECT CONSTRUCTION COSTS | | | $47.73 | $10,939,977 |

### PAYMENT COMPUTATION

| | | | |
|---|---|---|---|
| Primary | $15,000,000 | Term | 360 |
| Int Rate | 6.430% | DCR | 1.01 |

| | | | |
|---|---|---|---|
| Secondary | $0 | Term | |
| Int Rate | 0.00% | Subtotal DCR | 1.01 |

| | | | |
|---|---|---|---|
| Additional | $6,227,498 | Term | |
| Int Rate | | Aggregate DCR | 1.01 |

### RECOMMENDED FINANCING STRUCTURE:

| | |
|---|---|
| Primary Debt Service | $1,036,670 |
| Secondary Debt Service | 0 |
| Additional Debt Service | 0 |
| NET CASH FLOW | $103,804 |

| | | | |
|---|---|---|---|
| Primary | $13,767,820 | Term | 360 |
| Int Rate | 6.43% | DCR | 1.10 |

| | | | |
|---|---|---|---|
| Secondary | $0 | Term | 0 |
| Int Rate | 0.00% | Subtotal DCR | 1.10 |

| | | | |
|---|---|---|---|
| Additional | $6,227,498 | Term | 0 |
| Int Rate | 0.00% | Aggregate DCR | 1.10 |

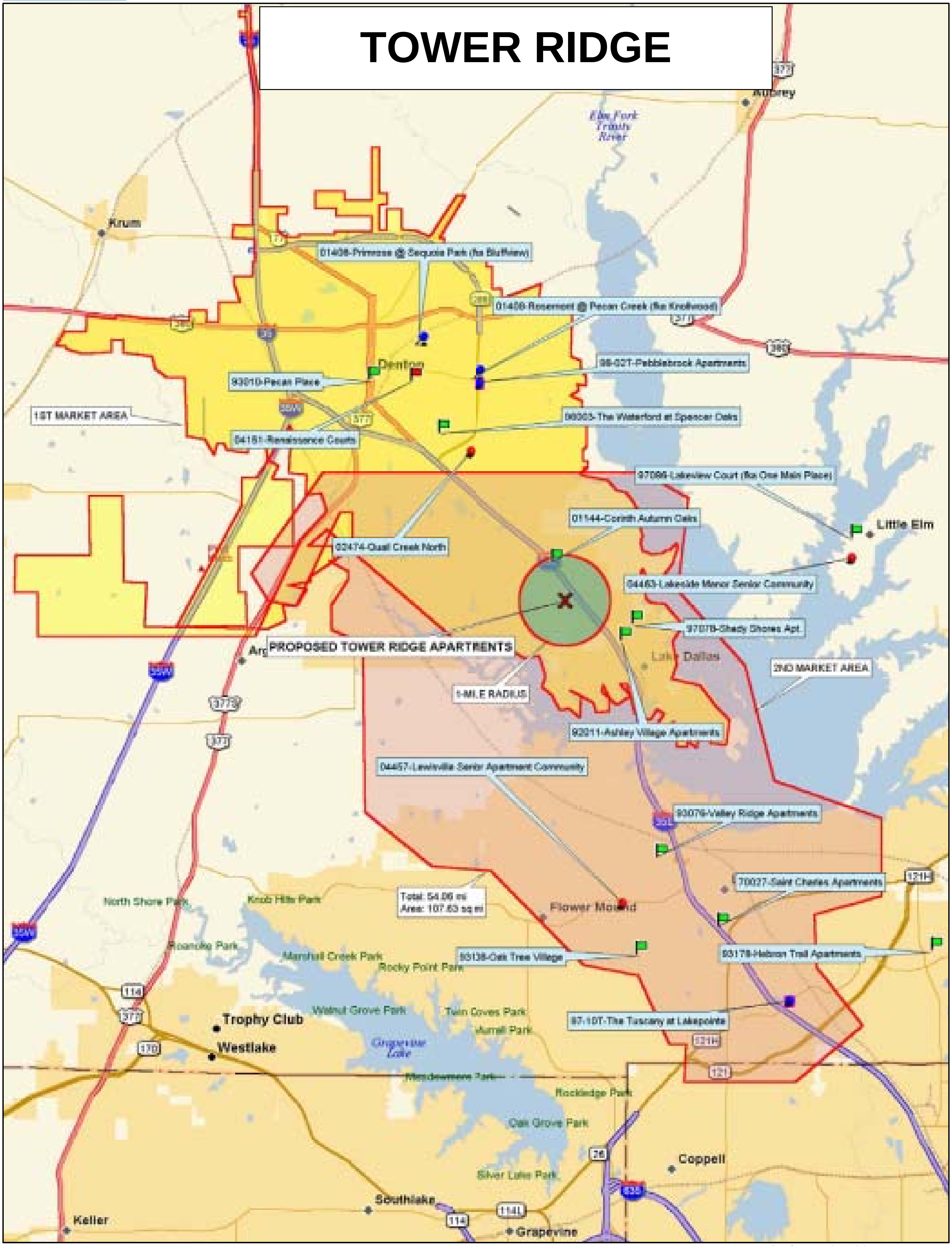
### OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE

| INCOME at 3.00% | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 10 | YEAR 15 | YEAR 20 | YEAR 30 |
|---|---|---|---|---|---|---|---|---|---|
| POTENTIAL GROSS RENT | $2,191,680 | $2,257,430 | $2,325,153 | $2,394,908 | $2,466,755 | $2,859,645 | $3,315,113 | $3,843,124 | $5,164,837 |
| Secondary Income | 40,320 | 41,530 | 42,775 | 44,059 | 45,381 | 52,608 | 60,988 | 70,701 | 95,017 |
| Other Support Income: | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| POTENTIAL GROSS INCOME | 2,232,000 | 2,298,960 | 2,367,929 | 2,438,967 | 2,512,136 | 2,912,254 | 3,376,100 | 3,913,826 | 5,259,854 |
| Vacancy & Collection Loss | (167,400) | (172,422) | (177,595) | (182,922) | (188,410) | (218,419) | (253,208) | (293,537) | (394,489) |
| Employee or Other Non-Rental | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EFFECTIVE GROSS INCOME | $2,064,600 | $2,126,538 | $2,190,334 | $2,256,044 | $2,323,725 | $2,693,835 | $3,122,893 | $3,620,289 | $4,865,365 |
| EXPENSES at 4.00% | | | | | | | | | |
| General & Administrative | $91,390 | $95,045 | $98,847 | $102,801 | $106,913 | $130,076 | $158,257 | $192,544 | $285,013 |
| Management | 103,230 | 106,327 | 109,517 | 112,802 | 116,186 | 134,692 | 156,145 | 181,014 | 243,268 |
| Payroll & Payroll Tax | 213,790 | 222,341 | 231,235 | 240,484 | 250,104 | 304,289 | 370,215 | 450,423 | 666,736 |
| Repairs & Maintenance | 79,319 | 82,492 | 85,792 | 89,223 | 92,792 | 112,896 | 137,355 | 167,113 | 247,369 |
| Utilities | 40,838 | 42,472 | 44,171 | 45,938 | 47,775 | 58,126 | 70,719 | 86,040 | 127,361 |
| Water, Sewer & Trash | 85,563 | 88,985 | 92,544 | 96,246 | 100,096 | 121,782 | 148,167 | 180,267 | 266,840 |
| Insurance | 57,296 | 59,588 | 61,971 | 64,450 | 67,028 | 81,550 | 99,218 | 120,714 | 178,686 |
| Property Tax | 175,420 | 182,437 | 189,735 | 197,324 | 205,217 | 249,678 | 303,771 | 369,584 | 547,075 |
| Reserve for Replacements | 44,800 | 46,592 | 48,456 | 50,394 | 52,410 | 63,764 | 77,579 | 94,387 | 139,716 |
| Other | 32,480 | 33,779 | 35,130 | 36,536 | 37,997 | 46,229 | 56,245 | 68,430 | 101,294 |
| TOTAL EXPENSES | $924,126 | $960,059 | $997,398 | $1,036,198 | $1,076,518 | $1,303,082 | $1,577,671 | $1,910,518 | $2,803,356 |
| NET OPERATING INCOME | $1,140,474 | $1,166,479 | $1,192,937 | $1,219,846 | $1,247,207 | $1,390,752 | $1,545,222 | $1,709,770 | $2,062,009 |
| DEBT SERVICE | | | | | | | | | |
| First Lien Financing | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 | $1,036,670 |
| Second Lien | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NET CASH FLOW | $103,804 | $129,810 | $156,267 | $183,176 | $210,537 | $354,083 | $508,552 | $673,101 | $1,025,339 |
| DEBT COVERAGE RATIO | 1.10 | 1.13 | 1.15 | 1.18 | 1.20 | 1.34 | 1.49 | 1.65 | 1.99 |

## LIHTC Allocation Calculation - Tower Ridge Apartments, Corinth, MFB #2004-048/4% HTC #04602

| CATEGORY | APPLICANT'S TOTAL AMOUNTS | TDHCA TOTAL AMOUNTS | APPLICANT'S REHAB/NEW ELIGIBLE BASIS | TDHCA REHAB/NEW ELIGIBLE BASIS |
|---|---|---|---|---|
| **(1) Acquisition Cost** | | | | |
| Purchase of land | $1,295,888 | $1,295,888 | | |
| Purchase of buildings | | | | |
| **(2) Rehabilitation/New Construction Cost** | | | | |
| On-site work | $1,300,119 | $1,300,119 | $1,300,119 | $1,300,119 |
| Off-site improvements | | | | |
| **(3) Construction Hard Costs** | | | | |
| New structures/rehabilitation hard costs | $10,901,046 | $10,939,977 | $10,901,046 | $10,939,977 |
| **(4) Contractor Fees & General Requirements** | | | | |
| Contractor overhead | $234,453 | $234,453 | $234,453 | $234,453 |
| Contractor profit | $703,360 | $703,360 | $703,360 | $703,360 |
| General requirements | $703,360 | $703,360 | $703,360 | $703,360 |
| **(5) Contingencies** | $584,554 | $584,554 | $584,554 | $584,554 |
| **(6) Eligible Indirect Fees** | $744,553 | $744,553 | $744,553 | $744,553 |
| **(7) Eligible Financing Fees** | $1,706,417 | $1,706,417 | $1,706,417 | $1,706,417 |
| **(8) All Ineligible Costs** | $973,806 | $973,806 | | |
| **(9) Developer Fees** | | | | |
| Developer overhead | | $219,442 | | $219,442 |
| Developer fee | $2,418,625 | $2,199,183 | $2,418,625 | $2,199,183 |
| **(10) Development Reserves** | $235,326 | $468,266 | | |
| **TOTAL DEVELOPMENT COSTS** | $21,801,507 | $22,073,378 | $19,296,487 | $19,335,418 |

| | | | |
|---|---|---|---|
| **Deduct from Basis:** | | | |
| All grant proceeds used to finance costs in eligible basis | | | |
| B.M.R. loans used to finance cost in eligible basis | | | |
| Non-qualified non-recourse financing | | | |
| Non-qualified portion of higher quality units [42(d)(3)] | | | |
| Historic Credits (on residential portion only) | | | |
| **TOTAL ELIGIBLE BASIS** | | $19,296,487 | $19,335,418 |
| High Cost Area Adjustment | | 100% | 100% |
| **TOTAL ADJUSTED BASIS** | | $19,296,487 | $19,335,418 |
| Applicable Fraction | | 100% | 100% |
| **TOTAL QUALIFIED BASIS** | | $19,296,487 | $19,335,418 |
| Applicable Percentage | | 3.53% | 3.53% |
| **TOTAL AMOUNT OF TAX CREDITS** | | $681,166 | $682,540 |
| **Syndication Proceeds** | **0.9399** | **$6,402,320** | **$6,415,237** |
| **Total Credits (Eligible Basis Method)** | | **$681,166** | **$682,540** |
| **Syndication Proceeds** | | **$6,402,320** | **$6,415,237** |
| **Requested Credits** | | **$665,729** | |
| **Syndication Proceeds** | | **$6,257,227** | |
| **Gap of Syndication Proceeds Needed** | | **$6,801,507** | |
| **Credit Amount** | | **$723,637** | |






TN
MN (4.9°E)

Scale 1 : 187,500

1" = 2.96 mi    Data Zoom 10-1

# RENT CAP EXPLANATION
## Dallas MSA

### AFFORDABILITY DEFINITION & COMMENTS

An apartment unit is **"affordable"** if the total housing expense (rent and utilities) that the tenant pays is **equal to or less than 30%** of the tenant's household income (as determined by HUD).

**Rent Caps** are established at this **30%** "affordability" threshold based on local area median income, adjusted for family size. Therefore, rent caps will vary from property to property depending upon the local area median income where the specific property is located.

If existing rents in the local market area are lower than the rent caps calculated at the 30% threshold for the area, then by definition the market is "affordable". This situation will occur in some larger metropolitan areas with high median incomes. In other words, the rent caps will not provide for lower rents to the tenants because the rents are already affordable. This situation, however, does not ensure that individuals and families will have access to affordable rental units in the area. The set-aside requirements under the Department's bond programs ensure availability of units in these markets to lower income individuals and families.

### MAXIMUM INCOME & RENT CALCULATIONS (ADJUSTED FOR HOUSEHOLD SIZE) - 2005

**MSA/County:** Denton **Area Median Family Income (Annual):** $65,100

| ANNUALLY | | | | MONTHLY | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Maximum Allowable Household Income to Qualify for Set-Aside units under the Program Rules** | | | | **Maximum Total Housing Expense Allowed based on Household Income (Includes Rent & Utilities)** | | | | **Utility Allowance by Unit Type** | **Maximum Rent that Owner is Allowed to Charge on the Set-Aside Units (Rent Cap)** | | |
| # of | **At or Below** | | | Unit | **At or Below** | | | (provided by | **At or Below** | | |
| Persons | 50% | 60% | 80% | Type | 50% | 60% | 80% | the local PHA) | 50% | 60% | 80% |
| 1 | $ 23,300 | $ 27,960 | $ 37,250 | Efficiency | $ 582 | $ 699 | $ 931 | | $ 582 | $ 699 | $ 931 |
| 2 | 26,600 | 31,920 | $ 42,550 | 1-Bedroom | 623 | 748 | 997 | 60.00 | 563 | 688 | 937 |
| **3** | **29,950** | **35,940** | **$ 47,900** | **2-Bedroom** | **748** | **898** | **1,197** | **90.00** | **658** | **808** | **1,107** |
| 4 | 33,250 | 39,900 | $ 53,200 | 3-Bedroom | 864 | 1,037 | 1,383 | 119.00 | 745 | 918 | 1,264 |
| 5 | 35,900 | 43,080 | $ 57,450 | | | | | | | | |
| 6 | 38,550 | 46,260 | $ 61,700 | 4-Bedroom | 963 | 1,156 | 1,542 | | 963 | 1,156 | 1,542 |
| 7 | 41,250 | 49,500 | $ 65,950 | 5-Bedroom | 1,064 | 1,277 | 1,701 | | 1,064 | 1,277 | 1,701 |
| 8 | 43,900 | 52,680 | $ 70,200 | | | | | | | | |
| **FIGURE 1** | | | | **FIGURE 2** | | | | **FIGURE 3** | **FIGURE 4** | | |

***Figure 1*** outlines the maximum annual household incomes in the area, adjusted by the number of people in the family, to qualify for a unit under the set-aside grouping indicated above each column.

For example, a family of three earning $33,000 per year would fall in the 60% set-aside group. A family of three earning $28,000 would fall in the 50% set-aside group.

***Figure 2*** shows the maximum total housing expense that a family can pay under the affordable definition (i.e. under 30% of their household income).

For example, a family of three in the 50% income bracket earning $29,950 could not pay more than $748 for rent and utilities under the affordable definition.

1) $29,950 divided by 12 = **$2,496** monthly income; then,

2) **$2,496** monthly income times 30% = **$748** maximum total housing expense.

***Figure 3*** shows the utility allowance by unit size, as determined by the local public housing authority. The example assumes all electric units.

***Figure 4*** displays the resulting maximum rent that can be charged for each unit type, under the three set-aside brackets. This becomes the rent cap for the unit.

The rent cap is calculated by subtracting the utility allowance in ***Figure 3*** from the maximum total housing expense for each unit type found in ***Figure 2***.

# Tower Ridge Apartments

## RESULTS & ANALYSIS: for 60% AMFI units

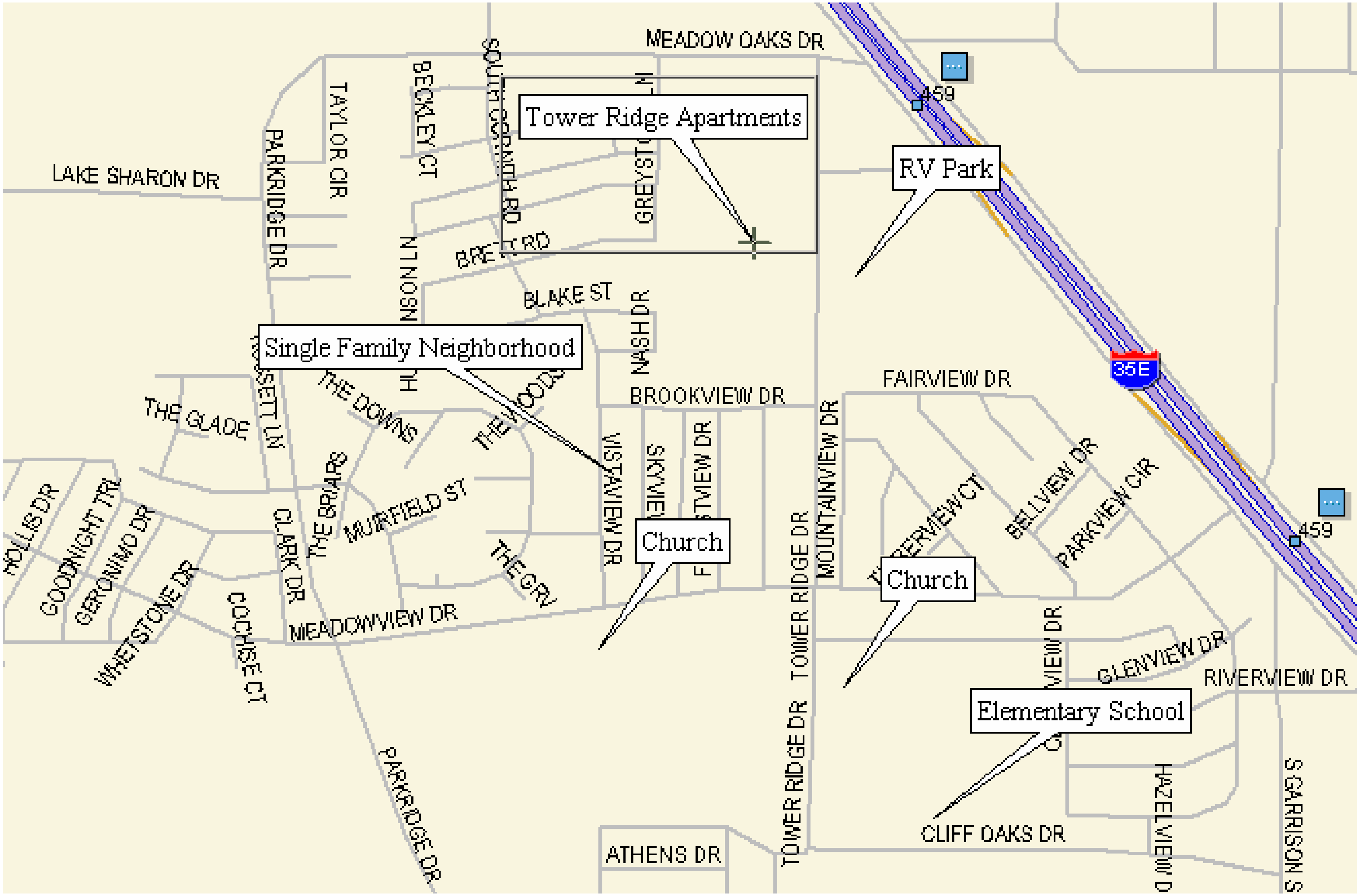
**Tenants** in the 60% AMFI bracket will **save $42to $67** per month (leaving **1.6% to 2.2%** more of their monthly income for food, child care and other living expenses). This is a monthly savings off the market rents of **5.8% to 7.7%**.

| **PROJECT INFORMATION** | | | |
|---|---|---|---|
| | | **Unit Mix** | |
| Unit Description | 1-Bedroom | 2-Bedroom | 3-Bedroom |
| Square Footage | 868 | 1,057 | 1,184 |
| Rents if Offered at Market Rates | $730 | $875 | $975 |
| Rent per Square Foot | $0.84 | $0.83 | $0.82 |

| **SAVINGS ANALYSIS FOR 60% AMFI GROUPING** | | | |
|---|---|---|---|
| Rent Cap for 60% AMFI Set-Aside | $688 | $808 | $918 |
| **Monthly Savings for Tenant** | **$42** | **$67** | **$57** |
| Rent per square foot | $0.79 | $0.76 | $0.78 |
| Maximum Monthly Income - 60% AMFI | $2,660 | $2,995 | $3,458 |
| **Monthly Savings as % of Monthly Income** | **1.6%** | **2.2%** | **1.6%** |
| **% DISCOUNT OFF MONTHLY RENT** | **5.8%** | **7.7%** | **5.8%** |

**Information provided by**: Joe Poe Company Incorporated, 400 N. saint Paul Street, Suite 440, Dallas, Texas 75201. Report dated January 31, 2005.

Aubrey
Krum
77
380
Denton
Prosper
35W
377
Ponder
Tower Ridge Apartments
35E
Little Elm
Frisco
Argyle
Lake Dallas
377S
Justin
Lewisville
Flower Mound
Hebron
Shepton
190
Roanoke
Westlake
35E



Tower Ridge Apartments
RV Park
Single Family Neighborhood
Church
Church
Elementary School
MEADOW OAKS DR
LAKE SHARON DR
PARKRIDGE DR
TAYLOR CIR
BECKLEY CT
GREYSTO
BLAKE ST
NASH DR
BROOKVIEW DR
FAIRVIEW DR
MOUNTAINVIEW DR
TOWER RIDGE DR
BELLVIEW DR
PARKVIEW CIR
THE GLADE
THE DOWNS
THE BRIARS
MURFIELD ST
VISTAVIEW DR
SKYVIEW
HOLLIS DR
GOODNIGHT TRL
GERONIMO DR
WHETSTONE DR
COCHISE CT
CLARK DR
MEADOWVIEW DR
GLENVIEW DR
RIVERVIEW DR
CLIFF OAKS DR
ATHENS DR
HAZELVIEW D
S GARRISON S
35E
459
459

# Applicant Evaluation

Project ID # **04602** Name: **Tower Ridge Apartments** City: **Corinth**

LIHTC 9% ☐ LIHTC 4% ☑ HOME ☐ BOND ☑ HTF ☐ SECO ☐ ESGP ☐ Other ☐

☐ No Previous Participation in Texas ☐ Members of the development team have been disbarred by HUD

☐ Members of the application did not receive the required Previous Participation Acknowledgement

National Previous Participation Certification Received: ☐ N/A ☑ Yes ☐ No

Noncompliance Reported on National Previous Participation Certification: ☐ Yes ☑ No

## Portfolio Management and Compliance

Total # of Projects monitored: 0

Projects in Material Noncompliance: **Yes** ☐ **No** ☑

# in noncompliance: 0

Projects grouped by score:
- zero to nine: 0
- ten to nineteen: 0
- twenty to twenty-nine: 0

# monitored with a score less than thirty: 0

# not yet monitored or pending review: 3

Projects not reported in application: Yes ☐ No ☑

# of projects not reported: 0

| Portfolio Monitoring | | Single Audit | | Contract Administration | |
|---|---|---|---|---|---|
| Not applicable | ☑ | Not applicable | ☑ | Not applicable | ☐ |
| Review pending | ☐ | Review pending | ☐ | Review pending | ☐ |
| No unresolved issues | ☐ | No unresolved issues | ☐ | No unresolved issues | ☐ |
| Unresolved issues found | ☐ | Issues found regarding late cert | ☐ | Unresolved issues found | ☐ |
| Unresolved issues found that warrant disqualification (Comments attached) | ☐ | Issues found regarding late audit | ☐ | Unresolved issues found that warrant disqualification (Comments attached) | ☐ |
| | | Unresolved issues found that warrant disqualification (Comments attached) | ☐ | | |

Reviewed by Patricia Murphy Date 2/24/2005

| Multifamily Finance Production | | Single Family Finance Production | | Real Estate Analysis (Cost Certification and Workout) | |
|---|---|---|---|---|---|
| Not applicable | ☐ | Not applicable | ☐ | Not applicable | ☐ |
| Review pending | ☐ | Review pending | ☐ | Review pending | ☐ |
| No unresolved issues | ☑ | No unresolved issues | ☐ | No unresolved issues | ☐ |
| Unresolved issues found | ☐ | Unresolved issues found | ☐ | Unresolved issues found | ☐ |
| Unresolved issues found that warrant disqualification (Comments attached) | ☐ | Unresolved issues found that warrant disqualification (Comments attached) | ☐ | Unresolved issues found that warrant disqualification (Comments attached) | ☐ |
| Reviewer | S. Roth | Reviewer | | Reviewer | |
| Date | 2 /25/2005 | Date | | Date | |

| Community Affairs | | Office of Colonia Initiatives | | Financial Administration | |
|---|---|---|---|---|---|
| No relationship | ☑ | Not applicable | ☐ | No delinquencies found | ☑ |
| Review pending | ☐ | Review pending | ☐ | Delinquencies found | ☐ |
| No unresolved issues | ☐ | No unresolved issues | ☐ | | |
| Unresolved issues found | ☐ | Unresolved issues found | ☐ | | |
| Unresolved issues found that warrant disqualification (Comments attached) | ☐ | Unresolved issues found that warrant disqualification (Comments attached) | ☐ | | |
| Reviewer | EEF | Reviewer | | Reviewer | Stephanie A. D'Couto |
| Date | 2 /28/2005 | Date | | Date | 3 /1 /2005 |

**Executive Director:** ____________ **Executed:** ____________

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Multifamily Finance Production Division

## Public Comment Summary

## Tower Ridge Apartments

**Public Hearing**

| | |
|---|---|
| *Total Number Attended* | 33 |
| *Total Number Opposed* | 27 |
| *Total Number Supported* | 1 |
| *Total Number Neutral* | 4 |
| *Total Number that Spoke* | 8 |

**Public Officials Letters Received**

| | |
|---|---|
| *Opposition* | 0 |
| *Support* | 0 |

**General Public Letters and Emails Received**

| | |
|---|---|
| *Opposition* | 6 |
| *Support* | 0 |

**Summary of Public Comment**

**1** Possible tax abatement in future
**2** Too much income restricted units in Corinth
**3** No public transportation
**4** Developer requesting variances from city codes
**5** Infeasibility of the development
**6** Who will live in the development

# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

MULTIFAMILY HOUSING REVENUE BONDS SERIES 205
TOWER RIDGE APARTMENTS

PUBLIC HEARING

Corinth Elementary School
3501 Cliff Oaks Drive
Corinth, Texas 76210

February 8, 2005
6:00 p.m.

BEFORE:

ROBBYE G. MEYER, Multifamily Bond Administrator

I N D E X

P R O C E E D I N G S

MS. MEYER: My name is Robbye Meyer and I'm with the Texas Department of Housing and Community Affairs. And I'm here concerning a apartment complex by the name of Tower Ridge.

They will be located on Tower Ridge Road -- down the street here.

First, I'm going to give you a brief presentation by the Department. The developer is here and he will also have some comments.

Once we get through that little portion of it, I'll read a short speech for IRS purposes and then we'll open it up into public comment and anyone that would like to speak, I will call the witness affirmation forms.

If you decide halfway through the hearing that you would like to speak, if I can get you to fill out a witness affirmation form at the end because I will ask you questions -- if anybody would like to speak -- once we get to the end of public comment and I run out of people on our forms.

First of all, I would like to explain what affordable housing is and, by doing that, I like to explain what it is not. And first of all, it is not your project-based Section 8 Housing that everybody is used to.

Affordable housing is privately owned. It's privately managed. There's private industry as far as investors are concerned and lenders. It's not public housing, which is confusing for everybody.

Affordable housing is a packaged deal also. It's not just putting a cheap roof over somebody's head. There's a lot of things that go into that property and with the two programs that I'm going to explain here in just a minute, it affords the development community to build a higher quality product -- to put on the ground and that's the whole reason, you know, for the incentive from the federal government to privatize the housing in the United States, not only Texas but the whole United States.

Not only does it put a roof over somebody's head with rents that they can afford, but there's also social services that go along for those tenants that live there that don't cost them anything.

There's education classes. There's after-school tutoring classes. Some developers have summer camps. They have immunizations for children before they go to school -- health screenings. There's a lot of things that go in to helping out the lesser fortunate individuals in the state of Texas and that's part of the whole package of affordable housing.

The two programs that are involved in this particular transaction is Private Activity bonds and also the Housing Tax credits. Both of these have pretty much the same affect as far as tax purposes.

The tax-exempt bonds -- the tax exemption is to the bond purchaser. It's not to the development. The development will be paying property taxes and that's kind of confusing every now and then because it is tax-exempt bonds. But that exemption is to the bond purchaser and the investor.

The tax credit is much same the way. You have an investor that puts money into the deal to help them build the product and also to charge the lower rents and they also get a break on their taxes. And normally you have big industry that's purchasing those tax credits.

Again, it was designed to encourage private industry to build affordable housing and by doing that, you have developers -- the investor that accepts a lower rate of return -- so therefore the lender that's involved in the middle of the transaction charges a lower interest rate to the mortgage, which allows the developer to be able to build a higher quality product. Tax credits allow them to give the lower rents.

Along with both of these programs, there's a

30-year compliance period -- I should say at least 30-year compliance period with the state for monitoring purposes.

In that monitoring purposes, we look at the income restrictions to make sure that they are abiding to what they are supposed to according to the IRS rules and the occupancy. We also look at the physical appearance and we have financial reviews of the complexes.

Not only is the state looking at this, but you also have a lender involved that is also looking at the same requirements -- making sure that the developer and the development is making -- is abiding by the rules that it is supposed to.

If you have a material non-compliance during that time, there is a possibility of those tax credits being recaptured, per say, as the IRS would say. So they would lose the tax credits and there's not a lender or syndicator out there that wants to lose that money. You're looking at about $6 million in a transaction and they're very good to make sure that money is done with what it was supposed to be done.

The Tower Ridge Apartments -- going to give you some specifics on that particular development. They receive what's called a reservation of allocation on November 24 in the bond program. That reservation is set to expire on April 23. It is located in approximately, or will be, proposed in the 2000 block of Tower Ridge Road.

It will consists of 14 two-story residential buildings and one non-residential building. It will have a total of 224 residential units, 56 of those being one bedroom, one bath with approximate square footage of 868 feet; 96 two bedroom, two bath units with approximate square footage of 1,057; and 72 three bedroom, two bath units at 1,184 approximate square feet.

One hundred percent of the units will be rent restricted and income restricted to families and individuals that make 60 percent of the area median income and below. And for the Dallas area that is $65,100.

To give you an idea of a three person family -- that income -- combined income -- could not be more than $35,940 in order to qualify to live in the development.

A one bedroom -- approximate rent will be -- net rent -- is $640. A two bedroom will be $740 and a three bedroom approximately $850.

This is in the packet of information -- these specifics are in that packet if you need them.

Kind of give you a date -- this particular transaction right now is tentatively scheduled to go before the TDHCA Board on March 10. Hopefully that's where we will head for this but there is a possibility that it may delay for the April 14th. Just want to keep you -- that is a possibility, but right now it is tentatively scheduled for the March 10th.

The Department will post to our website the entire information, or what we call the Board package, that will be presented to the Board, and you have privilege to the information on our website. It's all public information and you can see exactly what we will -- staff will present to our Board of Directors to make their decision.

Tonight, we do have a court reporter here. This hearing will be transcribed. A copy of that transcription will be given to the Board for their review.

All public comment that I receive in between now and February 25 will be compiled and also given to the Board. So if you sit here and decide you don't want to speak but you'll write me an email or whatever, my information is in that packet. You can email me. My address is in there. You can mail me also. My fax number is in there. You can fax me information and all that information will be compiled as long as it is received by February 25. Okay?

I'll remind you of those dates later but it's in the packet of information along with my information -- to get in touch with me.

I'm going to let the developer at this point, Mr. Bob Voelker, to make some -- a presentation and then we will open it up for public comment.

MR. VOELKER: Thank you, Robbye. Good evening everyone.

My name is Bob Voelker. I'm the Texas regional development director for NuRock Development. We've proposed to build the Tower Ridge Apartments here in Corinth, which is the subject of this hearing.

This development has a bit of a history, as most of the people in the audience know. Approximately two years ago, we contracted to buy the property in question from an estate. The property has been zoned for apartments since at least the 1980s.

In the summer of 2003, we submitted an application to the Denton County Housing Finance Corporation requesting that they secure a private-activity bond allocation from the Texas Bond Review Board for us to develop the apartment complex on this land.

The Housing Finance Corp subsequently submitted their request to the Bond Review Board in the 2004 bond lottery, which was held in October of 2003.

In late December of 2003, we received notice that we had received a reservation of tax-exempt bond financing that would be ultimately coming through the Denton County Housing Finance Corp.

We immediately contacted the mayor of Corinth and informed him of what we were doing and we were told that the city had no problems with apartments and that this land was zoned properly for those apartments.

We inquired with the mayor as to local homeowner's associations we should meet with and were given the name of the Meadow Oaks or Meadow Oaks Homeowner's president.

We contacted her and on January 6, we met for the first time with the homeowners at the First Baptist Church here in Corinth.

We gave them a presentation on the proposed development, including a site plan. We discussed possible revisions to the site plan to accommodate the homeowners.

We received an email on January 7 from the president of the homeowner's association thanking us for hosting the meeting with the homeowners of Meadow Oaks. "We greatly appreciate your willingness to keep us informed of changes in our community and to share with us your detailed plans, as they become known. We look forward to working with you and meeting again soon."

We met again with the homeowners on May 20, after we had further developed our plans to further discuss what we are proposing to do.

Both of these meetings had lively discussion, but as the meetings ended, we were thanked for coming and were told that the homeowners concerns had been addressed.

Meanwhile during this process, we were working with the city in securing approval of our plans and moving forward at due speed on our bond financing.

We had a number of development issues to work through with the city, many of which you are going to hear about tonight.

First of all, there was a stub street that came into our property from the Meadow Oaks subdivision. Initially, we talked with the homeowners and they also agreed they didn't want that street to go through, so we approached the city about that and eventually, the city agreed that, yes, we would abandon that street.

There was an issue on park land dedication. The City's parks director indicated he didn't want any additional park land -- that the city had trouble taking care of the park land that they had.

We designed our site without any park land dedication, assuming that we would pay the fee in lieu of park land.

Parks director reversed course and we submitted our plat requiring that the park land dedication be shown.

Again, this delayed our approval. The homeowners showed us up at the P and Z and the City Council meetings demanding park lands, so that our apartment kids wouldn't play in what they described as their park -- actually, a city park that is on one corner of their subdivision.

Ultimately, the city council agreed to take funds in lieu of park lands dedication at a subsequent city council meeting.

Parking requirements. Corinth has the most stringent parking requirements in north Texas. They require one parking garage per unit, plus one parking space for every bedroom.

On our site, this would have required us to build 728 parking spaces for 240 units. We've since reduced our development to 224 units, as Robbye described.

That's over a three to one parking ratio, which is grossly over-parked compared to all the requirements of other cities in this area.

We petitioned the Board of Adjustments for a reduction in the parking requirement, but were denied after extensive homeowner opposition.

Road construction requirement. About two months into our plan review, the city reviewed our traffic study, which stated that Tower Ridge Road was under-traveled and capable of handling the additional traffic that would be generated by our apartment complex.

Notwithstanding this traffic study and without taking its own traffic study, the city determined that we would be required to rebuild approximately six-tenths of a mile of Tower Ridge Road -- both sides in concrete, even though our property only fronts approximately 1,000 feet of Tower Ridge Road.

We informed the city that this was an excessive requirement and violated of U.S. and Texas constitutional taking requirements.

We pointed to a Flower Mound case that was recently decided in the same year by the Texas Supreme Court on this very issue. The city engineer, in fact, recommended that we be allowed to rebuild Tower Ridge Road in asphalt and that this would satisfy the requirements for road improvements.

Interestingly, at the planning and zoning meeting to determine our road construction requirement, immediately before our agenda item, was a discussion of the replat of a local junior college, which would have brought into play road reconstruction requirements.

Junior college wanted to replat to be able to expand their parking to accommodate a substantial increase in the number of students. There was no discussion by the homeowners, city staff, or the planning and zoning commission of their rebuilding the adjacent road in concrete or of any safety or other concerns with the asphalt road adjacent to the junior college.

However, when our agenda item for Tower Ridge Apartments was before the Planning Commission, homeowners objected strenuously to not having the road built in concrete.

Our attorney, who had handled the Flower Mound case, informed the commission that they had no right to require this but that the -- but the Planning and Zoning Commission refused to grant any waiver from this requirement that we build six-tenths a mile of road, both sides, in concrete and a mile of sidewalk to the local elementary school.

Without any relief from the city on these issues, we could not secure building permits and could not close on our bonds. In May, we terminated our bond reservation.

We then filed a federal fair housing lawsuit, along with U.S. and Texas takings lawsuit against the city. We had been in discussion with the city since that date on working through these issues.

Last summer or early fall -- I kind of lose track of time -- we became aware that TDHCA might have some additional bond funding left over in 2004.

We applied for this funding and were notified in November that we had received a reservation from TDHCA of bond authority. When we applied this time, we reduced our development from 240 units to 224.

I know that the homeowners are going to raise lots of issues and concerns tonight, so I wanted to go ahead and address those issues. But first, those aren't the real issues.

After we met with the homeowners the second time in May of last year, I got a call the next day from the president of the homeowners association. We talked about how doing the road in asphalt basically answered their concerns over the road and our building a sidewalk to the elementary school would work.

And then she told me that the real concern was that our apartment kids were going to be in their neighborhood and the potential for crime and -- well, I could go on.

The issues that the homeowners are raising are the smokescreen that polite people use to disguise NIMBYism. Apartments are okay, but not in my backyard. Low income people are okay -- elsewhere. TDHCA has heard this countless times.

Nonetheless, let's talk about their apparent issues, as raised in email that was sent by the president of the homeowners association to the homeowners on January 23rd informing them of this meeting.

I guess I should read it -- dated Sunday, January 23 from the president of the homeowners association.

"Greeting homeowners. Well, we have a reprieve from events which may negatively affect our neighborhood. The wait is all over.

NuRock Development is back and is proposing the same income-restricted affordable housing apartment complex construction on the property adjacent to Meadow Oaks, between Meadow Oaks and Meadow Views Drives along Tower Ridge Road.

The good news is the funding for the project is yet to be approved. The Texas Department of Housing is holding a public hearing on Tuesday, February 8th at 6 p.m. to hear comments regarding the proposed multifamily development.

Pursuant to the Texas Government Code, the Bond Review will hear the public's comment and make a decision on whether to approve the tax-exempt bonds, based on several criteria including financial feasibility, site acceptability, accessibility to public services, and community support.

The decision is expected to made on March 10, 2005, so this is our only chance to voice our opinions.

I've reviewed the decision criteria as detailed in the bond rules and put together several arguments, which we need to communicate to the Board at the February 8th meeting.

Please take the time to read the attached arguments and please make every effort to attend the meeting and voice your opposition to the bond issue.

Additionally, please forward this information along to your Meadow Oaks neighbors, as well as other concerned Corinth citizens.  Thank you in advance for your support and please call me at the number if you have any questions."

There's a little notice that was -- that went with that. It was kind of in bold type that talked about this meeting -- to come talk about the construction of income-restricted apartments on the property.

Then we get into the issues that were attached and I'm going to go through and answer these one by one because I know they're going to come up tonight and I probably won't have a chance to answer them after you all talk.

The memo continues -- "NuRock Development is seeking approval for tax-exempt bonds to construct a multifamily housing complex on the property adjacent to Meadows Oaks, along Tower Ridge Road, between Meadow View and Meadow Oaks Road.

The Texas Bond Review Board is meeting on Tuesday, February 8 at 6 p.m. to hear public comment regarding the bond issuance.

In preparation for this meeting, we have read through the bond rules to learn about the criteria upon which NuRock will be evaluated and the basis upon which we must argue.

Please ensure that all opinions voiced during the public opinion are local arguments founded upon legitimate evaluation criteria.

All other opinions will not be considered by the bond review board, as stated in the bond rules.

Please take the time to read the following arguments we need to communicate to the Bond Review Board members at the February 8 meeting.

The first one is underwriting evaluation criteria of financial feasibility. Current city ordinances require developers to construct 30-foot concrete roads curbed and guttered, with sidewalks for the streets boarding the selected sites. This is the road issue that came up before.

Traffic impact studies performed by the City of Corinth's city engineer in mid 2004 indicated that NuRock Development would be required to extend the length of constructed roads due to current road conditions and expected traffic.

Previously, compliance with the city ordinance was explained by NuRock Development representatives to be cost-prohibitive. However, variances from the city ordinance were denied.

Given that traffic patterns remain unchanged from the previous development, the city remains vigilant in upholding road standards the proposed development is financially infeasible."

My response -- this is basically the road issue that we've already discussed. The city is fully aware of this issue and they are going to require us to build whatever road they feel they can legally require us to build and we are going to pay for that road.

Although this is an issue of city ordinances, it is also a question that involves state and federal constitutional law, abiding Texas Supreme Court case, and fair housing laws.

We will work this issue out with the city prior to our bond closing and the homeowners will be heard on this issue at the appropriate time.

This is not the time or the place. Our construction budget takes into account what we consider the anticipated cost of the road to be.

Second issue in the homeowners memo -- "Current city ordinance require developers to donate park land to the city or give cash in lieu of the dedication.

Due to the topography of the land and required parking spaces under city code, NuRock requested a variance to pay the $132,000 instead of dedicating park land.

However, they appealed to the city to accept payment over a 12-year period due to the significant amount.

The inability to dedicate land or make the required payment provides additional evidence the development is financial infeasible in the city of Corinth."

This is the park land or fee in lieu of issue. This was resolved by the council at a prior meeting. We will be paying the park land and it will not be paid out over time. We have no dispute there. This does not affect our financial feasibility.

Third issue, housing needs of the community, area, region, and state. "According to the 2000 census, only one percent or 32 Corinth families were at or below the poverty level.

Of the 3,222 family households, only 14 percent, 453 households, possessed an income level of $49,999 or level. The median income level for a Corinth family $80,792. These economic characteristics of this Corinth indicate that the long term viability of the property, as a rent-restricted property, is impaired."

Response -- first, the homeowners have no expertise in this area. This is why we have market studies. Why TDHCA, our tax credit purchaser, our bond purchaser, and the credit enhancer, and the appraiser for the bond purchaser all have professional credit analysts.

Second, Corinth by itself is not our target market. The income levels in the surrounding communities of Denton and Hickory Creek and Lake Dallas are not nearly as high as in Corinth. All those areas are within our primary market area. Poverty statistics are totally irrelevant, as that is not also our target market.

Third, the argument assumes the intended result. There are no low income people in Corinth, therefore there is no need for affordable housing in Corinth.

This discussion begs the question, where do the teachers and the firefighters and the city employees and the retail employees who work in Corinth -- where do they live? Is it fair to pawn off these service sector employees on adjoining cities?

I refer to this as the moat theory. We'll lower the draw bridges in the morning, let all these lower income people who service our community come in, and then at night, we shove them out of town -- we raise the drawbridge back up.

One other interesting note -- the whole purpose of the priority one bond preference for high income census tracks is to move affordable housing out into these higher income areas where there isn't by demographic definition going to be a lot of lower income people.

If we're going to make decisions on this issue based on the relative lack of lower income people in these areas, we will defeat the legislatively created priorities.

The next issue that the homeowners raised -- proximity to other low income housing developments. Kensington Park Apartments, which is less than one mile away from the proposed location, includes 294 one, two, and three bedroom units of which 40 percent of the units are available at rents at prices based upon the wage-earner's median income level.

Additionally, Kensington Park offers rent rebates to senior citizens, helps good tenants who lose their jobs to pay rents, and offers a variety of social programs.

Currently, the Kensington {phonetic] Park Apartments are not fully occupied, which indicates that the need for affordable housing for Corinth individuals and families with different levels of income, is already satisfied. No additional compelling housing need exists in the community.

My response -- our market analyst did a rent survey of Kensington in December of 2004. It was 95 percent occupied. As all of us in this business know, you never ever reach 100 percent occupancy. There are always residents coming. There are always residents going and it takes several weeks to fill up vacant units.

That property is occupied at an average rent of 87 cents per square foot. Our apartments will lease for approximately 73 cents per square foot, a significant savings over the rent currently paid at Kensington.

Kensington is a 501(c)(iii) non-profit owned transaction. They're only required to have a certain percentage of their units at a higher income level than we are required to have under the tax credit program, so their residents, by definition, are at higher income levels and they're also paying greater rent.

As we all know, there are multiple definitions of rent and income affordability. Again, this is a question for the professionals.

Market analysts, TDHCA underwriters, bond underwriters, tax credit underwriters, credit enhancement underwriters -- our deal won't close if any of these people determine that there is no demand.

Finally, there is only one major apartment and complex in Corinth, plus one seniors deal, which is a TDHCA financed transaction.

Corinth is going to grow from 15,000 through to 30,000 in the next ten years. I don't think anyone would deny that. That's the city's plans. That's the city's growth path that they're on right now.

There's definitely a need to plan for this growth, as the city's planning staff fully understands, and that includes the provision of additional affordable housing.

Without additional affordable housing, the homeowners are correct. There will be no low income people in Corinth, as the housing stock is moving rapidly toward higher cost single family homes, which lower income people cannot afford.

Next issue -- anticipated impact on local schools. When proposed in 2004, the NuRock Development on Tower Ridge was estimated to bring approximately 300 school children into an already overloaded school district.

Based upon 2003-2004 enrollment and teacher statistics provided by the Texas Education Agency, the student-teacher ratio in elementary schools -- I assume in Corinth -- is 14.5 and in junior high and high schools is 21.6.

A 300 person increase in the student population would result in class sizes increasing by approximately eight percent.

Response -- school districts are not a proper -- school district issues are not a proper consideration in making housing decisions. Court after court has ruled that way.

The business of school districts is to educate those students who come into the district, not to determine planning and zoning issues. If the school is overloaded now, the citizens need to go to the school districts and get them to build more schools or expand additional ones.

Another question that we have to ask, are these same citizens down at city hall asking that $250,000 single family house subdivisions not be built because they will overload the school system? I doubt it.

Site choice -- this is the next issue -- proposed size and configuration of the development. The selected site is within one-half mile of the busy interstate and will be adjacent to a four-lane thoroughfare, as documented in city plans.

Currently, roads bordering the site do not have ample room for passing cars or the safe loading or unloading of school buses. Moreover, no sidewalks exist to allow for the safe passage of children to and from nearby schools or recreational areas.

In past proposals, developments requested variances from the city which would exempt them from building 30-foot concrete curbed and gutted roads with sidewalks, despite the fact the concrete roads have been proven safer.

Response -- TDHCA and its qualified allocation plan has determined that proximity to highways is not a negative scoring issue. Kensington sits closer to the highway than Tower Ridge will, but I don't think that's something we probably will talk about much here today.

We are not adjacent to the new four-lane thoroughfare. We are approximately 200 yards south of it. Many of the houses in the homeowners subdivision sits closer to the thoroughfare than our apartments will.

A townhome development recently approved right on that thoroughfare, diagonally across Meadow Oaks from the subdivision, sits directly on the thoroughfare but the homeowners, as far as I know, didn't raise any issue about them.

This is not a -- there is not a different road proximity standard for different economic classes of people.

Finally, Tower Ridge Road, when we are done rebuilding it, will be expanded and will have a sidewalk. That is an issue for planning and zoning and for the city council and it will be addressed.

Next issue. The city of Corinth, including the selected site, does not have any form of public transportation or are there any actions imminent to create such city services. It would be necessary for residents of the proposed development to own a vehicle or to walk or bicycle to or from school and work.

As mentioned previously, the current roads are unsafe for foot travel and would be increasingly dangerous given increase traffic from the development.

Response -- many places where bond and tax credit developments are placed do not have public transportation. This argument assumes that our residents will not own cars.

Interestingly, when we were requesting a parking waiver to reduce garages or surface spaces, the homeowners insisted we have every last space in order to provide for the cars on our site. I'm not sure that the argument really goes both directions.

Also, many high income suburbs, Corinth included in last year's election, purposely opted out of

DART, thus denying their citizens, including lower income citizens, public transportation. The legislative priority for high income census tracks will be defeated if a lack of public transportation results in tax credit developments not being located in the suburbs.

Next issue -- the selected sites proximity to retail and medical facilities and employment centers are outside of one mile. The nearest bank, pharmacy, grocery, and retail department stores 2.23 miles for the proposed site, while the nearest emergency room and hospital are over three miles away.

Robbye, that's for you. That's a map showing our site and she's drawing a one-mile radius and showing that the Albertson's and the Wal-Mart are both within a one-mile radius from our site.

I think the homeowners probably know that because they go to the grocery store in the same place and it doesn't seem too far for them to go, so I assume our apartment residents can go to the same grocery stores.

Next issue -- due to the topography of the site, NuRock Development would be require to create a retainage pond to capture storm water runoff from the southern most to the northern most point of the apartment complex.

Studies indicate retention ponds harbor mosquitoes, create nuisance odors, and house rotting debris and other bacteria.

Since the pond will be located behind the homes of current citizens, our community's concerned about these potential health issues, as well as water overflows and flooding issues when large rainfalls occur.

I thought that I would bring some pictures of what currently is behind the homeowner's house, so that we all understand what we're talking about. I'm going to give those TDHCA so they can put them on the file.

You know, the facts are important. These are pictures of what's currently behind the homeowners houses. There's a creek and a pond that hold water 365 days a year. You don't hear them requiring the city to fill in this pond due to mosquito issues.

It's only when we propose to build an affordable housing development in their backyard that they pay any attention to things like this. I fly fish that pond almost weekly. There are great fish in that pond, but it gets gummed over in the summer. It does smell.

Let's compare that to what we're going to do. We're going to create, to use the term, a detention pond. It's not a retainage pond or a retention pond.

The current pond is a retention pond, basically meaning that it holds water all the time. A detention pond is meant to hold water only in big rain events. It has a 48 inch, four foot pipe coming out of that pond that allows that water to be metered out of that pond in big rain events. In a normal rain event, the water will just go straight through the bottom of that pond, through a concrete channel and straight out that pipe.

The other thing that we're going to do is we're going to fill in that pond that you see in those pictures. We're going to take that issue out of the homeowners backyard. Instead you'll have a pond that maybe -- if last year's any indication -- we may have ten days a year where there's going to be water sitting at the bottom of that pond while it's metering itself out through that 48 inch pipe.

This issue is much more about the position of "mosquitoes in a detention pond" than it is about the reality because they're currently dealing with that situation right now.

We're, in fact, going to improve that situation from what exists.

Next thing raised -- the city of Corinth's parking ordinance requires a developer of a 240 unit multifamily complex to build 240 garages and 448 additional parking spaces.

Given the topography of the site and city mandated parking requirements, NuRock will have limitations in creating parkways and walkways, which will ensure appropriate accessibility for individuals with mobility impairments.

I'm absolutely confident that our engineers and architects, the city planning staff, and TDLR, which is the Texas Department of Licensing and Regulations that oversees this issues, as well as TDHCA and their compliance, will do a thorough job of making sure that we meet accessibility rules.

I'll leave that to the professionals. I had an hour and half meeting just yesterday with them -- with our engineers and the landscape architect on that very issue.

Site control. This is really more of a financial feasibility issue. To proceed with a financial viable and cost-effective development, it would be necessary for NuRock to pursue variances from city ordinances related to concrete road construction, park land donation, and parking space reduction.

With the 2004 proposal, the variance review process starting in April and lasted through June.

According to closing deadlines mandated by the Texas Department of Housing, it's highly unlikely that a financially viable project, with all appropriate zoning approvals, could be obtained by April 23, 2005.

We're spending approximately $200,000 right now in getting our plans ready and getting ready for the bond closing. We're fully aware of those deadlines and we will meet them.

Community participation. NuRock has not contacted the Meadow Oaks Homeowners Association nor have any other interested parties in adjacent neighborhoods have been notified of the proposed development.

Further, the Meadow Oaks Homeowners Association and homeowners nearby the proposed development remain in firm opposition to a development which does not comply 100 percent with the city's ordinances relating to parking, road construction, and park land donation.

Response -- homeowners know full well the times we have contacted them and met with them to discuss our development. It's just not true. I can give you dates. I can provide you people who were at those meetings.

We came to the homeowners up front before we took our plans to the city and asked their thoughts and their concerns. We met with the mayor before we even came to the homeowners and got his -- an understanding from him of where we were going with this development.

We came away from those meeting with a confidence that we had addressed the homeowners concerns, only to be blind sighted by them at P and Z and city council meetings.

Support and consistency with local planning. In June 2004, NuRock Development's plans to build on this same site were rejected by the site based on requested variances from city ordinances.

Response -- there is no planning in Corinth with respect to affordable housing. Never has been and never will be. TDHCA has a mechanism to satisfy this requirement that we be in compliance and consistency with local planning and it has been addressed. It's a technical issue having to do with TDHCA rules and if the city happens to have a plan having to do with providing affordable housing in the city -- Corinth doesn't have one.

Homeowners email continues. Litigation between the parties is pending based on these activities, since planning and zoning commission and city council members, as well as the mayor, are named in the ongoing lawsuit, the city and all officials cannot actively support the currently proposed development.

Response -- not all development happens the first time with complete agreement of the parties. Over time, cooler heads prevail -- parties understand better their relative positions, and compromises are worked out.

This is my fourth city in 15 years of dealing with affordable housing where I've had to work through these issues. The homeowners asked me in one of the meetings what would happen if the city didn't approve our plans.

I told them that I don't go away -- that I will get the housing built where it deserves to be built. That is my purpose and that is my calling and that is part of the calling of the governmental agencies that we deal with.

Part of that purpose, part of that calling for all of us in this industry is to educate and hopefully change the minds of those who are not knowledgeable about what we do -- who have unreasonable fears.

Their fears are not illegitimate, they're just not often times founded on the facts and I think that's why Robbye gave you some understanding of what affordable housing is all about up front.

That was the case in Willow Bend in Plano 15 years ago, in Coppell ten years ago, and in Oklahoma City eight years ago, and it will be true in Corinth in two years.

We're going to see all of this. This is just another apartment complex and that all the emotion was overblown. We will see that we can co-exist as neighbors. That's my dream and that's my vision.

Homeowners letter finishes with this: Based upon the current economic and housing demands, the city does not have any plans nor is the city seeking additional multifamily housing developments.

The city's supply of affordable rental housing is already satisfied by the Kensington Park Apartments and the town home construction currently underway.

You know, the homeowners are probably correct in the first sentence. The city is not seeking additional multifamily housing. I'm not sure that's a positive statement.

There are reasons why that is the case and you're going to hear that now from the homeowners. Given political pressure, the city could not take any other position.

Whether the city's supply of affordable housing is satisfied, I'll leave that to the professional underwriters, but I'll say this: I wouldn't be here today if I didn't believe that was true and the people who are going to provide our financing wouldn't be providing our financing if they didn't believe that was true. Thank you.

MS. MEYER: Okay. I'm going to start the hearing at this point. Brief little speech. I promise.

Again, good evening. My name is Robbye Meyer and I'm with the Texas Department of Housing. I would like to proceed with the public hearing and let the record show that it is now 6:46 and it is Tuesday, February 8, 2005, and we are at the Corinth Elementary School located at 3501 Cliff Oaks Drive in Corinth, Texas.

I am here to conduct the public hearing on behalf of the Texas Department of Housing and Community Affairs -- excuse me -- with respect to an issuance of tax-exempt multifamily revenue bonds for a residential rental community.

This hearing is required by the Internal Revenue Code. The sold purpose of this hearing is to provide reasonable opportunity for interested individuals to express their views regarding the development and the proposed bond issuance.

No decisions regarding the development will be made at this hearing. The Department's board is tentatively scheduled to meet to consider this transaction on March 10, 2005.

In addition to providing your comments at this hearing, the public is also invited to directly speak to the Board at their meeting on the 10th.

The Department staff will also accept written comments from the public up until five o'clock on February 25, 2005.

The bonds will be issued as tax-exempt multifamily revenue bonds in the aggregate principal amount not to exceed $15 million and taxable bonds, if necessary, in an amount to be determined and issued in one or more series by the Texas Department of Housing and Community Affairs.

The proceeds of the bonds will be loaned to Tower Ridge Corinth 1, Ltd. or a related person or affiliate entity thereof, to finance a portion of the costs or acquiring, constructing, and equipping a multifamily rental housing community described as follows: 224 unit multifamily residential rental development to be constructed on approximately 15 acres of land located at approximately the 2000 block of Tower Ridge Road in Denton County, Texas.

The proposed multifamily rental housing community will be initially owned and operated by the borrower or a related person or affiliate entity thereof.

I would now like to open the floor up for public comment and the first person I have is Constance Ray.

MS. RAY: I'm Constance Ray. I live at 2611 Hutchinson Lane.

I have a few questions and I'm not sure whether you can answer them or not, but the first one on the public comment deadline -- by our speaking tonight then that's in lieu of having to make a written statement or do we still need to send a written statement?

MS. MEYER: You can send a written statement if you would like but tonight will also be given to the Board.

MS. RAY: Okay. Good. And just where was Mr. NuRock? Hi.

Just for your information, I did oppose the junior college road. You must not have heard my lone dissent, but I'm not one for variances.

I am not opposed to the income restriction at all. I do have a question though -- I know you do feel like we do need more income restricted housing in the area.

We were told that Corinth was -- he was at the meeting -- that we would be the example for income restricted housing.

When my husband and I were building a house, we had a hard time finding an apartment complex in the area that would take our family that was not income restricted.

We had a great deal of difficulty finding somebody who would take us. Everybody was all excited until they found out what we made and it was income restricted.

I have concerns about NuRock -- you told me that they've not applied for any tax abatements. That they would be paying payroll -- not payroll tax, but property tax, but I guess my concern is do they qualify for some type of abatement?

The reason I ask is because the Kensington Park Apartments are no longer on our tax rolls because there was that little loophole in the law. That took a huge of money -- tax money -- out of the city of Corinth and it took money out of the school district.

Our school district does not get a lot of money from the state at all. We don't give to Robin Hood, as far as I know we don't yet. We don't take from Robin

Hood. We are like on our own and we are at the "umpf" stretched and to even suggest that we can go and ask for more bond money to build right now is a ludicrous thing to consider.

So do they qualify for a tax rebates? So there's -- you will always have to be on the tax rolls. There will not be a way that you could not be on the tax rolls. Correct?

MS. MEYER: That approval would have to come from TDHCA for them to change ownership to that.

MS. RAY: So there is a possibility that could happen? If they changed ownership, then the could? Because some school districts have gone bankrupt from this little loophole.

You commented on the services that are available that -- and the public transportation. You're right. We're not in the Denton County transportation authority thing, but that does make a difference to people who live in the area.

My husband and I discussed bringing his mother, one of my two mother-in-laws up here to live near us and he said, no, she's not going to want to come because there is no bus service. There's no way for her to get to a job. There's no way for her significant other to get from up here down to Dallas and downtown Dallas to work.

So we both agreed and she agreed that this wasn't where she wanted to live because there weren't services available and there was not public transportation available.

I have concerns about the costs of the project. They're asking for $15 million from you guys and that's interesting because there's also a $15 million lawsuit against the city. At least that's what's been in the paper.

So are there funds actually available for this project to be built? If there are but something happens and they default on their loans, then what happens? Does the Department of Housing take over and look for another buyer or who gets -- who is going to be responsible then for this complex?

My concern is the Phoenix Apartments up in Denton -- been here a long time. Been there, done that. Concrete cities, not very pleasant up there.

They have asked for a lot of variances because they said it was so expensive to build in this area and again, that brings up my concern -- do they have the funds? If there's a $15 million lawsuit to bring in money, and your $15 million, is that what they're counting on to build?

I think that's all I have to say. Is that enough? Thank you.

MS. MEYER: I'll answer a couple of questions real quick.

On the abatement issue, whenever a developer comes in front of TDHCA for the bond program, if they bring about that they are not going to seek tax abatement, that is what we expect. However, any market rate property or any other property can always ask for an ownership transfer and yes, it could happen in the future, but it would still have to come back through TDHCA and we would have to also notify the Bond Review Board. So it would be most unlikely that it would happen.

There are a lot of things that are possible, so -- but just to let you know, they would have to come back through TDHCA for that approval to do so.

Your other question about that $15 million -- as far as any legal action that is going on, TDHCA doesn't have anything to do with that.

There is $15 million cap and yes, as I stated before, they have received what's been called a reservation of allocation. There is $15 million of reservation allocation set-aside and as long as they close the bonds within the expiration period, then those bond allocations are available. Okay?

Next one is Susan Bryant.

MS. BRYANT: Good evening. My name is Susan Bryant. I live at 3204 Brett Road in Corinth, Texas.

I would just like to respond to some of the comments that Mr. Voelker made.

He obviously obtained the document that I put together to assist the homeowner in preparing for this meeting.

I would like to respond, first of all, on several different points in which he made.

With respect to the underwriting evaluation criteria and the financial feasibility of the project, Mr. Voelker indicated that there is a construction budget that is set forth.

Previously, in last year 2004, that construction budget did not take into account the fact that we would need to comply 100 percent with the construction of 30-foot concrete roads that are curbed and guttered with sidewalks on both sides, as the city had mandated.

So I would just like to urge the Board to reconsider the fact that while the construction budget is just a budget and that there may be unexpected costs which the city may specifically require, with respect to compliance of those ordinate, which may ultimately cause the development to become infeasible financially.

With respect to the park land dedication that the city requires, I believe that the reason why in previous discussions with the NuRock representatives and at various meetings in 2004 the reason why the $132,000 of cash paid in lieu of park land dedication was proposed in a 12-year pay out period was because it was a financially significant amount to the entity and that they would prefer to pay it out over time.

So again just something else for the Board to consider when making their decision is that there may be additional costs related to the actual construction of this project and that whether or not that is actually considered in their construction budget.

With respect contacting the homeowner's association, it was my assumption that this particular project -- this particular go-around with the Bond Review Board was a separate and a brand new development process -- that we were basically starting over.

We have not been contacted. The Meadow Oaks Homeowners Association through me anyway has not been contacted for this particular project.

So I would just like to make it clear that I suppose in light of the circumstances from the 2004 meetings, NuRock felt that it was not in their best interest to contact the homeowners association or myself. Probably in regards to the fact that they were expecting some opposition.

Also, I would like to say that in regards to the public transportation is that, according to my understanding of reading through the bond rules, is one of the things that is considered is whether or not there is public transportation available to the residents. So regardless of the fact that there is no public transportation, that is one of the things that they are evaluated on and that the Board should consider is that people are going to need some sort of way to get to and from work or school and that this community just flat out does not have the facilities to help those citizens to get to their jobs in a timely manner or in a safe manner.

I think that's all I have. Thank you very much.

MS. MEYER: Do I get applause? Kristine [phonetic] Bounds?

MS. BOUNDS: I turned in a written statement.

MS. MEYER: Okay. Next one would be Wendy Clausen?

MS. CLAUSEN: After some of these comments, I'm a little upset, so I'm going to hold my thoughts.

MS. MEYER: You going to send them to me?

MS. CLAUSEN: Yes.

MS. MEYER: Is there any -- do you want to speak?

MR. PEARSALL: Sure. Why not?

MS. MEYER: Christopher Pearsall?

MR. PEARSALL: Yes. That's chicken scratch. It is what it is.

I'm sure some of you guys now me. I've been here before.

First off, I've talked to a few people about what's going on here and I just want to say that I'll support this development as long as they abide by the city laws of Corinth and not one iota more or less.

It's fair and fair is fair. I will say that I do not expect them to build the road as big as the city wanted to.

That, from what I understand, is not correct. They will build a concrete road, though, that will have sidewalks and will have gutters. It will not be an asphalt road with bar ditches and, basically, leaving cars on the side and what not. That's a lot unsafer.

I'm an engineer myself. I happen to know that concrete does not have the same coefficient static friction which is what let's you stop on something. Asphalt also bleeds off oils and also gives you a great stopping distance.

Again, I can speak from this from experiment and from mathematics. Going back to I disapprove of basically of their tactics.

To say that we have not -- blind sighted them has not been true. We've asked plenty of questions about these roads and a lot of people have had frowns. Nobody really wants to come up and say, Hey, you guys, we don't want this asphalt road. We want concrete.

Nobody wants to start a slap fight inside the church there. So pretty much we blew that over, but I guess my main points are this -- has a finalized plan been submitted by NuRock to the city and if it has, has the city approved it?

I don't know this. The other question that I have that leads into this -- how can they have the budget plan if their plat is not approved? I just have those questions. Does anybody know if the city has approved it?

Have the submitted it?

MS. MEYER: I don't know.

MR. PEARSALL: Okay. So I'm just wondering that how can they say that they're going to fall within budget? That's my only question for that.

Also, guys, loved your letter in the lawsuit. Next time you make this community out to be a bunch of bigoted ignoramuses, we don't appreciate that either. This isn't a schoolyard slap fight. We're concerned about our community too and if you just want to play that way, then fine. Then nobody's going to be friendly to be around you.

I'm trying to be honest with you guys and work with you as well and I see you snicker and smile, okay, so you guys stop it because I'd appreciate it.

I'm being honest with you guys. I'm saying that I'll support your group, if you guys obey the city laws and ordinances.

I really don't want any variances and that's all I'm asking you for. If you think that's not fair, well then, hell, what am I supposed to say? Thank you.

MS. MEYER: Is there anybody else that would like to speak? Mr. Helmut Money?

MR. MONEY: My name is Helmut Money. I live at

306 Alcove Lane.

I kind of found it out that the representative had made a comment about smokescreen.

I think from the beginning I think we've been misled. You presented a plan to everybody, to the city and such, and then you ask for variances to the codes. So you know of the code and you presented a plan that met the code and then you submitted variances, so you knew that was going to happen. You knew that was going to come about.

And something just -- while I'm thinking about it -- back in the -- I know in one of the meetings, you made the comment, and you also made it today, about a motivator -- about allowing the fire department, police department, teachers, and so forth, being able to live in that development in this area.

Last year, when you made that statement, I worked for the fire department, not here in town but for another city, and we had actually done an analysis, a survey, on salaries, and at that time, and now at this time, it still holds true that a fire fighter will not be able to live in your complex. Okay?

On top of that, as far as I know and I don't know the numbers on this, but with the police -- I don't agree with it but police make more than firemen generally everywhere else, so that tells me that the police will not be able to live in your development.  They make too much money.  That's correct.

In the statement in the newspaper, you stated school teachers, firefighters, policemen, and retail employees -- this is Mr. Voelker -- in the city of Corinth deserve the opportunity to live in the city that the serve and not be forced to live in another city.

So you talk about your analysts, your market analysts, and that all our numbers that Ms. Bryant had provided, you know, that you had the professionals and that we didn't, but yet you failed -- and I think it's part of your misleading effort -- to tell people that fire and police and teachers, in fact I've even asked around about teachers salaries, and from what I understand, especially in the city of Corinth, your teachers make too much to live in your development.

So I'm wondering where the smokescreen is and I'm wondering when the misleading stops because you know this is a newspaper article that you're trying to make us look bad and yet you're misstating facts.  And then the rest you have on my sheet, but I just found that interesting that you said that we were providing a smokescreen but you're in the paper providing a smokescreen.

MS. MEYER: Is there anyone else? Okay.

MR. DAVENPORT: Mr. Voelker, I am Tom Davenport. I'm superintendent of schools, Lake Dallas Independent School District.

We serve children in half of Corinth and part of another community, all of Lake Dallas and Hickory Creek.

I like what I've heard about the property taxes, but I have just one question that I would like to ask and would like the answer to be heard and recorded.

Has NuRock at any time restructured or sold a development to a non-profit organization?

MR. VOELKER: No.

MR. DAVENPORT: So -- see that gives me hope that you could be a good neighbor in that regard. I will leave whether the development is built or not built to all of you who -- that's your issue.

My issue is we're going to have children in that complex that everyone should pay their fair share to do it.

So your answer is NuRock has never reorganized any development --

MR. VOELKER: I would never submit a tax [inaudible] with tax abatements where there's families in the development and children going to school. The law should be changed; the law is wrong.

MR. DAVENPORT: We're working on that. Right. Yes. I just wanted it read into the record. Thank you.

MS. MEYER: Anybody else?

VOICE: Two questions.

MS. MEYER: Okay.

VOICE: I don't know who to direct them to but I thought you had said at one point -- you referred to this development as Tower Ridge Corinth 1?

MS. MEYER: That's actually the limited partner that would be the actual owner they set up.

VOICE: So there's not plans to part two, part three, or anything else?

MS. MEYER: No, no, no, no. Am I right?

MR. VOELKER: Yes.

VOICE: My second question was there was a reference to the mileage to stores and banks and things.

MS. MEYER: Uh-huh.

VOICE: And the map that was presented -- is that air mileage or is that street mileage?

MS. MEYER: It's linear. Well, it's a linear circle is how we normally -- as far as the rules are concerned. You draw a linear mile or ring around and that's how points are actually scored by the different amenities that are within that radius.

VOICE: So it's by air?

MS. MEYER: If you drive, yes. If you go by roads, that's true.

VOICE: Okay.

MS. MEYER: But the rules are set up on linear -- as the crow flies.

VOICE: We're going to send my 73-year-old mother-in-law flying. Right?

MS. MEYER: There you go. Are there any other questions or --

MR. RODRIGUEZ: I've got a couple of questions. I'm going to come up there.

MS. MEYER: Okay. State your name for the record.

MR. RODRIGUEZ: Okay. My name is Jonathan Rodriguez. I live at 3001 Brett Road -- just moved to the community less than a month ago and been informed about the situation that we're talking about right now. You are part of TDH or T --

MS. MEYER: Texas Department of Housing.

MR. RODRIGUEZ: Okay. And who do you represent?

MR. VOELKER: The developer.

MR. RODRIGUEZ: You're the developer? So you're the guy making all the money. Okay? So what I observed --

MS. MEYER: He's the lawyer.

MR. RODRIGUEZ: He's the lawyer. Oh, understandably.

The guy comes up here and he just read facts and he doesn't have the manlihood or the business sense or the common sense to sit there and look at somebody in the eye as far as reading it off the paper.

So all he does is sit here and read it off the paper and if he comes prepared, he sits there and he talks to you and he's educated about the situation.

He may be educated in thing in his mind, but as far as putting it into words, you know, he had to write it all down and then to just sit there and read it -- and as he read it, he looked up maybe once or twice.

And as we're sitting up here making our comments, he sitting in the back -- no telling what he's thinking about but it's not even that. He's probably not even looking at me right now as I'm up here talking and it's kind of frustrating because he sits there and pushes everybody around -- he's the big dog on campus.

He went up to Plano 15 years ago, as he said. Coppell -- he went to everywhere. He says he's not going away. So he's a lawyer, he's going to find a loophole. That's the bottom line that's going to happen, so even if he doesn't go away, you know -- I want to know a couple of things as far as where do you stand as far as Plano?

Are you still affiliated with them or what's going on there with -- do you still talk to them?

MR. VOELKER: I represented the developer when the law firm wanted to go into the place. The homeowners association clause that ultimately got approved we got [inaudible] we were satisfied with it. That developer still owns that property.

MR. RODRIGUEZ: Then why are we here? How much did the complex cost?

MS. MEYER: I haven't seen the final [indiscernible].

MR. RODRIGUEZ: What is the approximation?

MS. MEYER: Approximately $23 million.

MR. RODRIGUEZ; $23 million and then out of that -- because you get here that you've got 56 units one bedroom, 92 two bedroom, 72 and just glancing out -- if you even sell out 90 percent out, that's $160,000 a month. That's almost $2 million at 100 percent occupancy a year and what's going to happen if, you know, here's the loophole again that I just heard, what's going to happen to the taxes or whatever happens if they get sold?

It just so happens that the Plano developer or the Plano owner or whoever he is still owns the building, still owns the complex. What happen when it gets sold? If it gets sold?

MS. MEYER: It is a possibility.

MR. RODRIGUEZ: Well, there's always a possibility right, but what about the taxes? What about -- who knows, I may not be here in five, ten years? Who knows?

What's going to happen to the city who depends on that money and somebody else that wants to move into the city and the next thing you know, they have to downsize the department. They have to downsize schooling or they have to cut down funding for this, that, or the other. What's going to happen then? Who knows? Right. So basically, in a nutshell, he's here to make money. We're here to get pushed around and I just figured that I don't know a whole lot about the situation but the looks of it, or we can sit here and cause a stink about it or we can just let them push around and I'm not the type of person to sit there and let this go.

And if it does fly, then great, but you know what? There are stipulations that have to be met and required and I'm all for that.

I mean, if you can do it -- everybody needs help. Sometime everybody needs hand along the way in life and I'm all for that.

But as far as, you know, being straight and narrow, if that's going be the case, then it needs to be how it says on paper -- none of this, well we need to stop construction because, you know, we don't have the funds to build the street or we have to change it from concrete to asphalt because we're running out of money.

And I'm for it if it's helping people along the way, but if you guys are going to come in here and start changing things and making it not par or not code or not what's written on paper, then I'm not for it. And that's all I have to say.

MS. MEYER: Anybody else? Yes, sir? Did you fill out a -- okay. And your name?

MR. LENTON: Jeff Lenton.

MS. MEYER: Lentel?

MR. LENTON: Lenton. L-E-N-T-O-N. I'm Jeff

Lenton. I live at 2516 Graystone Lane and I just want to make a couple comments.

Most of you know that I am in favor of this project. We have a townhouse project right over here. Do you see a concrete road? No. Are you going to see a concrete road? City of Corinth told me maybe within 15 years. They border two major streets. Neither one of them are set to be concrete yet.

The city of Corinth just reserviced the road with what? Tar and gravel. It's not even asphalt. And we're fighting over concrete versus asphalt, but the city of Corinth can come in and put in a tar and gravel road that was worse a month later after it was put in than it was before they did it.

I don't understand the arguments. The little townhouse project over here evidently paid the city to put in a concrete street. There not there.

The city engineer told me when I asked him about it, it will probably be ten to 15 years minimum before they are put in.

What's the big problem? I don't understand what all the argument is.

These people are going to pay more in school taxes than all of us put together and we're worried about the schools not having money. They're income is going up a whole bunch when this project gets built.

Whether he's full or not, he still has to pay property taxes just like you and me. What's the argument? They're going to get more money. The school is going to come out way ahead and I think the superintendent will tell you that.

They're going to get more money from that one development, $25 million is estimated, than what all of our houses cost.

The school is going to have the money to build new schools if they need it. The city isn't going to build no streets. Don't hold your breath for that.

The law requires this man to build a street from property line to property line to the center of the street. The city cannot force him to build both sides of the street. That is illegal. It's been proven by the Texas Supreme Court.

Why are we arguing it? We can't force him to do. The city can't force him to do it. I think it's ignorant of us to sit here and say, we don't want it because he's not going to do a concrete street to what the city says they want when that's illegal.

I don't know if you all understand what I'm talking about. I have been in the construction business for over 30 years. I have run into this same thing many times. You lose.

The city's going to do what the city wants to do as far as the streets go. They can require him to pay them to put in a concrete street -- property line to property line to the center of the road -- they don't have to build it.

They can give a mayor a raise with that money instead of building a road. That money goes into the general fund of the city of Corinth. It does not go to pave streets. Whenever they get around to it, they'll pave the street.

Like I said, I question that city engineer when it would be done. There isn't an answer because they don't know.

I think a lot of the arguments you people are brining up are ignorant because of what the law says that man has to do. The city cannot require that.

VOICE: What about street impact fees? That's actually legal in the state of Texas and that can require developers to oversize streets to handle the impact that they have on a neighborhood.

MR. LENTON: Only in front of their property.

VOICE: No, sir. A street impact fee in Texas, as created by the legislature, allows cities once they establish that impact fee within their city --

MR. LENTON: Why has the Supreme Court ruled against it?

VOICE: -- to pay for streets throughout the city.

MR. LENTON: Why has the Supreme Court ruled against it three times in the state of Texas?

VOICE: Well, I spent 14 years working for a municipality in which we done those impact fees and charged developers to pay for impacts on streets that were not within their subdivisions?

MR. LENTON: I know of three cases where the Supreme Court ruled against it in the state of Texas.

VOICE: Well, first off the city has to go to an impact fee study. Develop that impact fee --

MR. LENTON: Well, I still don't understand why we're arguing over concrete versus asphalt when the city can put in tar and gravel? It makes no difference. They say that this is our requirement that you have to do but we don't have to do it.

I don't think that's right. If the city says this man has to put in concrete streets, then the city's got to put in a concrete street -- for the streets they've been paid for that they haven't done yet.

I think our argument on the street is a little ridiculous because it isn't going to happen. All he is required to do is give the city the money. He is not forced to put the street in.

He can give them the money today. If they approve his complex, they don't have to fix that street until they get good and ready and it's going to stay just exactly the way it is. Think about. That's all I got to say.

MS. MEYER: Anybody else?

VOICE: Can you explain how the property taxes work? I mean, I know I pay thousands of dollars in a year for property taxes for my home in Corinth. How --

MS. MEYER: The developer will pay property tax on the appraised developed property, not what it is now. But I can't answer off the top of my head on that question, so I can't --

VOICE: Okay. But it's on full appraised value, it's not on an appraised minus --

MS. MEYER: That's correct. Yes. It's on the improved appraised value. Yes, sir? It's Kirk Armstrong.

MR. ARMSTRONG: My name is Kirk Armstrong. I live at 2600 Nash Drive. My backyard overlooks the proposed property area.

Several of my questions and issues got addressed tonight. I do have just basically four or five quick questions for Mr. Voelker. Am I pronouncing your name right?

You did a transportation study on Tower Ridge. I'm not a transportation expert. I don't sit out there with my clicker hose going across the road, clicking cars and bicycles as they go by, but I do live with my kitchen window looking at the road.

I drive a three-quarter ton four-wheel drive pickup and I won't go down that road, so the transportation study, in my personal opinion -- again, I am no expert -- maybe skewed due to the fact that people refuse to drive down that road.

The road is in severe disarray and has been since I've lived in the community.

Property taxes -- if you guys pay property taxes and it makes the school better for my daughter to go to, then more power to you. I love you to death because teachers have be eliminated from this schools in the past couple years and I came very, very close to putting my daughter into private school because of what was happening in this very place.

So if that happens, that's fine. My other question is, and this is more of a community directed question to the group, is will our property taxes considerably go up incrementally every year, if we've got the influx of monetary tax money coming in from these guys?

I would hope that our taxes will not level off somewhere because our taxes have gone up considerably and we've had to fight those on a regular basis.

I would like for you to be able to take an opportunity to explain how you just stood up here and said you are seeking community people -- I guess you could say the policemen, the firemen, the average day worker, the average community employed person to be able to live in your community -- you stood up here and that's what you said you want to be in here.

I've got prior law enforcement experience. I've been in the security and law enforcement business my entire life. My wife is a school teacher and I can tell you right now that all the police officers I know that live on my street -- my two school teachers that live next door to me -- none of them could live in your communities.

So how do you propose you want to get those kinds of people there but yet they're making too much money to live there? So if you'll answer that before we leave that would be great.

My next question is also directed toward you. Since you weren't granted your variances previously, and forgive me, there was a lot of information being transpired as you were speaking and as other people were speaking, I may have missed that -- but do you have to reapply for the variances in which you missed in the last meeting with the planning and zoning commission? Or is that a dead issue or how does that transpire going forward?

So if you'll answer that, along with the other one.

And then again, I'm not an attorney, I have no law background, but what I have read, from what I understand, the lawsuit in which you referenced with the Flower Mound situation with the Texas Supreme Court ruled in your favor or ruled in favor of the people that were dealing with that.

I also understand that Flower Mound changed the rules of the game in negotiation processes with them. They had made an agreement. They had signed documents in that agreement and then Flower Mound changed rules to the game.

If you want to address that, I may be wrong but again that's what I understood. Thank you very much.

MS. MEYER: Normally, people are only allowed to speak once but I'll ask you if you would like him to answer the questions?

VOICE: Yes, please.

MS. MEYER: Okay. Mr. Voelker.

MR. VOELKER: I'll do my best to try to remember the three questions.

MR. ARMSTRONG: I'll refresh your memory.

MR. VOELKER: I'm sure you will. Somebody else talked about the school teacher, firefighter issue.

There are -- not everybody's the same. You have school teachers who are single moms with kids. You have school teachers were one parent stays at home and/or firefighter or policemen -- one parent stays at home. The other parent works and they have two or three kids.

And so we don't deal with just one income level or just one family size. Our -- the income level that we look at in determining whether residents can live with us is based on their family size and so it's probable that a single firefighter a single school teacher, would probably over income to live in our developer.

But if they are a married or a bigger family -- let's say you have single mom with three kids who's teaching in the school district or a single dad with a couple of kids or where mom stays home with the kids, that person's income level based on their family size is going to be proportionately lower and that's what we look at.

So as I've looked at this in other communities and I don't know the specifics in Corinth or in the Lake Dallas school district, I guess, as well, but I found that there are a lot of married people and/or single parents who have kids who do qualify to live with us when they are at the entry level in the school district, the entry level on the police department, the entry level of the fire department.

So I will agree that your single firefighter, your single policemen, single school teacher will probably would not qualify. So that's the basic response that I have to that.

And on the retail side, almost all the retail employees are going to qualify just because they're all working at minimum wage and as Corinth continues to expand and it's retail base continues to expand, it's my understanding talking to the city that you all are going to get a grocery store kind of across Meadow Oaks Drive that's going to be built up in that area.

As that retail develops, all those employees will obviously need a place to live. So that's the answer to that question.

Okay. Now, refresh my memory on the other two?

MR. ARMSTRONG: Reapplying for the variances.

MR. VOELKER: Okay. Reapplying for the variances.

We're talking with the city right now about the very issue that was kind of bantered around about what the road requirements are.

Unfortunately, the law is not as clear as he stated nor as clear as he stated nor as clear as anybody in the state of Texas would really like it to be.

It's in an evolutionary process. The Flower Mound court did cities and I think the city would agree with, did the city and development community a grave disservice because basically what that court said is that you need to look at the impact that you have on the road system and you can't require a disproportionate payment based on your impact.

That's a very -- that's kind of like -- you know, they said -- the Supreme Court said about pornography -- I'll know it when I see it.

This is kind of like that. What does disproportionate impact look like? And so the Flower Mound -- I guess I could talk a little bit about the Flower Mound case.

That court case -- and you guys can go read the decision because it's out there floating around all over the Internet -- but I think it's called Stafford Development versus the town of Flower Mound.

That was a single family subdivision that bordered on a street. It had frontage along a street that went to the corner and what the city required them to do was to build both sides of just that adjacent street in concrete. To tear up the asphalt street and rebuild it in concrete.

Nothing in the court case talks about the fact that the city changed the game in the middle. What the court focused on was the fact that was there fact situation. They only had -- they city was requiring them to build both sides of the street in concrete and the court said 1) it's not the developer's responsibility to improve a city street from it's existing state, basically, asphalt in that case to concrete -- if the city just wants prettier roads or even longer lasting roads -- that's not the developer's responsibility; plus, then they only have responsibility for half the road.

And so basically what the court decided was that this town of Flower Mound got to repay that developer for having to build the other half of the road. And that court case is out there, but unfortunately, it's so amorphous --

However, if you apply it to our fact situation, we've got a 1,000 feet of frontage and we're being -- before we were being asked to build six-tenths of a mile of a road -- like 3,500 feet of concrete road both sides.

And I think that if you take a reasonable look at that court case and apply it to our fact situation, we're in an even worse situation than that fact situation there.

MR. ARMSTRONG: Concrete, asphalt, it doesn't matter to me. Okay?

What matters to me and you say -- you talked about the responsibility of the developer. If you, the developer, are providing a community for people to live in that community, they're going to have children. Those children are going to be attending this school. Okay?

This school is in direct line of sight to the development.

MR. VOELKER: And there will be a sidewalk built from this development all the way -- from the school all the way to our development.

MR. ARMSTRONG: In the planning and zoning meeting, you talked about the safety issues of curbed streets versus non-curbed streets, whether it has a sidewalk on it or not. Do you recall that?

MR. VOELKER: Right.

MR. ARMSTRONG: And we agreed as a group with all those engineers and everybody with their numbers and everything else, that a curbed street is physically safer for children.

MR. VOELKER: That was the city engineer's contention. Yes.

MR. ARMSTRONG: Okay. Do you agree with that?

MR. VOELKER: I think if the street's wide enough, whether you're curbed or not curbed, is not that significant of an issue.

MR. ARMSTRONG: Do you have children?

MR. VOELKER: Yes.

MR. ARMSTRONG: Do your children walk on a sidewalk that has a curbed street or a non-curbed street?

MR. VOELKER: Well, in Coppell, where I live, all the streets are curbed. It's just the way that it got done.

MR. ARMSTRONG: Did you choose that neighborhood because of the safety and the security that you were going to provide for your family or did you buy it because it was a cool house or what?

MR. VOELKER: That wasn't really the issue for me at that time.

MR. ARMSTRONG: My point is a curbed street, in my opinion, as is the opinion -- and I'm not speaking for everybody -- but the thing I'm getting from everyone is a curbed street is much safer than an non-curbed street because it creates a barrier between the barrier and the occupant on the sidewalk.

MR. VOELKER: There are other ways to create that barrier. Yes. I agree that the barriers are important but well a lot of times on asphalt streets you have drainage along -- because you can't have put curbs on an asphalt street because it creates -- asphalt doesn't hold water very well. It tears up the street as you all know from a lot of the streets around here.

MR. ARMSTRONG: Which brings us back to the concrete street.

MR. VOELKER: Yes. But that's why you don't put curbs on an asphalt street because you want the water to run off the street and that's why usually have a bar ditch just between the sidewalk and the street.

That's a cool one. I like that. I can't remember if there was another question you had or not.

MR. ARMSTRONG: You pretty much took care of the all.

VOICE: You do have to start over though with the city.

MR. VOELKER: Oh, yes.

VOICE: As far as reapplying for all the variances?

MR. VOELKER: Absolutely, we've resubmitted all our plans and all that stuff.

VOICE: So you guys have -- it's been moved -- like I said, I'm not trying to bust you guys' butt too much. Like I said, I'm trying to find out -- so the variances I didn't care for. Again, the concrete roads, like I said, fair is fair and that's what we'll leave it on.

But again if we have to lean on the mayor to see if we can get the other half of the road made out of concrete, than that's what I think --

MS. MEYER: Okay. Is there anybody else? Okay. Seeing that there's no hands and there's no papers flying at me, I will conclude the hearing and it is now

7:32. And we are adjourned.

(Whereupon, at 7:32 p.m., the hearing was adjourned.)

C E R T I F I C A T E

MEETING OF: TDHCA Public Hearing
Multifamily Housing Revenue Series 2005

LOCATION: Corinth, Texas

DATE: February 8, 2005

I do hereby certify that the foregoing pages, numbers 1 through 76, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Judy Farnsworth before the Texas Department of Housing and Community Affairs.

2/14/2005
(Transcriber) (Date)

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

**PROGRAMS COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, 4th Floor Boardroom, Austin, Texas 78701**
**Thursday, April 7, 2005 10:30 a.m.**

**A G E N D A**

| | |
|---|---|
| **CALL TO ORDER, ROLL CALL**<br>**CERTIFICATION OF QUORUM** | C. Kent Conine<br>Committee Chair |

**PUBLIC COMMENT**
The Programs Committee of the Board of the Texas Department of Housing and Community Affairs will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Committee.

The Programs Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

| | | |
|---|---|---|
| Item 1 | Presentation, Discussion and Possible Approval of Minutes of Programs Committee Meeting of February 10, 2005 | C. Kent Conine |
| Item 2 | Discussion on Section 8 Housing Choice Voucher Program | Edwina Carrington |

| | |
|---|---|
| **EXECUTIVE SESSION**<br>If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session | C. Kent Conine |
| **OPEN SESSION**<br>Action in Open Session on Items Discussed in Executive Session | C. Kent Conine |
| **ADJOURN** | C. Kent Conine |

*To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin, Texas 78701, 512-475-3934 and request the information.*

*Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Delores Groneck, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.*

*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

**PROGRAMS COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437, Austin, Texas 78701**
**February 10, 2005 9:30 a.m.**

**Summary of Minutes**

**CALL TO ORDER, ROLL CALL**
**CERTIFICATION OF QUORUM**
The Programs Committee Meeting of the Texas Department of Housing and Community Affairs of February 10, 2005 was called to order by Chairman C. Kent Conine at 9:35 a.m. It was held at 507 Sabine, Room 437, Austin, Texas. Roll call certified a quorum was present. Beth Anderson was absent.

Members present:
C. Kent Conine -- Chair
Vidal Gonzalez – Member

Staff of the Texas Department of Housing and Community Affairs was also present.

**PUBLIC COMMENT**
Chair C. Kent Conine called for public comment and no one wished to give comments.

**ACTION ITEMS**

**(1) Presentation, Discussion and Possible Approval of Minutes of Programs Committee Meeting of November 12, 2004**
Motion made by Vidal Gonzalez and seconded by C. Kent Conine to approve the minutes of the Finance Committee Meeting of November 12, 2004.
Passed Unanimously

**(2) Discussion on SOPs Regarding Declaration of Events of Default on Multifamily Obligations and the Creation of the New Asset Management Committee**
Ms. Carrington stated the Department formed an Ad Hoc Committee on Asset Management that included senior staff members who have areas of responsibility related to asset management in the multi-family developments. This group meets twice a month.

The Department created this committee to be a step ahead of transactions primarily financed with the HOME Program that were experiencing leasing difficulties and/or completion difficulties. This committee consists of the Deputy Executive Director, Chief of Agency Administration, Director or Real Estate Analysis, Director of PMC, Director of Multi Family Finance Production, Director of Financial Administration, Real Estate Attorney and other staff as designated by the Executive Director. The only staff designated by Ms. Carrington was Tim Irvine, who is the Executive Director of Manufactured Housing. Mr. Irvine was elected to serve as Chair of the Asset Management Oversight Committee. This group has developed a Standard Operating Procedure on Declaration of Events of Default on Multifamily Obligations.

Tim Irvine, Chair of Committee and Executive Director of Manuf. Housing stated he also serves as consultant to TDHCA. He was asked to become involved with the issue of how to proactively manage and identify problems in the multifamily portfolio. The Department needed to refine the management report. Good management reports have been developed to identify issues early. They devised a policy covering a multi-family transaction being identified with an issue of non compliance that this constitutes an event of default under the documents. This puts the Department in the proactive job of managing these assets from the earliest possible moment. They are working to identify these problem issues early on and to solve them. The Committee works out the recommendations and gives them to the Executive Director for appropriate decisions. Problems were addressed before this Committee was formed but this is making it more systematic.

Tom Gouris, Director of Real Estate Analysis, stated this Committee will help the Department to be more proactive in analyzing transactions before they get to the workout situation. They are twenty-three transactions that are in some form of workout at this time.

Motion made by Vidal Gonzalez and seconded by C. Kent Conine to recommend to the full Board that this is a good idea and was recommended by this Programs Committee.
Passed Unanimously

**EXECUTIVE SESSION**

If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

There was no Executive Session held.

**ADJOURN**

The meeting adjourned at 10:00 a.m.

Respectfully submitted,

Delores Groneck, Board Secretary

pcminfeb/dg

**COMMUNITY AFFAIRS DIVISION**

**PROGRAMS COMMITTEE**
**APRIL 7, 2005**

**Discussion Item**

# Section 8 Housing Choice Voucher Administrative Fee Spreadsheet

**Background**

At the Texas Department of Housing and Community Affairs Board meeting of February 10, 2005, the Board asked staff to determine the administration fees that local operators would earn for administering Housing Choice Vouchers if local operators became U. S. Department of Housing and Urban Development-(HUD) certified Public Housing Authorities (PHAs). HUD determines the administrative fees, which vary by county.

Section 8 staff prepared the attached "Administrative Fee by Local Operator" spreadsheet, which includes: location of vouchers administered; county in which the Department administers vouchers; the number of vouchers administered by each local operator; the administrative fee earned by the Department for each voucher administered; the monthly and yearly total administrative fee earned by the Department on that number of vouchers; and the local operator signature authority.

# Administrative Fee by Local Operator

| Location | County | Vouchers | HUD Admin Fee | Mo. Total | Yearly Total | Signature Authority |
|---|---|---|---|---|---|---|
| Lytle | Atascosa | 12 | $ 40.80 | **$ 490.00** | **$ 5,880.00** | City of Lytle/ Judge Horace Fincher |
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| | | | | | | |
| Bosque Co. | Bosque | 18 | $ 40.80 | **$ 735.00** | **$ 8,820.00** | Bosque County/ Judge Cole Word |
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| | | | | | | |
| Sweeny | Brazoria | 27 | $ 52.62 | **$ 1,421.00** | **$ 17,052.00** | City of Sweeny/ City Manager Tim Moss |
| | | | | | | |
| | | | | | | |
| Bertram | Burnet | 14 | $ 40.80 | **$ 572.00** | **$ 6,864.00** | Williamson Burnet County Opportunity Inc/ Executive Director |
| Marble Falls | Burnet | | | | | Williamson Burnet County Opportunity Inc/ Executive Director |
| | | | | | | |
| | | | | | | |
| Caldwell Co. | Caldwell | 31 | $ 53.71 | **$ 1,665.00** | **$ 19,980.00** | Community Action Inc.Hays Caldwell Co/ED Corina Jaimes |
| | | | | | . | |
| | | | | | | |
| Anahuac | Chambers | 33 | $ 48.72 | **$ 1,608.00** | **$ 19,296.00** | Chamber County/ Judge Jimmy Silvia |
| | | | | | | |
| | | | | | | |
| Colorado Co. | Colorado | 35 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| Weimar | Colorado | 10 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| Giddings | Lee | 25 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| Lee | Lee | 4 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| Lexington | Lee | 9 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| Sealy | Austin | 14 | $ 40.89 | | | Combined Community Action/ Exec Dir Rhoda Gersh |
| | | **97** | | **$ 3,967.00** | **$ 47,604.00** | |
| | | | | | | |
| Comanche Co. | Comanche | 52 | $ 40.80 | **$ 2,122.00** | **$ 25,464.00** | Comanche County/ Judge Arthur |
| | | | | | | |
| | | | | | | |
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| Pilot Point | Denton | 7 | $ 55.08 | **$ 386.00** | **$ 4,632.00** | City of Pilot Point/City Administrator Carolyn Boerner |
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# Administrative Fee by Local Operator

| Location | County | Vouchers | HUD Admin Fee | Mo. Total | Yearly Total | Signature Authority |
|---|---|---|---|---|---|---|
| | | | | | | |
| Sanger | Denton | 20 | $ 55.08 | **$ 1,102.00** | **$ 13,224.00** | City of Sanger/ Mayor Tommy Kincaid |
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| | | | | | | |
| | | | | | | |
| Ennis | Ellis | 65 | $ 55.08 | **$ 3,581.00** | **$ 42,972.00** | City of Ennis/Mayor Russell Thomas |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Italy | Ellis | 10 | $ 55.08 | **$ 551.00** | **$ 6,612.00** | City of Italy/ Mayor Frank Jackson |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Waxahachie | Ellis | 81 | $ 55.08 | **$ 4,462.00** | **$ 53,544.00** | City of Waxahachie/ City Manager Robert Sokoll |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Dublin HA | Erath | 48 | $ 40.80 | **$ 1,959.00** | **$ 23,508.00** | Dubin Housing Authority/ Dee Zachary Executive Director |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Falls Co. | Falls | | $ 40.80 | | | Falls County/ Judge Thomas Sehon |
| Marlin | Falls | | $ 40.80 | | | Falls County/ Judge Thomas Sehon |
| Rosebud | Falls | | $ 40.80 | | | Falls County/ Judge Thomas Sehon |
| Kosse | Limestone | | $ 40.80 | | | Falls County/ Judge Thomas Sehon |
| | | 127 | | **$ 5,182.00** | **$ 62,184.00** | |
| | | | | | | |
| | | | | | | |
| Fairfield | Freestone | 2 | $ 40.80 | | | City of Teague/ Jeff Looney City Manager |
| Freestone Co. | Freestone | 1 | $ 40.80 | | | City of Teague/ Jeff Looney City Manager |
| Teague | Freestone | 14 | $ 40.80 | | | City of Teague/ Jeff Looney City Manager |
| | | 17 | | **$ 694.00** | **$ 8,328.00** | |
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# Administrative Fee by Local Operator

| Location | County | Vouchers | HUD Admin Fee | Mo. Total | Yearly Total | Signature Authority |
|---|---|---|---|---|---|---|
| Galveston Co. | Galveston | 201 | $ 47.32 | | | Galveston County Community Action/ ED Norma Mitchell |
| Needville | Galveston | 22 | $ 48.72 | | | Galveston County Community Action/ ED Norma Mitchell |
| | | 223 | | **$10,584.00** | **$ 127,008.00** | |
| | | | | | | |
| | | | | | | |
| Jim Wells Co | Jim Wells ( | 8 | $ 40.80 | **$ 327.00** | **$ 3,924.00** | Jim Wells County/ Irma Cuellar Executive Director |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Alvarado | Johnson | 24 | $ 51.31 | **$ 1,232.00** | **$ 14,784.00** | City of Alvarado/Mary Daly Manager |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Keene | Johnson | 60 | $ 51.31 | **$ 3,079.00** | **$ 36,948.00** | City of Keene/Mayor Gary Heinrick |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Kerrville | Kerr | 10 | $ 40.80 | | | South Central Texas Community Action/ E.D. Louis Ramirez |
| Marion | Guadalupe | 5 | $ 47.22 | | | South Central Texas Community Action/ E.D. Louis Ramirez |
| Hondo | Medina | 81 | $ 40.80 | | | South Central Texas Community Action/ E.D. Louis Ramirez |
| Natalia | Medina | 4 | $ 40.80 | | | South Central Texas Community Action/ E.D. Louis Ramirez |
| | | 100 | | **$ 4,113.00** | **$ 49,356.00** | |
| | | | | | | |
| | | | | | | |
| George West | Live Oak | 8 | $ 40.80 | **$ 327.00** | **$ 3,924.00** | City of George West/ Mayor August Caron |
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| Llano | Llano | 10 | $ 40.80 | **$ 408.00** | **$ 4,896.00** | Llano Housing Authority/Tiffany Saylor ED |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Mason | Mason | 8 | $ 40.80 | **$ 408.00** | **$ 4,896.00** | Mayor Connie Stockbridge |

# Administrative Fee by Local Operator

| Location | County | Vouchers | HUD Admin Fee | Mo. Total | Yearly Total | Signature Authority |
|---|---|---|---|---|---|---|
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| | | | | | | |
| | | | | | | |
| McGregor | McLennan | 36 | $ 41.29 | **$ 1,487.00** | **$ 17,844.00** | City of McGregor/ Interim City Manager Dennis Mc Duffy |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Blooming Grove | Navarro | 11 | $ 40.80 | **$ 449.00** | **$ 5,388.00** | City of Blooming Grove/ Mayor Boyd Bryant/call City Secretary |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Kerens | Navarro | 7 | $ 40.80 | **$ 286.00** | **$ 3,432.00** | City of Kerens/ Mayor Gail Christie |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Nueces Co | Nueces | 8 | $ 48.14 | **$ 337.00** | **$ 4,044.00** | Nueces County Community Action/Rudy Cantu CS Director |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Hearne | Robertson | 58 | $ 47.32 | **$ 2,745.00** | **$ 32,940.00** | Brazos Valley Development Council/ T. Wilkinson/G. McGowan |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Hempstead | Waller | 33 | $ 48.72 | | | Waller County/ Judge Ralston |
| Prairie View | Waller | 13 | $ 48.72 | | | Waller County/ Judge Ralston |
| Waller | Waller | 53 | $ 48.72 | | | Waller County/ Judge Ralston |
| | | 99 | | **$ 4,824.00** | **$ 57,888.00** | |
| | | | | | | |
| | | | | | | |
| Wharton | Wharton | 34 | $ 40.89 | **$ 1,391.00** | **$ 16,692.00** | City of Wharton/ City Manager, Andres Garza Jr. |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| El Campo HA | Wharton | 69 | $ 40.89 | **$ 2,822.00** | **$ 33,864.00** | El Campo Housing Authority/Executive Director Robert Anderson |

# Administrative Fee by Local Operator

| Location | County | Vouchers | HUD Admin Fee | Mo. Total | Yearly Total | Signature Authority |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Crockett Co. | Crockett | 25 | $ 40.80 | **$ 1,020.00** | **$ 12,240.00** | No Lo contract |
| | | | | | | |
| Rockport | Aransas | 29 | $ 40.80 | **$ 1,184.00** | **$ 14,208.00** | No Lo contract |
| | | | | | | |
| Alton | Hidalgo | 12 | $ 41.38 | **$ 497.00** | **$ 5,964.00** | No Lo contract |
| | | | | | | |
| Menard | Menard | 7 | $ 40.80 | **$ 286.00** | **$ 3,432.00** | No Lo contract |
| | | | | | | |
| El Dorado | Schleicher | 12 | $ 40.80 | **$ 490.00** | **$ 5,880.00** | No Lo contract |
| | | | | **$68,793.00** | **$ 825,516.00** | |

**COMMUNITY AFFAIRS DIVISION**

**PROGRAMS COMMITTEE**
**APRIL 7, 2005**

## Discussion Item

## Section 8 Housing Choice Voucher Survey Summary

## Background

At the direction of the Board of the Texas Department of Housing and Community Affairs (the Department), Department staff updated a survey previously conducted and presented to the Board in August 2004. The expanded Housing Choice Voucher Survey includes local operators and Community Action Agencies and Councils of Governments that serve the counties in which the Department administers Housing Choice Vouchers, and the major public housing authorities in the three U. S. Department of Housing and Urban Development (HUD) areas. Community Affairs staff provided the necessary information for the survey, including the script for the calls, the number of vouchers administered by each local operator, and pertinent information for Local Operators, Community Action Agencies, Councils of Governments and the large urban Public Housing Authorities.

The survey asked the following question: "In the event that the Department (TDHCA) decided to relinquish its Housing Choice Voucher Program, would you be interested in being certified as a Public Housing Authority by HUD and administering <insert number of vouchers in the specific region> vouchers?"

The Division of Policy and Public Affairs conducted the initial survey for the Department on March 22 and 23, 2005, and submitted the preliminary report on March 23, 2005. Staff has continued to make follow-up calls to those organizations that did not respond during the initial survey. The survey spreadsheet contains the results of the survey as of Tuesday, March 30, 2005.

# Housing Choice Voucher Survey
## Local Operators

| Organization | Signature | Org Type | # of | Response | Comment |
|---|---|---|---|---|---|
| City of Sanger | Kincaid | LO | 20 | Left Message | |
| Comanche County | Judge Arthur | LO | 52 | Left Message | |
| City of Blooming Grove | Hollingsworth | LO | 11 | Left Message | |
| City of Keene | Mayor Gary Heinrick | LO | 60 | Left Message | |
| City of Lytle | Judge Fincher | LO | 12 | Left Message | |
| Falls County | Sehan | LO | 127 | No | |
| City of Kerens | Joe Baxter | LO | 7 | No | |
| City of McGregor | Dennis McDuffy | LO | 36 | No | |
| City of George West | Mayor August Caron | LO | 8 | No | |
| City of Wharton | Andres Garza, Jr. | LO | 34 | No 03/28/05 | |
| El Campo HA | Robert Anderson | LO | 69 | No 03/29/05 | |
| Jim Wells County | Judge Arnold Sines | LO | 8 | No 03/30/05 | |
| City of Pilot Point | | LO | 7 | No Acting City Admin 03/30/05 | There currently is no signature authority 03/30/05 |
| County | Corina Jaimes | LO | 31 | No 03/30/05 | |
| Bosque County | Judge Word | LO | 18 | Wants written Sec 8 info 03/30/05 | Staff faxed information 3/31/05 |
| Dublin HA | Dee Zachary | LO | 48 | Left message 03/30/05 and 3/31/05 | Believes that Brownwood HA would be interested. |
| City of Ennis | Mayor Russell Thomas | LO | 65 | Yes | Recommends the program stays as it is. Would only take it over if there was no choice. |
| Chambers County | Jimmy Silvia | LO | 33 | Yes | Would need to know more. |
| City of Sweeny | Tim Moss | LO | 27 | Yes | |
| Combined Caa | Rhoda Gersh | LO | 97 | Yes | Definitely Interested |
| City of Italy | Jackson | LO | 10 | Yes | |
| Mason | Karen Scantland | LO | 8 | Yes | |
| Llano HA | Tiffany Saylor | LO | 10 | Yes | |
| Nueces County CAA | Rudy Cantu | LO | 8 | Yes | How many vouchers? Would they all be applied to rural communities? Fee for Service performed? PHA- what does this entail? |
| Waller County | Judge Ralston | LO | 99 | Yes | It would be a court decision. He would try to continue the program. |

## Housing Choice Voucher Survey
## Local Operators

| Organization | Signature | Org Type | # of | Response | Comment |
|---|---|---|---|---|---|
| City of Alvarado | Mary Daly | LO | 24 | Yes | Only if admin funds were available |
| Council | Gloria McGowan | LO | 58 | Yes | |
| Opp. | Andrew Shell | LO | 14 | Yes 03/28/05 | |
| South Central Texas CAA | Louis Ramirez | LO | 100 | Yes 03/28/05 | Serves 11 counties currently |
| City of Teague | Jeff Looney | LO | 17 | Yes 03/28/05 | |
| Galveston County CA | Norma Mitchell | LO | 223 | Yes 03/29/05 | |
| | | | | **Total Yes -15** | |
| | | | | **Total No - 8** | |
| | | | | **Total Left Messages - 6** | |
| | | | | **"Other" - 2** | |
| | | | | **Total LOs Called - 31** | |

# Housing Choice Voucher Survey
## Community Action Agencies

| Organization | Signature Authority | Org Type | # of Vouchers | Response | Comment |
|---|---|---|---|---|---|
| Hill Country CAA | Tama Shaw | CAA | 18 | No | |
| Dallas Inter-Tribal | Dr. Rodney Stapp | CAA | 267 | No 3/28/05 | |
| Central Texas Opp. | Claudia Cowley | CAA | 52 | Yes | |
| Com Council of S Cntrl Tx | Louis Ramirez | CAA | 100 | Yes | Currently serve 11 counties |
| Hidalgo County CSA | Mirabel Navarro-Saenz | CAA | 12 | Yes | Yes if there are funds included for administering them |
| Com Action Corp of S Texas | Rafael Travino | CAA | 8 | Yes | Would like to know more about what's involved. |
| Brazos Valley Dev Council | Betty Steelman | CAA | 58 | Yes | Tentative, would Like more detailed information about how the program will be administered and the funding. |
| Bee CAA | Anna Simo | CAA | 37 | Yes | Only if admin funds were available |
| Community Services | Pauletta Hines | CAA | 18 | Yes 03/28/05 | |
| EOAC | Johnette Hicks | CAA | 198 | Yes 03/28/05 | Only if admin funds were available |
| Texas Neighborhood Services | Woodrow Kaiser | CAA | 48 | Yes 03/29/05 | |
| Concho Valley CAA | Sidney Mabry | CAA | 48 | Yes 03/30/05 | Rural Areas of Concho Valley Only |
| | | | | **Total Yes - 10** | |
| | | | | **Total No - 2** | |
| | | | | **Total CAAs Called - 12** | |

## Housing Choice Voucher Survey
## Councils of Government

| Organization | Signature Authority | Org Type | # of | Response | Comment |
|---|---|---|---|---|---|
| City of Abilene (Administers for WCTCOG) | Roberta | COG | 52 | Yes 03/28/05 | Would like to know more |
| Alamo Area Council of Gov't | Enrique Trejo | COG | 107 | Yes 03/28/05 | Would like to know more |
| Houston Galveston Area Council | Chris McGowan | COG | | No | |
| | | | | **Total No - 1** | |
| | | | | **Total Yes - 2** | |
| | | | | **Total COGs Called - 3** | |

# Housing Choice Voucher Survey
## Public Housing Authorities

| Organization | Signature Authority | Org Type | # of Vouchers | Response | Comment |
|---|---|---|---|---|---|
| Bexar County Housing Authority | Laura Morales | PHA | 251 | Left Message | |
| San Antonio Housing Authority | Henry Alvarez | PHA | 251 | Left Message | |
| Dallas County Housing Authority | Zachary Thompson | PHA | 635 | Yes 03/29/05 | |
| Dallas Housing Authority | Ann Lott | PHA | 635 | Yes 03/29/05 | |
| Tarrant County Housing Authority | Joyce Beasley | PHA | 635 | Yes 03/29/05 | |
| Fort Worth Housing Authority | Barbara Holsten | PHA | 635 | Yes 03/28/05 | |
| Houston Housing Authority | Ernie Etuk | PHA | 1176 | Yes 03/28/05 | |
| Harris County Housing Authority | David Turkel | PHA | 1176 | Yes | |
| | | | | **Total Yes -6** | |
| | | | | **Total No - 0** | |
| | | | | **Total Left Messages -2** | |
| | | | | **Total PHAs Called - 8** | |

**OFFICE OF COLONIA INITIATIVES**

**BOARD ACTION REQUEST**
**APRIL 7, 2005**

## Action Item

Request approval of awards for FY 2005 Texas Bootstrap Loan Program

## Required Action

Review and approve the Recommended Awards

## Background

The Texas Bootstrap Loan Program is required under Subchapter FF, Chapter 2306, Texas Government Code, to make available $3 million for mortgage loans to very low-income families (60% Area Median Family Income) not to exceed $30,000 per unit. This program is a self-help construction program, which is designed to provide very low-income families an opportunity to help themselves in attaining homeownership through sweat equity. All participants under this program are required to provide at least 60 percent of the labor that is necessary to construct or rehabilitate the home. All applicable building codes under this program must be adhered to. In addition, nonprofit organizations can combine these funds with other sources such as funds from private lending institutions, local governments, etc. However, all combined loans cannot exceed $60,000 per unit.

The Department is required to set aside at least two-thirds (2/3) of the available funds for owner-builders whose property is located in a county that is eligible to receive financial assistance under Subchapter K, Chapter 17, Water Code. The majority of the counties are located along the Texas-Mexico border region. The remainder of the funding, one-third (1/3) is made available to Department certified nonprofit Owner-Builder Programs Statewide.

On November 18, 2004, the Department announced the availability of approximately $3 million from the Housing Trust Fund to implement the FY 2005 Texas Bootstrap Loan Program. (However, due to the availability of additional funds through bond refunding, staff is recommending projects that total $3,432,000.) The deadline for submission of applications was January 14, 2005 at 5:00 p.m.. The Department received eighteen (18) applications requesting over $5.5 million.

Rider 12, General Appropriations Act, 78th Legislative Session, directs the Department to transfer any funds acquired through refinancing of bonds to the Housing Trust Fund. Each fiscal year, the first $3 million in savings from the refinancing of any bonds shall be used to fund mortgage loans under the Texas Bootstrap Loan Program. The Department has acquired this fiscal year through refunding of bonds $1,190,841, all of which staff recommends be utilized for the 2005 funding cycle.

During the months of February and March 2005, the Department reviewed and scored the applications received.

## Recommendation

Request approval to award $3,432,000 in Housing Trust Funds ($2,241,159/General Revenue and $1,190,841/bond refunding proceeds) to the following organizations for the FY 2005 Texas Bootstrap Loan Program for construction and/or rehabilitation of single family housing units for very low-income families. The Department continues to meet the 2/3 funding requirement under Subchapter FF, Chapter 2306, Texas Government Code with the $432,000 increase. Therefore, the Department is recommending ten (10) out of the eighteen (18) applicants based on the following criteria; Operational Capability and Experience, Financial Design, Quality of Program Design, Leveraging of Public/Private Resources, and Underserved Areas or Population.

RECOMMENDING:

| **Economically Distressed Areas** | **Amount Awarded** | **Admin. Fee** | **Amount Recommended** | **# of Units Committed** |
|---|---|---|---|---|
| Lower Valley Housing Corporation | $600,000 | $24,000 | $624,000 | 30 |
| Habitat for Humanity of Laredo, Inc. | $210,000 | $8,400 | $218,400 | 7 |
| Val Verde County Colonia Self-Help Center/Del Rio Housing Authority | $150,000 | $6,000 | $156,000 | 5 |
| Habitat for Humanity in Victoria, Jim Wells and DeWitt County | $480,000 | $19,200 | $499,200 | 16 |
| Futuro Communities, Inc. | $300,000 | $12,000 | $312,000 | 10 |
| El Paso Community Action Program, Project Bravo, Inc. | $300,000 | $12,000 | $312,000 | 10 |
| Rio Grande Habitat for Humanity, Inc. | $150,000 | $6,000 | $156,000 | 5 |
| **TOTAL** | **$2,190,000** | **$87,600** | **$2,277,600** | **83** |

| **1/3 Statewide Applicants** | **Amount Awarded** | **Admin. Fee** | **Amount Recommended** | **# of Units Committed** |
|---|---|---|---|---|
| Waco Habitat for Humanity, Inc. | $150,000 | $6,000 | $156,000 | 5 |
| Bryan/College Station Habitat for Humanity, Inc.. | $360,000 | $14,400 | $374,400 | 12 |
| Dallas Area Habitat for Humanity | $600,000 | $24,000 | $624,000 | 20 |
| **TOTAL** | **$1,110,000** | **$44,400** | **$1,154,400** | **37** |
| | | | | |
| **GRAND TOTAL** | **$3,300,000** | **$132,000** | **$3,432,000** | **120** |

NOT RECOMMENDING

| Applicants | Project Location |
|---|---|
| Habitat for Humanity of San Jacinto County, Inc. | San Jacinto County |
| Plano Area Habitat for Humanity | Collin County |
| McKinney Habitat for Humanity dba North Collin County Habitat for Humanity | Collin County |
| Habitat for Humanity Fredricksburg | Gillespie County |
| Bay Area Habitat for Humanity – Houston, Inc. | Galveston County |
| Jubilee Park and Community Center | Dallas County |
| Organizacion Progresiva De San Elizario | El Paso County |
| Community Action Social Services & Education, Inc. | Maverick County |

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Items

Request for forgiveness of repayment for Housing Trust Fund Predevelopment Loans.

## Required Action

Approve or deny the forgiveness of two requests for forgiveness of repayments to the Housing Trust Fund Predevelopment Loan Program.

## Background

**Accessible Communities, Inc. – Loan # 851020-ACI**

On March 1, 2002 the Department entered into a loan agreement with Accessible Communities, Inc. (ACI) to provide $32,287 in predevelopment costs for four units of transitional housing for persons with disabilities to be developed in two separate phases. The loan was due upon completion of the development, or March 1, 2004, whichever date came first.

The Department notified ACI in March of 2004 that the note was past due and received a response requesting that the loan be forgiven. ACI informed the Department that they had completed the acquisition and construction of two units of transitional housing planned under phase one of the Development, but had not completed phase two because of feasibility concerns.

Phase one of the development had used $10,080 in HTF predevelopment funds to complete architectural plans, surveys and other predevelopment expenses. ACI was awarded permanent financing for phase one from the City of Corpus Christi. After reviewing draw requests to the City, it appears that ACI did not request reimbursement for any predevelopment costs, nor were the costs included in the total grant amount from the City's HOME grant.

Phase two of the development had used $22,207 in HTF predevelopment funds to complete architectural plans, survey and environmental assessments for the second development site. However, due to difficulties in securing permanent financing and feasibility concerns phase two was never completed.

## Recommendation for Accessible Communities, Inc.

In accordance with article §16.5 of the Predevelopment Program Administrator's contract a borrowing entity may request that repayment be waived by submitting such request to the TDHCA Board of Directors. The TDHCA Board may only waive repayment of the loan if there are impediments to the project development that the Board determines are reasonably beyond the control of the borrowing entity. In this case, ACI was only able to complete phase one of the development and although phase one has never been occupied, staff does not recommend forgiveness of the HTF funds used by ACI for this phase. However, staff does recommend that the Board grant forgiveness in the amount of $22,207 to ACI for phase two of the Development, since it was unable to be completed.

If the Board approves Staff's recommendations, ACI will receive an amendment to the their current note allowing them to repay the balance of $10,080, used to complete phase one of the development, over an 18 month period. Payments may be made on a monthly basis or as a lump sum. The entire balance will be due 18 months from the effective date of the amendment and no further amendments will be allowed to the terms of the note. Judy Telge, Executive Director of ACI, communicated with staff by phone that these terms were acceptable to ACI's Board of Directors.

**East Austin Economic Development Corporation - Loan # 851020-EAEDC**

In July 2002 the Department approved a Housing Trust Fund Predevelopment Loan in the amount of $50,000 to East Austin Economic Development Corporation (EAEDC) for predevelopment costs associated with the construction of a twenty unit elderly housing development located in Lockhart, Texas. The repayment of these funds was identified as coming from a HOME Investment Partnerships Program loan (#531103), provided by the Department, in the amount of $999,890 for construction and permanent financing. EAEDC has repaid $20,000, leaving a balance on their predevelopment loan of $30,000.

In May of 2004, the Department received a letter from EAEDC requesting forgiveness of the remaining $30,000 balance. The request noted that the development was completed, but faced difficulty in leasing, and that management and operating costs had taken all available cash flow from the Development. In June 2004, the Board reviewed this request and directed staff to work with EAEDC on resolving outstanding concerns regarding the Department's HOME and HTF loans.

Since June, the Department's staff has met with representatives from East Austin Economic Development on several occasions to resolve outstanding financial concerns associated with the development. Staff also conducted an internal review of expenditures and draws requested under both the HOME and Housing Trust Fund loans. Our records show that the original Predevelopment Loan budgeted $50,000 for Housing and Consulting Fees, Engineering Fees and Studies, Architectural Fees, and Engagement of the Development Team (see table 1).

| **Predevelopment Expenses** | **HTF Budget** | **First HOME Draw – 10/9/02** | **Cumulative HOME Draws** |
|---|---|---|---|
| Housing and Consulting Fees | $15,000 | $16,800 | $28,502 |
| Engineering Fees and Studies | $15,000 | $15,000 | $15,000 |
| Architectural Fees | $10,000 | $25,000 | $29,173 |
| Engagement of Development Team | $10,000 | $0 | $65,080 |
| **Totals** | **$50,000** | **$56,800** | **$137,755** |

The Department found that EAEDC requested $56,800 for approved predevelopment expenses with their first draw for HOME funds, on Oct 9, 2002. EAEDC drew down $137,755 in eligible predevelopment expenses under their HOME loan agreement but did not repay the $30,000 predevelopment loan due to the Housing Trust Fund.

Staff has continued to work with EAEDC and has determined that the organization has failed to repay $30,000 in Housing Trust Fund predevelopment loan funds associated with Medina Courts Apartments, for which it has been fully reimbursed through permanent financing. EAEDC has provided little proof as to why they have been unable to repay the either the predevelopment loan or their permanent financing other than citing difficulty in leasing up the property and lower than anticipated rents.

With these facts established, staff presented EAEDC with a proposal to amend the terms and conditions regarding an amendment to the HTF predevelopment loan. The Department offered to amend the HTF loan terms to allow EAEDC to pay the balance of $30,000 over one year at a rate of 0% interest. The funds for repayment of this loan could not be derived from the Medina Court operating budget, and should be a liability only to the corporation. The Department also requested that EAEDC provide a full accounting of income and expenses for Medina Courts for each month since the development has been occupied, and on an ongoing basis.

On March 4th the Department received a response from EAEDC which noted that the Board members of corporation would not be able to meet until March 23rd to take up this matter and that they would begin sending monthly financial statements for Medina Courts. Staff also spoke with Mr. Johnson on March 24th, and was told that no other decisions had been made since EAEDC's Board had canceled the meeting scheduled for the 23rd and were in the process of rescheduling.

**Recommendation for East Austin Economic Development Corp.**

**It is staff's recommendation that the balance of $30,000 due to the Housing Trust Fund Predevelopment Loan not be forgiven.** East Austin Economic Development has received payment from permanent financing sources sufficient to repay the Housing Trust Fund loan; in essence they have been paid twice for these costs. Additionally, the causes for development cost overruns, including leasing the development in a timely manner and operating costs, are not eligible Predevelopment Loan expenses and should have no bearing on the eligibility for forgiveness.

If the Board accepts staff's recommendation, the Department will demand payment of the predevelopment loan balance in full through a notice of default to the corporation. This action should have no effect on EAEDC's ability to continue working with the Department to renegotiate the terms and conditions of their permanent financing.

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Items

Approve or deny request for waiver of the Integrated Housing Rule, 10 TAC §1.15.

## Required Action

Approve or deny a waiver of the Department's Integrated Housing Rule for predevelopment loan applicant.

## Background

The Department received a request from Denton Affordable Housing Corporation, through its predevelopment loan program Administrator, Texas Community Capital, to utilize Housing Trust Fund predevelopment loan funds for the purpose of developing a 10 unit rental development for persons with disabilities. The Development would be funded through permanent financing from HUD's Section 811 program. Staff, the Applicant and Administrator conducted a conference call in January 2005 to discuss the features and form of the proposed development. Through that discussion it was determined that the Applicant was proposing to develop 5 single family duplex units, located on adjacent development sites. The sites are located within a larger subdivision that will include single family homes for homeownership.

In staff's consideration of the proposal, it was noted that the development would not meet the Department's Integrated Housing Rule (10 T.A.C. §1.15). In the rule an exception exists for properties that are considered scattered site developments (10 T.A.C. §1.15(d)(1)); however, staff was informed that all 5 duplex units would be located on adjacent sites in one particular area of the development site.

Staff inquired as to the feasibility of scattering the units throughout the subdivision, but it was communicated by the Applicant that such a move would be infeasible. The Applicant also noted that, in their opinion, the Development was integrated into the greater neighborhood because the 5 duplex units would be surrounded by single family dwellings. The Department's rules do not provide for this type of exception to the integrated housing standard. The Board may waive the requirements of this rule to further the purposes or policies of Chapter 2306, Texas Government Code, or for other good cause (10 T.A.C. §1.15(e)).

## Recommendation

Staff does not recommend approval of a waiver of the Integrated Housing Rule, because the proposed Development does not meet the standard for an exception.

It should be noted that if the board chooses to grant a waiver it would not constitute an award of predevelopment funds to the Applicant. The Department has only recently received a full application for the predevelopment loan from Texas Community Capital and consideration of the loan has not occurred.

**MULTIFAMILY FINANCE PRODUCTION DIVISION**

**BOARD ACTION REQUEST**

**April 7, 2005**

## Action Items

Request consideration and approval of HOME CHDO Rental Development Award

## Required Action

Approve HOME CHDO Rental Development Award to Affordable Housing of Parker County

## Background

The Department received an application for HOME CHDO Rental Development funds from Affordable Housing of Parker County in October 2004, under the 2004 HOME CHDO Open Cycle NOFA for Rental Development, which closed on November 14, 2004. The application has been reviewed for CHDO certification, threshold criteria and underwriting. Staff is now recommending this development to the Board for funding.

The Development is located in Bridgeport, Wise County, Texas on approximately 2.5 acres of land. The Development is part of a multiphase plan that includes three previous phases totaling 30 units of duplex housing targeted to Elderly residents. Phase one and two were funded by TDHCA with Housing Trust Funds and HOME funds, respectively.

The current phase before the Board includes 10 duplex residential structures, totaling 20 three bedroom units, which will be targeted to families with low and very-low incomes. Affordable Housing of Parker County has also set aside a parcel of land within the Development site for a community center and onsite management office.

The Department will be the sole lender in this transaction and will provide $1,500,000 in HOME CHDO funds for construction and permanent financing. Staff has reviewed the application for consistency with all applicable federal and state regulations, and confirmed the application's consistency with all of our threshold criteria.

The 2004 HOME CHDO Rental Development NOFA was published in March of 2004 and made available $9 million. If this award is approved by the Board, the Department will have awarded $4.5 million in HOME CHDO funds under the NOFA and there remains $2,935,000 in applications still under review. The balance of funds not awarded or under consideration was $1,565,000. This amount has been reprogrammed for the 2005 HOME CHDO Open Cycle Development NOFA.

## Recommendation

Staff recommends that the Board award $1,500,000 in HOME CHDO Rental Development funds and $50,000 in CHDO Operating Expense funds to Affordable Housing of Parker County for the Estates of Bridgeport IV Development. The Real Estate Analysis Division recommends that the Rental Development Funds be awarded as a first lien loan with the terms of 0% interest over 30 years, fully amortized. Additional conditions are detailed in the underwriting report. The award of CHDO Operating Expenses will be in the form of a grant, which is consistent with HUD's HOME regulations.

**AUDIT COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437, Austin, Texas 78701**
**Thursday, April 7, 2005 8:30 am**

**AGENDA**

**CALL TO ORDER, ROLL CALL** Shad Bogany

**CERTIFICATION OF QUORUM** Chair

**PUBLIC COMMENT**
The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by the department staff and motions made by the Committee.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**ACTION ITEMS**

| | | |
|---|---|---|
| Item 1 | Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of October 14, 2004 | Shad Bogany |

**REPORT ITEMS**

| | | |
|---|---|---|
| Item 2 | Presentation and Discussion of Audit Results from the Statewide Federal Single Audit for Fiscal Year Ended August 31, 2004 | David Gaines |
| Item 3 | Status of Prior Audit Issues | David Gaines |
| Item 4 | Enterprise Risk Management – An Executive Summary | David Gaines |
| Item 5 | Status of TDHCA's Risk Management Program | David Gaines |

**EXECUTIVE SESSION** Shad Bogany
If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session

**OPEN SESSION** Shad Bogany
Action in Open Session on Items Discussed in Executive Session

**ADJOURN** Shad Bogany

*To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin,* *Texas 78701, 512-475-3934 and request the information.*

*Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Delores Groneck, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made.*

*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

**AUDIT COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437, Austin, Texas 78701**
**Thursday, October 14, 2004 8:30 am**

**Summary of Minutes**

**CALL TO ORDER, ROLL CALL**
**CERTIFICATION OF QUORUM**
The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of October 14, 2004 was called to order by Chair Shad Bogany at 8:40 a.m. It was held at the Texas Department of Housing and Community Affairs Boardroom, 507 Sabine, Austin, Texas. Roll Call certified a quorum was present.

Members present:
Shad Bogany – Chair
Patrick Gordon – Member
Norberto Salinas – Member (joined the meeting in progress)

**PUBLIC COMMENT**
The Committee will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by the department staff and motions made by the Committee.

Mr. Bogany called for public comment and no one wished to give comments.

**ACTION ITEMS**

(1) **Presentation, discussion and possible approval of Minutes of Audit Committee Meeting of August 19, 2004**
Motion made by Patrick Gordon and seconded by Shad Bogany to approve the minutes of the August 19, 2004 Audit Committee Meeting.
Passed Unanimously

(2) **Presentation, discussion and possible approval of the FY 2005 Internal Audit Plan**
Mr. David Gaines, Director of Internal Auditing, stated this is proposed for the year and there were carried over from 2004. The first one related to the subrecipient monitoring function. There is an obligation for our internal audit resources to contribute hours to the peer review function throughout the state and to go out and perform quality assurance reviews of other internal audit shops. Other external audit shops come and review the internal audit division and assess whether they are following professional standards or in compliance with Texas Internal Auditing Act. Likewise the internal audit division needs to contribute resources to reciprocate.

Mr. Gaines stated that the Texas Internal Auditing Act requires that an annual plan be developed based on an annual risk assessment. In accumulating information for the risk assessment, the department solicited information from management and staff and the executive team and the Department's external auditors, including Deloitte & Touche, KPMG, and the State Auditor's Office, as well as soliciting input from the Board members.

In working through this and developing the plan they met with the Executive Director and Deputy Executive Director and Chief of Agency Administration to solicit their ideals and input and sat down with their risk ranking. It was decided that the best use of internal audit

resources for the current year is to facilitate Department's consideration of RP36. The purpose will be to provide expertise, knowledge, experience, objective, independent input in the Department's risk management program.
They will facilitate the risk assessment process in various areas of the Department with the intent of satisfying the purpose of the risk assessment for those areas, but also to develop expertise throughout the building for staff to carry on risk assessment process on a forward-going basis. They will work with management staff, as well as Mr. Spearman, to: help ensure that meaningful information results from this risk management program that will be useable to management in improving their operations and managing their risk; providing executive management with information reports so that they can be satisfied that risks are being adequately addressed and controlled and for oversight purposes.

Closely related to developing this project and our risk assessment in soliciting information, the department received a comment from Ms. Anderson, Chair of the Board, and a request from Mr. Conine and from Mr. Bogany, regarding the audit plan. Ms. Anderson suggested that the Internal Auditor I use management's risk assessment, in connection with the annual risk assessment that's required in developing a plan.

The RP36 project will provide management the tools whereby they can assess risk in a formal, standardized manner and that output will be very useful, not only for management but also for audit in the manner suggested by Ms. Anderson. Mr. Conine suggested inclusion of a review of the Compliance Division in the annual audit plan.

Mr. Bogany provided the input regarding timeliness of getting projects done. This will help create more timeliness on projects and will help management.

The next project in the plan is a review of the Department's Whistle Blower Process. This came out of RP36. This project came out of the risk assessment that for RP36, the high-level overview, and it is one of the action items referred to earlier in that right-hand column of that questionnaire, one of the action items being internal audit review: the whistleblower process. The project will determine if the department has viable process in place, if it's formalized in compliance with applicable laws, and if employees have been actively informed of their rights, responsibilities, and protections under the act.

The remaining projects are ongoing projects that take up a considerable amount of time, including follow up and reporting on prioritized issues, internal audit's contributions to the central database, coordinating and assisting external auditors, and the annual audit report discussed earlier and the annual audit plan.

Motion made by Patrick Gordon and seconded by Norberto Salinas to approve the 2005 Internal Audit Plan.
Passed Unanimously

**REPORT ITEMS**

**(3) Discussion of the FY 2004 Annual Internal Audit Report**
Mr. Gaines stated this report is required by the Texas Internal Audit Act and its report format is prescribed by the State Auditors Office. This report is a summary of the fiscal year internal audit activities, with comparison of the audit plan for the year, and explanations of variances. Mr. Gaines stated that over budget in the central database project meant that he spent more hours on the project than he had originally anticipated. This is on time spent and not spending money on over budget.

**(4) Discussion of Report to the Office of the Governor Regarding Executive Order RP36**
Mr. Gaines stated this is an unexpected project that was requested by the Office of the

Governor. He stated each agency must designate a contact person for its fraud prevention/elimination activities. This person shall report directly to the Executive Director. Ms. Carrington has designated Leonard Spearman as the Department's contact person. Each agency shall also develop a fraud prevention program that includes recommended common components developed by a work group that the Governor's office put together, an interagency work group, to come up with common components of what a fraud prevention program should look like. Each agency shall review its existing rules, policies, organization structure and statute to identify changes needed to better detect and fight fraud. Included in the report to the Governor's office is a discussion of the Department's consideration of statutes and recommended changes in statutes to enable the Department to better prevent and detect fraud. The Executive Order also requires that the department reports progress to date and the plans on implementing a fraud prevention program to the Governor's Office by October 1.

Mr. Gaines stated that besides the report required there were several attachments which included: (1) Recommended statutory changes; (2) High-level risk assessment; (3) A description of significant controls over some of the key areas of the Department; and (4) A copy of the Department's initial impact ranking of its major processes, with a copy of the project plan to finalize the Department's fraud prevention program.

Mr. Gordon stated the section on removal of a board member needs to be scoped down and there should be varying levels for indictments. It should be scaled down to more issues that would involve someone's ability to act as a board member.

Mayor Salinas stated he thought it was a felony for any indictments of a board member and asked the Legal division to check on state laws regarding indictments of board members.

**(5) Discussion of Risk Assessment Methodology to Implement RP36**

Mr. Gaines stated the risk assessment and methodology that the Department is in the process of adopting was included in the Board book and the basis of the methodology was a small agency methodology recommended by the State Auditors Office and the methodology that has been adopted by the Comptrollers Office. The methodology is designed to: identify and prioritize the Department's activities; identify and risk-rank the risk associated with those activities; identify the controls in place and operating to minimize those risks; identify any accountabilities or unacceptable risks that are not being controlled; developing strategies to control those unacceptable risks; and prescribing the appropriate levels of monitoring for the various levels of risk.

**ADJOURN**

Motion made by Norberto Salinas and seconded by Patrick Gordon to adjourn the meeting. Passed Unanimously

The meeting adjourned at 9:25 a.m.

Respectfully submitted,

Board Secretary

P:dg/audmoct

*Texas Department of Housing and Community Affairs*

***State of Texas***
***Federal Portion of Statewide Single Audit Report***
***for Fiscal Year Ended August 31, 2004***

- ***Summary Background and Results Relating to TDHCA (by Internal Audit)***
- ***Excerpts of Report Applicable to TDHCA***

# Texas Department of Housing and Community Affairs
# Federal Portion of Statewide Single Audit Report for FYE 8/31/04
# Summary Background and Results Relating to TDHCA (by Internal Audit)

## BACKGROUND

- Non-Federal entities that expend $500,000 or more in a year in Federal awards are required to have a single audit conducted for that year in accordance with OMB Circular A-133.
- The Non-Federal entity as defined for the Statewide Federal Single Audit is the State of Texas.
- The Statewide Federal Single Audit for the State of Texas for Fiscal Year Ended August 31, 2004 was conducted by KPMG, LLP pursuant to a contract with the Texas State Auditor's Office.
- Agencies and programs are selected for audit based on Federal dollars expended within the audit period and the auditor's assessment of risks.
- Programs administered by TDHCA selected for audit were limited to its Section 8 Housing Choice Vouchers Program

## TYPES OF FINDINGS

- Reportable Condition – A reportable condition involves a significant deficiency in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts and grants.
- Material Weakness/Material Control Weakness – A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risks that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

## RESULTS – Current Year Findings:

Reference No. 05-67

**Special Tests and Provisions – Housing Assistance Payment**

**Type of finding – Reportable Condition Control and Non-Compliance**

3 of 35 Housing Assistance Program (HAP) contracts tested were either unsigned or missing. Questioned Costs: $5,351

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Reference No. 05-68

**Special Tests and Provisions – Reasonable Rent**

(Prior Audit Issue – 04-21)

**Type of finding – Non-Compliance**

The HAP Checklist for 2 of 40 contracts tested either: (1) had the Rent Reasonableness portion incomplete or (2) the Unit Inspection portion was unsigned. The checklist, with a standard rent reasonableness determination worksheet completed by local operators, is used to ensure that the Department has received necessary documentation to verify rent reasonableness. Questioned Costs: $4,080

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**RESULTS – Current Year Findings (continued):**

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Reference No. 05-69
**Special Tests and Provisions – Selection from the Waiting List**

**Type of finding – Reportable Condition Control**

For 6 of 35 tenant files tested regarding the HAP Checklists designed to ensure receipt of necessary documentation to verify eligibility, choose applicants from the waiting list & determine rent reasonableness either (1) the Tenant Data section was incomplete; (2) the program coordinator did not review or sign; or (3) the checklist was missing. However, no exceptions of non-compliance regarding selection of individuals from the waiting list were noted.

---

Reference No. 05-70
**Eligibility**

**Type of finding – Non-Compliance**

2 of 30 files tested did not contain signed Criminal History Certification/ Acknowledgement forms; for 4 of 30 files tested the eligibility determination section of the "criminal history" form was not completed.

---

Reference No. 05-71
**Eligibility**

**Type of finding – Reportable Condition Control**

For 13 of 30 applicant files tested, the "Type of Review" section of the HAP Checklist was not signed by the program coordinator or regional coordinator.

While the Department does not consistently follow all the steps on the HAP checklist, which is designed to ensure necessary documentation is received to verify eligibility, no instances of noncompliance with eligibility requirements were noted.

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Reference No. 05-72
**Special Tests and Provisions – Housing Quality Standards Inspections**
(Prior Audit Issue – 04-22 and 03-18)

**Type of finding – Material Weakness Control and Material Non-Compliance**

36 of 51 "reinspection" Inspection Forms tested indicated the original inspections may not have been adequate.

3 of 81 (3.7%) Inspection Forms were incomplete.

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## RESULTS – Current Year Findings (continued):

Reference No. 05-73

**Special Tests and Provisions – Housing Quality Standards Inspections**

**Type of finding – Reportable Condition Control**

Inspections and reinspections were conducted in a timely manner for the files reviewed; however, for 13 of 81 inspections tested, either a Contract Routing Sheet (HAP checklist) was not on file or it lacked a required signature. The Department uses the checklist as a control for insuring inspections are completed in a timely manner and that the tenant files include all required inspection documentation.

---

Reference No. 05-74

**Special Tests and Provisions – Housing Quality Standards Enforcement**

(Prior Audit Issue – 04-23 and 03-17)

**Type of finding – Reportable Condition Control and Material Non-Compliance**

7 of 49 files tested documented non-life threatening deficiencies that had been noted and corrected; however, the documentation did not show that the deficiencies had been corrected within the required 30 calendar days. Non-life threatening deficiencies noted in 3 of the 7 files were corrected before required abatements of payments to landlords; 4 of the 7 files did not abate payments to landlords, as required.
Questioned Costs: $1,842

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Reference No. 05-22

**Allowable Costs/Cost Principles**

**Type of finding – Material Weakness Control**

<u>Separation of Duties Issue:</u>
Regional coordinators process contract source documents, enter transactions into Sec 8 system, & establish vendor payment data in accounting system. Additionally, there is no transaction approval to ensure that all transactions entered into the system undergo review and approval before they are updated in the system & there is not a sufficient review of transactions entering the Section 8 system to compensate for this condition.

<u>Software Change Management Issue:</u> Personnel, who maintain the Section 8 system can modify system data, make changes to Section 8 programs & have direct access to the tool used to move updated programs into the production environment without an additional program review and approval process. Additionally, the network administrator has access to move programs into the production access which may not be needed.

Passwords to move programs into production has not recently been changed

Personnel from another agency (ORCA) have access to modify Section 8 program.

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**RESULTS – Prior Year Audit Findings:**

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Reference No. 04-16
**Reporting**
**HOME Investment Partnership Program**

**Type of finding – Material Non-Compliance**

Corrective action was taken.

---

Reference No. 04-17
**Allowable Costs/Allowable Costs Principles**
**HOME Investment Partnership Program**

**Type of finding –Non-Compliance**

Corrective action was taken.

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Reference No. 04-18
**Reporting**
**Section 8 Housing Choice Vouchers**

**Type of finding – Reportable Condition and Material Non-Compliance**

Corrective action was taken.

---

Reference No. 04-19
**Reporting**
**Section 8 Housing Choice Vouchers**

**Type of finding – Non-Compliance**

Corrective action was taken.

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Reference No. 04-20
**Eligibility**
(Prior Audit Issue – 03-16)
**Section 8 Housing Choice Vouchers**

**Type of finding – Non-Compliance**

Corrective action was taken.

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**RESULTS – Prior Year Audit Findings (continued):**

Reference No. 04-21
**Special Tests and Provisions – Reasonable Rent**
**Section 8 Housing Choice Vouchers**

**Type of finding – Non-Compliance**

This finding was reissued as current year reference number: 05-68.

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Reference No. 04-22
**Special Tests and Provisions – Housing Quality Standards Inspections**
(Prior Audit Issue – 03-18)
**Section 8 Housing Choice Vouchers**

**Type of finding – Non-Compliance**

This finding was reissued as current year reference number: 05-72.

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Reference No. 04-23
**Special Tests and Provisions – Housing Quality Standards Enforcement**
(Prior Audit Issue – 03-17)
**Section 8 Housing Choice Vouchers**

**Type of finding – Reportable Condition Control and Material Non-Compliance**

This finding was reissued as current year reference number: 05-74.

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Reference No. 04-24
**Special Tests and Provisions – Utility Allowance Schedule**
**Section 8 Housing Choice Vouchers**

**Type of finding – Material Weakness Control and Scope Limitation**

Corrective action was taken.

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Reference No. 04-25
**Allowable Costs/Cost Principles**
**HOME Investment Partnerships Program**
**Section 8 Housing Choice Vouchers**
**Low-Income Home Energy Assistance**
**Emergency Shelter Grants Program**
**Weatherization Assistance for Low-Income Persons**
**Community Services Block Grant**

**Type of finding – Material Weakness Control and Material Non-Compliance**

Corrective action was taken.

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## RESULTS – Prior Year Audit Findings (continued):

Reference No. 04-26
**Allowable Costs/Cost Principles**
**HOME Investment Partnerships Program**
**Section 8 Housing Choice Vouchers**
**Low-Income Home Energy Assistance**
**Emergency Shelter Grants Program**
**Weatherization Assistance for Low-Income Persons**
**Community Services Block Grant**

**Type of finding –Material Non-Compliance**

TDHCA is currently in negotiations with the U.S. Department of Housing and Urban Development. It is expected that an approved rate will be issued by March 2005.

*Texas Department of Housing and Community Affairs*

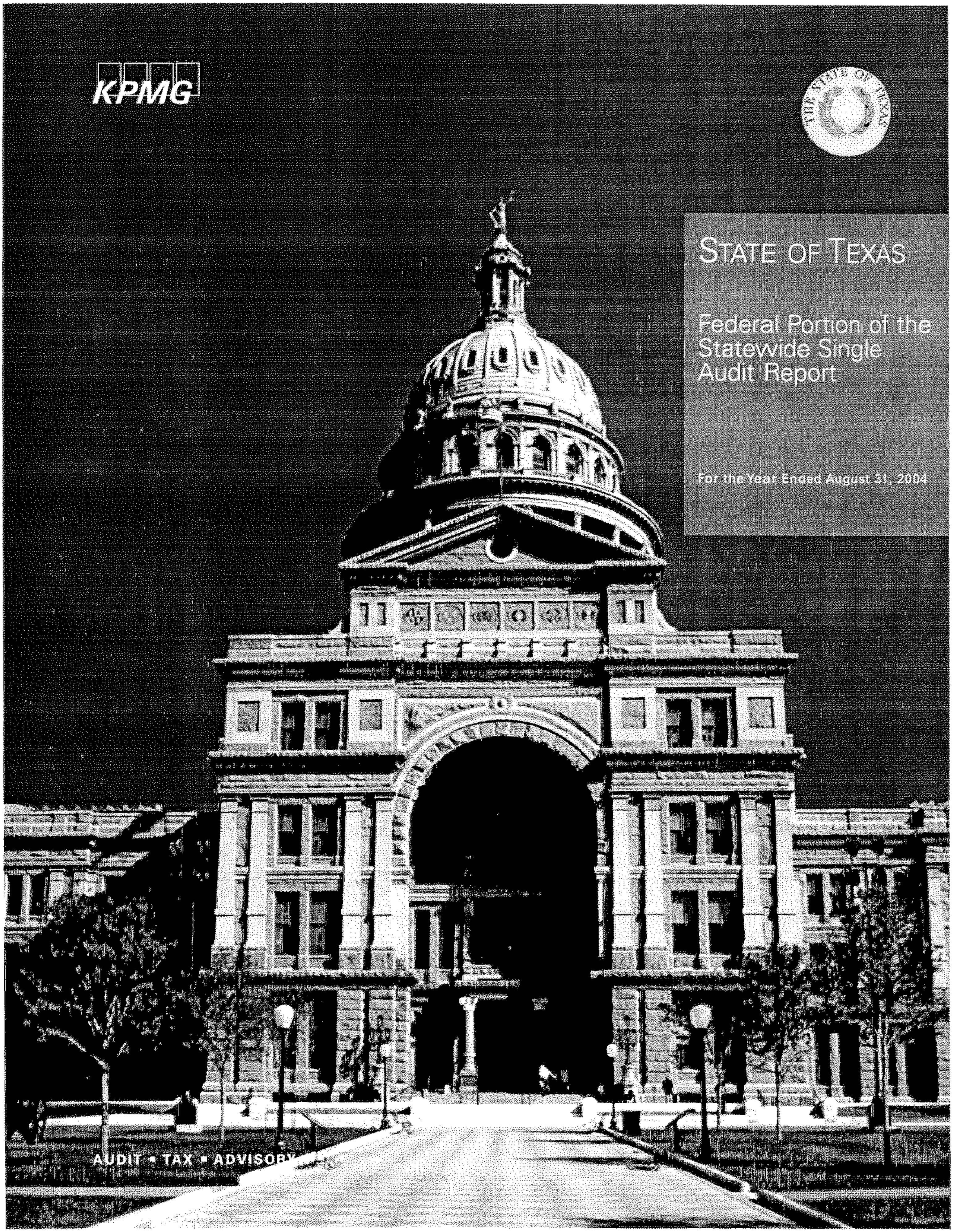
*State of Texas*
*Federal Portion of Statewide Single Audit Report*
*for Fiscal Year Ended August 31, 2004*

*Excerpts of Report Applicable to TDHCA*

# STATE OF TEXAS

## Federal Portion of the Statewide Single Audit Report

For the Year Ended August 31, 2004



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# Independent Auditors' Reports

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2004

KPMG

**KPMG LLP**
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Austin, TX 78701

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**Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Honorable Rick Perry, Governor,
and Members of the Texas State Legislature
State of Texas:

**Compliance**

We have audited the compliance of the State of Texas (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2004, except those requirements discussed in the seventh following paragraph. We also did not audit the State's compliance with compliance requirements applicable to CFDA 14.871, Section 8 Housing Choice Vouchers (Section 8), which is approximately .04% of total federal assistance received by the State. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. The Section 8 program is identified in the accompanying Schedule of Findings and Questioned Costs as a major Federal program and was audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the Section 8 program, is based solely on the report of the other auditor. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The Schedule of Expenditures of Federal Awards and our audit described below does not include expenditures of Federal awards for four component units of the State of Texas for financial statement purposes. Each of those agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State for the program compliance requirements listed below nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. These program's compliance requirements were:

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Health | CFDA 93.917 - HIV Care Formula Grants | Earmarking | 05-07 |

As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to certain of its major Federal programs. Based on our audit and the report of other auditors, compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major Federal programs. The results of the auditing procedures are described in the accompanying schedule of findings and questioned costs as items:

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Angelo State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-01 |
| Department of Assistive and Rehabilitative Services | CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States | Allowable Costs/Cost Principles | 05-39 |
| Department of Family and Protective Services | CFDA 93.556 - Promoting Safe and Stable Families | Allowable Costs/Cost Principles | 05-04 |
| Department of Health | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.003 - Public Health and Social Services Emergency Fund<br>CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States<br>Medicaid Cluster | Cash Management | 05-15 |

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| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Health and Human Services Commission and Department of Family and Protective Services | CFDA 93.556 - Promoting Safe and Stable Families<br>CFDA 93.658 - Foster Care - Title IV- E | Subrecipient Monitoring | 05-16 |
| Health and Human Services Commission and Department of Health | CFDA 93.003 - Public Health and Social Services Emergency Fund | Subrecipient Monitoring | 05-18 |
| | CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States | Subrecipient Monitoring | 05-20 |
| Health and Human Services Commission | Medicaid Cluster | Special Tests and Provisions | 05-26 |
| Department of Housing and Community Affairs | CFDA 14.871 - Section 8 Housing Choice Vouchers | Special Tests and Provisions | 05-72<br>05-74 |
| Department of Mental Health and Mental Retardation | CFDA 93.958 - Block Grants for Community Mental Health Services | Special Tests and Provisions | 05-33 |
| | Medicaid Cluster | Cash Management | 05-34 |
| Department of Public Safety | CFDA 20.218 - National Motor Carrier Safety | Allowable Costs/Cost Principles<br>Cash Management | 05-38 |
| Texas Engineering Extension Service | State Domestic Preparedness Equipment Support Program Cluster<br>State and Local Domestic Preparedness Training Program Cluster | Subrecipient Monitoring | 05-42 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Texas State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-43<br>05-45 |
| University of Houston | | | 05-46<br>05-49 |
| University of North Texas | | | 05-50 |
| University of Texas M.D Anderson Cancer Center | Research and Development Cluster | Procurement, Suspension, and Debarment<br>Reporting<br>Period of Availability<br>Subrecipient Monitoring | 05-61<br>05-62<br>05-63<br>05-64 |

In our opinion, based on our audit and the report of other auditors, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that are applicable to CFDA 93.003, Public Health and Social Services Emergency Fund.

In our opinion, based on our audit and the report of other auditors, except for the noncompliance described in the preceding two paragraphs and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements described in the third preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2004, other than those requirements discussed in the following paragraph. The results of our auditing procedures and the report of other auditors also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Family and Protective Services | CFDA 93.658 - Foster Care - Title IV- E<br>CFDA 93.659 - Adoption Assistance | Eligibility | 05-03 |
| | CFDA 93.556 - Promoting Safe and Stable Families<br>CFDA 93.558 - Temporary Assistance for Needy Families<br>CFDA 93.667 - Social Services Block Grant | Procurement, Suspension, and Debarment | 05-05 |
| | CFDA 93.659 - Adoption Assistance | Cash Management | 05-06 |
| Department of Health | CFDA 93.917 - HIV Care Formula Grants | Reporting | 05-08 |
| | CFDA 93.940 - HIV Prevention Activities - Health Department Based | Allowable Costs/Cost Principles | 05-09 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Health | CFDA 93.268 - Immunization Grants | Special Tests and Provisions | 05-10 |
| | CFDA 93.994 - Maternal and Child Health Services Block Grant to States | Level of Effort | 05-11 |
| | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.003 - Public Health and Social Services Emergency Fund<br>CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-12 |
| | CFDA 93.268 - Immunization Grants | Reporting | 05-13 |
| | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children | Procurement, Suspension, and Debarment | 05-14 |
| Health and Human Services Commission and Department of Health | CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants | Procurement, Suspension, and Debarment | 05-17 |
| | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants | Subrecipient Monitoring | 05-19 |

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| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Health and Human Services Commission and Department of Health | CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States | (continued) | |
| Health and Human Services Commission | Medicaid Cluster | Program Income | 05-25 |
| | CFDA 93.558 - Temporary Assistance for Needy Families<br>Food Stamp Cluster<br>~~Medicaid Cluster~~ | Eligibility | 05-28 |
| Department of Housing and Community Affairs | CFDA 14.871 - Section 8 Housing Choice Vouchers | Special Tests and Provisions | 05-67<br>05-68 |
| | | Eligibility | 05-70 |
| Department of Human Services | CFDA 93.558 - Temporary Assistance for Needy Families | Reporting | 05-29 |
| | CFDA 93.667 - Social Services Block Grant | Cash Management | 05-30 |
| Juvenile Probation Commission | CFDA 93.658 - Foster Care - Title IV- E | Subrecipient Monitoring | 05-31 |
| Department of Mental Health and Mental Retardation | CFDA 93.958 - Block Grants for Community Mental Health Services<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-32 |
| Parks and Wildlife Department | Fish and Wildlife Cluster | Special Tests and Provisions | 05-35 |
| Department of Public Safety | CFDA 20.218 - National Motor Carrier Safety | Equipment and Real Property Management | 05-36 |
| Stephen F. Austin State University | Student Financial Assistance Cluster | Reporting | 05-40 |
| University of Texas Health Science Center at San Antonio | | | 05-59 |

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| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| University of Houston | | (continued) | 05-47 |
| Stephen F. Austin State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-41 |
| Texas State University | | | 05-44 |
| University of Houston | | | 05-48 |
| University of Texas at Austin | | | 05-52<br>05-53<br>05-54 |
| University of Texas at Austin | Student Financial Assistance Cluster | Eligibility | 05-51 |
| | Research and Development Cluster | Cash Management | 05-56 |
| University of Texas M.D. Anderson Cancer Center | Research and Development Cluster | Allowable Costs/Cost Principles | 05-60 |
| Texas Workforce Commission | CFDA 17.245 - Trade Adjustment Assistance | Reporting | 05-66 |

We did not audit compliance with requirements governing billing and collection of Perkins loans for certain portions of the State. Those requirements govern functions that are performed by Affiliated Computer Services, Inc. (ACS), Campus Partners and Panhandle-Plains Management and Servicing Corporation. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

The service organizations' compliance with the requirements governing the functions that they perform was examined by other accountants whose reports have been furnished to us. The reports of the other accountants indicate that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' reports, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the Student Financial Aid Cluster major program are addressed in either our report or the report of the respective service organization's accountants. Further, based on our review of the service organization accountants' reports, we have determined that they do not contain any findings of noncompliance that would have a direct and material effect on the Student Financial Aid Cluster major program.

**Internal Control Over Compliance**

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing billing and collection of Perkins loans are performed by the service organizations noted above. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Copies of the service organizations accountants' reports have been furnished to us. However, the scope of our work did not extend to internal control maintained at the respective service organizations as noted above.

We and the other auditors noted certain matters involving the internal control over compliance and its operation that we and the other auditors consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, and are listed below, excluding those reportable conditions we also consider to be material weaknesses:

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Angelo State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-01 |
| Department of Assistive and Rehabilitative Services | CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States | Allowable Costs/Cost Principles | 05-39 |
| Building and Procurement Commission, Department of Information Resources, Department of Family and Protective Services, Department of Health, Department of Human Services, Texas Workforce Commission, University of North Texas | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.556 - Promoting Safe and Stable Families<br>CFDA 93.558 - Temporary Assistance for Needy Families<br>CFDA 93.667 - Social Services Block Grant<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States<br>Employment Services Cluster<br>Food Stamp Cluster<br>Workforce Investment Act Cluster | Procurement Suspension, and Debarment | 05-02 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Family and Protective Services | CFDA 93.658 - Foster Care - Title IV- E<br>CFDA 93.659 - Adoption Assistance | Eligibility | 05-03 |
| | CFDA 93.556 - Promoting Safe and Stable Families | Allowable Costs/Cost Principles | 05-04 |
| | CFDA 93.659 - Adoption Assistance | Cash Management | 05-06 |
| Department of Health | CFDA 93.940 - HIV Prevention Activities - Health Department Based | Allowable Costs/Cost Principles | 05-09 |
| | CFDA 93.994 - Maternal and Child Health Services Block Grant to States | Level of Effort | 05-11 |
| | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.003 - Public Health and Social Services Emergency Fund<br>CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-12 |
| | CFDA 93.268 - Immunization Grants | Reporting | 05-13 |
| | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.003 - Public Health and Social Services Emergency Fund | Cash Management | 05-15 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Health | CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States<br>Medicaid Cluster | (continued) | |
| Health and Human Services Commission and Department of Family and Protective Services | CFDA 93.556 - Promoting Safe and Stable Families<br>CFDA 93.658 - Foster Care - Title IV- E | Subrecipient Monitoring | 05-16 |
| Health and Human Services Commission and Department of Health | CFDA 10.557 - Special Supplemental Nutrition for Women, Infants, and Children<br>CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants<br>CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States | Subrecipient Monitoring | 05-19 |
| | CFDA 93.217 - Family Planning Services<br>CFDA 93.268 - Immunization Grants | Subrecipient Monitoring | 05-20 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Health and Human Services Commission and Department of Health | CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance<br>CFDA 93.917 - HIV Care Formula Grants<br>CFDA 93.940 - HIV Prevention Activities - Health Department Based<br>CFDA 93.994 - Maternal and Child Health Services Block Grant to States | (continued) | |
| Health and Human Services Commission | CFDA 93.667 - Social Services Block Grant<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-21 |
| | CFDA 93.558 - Temporary Assistance for Needy Families<br>Medicaid Cluster | Eligibility | 05-23 |
| | Medicaid Cluster | Program Income<br>Special Tests and Provisions | 05-25<br>05-26 |
| | CFDA 93.558 - Temporary Assistance for Needy Families<br>Food Stamp Cluster<br>Medicaid Cluster | Eligibility | 05-28 |
| Department of Housing and Community Affairs | CFDA 14.871 - Section 8 Housing Choice Vouchers | Special Tests and Provisions<br><br><br><br>Eligibility | 05-67<br>05-69<br>05-73<br>05-74<br>05-71 |
| Department of Human Services | CFDA 93.558 - Temporary Assistance for Needy Families | Reporting | 05-29 |
| | CFDA 93.667 - Social Services Block Grant | Cash Management | 05-30 |
| Juvenile Probation Commission | CFDA 93.658 - Foster Care - Title IV- E | Subrecipient Monitoring | 05-31 |
| Department of Mental Health and Mental Retardation | CFDA 93.958 - Block Grants for Community Mental Health Services<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-32 |

KPMG

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Parks and Wildlife Department | Fish and Wildlife Cluster | Special Tests and Provisions | 05-35 |
| Department of Public Safety | CFDA 20.218 - National Motor Carrier | Procurement, Suspension, and Debarment | 05-37 |
| Stephen F. Austin State University | Student Financial Assistance Cluster | Reporting | 05-40 |
| University of Texas Health Science Center at San Antonio | | | 05-59 |
| University of Houston | | | 05-47 |
| Stephen F. Austin State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-41 |
| Texas State University | | | 05-44<br>05-45 |
| University of Houston | | | 05-46<br>05-48 |
| University of North Texas | | | 05-50 |
| University of Texas at Austin | | | 05-52<br>05-53<br>05-54 |
| University of Texas at Austin | Research and Development Cluster | Procurement, Suspension, and Debarment | 05-55 |
| | | Cash Management | 05-56 |
| | | Matching and Program Income | 05-57 |
| University of Texas at Dallas | Research and Development Cluster | Procurement, Suspension, and Debarment | 05-58 |
| University of Texas M.D. Anderson Cancer Center | Research and Development Cluster | Procurement, Suspension, and Debarment | 05-61 |
| | | Reporting | 05-62 |
| | | Period of Availability | 05-63 |
| University of Texas Southwestern Medical Center at Dallas | Research and Development Cluster | Procurement, Suspension, and Debarment | 05-65 |
| Texas Workforce Commission | CFDA 17.245 - Trade Adjustment Assistance | Reporting | 05-66 |

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the following reportable conditions we and the other auditors also consider to be material weaknesses:

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| Department of Health | CFDA 93.917 - HIV Care Formula Grants | Earmarking | 05-07 |
| Health and Human Services Commission and Department of Health | CFDA 93.003 - Public Health and Social Services Emergency Fund | Subrecipient Monitoring | 05-18 |
| Health and Human Services Commission | CFDA 93.558 - Temporary Assistance for Needy Families<br>CFDA 93.667 - Social Services Block Grant<br>Food Stamp Cluster<br>Medicaid Cluster | Allowable Costs/Cost Principles | 05-24 |
| Department of Housing and Community Affairs | CFDA 14.871 - Section 8 Housing Choice Vouchers | Special Tests and Provisions<br>Allowable Costs/Cost Principles | 05-72<br>05-22 |
| Department of Mental Health and Mental Retardation | CFDA 93.958 - Block Grants for Community Mental Health Services | Special Tests and Provisions | 05-33 |
| | Medicaid Cluster | Cash Management | 05-34 |
| Department of Public Safety | CFDA 20.218 - National Motor Carrier Safety | Equipment and Real Property Management<br>Allowable Costs/Cost Principles<br>Cash Management | 05-36<br>05-38 |
| Texas Engineering Extension Service | State Domestic Preparedness Equipment Support Program Cluster<br>State and Local Domestic Preparedness Training Program Cluster | Subrecipient Monitoring | 05-42 |
| Texas State University | Student Financial Assistance Cluster | Special Tests and Provisions | 05-43 |

| Agency/University | Program | Compliance Requirement | Finding Number |
|---|---|---|---|
| University of Houston | Student Financial Assistance Cluster | Special Tests and Provisions | 05-49 |
| University of Texas M.D. Anderson Cancer Center | Research and Development Cluster | Subrecipient Monitoring | 05-64 |

This report is intended solely for the information and use of the Governor, the Members of the Texas State Legislature, Legislative Audit Committee, management of State agencies and universities, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 21, 2005

# Schedule of Findings and Questioned Costs

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2004

Section 1:

## Summary of Auditors' Results

**Financial Statements**

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2004 Statewide Single Audit Report dated February 21, 2005.

**Federal Awards**

1. Internal Control over major programs:

| | | |
|---|---|---|
| a. | Material weakness(es) identified? | Yes |
| b. | Reportable condition(s) identified not considered to be material weaknesses? | Yes |

**Major Programs with Reportable Conditions:**

| | |
|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.871 | Section 8 Housing Choice Vouchers |
| 17.245 | Trade Adjustment Assistance - Workers |
| 20.218 | National Motor Carrier Safety |
| 84.126 | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| 93.003 | Public Health and Social Services Emergency Fund |
| 93.217 | Family Planning Services |
| 93.268 | Immunization Grants |
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| 93.556 | Promoting Safe and Stable Families |
| 93.558 | Temporary Assistance for Needy Families |
| 93.658 | Foster Care - Title IV-E |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| 93.917 | HIV Care Formula Grants |
| 93.940 | HIV Prevention Activities - Health Department Based |
| 93.958 | Block Grants for Community Mental Health Services |
| 93.994 | Maternal and Child Health Services Block Grant to States |
| Cluster | Employment Services |
| Cluster | Fish and Wildlife |
| Cluster | Food Stamp |
| Cluster | Medicaid |
| Cluster | Research and Development |
| Cluster | Student Financial Assistance, including loan servicing of Federal Family Education Loans and Health Education Assistance Loans |
| Cluster | Workforce Investment Act |

**Major Programs with Material Weaknesses:**

| | |
|---|---|
| 14.871 | Section 8 Housing Choice Vouchers |
| 20.218 | National Motor Carrier Safety |
| 93.003 | Public Health and Social Services Emergency Fund |
| 93.558 | Temporary Assistance for Needy Families |
| 93.667 | Social Services Block Grant |
| 93.917 | HIV Care Formula Grants |
| 93.958 | Block Grants for Community Mental Health Services |
| Cluster | Food Stamp |

| | |
|---|---|
| Cluster | Medicaid |
| Cluster | Research and Development |
| Cluster | State Domestic Preparedness Equipment Support Program |
| Cluster | State and Local Domestic Preparedness Training Program |
| Cluster | Student Financial Assistance, including loan servicing of Federal Family Education Loans and Health Education Assistance Loans |

2. Type of auditors' report issued on compliance for major programs? See below

**Scope limitation:**

| | |
|---|---|
| 93.917 | HIV Care Formula Grants |

**Adverse:**

| | |
|---|---|
| 93.003 | Public Health and Social Services Emergency Fund |

**Qualification:**

| | |
|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.871 | Section 8 Housing Choice Vouchers |
| 20.218 | National Motor Carrier Safety |
| 84.126 | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| 93.217 | Family Planning Services |
| 93.268 | Immunization Grants |
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| 93.556 | Promoting Safe and Stable Families |
| 93.658 | Foster Care - Title IV-E |
| 93.917 | HIV Care Formula Grants |
| 93.940 | HIV Prevention Activities - Health Department Based |
| 93.958 | Block Grants for Community Mental Health Services |
| 93.994 | Maternal and Child Health Services Block Grant to States |
| Cluster | Medicaid |
| Cluster | Research and Development |
| Cluster | State Domestic Preparedness Equipment Support Program |
| Cluster | State and Local Domestic Preparedness Training Program |
| Cluster | Student Financial Assistance, including loan servicing of Federal Family Education Loans and Health Education Assistance Loans |

**No Qualification:**

| | |
|---|---|
| 16.523 | Juvenile Accountability Incentive Block Grants |
| 16.575 | Crime Victim Assistance |
| 17.225 | Unemployment Insurance |
| 17.245 | Trade Adjustment Assistance - Workers |
| 21.000 | Federal Relief Funds - Block Grant |
| 66.000 | Colonia Wastewater Treatment Assistance Program |
| 66.458 | Capitalization Grants for State Revolving Funds |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Fund |
| 84.011 | Migrant Education - State Grant Program |
| 84.181 | Special Education - Grants for Infants and Families with Disabilities |
| 84.357 | Reading First State Grants |

| | |
|---|---|
| 93.558 | Temporary Assistance for Needy Families |
| 93.563 | Child Support Enforcement |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| Cluster | Aging |
| Cluster | Child Care |
| Cluster | Disability Insurance/SSI |
| Cluster | Employment Services |
| Cluster | Fish and Wildlife |
| Cluster | Food Stamp |
| Cluster | Special Education |
| Cluster | Workforce Investment Act |

3. Any audit findings disclosed that are required to be reported in accordance with *OMB Circular A-133*, Section 510(a)? Yes

4. Dollar threshold used to distinguish between Type A and Type B programs: $45,549,797

5. Auditee qualified as low-risk auditee? No

6. Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.871 | Section 8 Housing Choice Vouchers |
| 16.523 | Juvenile Accountability Incentive Block Grants |
| 16.575 | Crime Victim Assistance |
| 17.225 | Unemployment Insurance |
| 17.245 | Trade Adjustment Assistance - Workers |
| 20.218 | National Motor Carrier Safety |
| 21.000 | Federal Relief Funds - Block Grant |
| 66.000 | Colonia Wastewater Treatment Assistance Program |
| 66.458 | Capitalization Grants for State Revolving Funds |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Fund |
| 84.011 | Migrant Education - State Grant Program |
| 84.126 | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| 84.181 | Special Education - Grants for Infants and Families with Disabilities |
| 84.357 | Reading First State Grants |
| 93.003 | Public Health and Social Services Emergency Fund |
| 93.217 | Family Planning Services |
| 93.268 | Immunization Grants |
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| 93.556 | Promoting Safe and Stable Families |
| 93.558 | Temporary Assistance for Needy Families |
| 93.563 | Child Support Enforcement |
| 93.658 | Foster Care - Title IV-E |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| 93.917 | HIV Care Formula Grants |
| 93.940 | HIV Prevention Activities - Health Department Based |
| 93.958 | Block Grants for Community Mental Health Services |

| | |
|---|---|
| 93.994 | Maternal and Child Health Services Block Grant to States |
| Cluster | Aging |
| Cluster | Child Care |
| Cluster | Disability Insurance/SSI |
| Cluster | Employment Services |
| Cluster | Fish and Wildlife |
| Cluster | Food Stamp |
| Cluster | Medicaid |
| Cluster | Research and Development |
| Cluster | Special Education |
| Cluster | State Domestic Preparedness Equipment Support Program |
| Cluster | State and Local Domestic Preparedness Training Program |
| Cluster | Student Financial Assistance, including loan servicing of Federal Family Education Loans and Health Education Assistance Loans |
| Cluster | Workforce Investment Act |

# Federal Award Findings and Questioned Costs - Table of Contents

**Federal Award Findings - KPMG**



**Federal Award Findings - Other Auditors**

Section 3b:

# Federal Award Findings and Questioned Costs - Other Auditors

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133*, Section .510(a). This section reported on the major program CFDA 14.871, Section 8 Housing Choice Vouchers, audited by other auditors.

## Department of Housing and Community Affairs

Reference No. 05-67

**Special Tests and Provisions - Housing Assistance Payment**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Reportable Condition Control and Non-Compliance**

The Code of Federal Regulations, Title 24, Section 982.305(c)(2) [24 CFR 982.305(c)(2)] requires the Department of Housing and Community Affairs (the Department) to not pay any housing assistance payment to the owner until the Housing Assistance Program (HAP) contract has been executed.

| | |
|---|---|
| Questioned Cost: | $ 5,351 |
| U.S. Department of Housing and Urban Development | |

For three of 35 tenant files tested, the HAP contract was either unsigned or not in the tenant file. Contracts that are not fully executed increase the risk that property owners may not know their responsibilities and rights and that the Department may not be able to implement its enforcement powers. Section 8 Housing Choice Voucher payments made on behalf of these three tenants totaled $5,351 for fiscal year 2004. Budgeted benefits for the same fiscal year for all contracts totaled approximately $10,040,484.

Recommendation

The Department should fully execute contracts with all property owners, and it should be consistent in ensuring that all documents in a tenant's file have been completed, reviewed, and signed.

*Management Response and Corrective Action Plan:*

*The Department acknowledges that every contract should be fully executed prior to landlord payment. The Department minimizes the risk of paying a landlord prior to fully executing a contract by completing rent calculations, determining tenant income eligibility, and conducting the housing quality standards inspection.*

*The Department will revise the contract preparation process to require review and approval of HAP contracts by the Section 8 Coordinator prior to creating or amending a contract file in the Genesis system. To strengthen the review process, each section of the Quality Control Checklist will be revised to include a section indicating that the Section 8 Coordinator reviewed the file and either approved or disapproved of each section of the checklist. Using the revised Quality Control Checklist, the Section 8 Coordinator will determine if the contract is complete and if the contract is executed, and will return the file to the appropriate Regional Coordinator for corrections if necessary.*

*In addition, the Department will amend the Section 8 quality control procedure to include an additional Control Log for incomplete HAP Contracts. The Section 8 Coordinator, responsible for quality control review of contract files, will maintain a log of all incomplete contracts returned to Regional Coordinators and will check off each entry when it is returned with corrections. The Section 8 Coordinator will provide the log to the Project Manager on a monthly basis. The Project Manager will review the log to ensure contract files have been completed, reviewed, and signed within a reasonable timeframe.*

*Implementation Date:* *March 15, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-68

**Special Tests and Provisions - Reasonable Rent**

(Prior Audit Issue - 04-21)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year – July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Non-Compliance**

The Code of Federal Regulations, Title 24, Section 982.507 [24 CFR 982.507] requires the Department of Housing and Community Affairs (the Department) to certify that the rent charged to the housing choice voucher tenant is not more than the rent charged for other unassisted comparable units. 24 CFR 982.507(c) notes that the owner of the units must provide the Department with rent information for other comparable units.

| | |
|---|---|
| Questioned Cost: | $ 4,080 |
| U.S. Department of Housing and Urban Development | |

The Department's policy is for local operators to complete a standard rent reasonableness determination worksheet, including rents for unassisted comparable units. This determination worksheet is included in the Housing Assistance Program (HAP) checklist and includes steps to ensure that the Department has received necessary documentation to verify eligibility, choose applicants from the waiting list, and determine rent reasonableness. However, the Department does not consistently follow all of the steps on this checklist.

For two of 40 contracts tested for fiscal year 2004, either (1) the Certification of Rent Reasonableness Determination section of the HAP checklist was incomplete or (2) the Unit Inspection section of the HAP checklist was unsigned. Section 8 Housing Choice Voucher payments made on behalf of one tenant associated with one of these two contracts totaled $4,080 for fiscal year 2004. Benefits paid for fiscal year 2004 for all contracts totaled approximately $10,040,484.

Recommendation

The Department should ensure that it consistently completes all portions of the HAP checklist.

*Management Response and Corrective Action Plan:*

*To strengthen the review process, each section of the quality control checklist will be revised to include a section indicating that the Section 8 Coordinator reviewed the file and either approved or disapproved of each section of the checklist. Files not approved will be listed on the Control Log for Incomplete HAP Contracts and returned to the Regional Coordinator for completion. Upon completion, the file will be returned to the Section 8 Coordinator for final quality control review.*

*Implementation Date:* *March 15, 2005*

*Responsible Person:* *Cecelia Arvallo,*

Reference No. 05-69

**Special Tests and Provisions – Selection from the Waiting List**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Reportable Condition Control**

| | |
|---|---|
| Questioned Cost: | $ 0 |
| U.S. Department of Housing and Urban Development | |

The Code of Federal Regulations, Title 24, Section 982.54 (24 CFR 982.54) requires the Department of Housing and Community Affairs (the Department) to have a written administrative plan that establishes local policies for the administration of the housing choice voucher program in accordance with U.S. Department of Housing and Urban Development requirements.

The Department created the Housing Assistance Program Contract Routing and Quality Control Checklist (HAP checklist) to ensure adherence to its administrative plan. This checklist includes steps to ensure that the Department has received necessary documentation to verify eligibility, choose applicants from the waiting list, and determine rent reasonableness. However, the Department does not consistently follow all of the steps on this checklist.

We did not identify any instances of noncompliance regarding the selection of individuals from the waiting list. However, the following errors increase the risk that the Department may not correctly choose applicants from the waiting list. Specifically, six of 35 tenant files tested for fiscal year 2004, the Tenant Data section of the HAP checklist was incomplete, the program coordinator did not review or sign the HAP checklist, or the HAP checklist was missing.

Recommendation

The Department should ensure that it consistently completes all portions of the HAP checklist and that HAP checklists are completed for all tenant files.

*Management Response and Corrective Action Plan:*

*To strengthen the review process, each section of the quality control checklist will be revised to include a section indicating that the Section 8 Coordinator reviewed the file and either approved or disapproved of each section of the checklist. Files not approved will be listed on the Control Log for Incomplete HAP Contracts and returned to the Regional Coordinator for completion. Upon completion, the file will be returned to the Section 8 Coordinator for final quality control review.*

*In addition, the Department will work with Information Systems to add a quality control approval field to the contract tracking system. The Section 8 Coordinator will enter a date in the approval field. The Project Manager will generate a monthly report to determine contract files that have not received a final quality control review.*

*Implementation Date:* *April 30, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-70
**Eligibility**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Non-Compliance**

The Code of Federal Regulations, Title 24, Section 5.9035 (24 CFR 5.903) requires the Department of Housing and Community Affairs (the Department) to have a signed "Criminal History Certification/Acknowledgement" form for all adults aged 18 and over who participate in Section 8 Housing Choice Vouchers Program. In addition, eligibility investigations associated with the criminal certification/acknowledgement form must be documented.

| | |
|---|---|
| Questioned Cost: | $ 0 |
| U.S. Department of Housing and Urban Development | |

Two of the 30 applicant files tested for fiscal year 2004 did not contain signed "Criminal History Certification Acknowledgement" forms. In addition, in four of the 30 files reviewed, the eligibility determination section of the form had not been completed.

Recommendation

The Department should ensure that it consistently requires a signed "Criminal History Certification/ Acknowledgement" form for all adults aged 18 and over who participate in the Section 8 Housing Choice Vouchers Program and that the eligibility section of the form is completed.

*Management Response and Corrective Action Plan:*

*Implementation of the Control Log for Incomplete HAP Contracts (see Reference No. 05-67) will assist the Project Manager in assuring that criminal history certifications are on file for all adults aged 18 and over.*

*Implementation Date:* *March 15, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-71
**Eligibility**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Reportable Condition Control**

The Code of Federal Regulations, Title 24, Section 982.54 (24 CFR 982.54) requires the Department of Housing and Community Affairs (the Department) to have a written administrative plan that establishes local policies for the administration of the housing choice voucher program in accordance with U.S. Department of Housing and Urban Development requirements.

| | |
|---|---|
| Questioned Cost: | $ 0 |
| U.S. Department of Housing and Urban Development | |

The Department created the Housing Assistance Program Contract Routing and Quality Control Checklist (HAP checklist) to ensure adherence to its administrative plan. This checklist includes steps to ensure that the Department has received necessary documentation to verify eligibility. However, the Department does not consistently follow all of the steps on this checklist.

Although we noted no instances of noncompliance with eligibility requirements, for 13 of the 30 applicant files tested, the program coordinator or the regional coordinator did not sign the "Type of Review" section of the HAP checklist.

Recommendation

The Department should ensure that program or regional coordinators review and sign all HAP checklists.

*Management Response and Corrective Action Plan:*

*See response to Reference No. 05-68. Each section of the quality control checklist will be revised to include a section indicating that the Section 8 Coordinator reviewed the file and either approved or disapproved of each section of the checklist. Files not approved will be listed on the incomplete contract file log and returned to the Regional Coordinator for completion. Upon completion, the file will be returned to the Section 8 Coordinator for final quality control review.*

*Implementation Date:* *March 1, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-72

**Special Tests and Provisions - Housing Quality Standards Inspections**

(Prior Audit Issue - 04-22 and 03-18)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number -TX-901**

**Type of finding - Material Weakness Control and Material Non-Compliance**

| | |
|---|---|
| Questioned Cost: | $0 |
| U.S. Department of Housing and Urban Development | |

The Code of Federal Regulations, Title 24, Sections 982.405(a) and (b) [24 CFR 982.405(a) and (b)] requires that housing units for the Section 8 Housing Choice Voucher program be inspected and reinspected, and each unit must have a properly completed unit inspection report summarizing the inspection results.

To comply with this requirement, the Department of Housing and Community Affairs (the Department) uses Form HUD-52580-A, Inspection Form for the Housing Choice Vouchers Program. To properly perform an inspection or reinspection, each area of that form should be completed.

For 36 of the 51 inspections tested, HUD-52580-A forms were completed, but the results of subsequent reinspections indicated the original inspection may not have been adequate. When the reinspections were performed, additional deficiencies in the units were noted. The nature of these deficiencies indicated that the conditions existed at the time of the annual inspections, which puts the quality of the annual inspections in question.

Additionally, for three of 81 inspections tested, certain areas of the HUD-52580-A forms were left blank.

Recommendation

The Department should ensure that individuals performing inspections of housing units for the Section 8 Housing Choice Voucher program receive additional training to ensure consistency among inspections and reinspections. Additionally, it should ensure that inspectors complete each section of the HUD-52580-A form prior to filing the form. Department program managers also should incorporate into the quality control inspection process a review of the HUD-52580-A forms for completion.

*Management Response and Corrective Action Plan:*

*The Department will develop a HQS training for Local Operators which will include a written exam to evaluate the knowledge of the Local Operator. The training will provide instructions on completing the HUD-52580-A inspection booklet. Upon completion of the training, all Local Operators will be required to pass the written test prior to performing HQS inspections.*

*To strengthen the review process, the Department will revise the Quality Control Checklist (contract routing sheet) to allow the Section 8 Coordinator to verify and approve completeness of the HUD 52580-A inspection form. In addition, each section of the quality control checklist will be revised to include a section indicating that the Section 8 Coordinator reviewed the file and either approved or disapproved of each section of the checklist. Files not approved will be listed on the Control Log for Incomplete HAP Contracts and returned to the Regional Coordinator for completion. Upon completion, the file will be returned to the Section 8 Coordinator for final quality control review.*

*Implementation Date:* *June 1, 2005 (Local Operator training program) and May 15, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-73

**Special Tests and Provisions - Housing Quality Standards Inspections**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 to June 30, 2005**
**July 1, 2003 to June 30, 2004**
**Award number - TX-901**

**Type of finding - Reportable Condition Control**

| | |
|---|---|
| Questioned Cost: | $ 0 |
| U.S. Department of Housing and Urban Development | |

The Code of Federal Regulations, Title 24, Sections 982.405(a) and (b) [24 CFR 982.405(a) and (b)] requires that units leased to families for the Section 8 Housing Choice Voucher Program be inspected and reinspected at least annually to determine whether they meet housing quality standards. Reinspections must be completed within three months of the original inspection.

The dates of the inspection and reinspection are noted on the Form HUD-52580-A, Inspection Form for the Housing Choice Vouchers Program. For all files reviewed, the inspections and reinspections were performed within the required annual and three-month window. However, for 13 of 81 inspections tested, either a Contract Routing Sheet was not on file or the Contract Routing Sheet lacked a required signature. The Department of Housing and Community Affairs (the Department) uses this Contract Routing Sheet as a control for insuring the inspections are completed in a timely manner and that the tenant file includes all required inspection documentation.

Recommendation

The Department should fully implement the use of the Contract Routing Sheet as a means to ensure that the files are reviewed and approved by management.

*Management Response and Corrective Action Plan:*

*The Department will revise the quality control checklist (Contract Routing Sheet) to allow the Section 8 Coordinator to verify and approve the completeness of the HUD 52580-A Inspection Form.*

*Implementation Date:* *March 15, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-74

**Special Tests and Provisions – Housing Quality Standards Enforcement**

(Prior Audit Issue - 04-23 and 03-17)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 – June 30, 2005**
**July 1, 2003 – June 30, 2004**
**Award number – TX-901**

**Type of finding – Reportable Condition Control and Material Non-Compliance**

| | |
|---|---|
| Questioned Cost: | $ 1,842 |
| U.S. Department of Housing and Urban Development | |

The Code of Federal Regulations, Title 24, Sections 982.158(d) and 982.404 [24 CFR sections 982.158(d) and 982.404] requires that owners of units under housing assistance payment contracts that fail to meet housing quality standards correct any life-threatening deficiencies within 24 hours after the inspection; they must correct all other deficiencies within 30 calendar days or within a specified approved extension period. If the owner does not correct the cited deficiency within the specified correction period, either (1) housing assistance payments must be stopped beginning no later than the first of the month following the specified correction period or (2) the housing assistance payment contract must be terminated. For family-caused defects, if the family does not correct the cited deficiencies within the specified correction period, the Department of Housing and Community Affairs (the Department) must take prompt and vigorous action to enforce family obligations.

For seven of the 49 contracts tested, inspections noted a non-life-threatening deficiency and, although documentation in the files showed the deficiencies had been corrected, the documentation did not show that the deficiencies had been corrected within 30 calendar days. For three of these files, corrections were made before the end of the reporting period, so the abatement of payments to landlords was not required. However, the remaining four files were repaired after the abatement period began. There was no note in the Department's file indicating that payments to landlords in the amount of $1,842 had been abated.

Recommendation

The Department should ensure that it documents whether non-life-threatening deficiencies are corrected within 30 calendar days and that it begins abating payments when appropriate.

*Management Response and Corrective Action Plan:*

*In 2003, the Department developed and implemented the use of housing quality standards deficiency letters to address (1) life-threatening and (2) non-life-threatening deficiencies. To further enhance the system to ensure that life-threatening and non-life threatening deficiencies are addressed, the Department will revise the inspection section of the quality control checklist to document whether deficiencies were corrected within 30 calendar days for non-life threatening deficiencies and 24 hours for life-threatening deficiencies and that abatement begins when appropriate. The Regional Coordinator will be responsible for enforcing the use of the housing quality standards deficiency letters for all failed inspections. The Department will revise the Control Log for Incomplete HAP Contracts to allow the Section 8 Coordinator to review the contract file for inclusion of these letters.*

*Implementation Date:* *March 15, 2005*

*Responsible Person:* *Cecelia Arvallo*

Reference No. 05-22

**Allowable Costs/Cost Principles**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Award year - July 1, 2004 - June 30, 2005**
**July 1, 2003 - June 30, 2004**
**Award number – TX-901**

**Type of finding – Material Weakness Control**

| | |
|---|---|
| Questioned Cost: | $ 0 |
| U.S. Department of Housing and Urban Development | |

The Department of Housing and Community Affairs (the Department) should correct weaknesses in the separation of duties in the Section 8 Housing Choice Voucher program transaction process and in the software change management process associated with its Section 8 system. Weaknesses in these areas increase the risk that a single individual could complete all key components of a program transaction (including payments) without sufficient authorization or review. We tested 30 payments and did not identify any non-compliance with requirements related to allowable costs/cost principles. However, the issues discussed below increase the risk of non-compliance with these requirements.

Separation of Duties Issue

The Department's Section 8 regional coordinators have the ability to complete all steps in the Section 8 transaction process, and most of their transactions are passed on automatically to the Department's accounting system for payment. Specifically, the regional coordinators process contract source documents, enter these transactions into the Section 8 system, and establish vendor payment data in the accounting system. This condition exists primarily because there is only one user-access level within the Section 8 system.

In addition, there is no transaction approval mechanism within the Section 8 system to ensure that all transactions entered into the system undergo review and approval before they are updated in this system. There is also not a sufficient review of transactions entering the Section 8 system to compensate for this condition. For example, while a third party compares "single" transactions entered into the Section 8 system to the original source documents, this type of review is not done for the majority of transactions. The majority of transactions become part of a "multi" batch, which is directly interfaced into the accounting system, and payment vouchers are subsequently processed for these transactions. It is unlikely that supplemental accounting controls would detect transactions in error or unauthorized transactions; such controls are designed to reconcile the systems involved in the payment process rather than review the transactions for accuracy or validity.

Software Change Management Issue

Personnel who maintain the Section 8 system can make changes to Section 8 programs and have direct access to the tool used to move updated programs into the production environment. There is not an additional program review and approval process in place to enable a third party to monitor and approve such changes. Personnel who maintain the Section 8 system can also modify system data. While the Department does require its system developers to review one another's work, each developer still has the capability to change the programs and data independently.

In addition, the Department's network administrator has access to the tool to move programs into the production environment. The network administrator may not need this access. Furthermore, the Department has a memorandum of understanding with another state agency to share computing resources, and the personnel from the other agency also have access to modify Section 8 programs. Finally, while knowledge of the password needed to move programs into the production environment is tightly controlled, this password has not recently been changed, which increases the risk that this password could be compromised.

Recommendations

Before Section 8 transactions are processed for payment, the Department should implement a review and approval process to ensure that all transactions entered into the Section 8 system are verified by someone other than the individual who entered the transaction into the system. The Department also should incorporate an automated approval mechanism into the Section 8 system, if feasible, to ensure that transactions cannot be passed on for payment without third-party approval.

The Department also should implement separation of duties so that personnel who are responsible for entering contracts into the Section 8 system cannot also establish vendors in the Department's accounting system. It should also (1) ensure that a third party, who does not have direct programming responsibilities, moves programs into the production environment or (2) implement a third-party process to monitor the movement of programs into the production environment and direct program and data changes made by developers.

The Department also should ensure that only those personnel with a direct need to move programs into the production environment have access to perform this task. In addition, it should change the password for moving programs into the production environment at least every 90 days.

*Management Response and Corrective Action Plan:*

*With regard to the recommendations included in paragraph 1, the Department will revise the process for HAP contract preparation and setting up the HAP contract for payment in the Genesis system by dividing these duties among Section 8 staff. A Regional Coordinator will be responsible for preparing the HAP contact (verifying income eligibility, verifying utility allowance, determining rent reasonableness, verifying vendor information, etc.) before forwarding the HAP contract to the Section 8 Coordinator for quality control review. After the Section 8 Coordinator approves a HAP contract, the Section 8 Coordinator will forward the HAP contract to a Regional Coordinator not involved in preparing that contract. The second Regional Coordinator will be responsible for entering the HAP contract for payment in the Genesis system.*

*With regard to the recommendations included in paragraphs 2 and 3: Because of technical limitations associated with the legacy platform on which the Section 8 System is operated and maintained and because of resource limitations, it is necessary that the two programmers who maintain the Section 8 System have multiple responsibilities (both programmer and DBA) and have access to production data.*

*Current controls that the department has in place to mitigate the risks associated with this level of access include the following: 1) The software development manager is assigned supervisory responsibilities over the two programmers, including work order assignment and monitoring and employee evaluations. 2) The end users of the Section 8 System are responsible for testing and verifying changes to the system. 3) The Department uses a change control process in which the agency's IT steering committee approves or disapproves system changes submitted by division directors.*

*In addition to these controls, the Department will implement a third-party process to monitor the movement of Section 8 programs into the production environment. This process will be formalized in a standard operating procedure, which will include a written description of the software development manager's responsibilities for directing program and data changes made by the two programmers.*

*The Department will also implement a process for changing the password for moving programs into the production environment at least every 90 days on the legacy platform on which the Section 8 System resides.*

*Implementation Date:* *April 30, 2005*

*Responsible Person:* *Eddie Fariss*

# Summary Schedule of Prior Audit Findings

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2004

# Summary Schedule of Prior Year Audit Findings - Table of Contents

## Department of Housing and Community Affairs

Reference No. 04-16
**Reporting**

**CFDA 14.239 - HOME Investment Partnerships Program**
**Type of finding - Material Non-Compliance**

| | |
|---|---|
| Intial Year Written: | 2003 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |

Eligible matching contributions of 25% of all funds drawn are required to be provided by the end of the fiscal year. In addition, the Department of Housing and Community Affairs (DHCA) is required to report the match annually on the *HOME Match Report*, Form HUD-40107-A. The regulations stated in 24 CFR 92.221, state that a cash contribution is credited on a fiscal year basis at the time the funds are expended.

Our audit procedures included a review of 14 State Energy Conservation Office (SECO) and 16 subrecipient matching expenditures. In this sample, we noted that each of the selected items were properly included in line 2, Match contributed during current Federal fiscal year, of the fiscal year 2002 HOME Match Report. Also the items appeared to be properly supported and allowable as eligible forms of matching. However, for two of the 14 SECO expenditures, the disbursement dates were October 2002, which would qualify the $156,442 of expenditures for fiscal year 2003 match. Also, four of the 16 subrecipient match expenditures included fiscal year 2001 transactions totaling $9,185. When the report was prepared, inaccurate dates were used resulting in SECO expenditures from October 2002 transactions and subrecipient amounts from 2001 transactions being included. DHCA does meet the minimum 25% matching requirement after excluding the above questioned amounts since the 2002 HOME Match Report included excess matching contributions.

*Corrective Action:*

Correction action was taken.

Reference No. 04-17
**Allowable Costs/Cost Principles**

**CFDA 14.239 - HOME Investment Partnerships Program**
**Type of finding - Non-Compliance**

| | |
|---|---|
| Initial Year Written: | 2003 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |

OMB Circular A-87 provides general guidelines for allowable costs. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objectives in accordance with relative benefits received. For two of six non-payroll expenditure items selected for test work, the method of allocation of $8,595 to the various Federal programs was not documented. These items were for professional fees for financial audits for the Department of Housing and Community Affairs (DHCA) which management believes benefited all programs, both Federal and non-federal. Total professional fees allocated to the program for fiscal year 2003 were approximately $129,000.

*Corrective Action:*

Corrective action was taken.

Reference No. 04-18
**Reporting**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Reportable Condition Control and Material Non-Compliance**

| |
|---|
| Initial Year Written: 2003 |
| Status: Implemented |
| U.S. Department of Housing and Urban Development |

The Department of Housing and Community Affairs (DHCA) is required to submit HUD-50058 - Family Report (OMB No. 2577-0083) electronically to U.S. Department of Housing and Urban Development each time DHCA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. DHCA must also submit the Family Report when a family ends participation in the program or moves out of DHCA's jurisdiction under portability (24 CFR part 908 and 24 CFR section 982.158).

In our sample of 30 recipient files, the following 13 discrepancies were noted in 11 of the 30 family reports. It appears the majority of the information was entered into the database in prior years and is being carried forward as the family is reexamined for eligibility.

- The social security number (line 3n) for the head of the household of one report did not agree to the social security card on file.
- The social security numbers (line 3n) for a dependent on three different reports did not agree to the social security cards on file.
- The social security number (line 3n) for a dependent for one report did not agree to the TANF benefits history which was obtained in lieu of a social security card.
- The date of birth (line 3e) for a child on three different reports did not agree to the personal declaration form completed by the head of the household.
- The name of the child (lines 3b and 3c) on two reports was spelled differently than the supporting documentation.
- The unit address (line 5a) for two reports did not agree to supporting documentation.
- The inspection date (line 5h and 5i) did not agree to the inspection form for one report.

In addition, the U.S. Department of Housing and Urban Development (HUD) issued a Rental Integrity Monitoring Review dated August 28, 2003 with five deficiencies sited with regard to the family reports. HUD noted the following:

- Eleven of 35 files lacked adequate third party verification of assets, public assistance, social security, and child support income.
- Twenty-seven of 35 files did not record the correct amount of payment on line 12j.
- Three of the 35 files failed to record or exclude food stamp income.
- Two of the 35 files failed to verify immigration eligibility.
- DHCA is maintaining the criminal background check documentation in the files.

*Corrective Action:*

Corrective action was taken.

Reference No. 04-19

**Reporting**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Non-Compliance**

| | |
|---|---|
| Initial Year Written: | 2003 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |

The U.S. Department of Housing and Urban Development's (HUD) Section 8 Management Report dated September 19, 2000 noted the Department of Housing and Community Affairs (DHCA) had not implemented a family self-sufficiency (FSS) program. DHCA is required to provide a FSS program or apply for a waiver from HUD. Correspondence from HUD dated June 26, 2003, indicated that DHCA received a waiver for all areas outside of Houston, Texas. The correspondence also indicated that DHCA should submit a FSS action plan for the Houston area for HUD approval within 30 days. As of November 2003, DHCA has not submitted the required action plan. Additionally, lines 2k and 17a, Family's participating in the Family Self-Sufficiency Program, and line 17k(2), FSS account, were not completed on the HUD-50058 - Family Report (OMB No. 2577-0083) for the families in the Houston area since the program was not implemented during fiscal year 2003.

*Corrective Action:*

Corrective action was taken.

Reference No. 04-20

**Eligibility**

(Prior Audit Issue - 03-16)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Non-Compliance**

| | |
|---|---|
| Initial Year Written: | 2002 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |

24 CFR section 5.508 requires each family member to provide evidence to the Department of Housing and Community Affairs (DHCA) of at least a signed declaration of their U.S. citizenship or U.S. nationality. DHCA may request additional documentation. DHCA's policy is that additional documentation, such as U.S. passport, be provided. For one of 30 tenants selected for test work, documentation was not available to determine if the tenant met the requirements of citizenship or eligible immigration status. The tenant noted, was admitted to the program on February 1, 2000 without the proper citizenship documentation. During the renewal process in 2003, DHCA noted in the tenant's file that the required citizenship information was not provided and requested the information from the tenant. However, the documentation was not obtained and benefits of $1,262 were paid during the 2003 fiscal year. Total benefits paid for fiscal year 2003 were approximately $9,495,000.

*Corrective Action:*

Corrective action was taken.

Reference No. 04-21

**Special Tests and Provisions - Reasonable Rent**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Non-Compliance**

| |
|---|
| Initial Year Written: 2003 |
| Status: Partially Implemented |
| U.S. Department of Housing and Urban Development |

24 CFR 982.507 requires the Department of Housing and Community Affairs (DHCA) to certify that the rent charged to the housing choice voucher tenant is not more than the rent charged for other unassisted comparable units. 24 CFR 982.507(c) notes that the owner of the units must provide DHCA with rent information for other comparable units. DHCA's policy is for local operators to complete a standard rent reasonableness determination worksheet including rents for unassisted comparable units. For one of 30 tenants selected for test work, documentation of the comparable rents for the unit was not available. Section 8 Housing Choice Voucher payments made on behalf of the noted tenant totaled $1,870. Total benefits paid for fiscal year 2003 were approximately $9,495,000.

*Corrective Action:*

This finding was reissued as current year reference number: 05-68.

Reference No. 04-22

**Special Tests and Provisions - Housing Quality Standards Inspections**
(Prior Audit Issue - 03-18)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Non-Compliance**

| |
|---|
| Initial Year Written: 2002 |
| Status: Partially Implemented |
| U.S. Department of Housing and Urban Development |

24 CFR sections 982.159(d) and 982.405(b) require the inspection and reinspection of a unit leased to a family at least annually to determine if the unit meets housing quality standards. A unit inspection report must be prepared as a result of the inspection process. The Department of Housing and Community Affairs (DHCA) utilizes the Form HUD-52580-A, *Inspection Form for the Housing Choice Voucher Program*. In order to properly perform an inspection or reinspection, each area of the form should be completed and the reinspections should be completed within three months of the original inspection. Our review of 38 reinspections noted that three HUD-52580-A forms were not properly completed. For these three reinspections, the inspections were performed timely and the form was in the file. However, certain areas of the three reinspection forms were left blank.

*Corrective Action:*

This finding was reissued as current year reference number: 05-72.

Reference No. 04-23
**Special Tests and Provisions - Housing Quality Standards Enforcement**
(Prior Audit Issue - 03-17)

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Reportable Condition Control and Material Non-Compliance**

| | |
|---|---|
| Initial Year Written: | 2002 |
| Status: | Partially Implemented |
| U.S. Department of Housing and Urban Development | |

In accordance with 24 CFR sections 982.158(d) and 982.404, owners of units under housing assistance payment contracts that fail to meet housing quality standards (HQS) must be required to correct any life threatening HQS deficiencies within 24 hours after the inspection and all other HQS deficiencies within 30 calendar days or within a specified approved extension period. If the owner does not correct the cited HQS deficiencies within the specified correction period, housing assistance payments must be stopped beginning no later than the first of the month following the specified correction period or the housing assistance payment contract must be terminated. For family caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the Department of Housing and Community Affairs (DHCA) must take prompt and vigorous action to enforce the family obligations.

For 14 of the 30 contracts selected for test work, the HQS inspections noted a non-life threatening deficiency and the documentation in the file showing the deficiency was corrected but not within 30-calendar days. For three additional files, there were notes in the file of an extension but no specific information as to the revised deadline. For all of the 17 deficiencies, the corrections were made before the end of the reporting period so no abatements were required.

*Corrective Action:*

This finding was reissued as current year reference number: 05-74.

Reference No. 04-24
**Special Tests and Provisions - Utility Allowance Schedule**

**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**Type of finding - Material Weakness Control and Scope Limitation**

| | |
|---|---|
| Initial Year Written: | 2003 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |

In accordance with 24 CFR sections 982.517, the Texas Department of Housing and Community Affairs (DHCA) must maintain an up-to-date utility allowance schedule. DHCA must review the utility rate data for each utility category each year and must adjust its utility allowance schedule if there had been a rate change of 10% or more for a utility category or fuel type since the last time the utility allowance schedule was revised. The most recent utility allowance survey certification was noted to be July 2002 for certain areas and August 2002 for other areas. DHCA did not obtain new surveys with which to compare the utility allowance schedule. Total July and August 2003 payments made on behalf of tenants that had revised rent calculations subsequent to June 30, 2002, were $72,587.

*Corrective Action:*

Corrective action was taken.

Reference No. 04-25

**Allowable Costs/Cost Principles**

**Major Programs:**
**CFDA 14.239 - HOME Investment Partnerships Program**
**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**CFDA 93.568 - Low-Income Home Energy Assistance**

**Non-Major Programs:**
**CFDA 14.231 - Emergency Shelter Grants Program**
**CFDA 81.042 - Weatherization Assistance for Low-Income Persons**
**CFDA 93.569 - Community Services Block Grant**
**Type of finding - Material Weakness Control and Material Non-Compliance**

| | |
|---|---|
| Initial Year Written: | 2003 |
| Status: | Implemented |
| U.S. Department of Housing and Urban Development | |
| U.S. Department of Energy | |
| U.S. Department of Health and Human Services | |

Per OMB Circular A-87, attachment B, section 8H - support of salaries and wages, the following standards are applicable:

- Where employees are expected to work solely on a single Federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which:

1) Reflect an after-the-fact distribution of the actual activity of each employee,
2) Account for the total activity for which each employee is compensated,
3) Prepared at least monthly and coincide with the pay period,
4) Signed by the employee, and
5) Budget estimates before the services are performed do not qualify as support for charges to Federal awards but may be used for interim purposes provided that at least quarterly, comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the Federal program.

The Department of Housing and Community Affairs (DHCA) allocated salaries and benefits to all their Federal grants during the fiscal year 2003 based on budget allocations. Secondly, for the major programs CFDA 14.239 and 93.568, certification of the time sheets was in compliance with OMB Circular A-87 requirements. However for the major program CFDA 14.871, certification of the time sheets was not in compliance with OMB A-87. Total amount of salaries and benefits for CFDA 14.871 was approximately $439,842. Thirdly, DHCA's indirect cost rate is applied to a base of direct salaries and wages excluding all fringe benefits.

During November 2003, DCHA did adjust the allocated salaries, benefits, and indirect costs charged to its Federal grants for the fiscal year 2003 by comparing employee timesheets to budgeted amounts. These adjustments are included in the final Federal expenditure amounts in the accompanying schedule of Federal awards. The results are noted below:

| Federal Program | | Reduction Needed in Amount Charged to the Federal Program | Additional Amount Charged to the Federal Program |
|---|---|---|---|
| CFDA 14.231 | $ | — | 155,307 |
| CFDA 14.239 | | — | 138,112 |
| CFDA 81.042 | | — | 278,737 |
| CFDA 93.568 | | (389,104) | — |
| CFDA 93.569 | | (183,052) | — |
| Total | $ | (572,156) | 572,156 |

*Corrective Action:*

Corrective action was taken.

Reference No. 04-26

**Allowable Costs/Cost Principles**

**Major Programs:**

**CFDA 14.239 - HOME Investment Partnerships Program**
**CFDA 14.871 - Section 8 Housing Choice Vouchers**
**CFDA 93.568 - Low-Income Home Energy Assistance**

**Non-Major Programs:**

**CFDA 14.231 - Emergency Shelter Grants Program**
**CFDA 81.042 - Weatherization Assistance for Low-Income Persons**
**CFDA 93.569 - Community Services Block Grant**

**Type of finding - Material Non-Compliance**

Initial Year Written: 2003
Status: Partially Implemented

U.S. Department of Housing and Urban Development

U.S. Department of Energy

U.S. Department of Health and Human Services

The Department of Housing and Community Affairs (DHCA) indirect cost rate agreement with the U.S. Department of Health and Human Services (HHS) was discontinued effective August 31, 2000 when HHS was no longer the designated cognizant agency for DHCA. DHCA has continued to use the rate in effect prior to August 31, 2000 of 44% of a base of direct salaries and wages excluding all fringe benefits. Indirect costs charged to the grants for fiscal year 2003 are noted below:

| Federal Program | | Indirect Costs Charged to the Federal Program |
|---|---|---|
| CFDA 14.231 | $ | 51,708 |
| CFDA 14.239 | | 528,869 |
| CFDA 14.871 | | 154,419 |
| CFDA 81.042 | | 92,312 |
| CFDA 93.568 | | 308,531 |
| CFDA 93.569 | | 286,987 |
| Total | $ | 1,422,826 |

*Management's Response:*

*TDHCA is currently in negotiations with the U.S. Department of Housing and Urban Development (HUD). It is expected that an approved rate will be issued by March 2005.*

*Implementation Date:* *March 31, 2005*

*Responsible Person:* *David Cervantes*

*Texas Department of Housing and Community Affairs*

## *Status of Prior Audit Issues*

- ∉ ***U.S. Department of Housing and Urban Development (HUD) letters Clearing Prior Audit Findings***
  - ***March 23, 2005 – Regarding Single Audit Report for the Fiscal Year Ending August 31, 2003***
  - ***March 7, 2005 – Regarding Status of Audit Findings in the 2001 and 2002 Single Audit Reports***
  - ***March 4, 2005 – Regarding Audit Report, fiscal year 2003***
- ∉ ***Summary Report of Prior Audit Issues***

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
801 Cherry Street, P.O. Box 2905
Fort Worth, Texas 76113-2905

MAR 23 2005

RECEIVED
MAR 28 2005
EXECUTIVE

Edwina P. Carrington, Executive Director
Texas Department of Housing and
Community Affairs
PO Box 13941
Austin, Texas 78711-3941

Edwina

Dear Ms. Carrington:

SUBJECT: Single Audit Report for the Fiscal Year Ending August 31, 2003

We are in receipt of your letter dated September 30, 2004, and the final Indirect Cost Negotiation Agreements for the 2000, 2001 and 2002 fiscal years, and the provisional Indirect Cost Negotiation Agreement for the 2003 fiscal year. The Indirect Cost Agreement covering all four years is dated January 28, 2005, and was executed by HUD on February 22, 2005. The status of the findings is discussed below.

**Finding 04-17** – The method used to allocate $8,585 to the HOME Program for professional fees was not documented.

**HUD's Response** – Adequate documentation was presented to justify the $8,585 for professional fees to the HOME Program. This finding is closed.

**Finding 04-25** – Salaries and benefits were allocated to all Federal awards based on budget estimates and adjustments were not made until November 2003. In addition, time sheets applicable to some of the Federal awards were not certified in compliance with OMB Circular A-87. Further, TDHCA's indirect cost rate was applied to a base of direct salaries and wages excluding benefits.

**HUD's Response** – Sufficient documentation was submitted to explain the November 2003 adjustment that resulted in the reallocation of $155,307 to the ESG Program and $138,112 to the HOME Program. However, we did not receive any information concerning the applicability of the finding to the ESG Program. We did receive a copy of TDHCA's Time Allocation and Certification Policy that was implemented on May 17, 2004. As we did not receive any information concerning the applicability of the finding to the ESG Program, we contacted Mr. David Cervantes, Director of Financial Administration, on March 17, 2005. Mr. Cervantes explained that although the agency did not require the certification in the past, it was now certifying all HOME and ESG timesheets. Mr. Cervantes assured this office that he was very comfortable with the new process that was implemented on May 17, 2004. As a result of the information provided and the assurances received from Mr. Cervantes that the finding has been resolved, no further action is required. The indirect cost issue is addressed in Finding 04-26. The finding is closed.

**Finding 04-26** – Indirect costs have been charged to Federal awards without an approved indirect cost plan. The last cost plan that was approved expired on August 31, 2000, and TDHCA has continued to use the rate resulting in questioned costs of $1,422,826.

**HUD's Response** – TDHCA was allocating indirect costs to its Federal awards based on an August 21, 2000, indirect cost rate of 44% that was negotiated by the Department of Health and Human Services. On February 22, 2005, HUD issued TDHCA a new Indirect Cost Rate Negotiation Agreement that covered the 2000, 2001, 2002, and 2003 fiscal years. The applicable rate included in the agreement justified the indirect costs that TDHCA had charged to its HOME and ESG Program awards during the time period of the 2003 audit. No further response is required. The finding is closed.

If you have any questions concerning this letter, please call Brenda Jennings, Senior Financial Analyst, at 817-978-5941.

Sincerely,

Katie

Katie S. Worsham
Director

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Community Planning and Development
801 Cherry Street, P.O. Box 2905
Fort Worth, Texas 76113-2905

MAR 7 2005

Edwina P. Carrington, Executive Director
Texas Department of Housing and
Community Affairs
PO Box 13941
Austin, Texas 79711-3941

Dear Ms. Carrington:

SUBJECT: Status of Audit Findings in the 2001 and 2002 Single Audit Reports

We are in receipt of your letter dated July 1, 2004, which responds to the open audit findings and the additional information requested in our letter dated May 3, 2004. The status of the findings is discussed below.

**Finding 02-05:** TDHCA's subrecipients and consultants received and spent HOME program funds for related soft or project delivery costs without required oversight.

Current Status: TDHCA identified 128 contracts provided to 112 subrecipients that drew soft costs under the Owner-Occupied and Homebuyer Assistance funding categories during the 1999, 2000, 2001, and 2002 program years. Of the 128 awardees, TDHCA conducted on-site monitoring reviews of 22 subrecipients receiving 25 contracts, and received support documentation for an additional 16 subrecipients. Support documentation for the $29,400 identified in the 2001 audit report was also provided. Our review of the documentation provided found it to be sufficient to clear the finding. No further response is required.

**Finding 02-06:** TDHCA does not have adequate internal controls in place to monitor the subrecipients of the HOME Program.

Current Status: A copy of the KPMG letter clarifying the finding was provided. Documentation was provided noting that of the 185 identified contracts awarded to 146 subrecipients, on-site visits were made to 66 subrecipients and desk reviews were completed on an additional 107 contracts. Our review of the documentation provided found it to be sufficient to clear the finding. No further response is required.

The state has assured HUD that the Compliance Division has implemented a system to ensure that contract closeout occurs when the reconciliation between TDHCA's central database system, CSAS, and IDIS is complete and all projects associated with a contract have been closed in IDIS and all remaining funds have been deobligated.

If you have any questions concerning this letter, please contact Brenda Jennings, Senior Financial Analyst, at 817-978-5941.

Sincerely,

Jim Johnson

for Katie S. Worsham
Director

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Fort Worth Regional Office, Region VI
Office of Public Housing, 6APHF
801 Cherry Street
Post Office Box 2905
Fort Worth, Texas 76113-2905

RECEIVED
MAR 1 6 2005
EXECUTIVE

March 4, 2005

Edwina Carrington, Executive Director
Texas Department of Housing and Community Affairs
P.O. Box 13941
Austin, TX 78711

Dear Ms. Carrington:

SUBJECT: Audit Report, fiscal year 2003

The audit report for the above-mentioned fiscal year contained the following findings:

**Finding 4-18, tenant files (re-examination):** In the auditor's sample of 30 tenant files, 13 discrepancies were noted in 11 of the 30 family reports. Discrepancies found were related to social security numbers, date of birth, names of children, unit addresses and inspection dates.

In response to the auditor's finding, the Housing Authority (HA) stated that the "Department of Housing and Community Affairs has enhanced its quality assurance process for the Section 8 program in August 2003 by requiring a second review of all files to minimize errors relating to data entry." The HA has also revised its quality control checklist.

On September 27, 2004, our office completed an on-site confirmatory review of the HA's response and corrective action plan related to this audit finding. This review confirmed that the HA has enhanced its quality assurance process. Based on the action taken by the HA and our review, this finding was closed on December 6, 2004.

**Finding 4-19, family self-sufficiency program:** The HA did not implement its family self-sufficiency program.

On June 26, 2003, HUD granted a waiver for all areas outside of Houston. On November 19, 2003, HUD approved the HA's family self-sufficiency plan for the Houston area.

Based on the HA's response and discussions with you regarding implementation of this program (the HA is now implementing this program), this finding was closed on December 6, 2004.

**Finding 4-20, tenant files (citizenship documentation):** One of the thirty files reviewed by the auditor did not contain documentation sufficient to determine if a tenant met the requirements of citizenship or eligible immigration status.

The HA should not renew a tenant when the tenant has not provided all the required documentation.

The HA's response and corrective action plan contained in the audit report states that the HA has began using the Immigration and Naturalization Service (INS) automated system, Systemic Alien Verification for Entitlement (SAVE), in September 2003. Based on an examination of 17 files during the HUD RIM re-review conducted during the week of September 27, 2004, it appears that the HA has implemented its corrective action plan.

Based on the actions taken by the HA to correct this finding and our review, this finding was closed on December 6, 2004.

**Finding 4-21, tenant rent:** For 1 of 30 tenant files selected for the auditor's test, documentation of comparable rents for the unit was not available.

Our office conducted a RIM re-review during the week of September 27, 2004. During this review, rent reasonableness and payment standards were discussed and HUD staff selected 17 files to review. A review of the files confirmed that the HA has an effective system in place and that this system is used to document comparable rents. Based on HUD's review, this finding was closed on December 6, 2004.

**Finding 4-22, housing quality standards (inspections):** The auditor's review found that 3 of 38 re-inspection forms were not properly completed.

Based on the HA's response that quality assurance reviews will be completed to ensure that all applicable areas of the form are completed, this finding was closed on December 6, 2004.

**Finding 4-23, housing quality standards (correct deficiencies):** Of the 30 cases selected by the auditor, 14 of the cases noted a non-life threatening deficiency was corrected but not with 30 days.

The HA must develop a procedure whereby the landlord notifies the HA that the repairs are completed and the local operator must inspect within the 30 day time frame or that repairs are done within a 24 hour period if life threatening.

Our December 6, 2004, letter required the PHA to provide our office with written procedures and assurance that re-inspections will be made within the required time frames. On February 15, 2005, our office received documentation sufficient to close this finding. This finding is now closed.

**Finding 4-24, utility allowances:** The most recent utility allowance survey was completed in July 2002 for certain areas and August 2002 for other areas. The HA did not obtain new surveys with (2003) which to compare to the utility allowance schedule.

The HA is required to review its utility allowances annually to determine if rates change 10% or more.

The HA has entered into a technical assistance agreement with the Nelrod Company to review its present utility allowance schedule. Based on the corrective action taken by the HA, to contract with a company to review allowances, this finding was closed on December 6, 2004.

**Finding 4-25, allowable costs:** Certification of timesheets for the Section 8 Housing Choice Voucher program was not in compliance with OMB Circular A-87.

The HA should adjust their budget's salaries and benefits expenditures to actual costs based on timesheets submitted each reporting period.

During November 2003, the HA did adjust the allocated salaries, benefits, and indirect cost charged to its Federal grants for fiscal year 2003 by comparing employee timesheets to budgeted amounts.

In the HA's response to the audit finding, the HA is incorporating policies and procedures to periodically adjust salaries and benefits to actual and calculate indirect cost accordingly. Based on the action taken in November and the HA's response, this finding was closed on December 6, 2004.

All findings are now closed.

If you should have any questions, please contact Mike Long at (817) 978-5732.

Sincerely,

Carrie Dobbins

Carrie Dobbins
Director, Technical Division

# Texas Department of Housing and Community Affairs - Summary Report of Prior Audit Issues

## (except those prior audit issues previously reported as implemented or otherwise resolved)

| Ref. # | Report Date / Auditors | Report Name / Audit Scope | Status Codes* | Status Date | Target Date |
|---|---|---|---|---|---|
| **268** | 02/12/02<br>KPMG | Compliance with Requirements & IC Over Compliance - A-133.<br>Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG). | Px<br>Px<br>Px<br>Px<br>Px<br>Ixx<br>Pxx<br>Dx<br>Pxx<br>Tx<br>Ixx | 04/22/02<br>07/31/02<br>10/02/02<br>10/25/02<br>01/31/03<br>02/24/03<br>03/26/04<br>04/22/04<br>04/28/04<br>07/26/04<br>03/29/05 | 08/01/02<br>10/31/02<br>NR<br>NR<br>NR<br>07/01/04 |

***Division:*** Portfolio Management & Compliance

***Issue:*** There is a lack of documentation to support soft costs incurred by subrecipients. Known questioned costs - $29,400. Estimated questioned costs - $2,314,574.

Corrective Action: Pursuant to HUD letter dated 05/03/04, the required corrective action on this audit issue is to provide (1) the number of contracts that included soft costs for the 1999, 2000 and 2001 program years to establish the universe for each separate year, and (2) the number of projects that included solft costs which were monitored from the respective years that contained sufficient documentation in support of the soft costs.

***Status:*** 03/29/05 – Pursuant to HUD Letter 3/07/05, this issue is closed.

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| Ref. # | Report Date / Auditors | Report Name / Audit Scope | Status Codes* | Status Date | Target Date |
|---|---|---|---|---|---|
| **330** | 08/29/03<br>IA | Construction of Housing Tax Credit Developments<br>Controls in place prior to the effective date of the Department's reorganization, March 1, 2003, over the construction of HTC developments providing reasonable assurance that the developments actually delivered under the program conform to the specifications relied upon by the Board in its award decisions. | Px<br>Px<br>Px<br>Px<br>Dx<br>Pxx<br>Px | 08/29/03<br>11/25/03<br>02/26/04<br>04/28/04<br>08/09/04<br>12/16/04<br>03/29/05 | <br>03/01/04<br>03/31/04<br>09/24/04<br>08/31/07<br>08/31/07<br>05/31/05 |

***Division:*** Portfolio Management & Compliance

***Issue:*** All requirements and information needs relating to the tax credit program, especially the construction function, should be thoroughly identified and considered in the requirement definition of the fully integrated management information system currently in development by the Department. All tax credit related functional areas, including housing tax credit production, underwriting, compliance and asset management staff should work together with the development team to ensure that the system's requirements adequately define all functional and informational needs of the program. Informational needs of other users such as other program areas that may contract with the same parties that apply for or receive tax credits, executive management, the Board and oversight agencies, including the U.S. Treasury and Internal Revenue Service, should also be considered in the requirement definition.

***Status:*** 03/29/05 - In March 2005, Portfolio Management & Compliance (PMC) and Information Systems (IS) divisions determined that Audit Finding Issue #330 will be addressed by development of the Plan, Substantial Construction, and 8609 Reviews sub-project of the FY 2005 CMTS Enhancements project. Development of the Plan, Substantial Construction, and 8609 Reviews is presently 30% complete. IS projects that it will be delivered into Production by May 2005. In the interim, it is the intention of PMC to use the spreadsheet developed by PMC to satisfy the information needs of the Department.

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*Status Codes: I - Implemented; T - Partially Implemented (no further action intended); P - In process of implementation; D - Action delayed; N - No action intended; NR - No response to status update request or Not Indicated
x - Management's representation; xx - Independent assessment by audit

| Ref. # | Report Date / Auditors | Report Name / Audit Scope | Status Codes* | Status Date | Target Date |
|---|---|---|---|---|---|
| 335 | 02/23/04<br>KPMG | Compliance with Requirements & IC over Compliance - A-133<br>Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG) | Pxx<br>Px<br>Dxx<br>Dx | 02/23/04<br>07/27/04<br>12/16/04<br>03/29/05 | 03/31/05<br>03/31/05<br>7/01/05 |

***Division:*** Community Affairs - Section 8

***Issue:*** Instances of noncompliance with Setion 8 reporting requirements were noted. The HUD Section 8 Management Report dated September 19, 2000 noted the Department had not implemented a family self-sufficiency (FSS) program and required the Department to provide an FSS program or apply for a waiver from HUD. Correspondence from HUD dated June 26, 2003, indicated that the Department received a waiver for all areas outside of Houston, Texas. The correspondence also indicated that the Department should submit an FSS action plan for the Houston area for HUD approval within 30 days. Additionally, lines 2k and 17a, Family's participating in the Family Self-Sufficiency Program, and line 17k(2), FSS account, were not completed on the HUD-50058-Family Report (OMB No. 2577-0083) for the families in the Houston area since the program was not implemented during fiscal year 2003.

Submit the Family Self-Sufficiency Program Action Plan for the Houston area. Once the action plan is approved by HUD, ensure that accurate FSS information is reported on the HUD 50058 Family Reports.

***Status:*** 03/29/05 - TDHCA has responded to a HUD request on March 23,2005 regarding the number of vouchers to be relinquished to Brazoria County Housing Authority . The FSS vouchers are included in the voucher transfer. The final approval of the transfer is still pending.

03/04/05 – Pursuant to HUD Letter 3/04/05, this issue is closed based on discussions with TDHCA regarding the implementation of the Family Self Sufficiency Program.

12/16/04 - Section 8 is currently waiting on a response from HUD concerning the decision of turning over vouchers to Brazoria County Housing Authority. If Brazoria County HA receives vouchers from TDHCA they will also receive the FSS vouchers assigned to that area. The Department will request an exemption from providing a FSS program if HUD approves the transfer to Brazoria County HA.

07/27/04 - Progress report based on timetable implementation: Sr. Regional Coordinator, Cecelia Arvallo has assumed duties of FSS Coordinator. Cecelia attended FSS training on May 10-12, 2004 in Denver, CO. Flyer for participant interest was completed and mailed by June 30, 2004. As of July 27, 2004, program has received 187 responses. Further action pending TDHCA Board review on August 19, 2004 of Brazoria County's request to release it from its Local Operating Contracts with the Department and relinquish the related Section 8 vouchers.

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| Ref. # | Report Date / Auditors | Report Name / Audit Scope | Status Codes* | Status Date | Target Date |
|---|---|---|---|---|---|
| 342 | 02/23/04<br>KPMG | Compliance with Requirements & IC over Compliance - A-133<br>Statewide Federal Single Audit for FYE August 31, 2003 (SAO contract with KPMG) | Px<br>Pxx<br>Pxx<br>Ixx | 04/22/04<br>07/27/04<br>12/16/04<br>03/29/05 | 06/30/04<br>09/30/04<br>01/31/05 |

***Division:*** Financial Administration - Accounting Operations

***Issue:*** The Department did not comply with the allowable costs/cost principles compliance requirements for HOME. The Department continued to use an indirect cost rate approved by the U.S Department of Health and Human Services beyond 8/31/2000; the date HHS ceased to be the designated Federal cognizant agency for the Department. Questioned Cost: $1,422,826 due to lack of current indirect cost rate agreement with cognizant agent.

Contact Health and Human Services (HHS), the cognizant agent as of August 31, 2003, and obtain a current indirect cost rate agreement, or amend the grant agreements for each program to include a stated indirect cost rate.

***Status:*** 03/29/05 – Pursuant to HUD Letter 3/23/05, this issue is closed.

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***Texas Department of Housing and Community Affairs***

***Enterprise Risk Management***

- ***Executive Summary***
- ***Example***

**Applying COSO's**

# *Enterprise Risk Management — Integrated Framework*

# COSO

*The Committee of Sponsoring Organizations (COSO) was established in 1985 to create a single voice in the financial business community on issues related to the problem of fraudulent financial reporting.*

*COSO was formed to sponsor the National Commission on Fraudulent Financial Reporting, otherwise known as the Treadway Commission. The sponsoring organizations consist of:*

*Financial Executives International*
*The American Accounting Association*
*The American Institute of Certified Public Accountants*
*The American Institute of Internal Auditors*
*Institute Management Accountants*

*COSO comprises six board members, one from each of the sponsoring organizations and a chairman. The original Chairman was James C. Treadway, Jr., Executive Vice President and General Counsel, Paine Webber Incorporated and a former Commissioner of the U.S. Securities and Exchange Commission; hence, the popular name "Treadway Commission."*

# COSO

*COSO has issued several reports since its creation relating to issues such as fraudulent financial reporting and internal controls. Of particular interest is Internal Control – Integrated Framework. The report on internal control*

- *was issued in 1992,*
- *directed toward the needs of management, since management has the primary responsibility for establishing, monitoring, evaluating and reporting on internal control,*
- *defines internal controls and provides a guide to assessing and improving a company's internal control systems, and*
- *has been incorporated into policy, rule, and regulation, and used by thousands of enterprises to better control their activities in moving toward achievement of their established objectives.*

# COSO

*Sarbanes-Oxley Act of 2002 – The law extends the requirement for public companies to maintain systems of internal control, requiring management to certify and the independent auditor to attest to the effectiveness of those systems. COSO's Internal Control – Integrated Framework serves as the broadly accepted standard for satisfying those reporting requirements.*

# COSO

*Enterprise Risk Management – Integrated Framework*

- *It has become increasingly clear in recent years that a need exists for a robust framework to effectively identify, assess, and manage risk.*

- *COSO initiated a project in 2001 and engaged PricewaterhouseCoopers to develop a framework that would be readily usable by management to evaluate and improve their organization's enterprise risk management.*

- *The framework's development period was marked by a series of high-profile business scandals and failures that resulted in significant losses. The need for a framework that provides key principles and concepts, a common language, and clear direction and guidance became even more compelling. COSO's Enterprise Risk Management – Integrated Framework fills this need and has become widely accepted.*

- *Expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management.*

# ERM Defined:

- *"... a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."*

- *Source: COSO Enterprise Risk Management – Integrated Framework. 2004. COSO.*

# Why ERM Is Important

Underlying principles:

- Every entity, whether for-profit or not, exists to realize value for its stakeholders.

- Value is created, preserved, or eroded by management decisions in all activities, from setting strategy to operating the enterprise day-to-day.

# Why ERM Is Important

ERM supports value creation by enabling management to:

- Deal effectively with potential future events that create uncertainty.
- Respond in a manner that reduces the likelihood of downside outcomes and increases the upside.

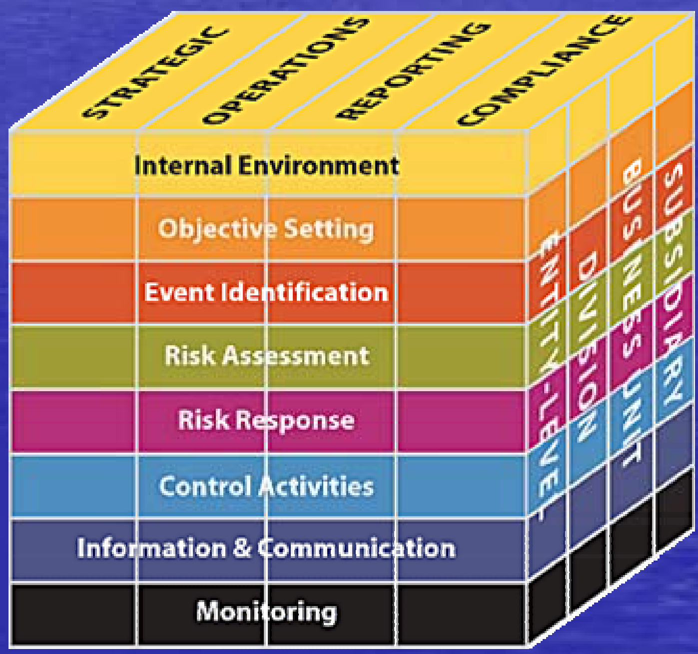
# Enterprise Risk Management — Integrated Framework

This COSO ERM framework defines essential components, suggests a common language, and provides clear direction and guidance for enterprise risk management.

# The ERM Framework

Entity objectives can be viewed in the context of four categories:

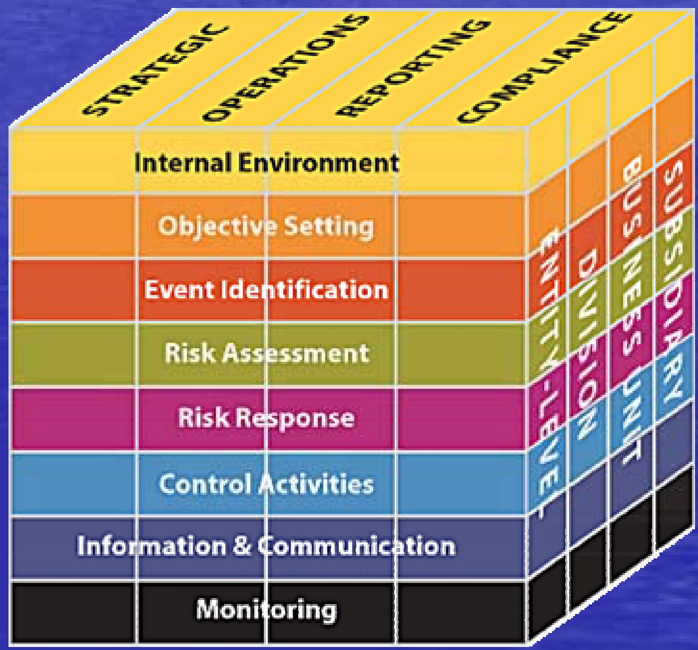
- Strategic
- Operations
- Reporting
- Compliance



# The ERM Framework

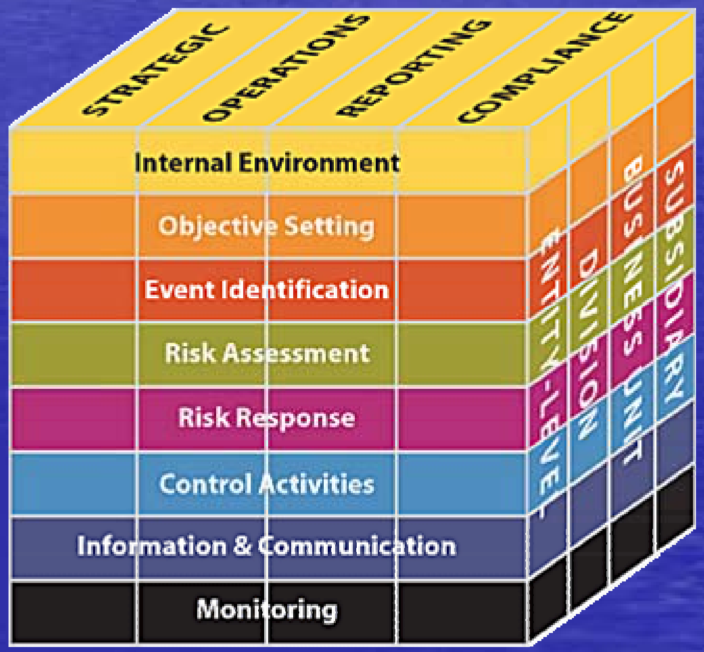
ERM considers activities at all levels of the organization:

- Enterprise-level
- Division or subsidiary
- Business unit processes



# The ERM Framework

The eight components of the framework are interrelated …



# Internal Environment

- Establishes a philosophy regarding risk management. It recognizes that unexpected as well as expected events may occur.
- Establishes the entity's risk culture.
- Considers all other aspects of how the organization's actions may affect its risk culture.

# Objective Setting

- Is applied when management considers risks strategy in the setting of objectives.
- Forms the risk appetite of the entity — a high-level view of how much risk management and the board are willing to accept.
- Risk tolerance, the acceptable level of variation around objectives, is aligned with risk appetite.

# Event Identification

- Differentiates risks and opportunities.
- Events that may have a negative impact represent risks.
- Events that may have a positive impact represent natural offsets (opportunities), which management channels back to strategy setting.

# Event Identification

- Involves identifying those incidents, occurring internally or externally, that could affect strategy and achievement of objectives.
- Addresses how internal and external factors combine and interact to influence the risk profile.

# Risk Assessment

- Allows an entity to understand the extent to which potential events might impact objectives.

- Assesses risks from two perspectives:
  - Likelihood
  - Impact

- Is used to assess risks and is normally also used to measure the related objectives.

# Risk Assessment

- Employs a combination of both qualitative and quantitative risk assessment methodologies.
- Relates time horizons to objective horizons.
- Assesses risk on both an inherent and a residual basis.

# Risk Response

- Identifies and evaluates possible responses to risk.
- Evaluates options in relation to entity's risk appetite, cost vs. benefit of potential risk responses, and degree to which a response will reduce impact and/or likelihood.
- Selects and executes response based on evaluation of the portfolio of risks and responses.

# Control Activities

- Policies and procedures that help ensure that the risk responses, as well as other entity directives, are carried out.
- Occur throughout the organization, at all levels and in all functions.
- Include application and general information technology controls.

# Information & Communication

- Management identifies, captures, and communicates pertinent information in a form and timeframe that enables people to carry out their responsibilities.

- Communication occurs in a broader sense, flowing down, across, and up the organization.

# Monitoring

Effectiveness of the other ERM components is monitored through:

- Ongoing monitoring activities.
- Separate evaluations.
- A combination of the two.

# ERM Roles & Responsibilities

- Management
- The board of directors
- Risk officers
- Internal auditors

# Internal Auditors

- Play an important role in monitoring ERM, but do NOT have primary responsibility for its implementation or maintenance.

- Assist management and the board or audit committee in the process by:

  - Monitoring
  - Evaluating
  - Examining
  - Reporting
  - Recommending improvements

# Key Implementation Factors

1. Organizational design of business
2. Establishing an ERM organization
3. Performing risk assessments
4. Determining overall risk appetite
5. Identifying risk responses
6. Communication of risk results
7. Monitoring
8. Oversight & periodic review by management

TEXAS
DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS
WWW.TDHCA.STATE.TX.US

# Memorandum

**DATE:** February 28, 2005

**TO:** Chad Hartman, Minda Jackson, Larry Mercadel,
Anthony Gatica

**FROM:** Kelly Crawford, Internal Audit Division

**RE:** Completed RP 36 Risk Assessment:
User Accounts for TDHCA and ORCA Process

**CC:** Curtis Howe, RP 36 Team

Congratulations for completing the risk assessment on the User Accounts for TDHCA and ORCA Process. Staff involved in the session assessed the following:

- Ã No unmitigated risks associated with this process
- X 3 inadequately controlled High level risks
- X 1 inadequately controlled Medium level risks

We encourage management to review this assessment to determine concurrence with these conclusions and to discuss any variances of opinion with staff.

Going forward, ensure the following actions are taken:

1. Develop action plans for any HH, HM, MH, and MM labeled risks, or provide an explanation on the action plan for your acceptance of the risk and why.

2. Develop monitoring plans to test controls in place to mitigate higher impact risks to ensure they are operating as intended. Determine and document the frequency and extent of testing based on the impact to your processes if the control failed.

The Internal Audit Division will follow up with management in three months regarding progress of the action plan and monitoring plan.

If you have any questions regarding how to utilize this information or how to proceed with the action plan or monitoring plan, please contact me at ext. 5-3262, or David Gaines, ext. 5-3818, in the Internal Audit Division.

TDHCA
Enterprise Risk Management

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| ver 12/6/2004 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| Task ID | Task | % Complete | | | | | | | | | |
| 1 | Examine Mission | 100% | | | | | | | | | |
| 2 | Brainstorm Activities | 100% | | | | | | | | | |
| 3 | Consolidate Activities | 100% | | | | | | | | | |
| 4 | Prioritize Activities | 100% | | | | | | | | | |
| | | | | | | | | | | | |
| | | Activity 1 | Activity 2 | Activity 3 | Activity 4 | Activity 5 | Activity 6 | Activity 7 | Activity 8 | Activity 9 | Activity 10 |
| 5 | Identify Risks | 100% | 100% | 100% | 100% | 100% | n/a | n/a | n/a | n/a | n/a |
| 6 | Evaluate Risks | 100% | 100% | 100% | 100% | 100% | n/a | n/a | n/a | n/a | n/a |
| 7 | Control Risks | ***Ongoing*** | | | | | | | | | |
| 8 | Develop Action Plan | ***To be completed by management*** | | | | | | | | | |
| | | | | | | | | | | | |
| | | 0 | tasks need to get to 100% | | | | | | | | |
| | | Tasks 1 - 6 | are at 100% | | | | | | | | |
| | | 100% | complete | | | | | | | | |
| | | | | | | | | | | | |
| | PRIORITIZED CONSOLIDATED ACTIVITIES | | | | | | | | | | |
| Activity 1 | Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | | | | | | | | | | |
| Activity 2 | Disable/Delete an Account (12, 13, 14, 22, 24, 27) | | | | | | | | | | |
| Activity 3 | Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | | | | | | | | | | |
| Activity 4 | Modifying an Account-(2, 21) | | | | | | | | | | |
| Activity 5 | Periodic system audits-(25, 26) | | | | | | | | | | |
| Activity 6 | - | | | | | | | | | | |
| Activity 7 | - | | | | | | | | | | |
| Activity 8 | - | | | | | | | | | | |
| Activity 9 | - | | | | | | | | | | |
| Activity 10 | - | | | | | | | | | | |

**ISD Mission Statement: Information Systems Division exists to provide information resources support and systems development to the program divisions of TDHCA. The division's primary goal is to assist the Department in achieving its goals and objectives as stated in the Department's Strategic Plan.**

**User Accounts for TDHCA and ORCA -- Objective: To provide TDHCA and ORCA employees secure access appropriate to their business functions.**

TDHCA
Enterprise Risk Management

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| | ACTIVITIES FROM BRAINSTORMING | CONSOLIDATED ACTIVITIES | PRIORITIZED CONSOLIDATED ACTIVITIES |
|---|---|---|---|
| 1 | Creating an Account | Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) |
| 2 | Modifying an account | Modifying an Account-(2, 21) | Disable/Delete an Account-(12, 13, 14, 22, 24, 27) |
| 3 | create an NT account | Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) |
| 4 | create an exchange acct | Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | Modifying an Account-(2, 21) |
| 5 | create an UNIX account | Periodic system audits-(25, 26) | Periodic system audits-(25, 26) |
| 6 | create an APEX acct | | |
| 7 | create an TRACK-IT acct | | |
| 8 | create a MITAS acct if applicable | | |
| 9 | create a CMTS acct | | |
| 10 | create a PEOPLE SOFT acct | | |
| 11 | create an ORACLE acct | | |
| 12 | employee termination of accts | | |
| 13 | disable all existing acct | | |
| 14 | disable NT acct | | |
| 15 | set network security on network drives | | |
| 16 | receive information from HR regarding division/section | | |
| 17 | contact supervisor for profile security | | |

***Activities***

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| | | | | | |
|---|---|---|---|---|---|
| 18 | set up PC with correct profile | | | | |
| 19 | email ORCA of job completion and password | | | | |
| 20 | email TDHCA supervisors with log-ons and passwords | | | | |
| 21 | complete system access requests | | | | |
| 22 | delete NT & TRACK-IT accts | | | | |
| 23 | contact supervisor regarding employee emails and files | | | | |
| 24 | hide email accounts | | | | |
| 25 | periodic audit of system accounts | | | | |
| 26 | clean up all system files | | | | |
| 27 | remove email accounts from distribution list/email groups | | | | |
| 28 | | | | | |
| 29 | | | | | |
| 30 | | | | | |
| 31 | | | | | |

TDHCA
Enterprise Risk Management

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | IMPACT | PROB. BEFORE CONTROLS | RANKING BEFORE CONTROLS | PROB. AFTER CONTROLS | RANKING AFTER CONTROLS | MITIGATION |
|---|---|---|---|---|---|---|
| fraudulent request for system access | h | m | **HM** | l | **HL** | email to supervisor when work completed, judgment, help desk system, correspondence with affected parties |
| untimely correspondence from HR could allow terminated employees access | h | m | **HM** | l | **HL** | automatic notification for certain systems, phone calls from HR, email from HR, email from system, (automatic email on any change in employee status) |
| supervisor may fail to inform of change resulting in incorrect security access | m | h | **MH** | h | **MH** | HR SOP, employees inability to access programs and data, system access request form, (automatic email on any change in employee status) -ML |
| improper security setup resulting in incorrect access because of wrong information | m | m | **MM** | l | **ML** | judgment, correspond with supervisor for clarification, SOP's on user accounts, established network setup |
| IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted | m | h | **MH** | l | **ML** | SOP directive, TRACK-IT work order |
| Supervisor may not realize extended permissions requested | m | h | **MH** | l | **ML** | IS staff judgment, IS staff explains consequences, IS staff verifies request |
| termination date extends beyond last date in building | m | h | **MH** | l | **ML** | email from HR, (HR consistently enters employee termination on last day in office-not last payroll date) - ML |

# *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Corresponding with divisions/ORCA- (16, 17, 19, 20, 23)** | **IMPACT** | **PROB. BEFORE CONTROLS** | **RANKING BEFORE CONTROLS** | **PROB. AFTER CONTROLS** | **RANKING AFTER CONTROLS** | **MITIGATION** |
|---|---|---|---|---|---|---|
| untimely correspondence from HR could result in lost time/productivity | m | m | **MM** | l | **ML** | automatic notification for certain systems, phone calls from HR, email from HR, email from system, correspondence initiated by supervisor, (automatic email on any change in employee status) |
| email system fails to deliver request | l | l | **LL** | l | **LL** | software package that monitors system response, users notify IS staff |
| | | | **n/a** | | **n/a** | |
| | | | n/a | | n/a | |
| | | | n/a | | n/a | |

TDHCA
Enterprise Risk Management

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Disable/Delete an Account- (12, 13, 14, 22, 24, 27)** | IMPACT | PROB. BEFORE CONTROLS | RANKING BEFORE CONTROLS | PROB. AFTER CONTROLS | RANKING AFTER CONTROLS | MITIGATION |
|---|---|---|---|---|---|---|
| fail to disable/delete account which allows unauthorized access | h | m | **HM** | l | **HL** | correspondence with HR, checklist, tracking, periodic audits |
| Limited staff availability on People Soft and ORACLE which prevents disabling the account | h | m | **HM** | l | **HL** | staff back up, disable People Soft account at NT level which prevents all access, Level 1 SOP, Level 2 SOP |
| delete/disable wrong account | m | l | **ML** | l | **ML** | automated email system, manual email by HR, HR correspondence, staff verify own work |
| disable account too soon | m | l | **ML** | l | **ML** | automated email, staff verify own work, staff notify inability to access |
| invalid inventories in Track-It results in software licensing issues and reporting | l | m | **LM** | l | **LL** | periodic audits, termination checklist |
| no removal from email groups results in storage issues | l | l | **LL** | l | **LL** | termination checklist |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |

# *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18)** | **IMPACT** | **PROB. BEFORE CONTROLS** | **RANKING BEFORE CONTROLS** | **PROB. AFTER CONTROLS** | **RANKING AFTER CONTROLS** | **MITIGATION** |
|---|---|---|---|---|---|---|
| create fraudulent account (fraud) | h | m | **HM** | l | **HL** | periodic system audits of Power User accounts, periodic system audits of other accounts, system configurations, firewalls, (security software), (upgraded domain infrastructure), (single user sign on), (report on newly created accounts) |
| grant user excessive access (fraud) | h | m | **HM** | l | **HL** | periodic system audits, prudent hiring practices with background checks, (separation of duties) |
| if profile not correct user can install unlicensed/harmful software | h | h | **HH** | l | **HL** | windows 2000 restricted access, imaging software, SOP, (employee training) |
| failure to create accounts results in loss of employee productivity | m | h | **MH** | l | **ML** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| failure to create an account results in insufficient access | m | h | **MH** | l | **ML** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| failure to set up PC correctly | m | m | **MM** | l | **ML** | Standard PC Image, HR notification, end testing |
| inability to access email | m | m | **MM** | l | **ML** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| Limited staff availability on People Soft which prevents creating the account | m | h | **MH** | l | **ML** | staff backup |
| wrong/no information received from HR | m | m | **MM** | l | **ML** | call from employee's supervisor, (standard name information from HR) |

TDHCA
Enterprise Risk Management

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18)** | **IMPACT** | **PROB. BEFORE CONTROLS** | **RANKING BEFORE CONTROLS** | **PROB. AFTER CONTROLS** | **RANKING AFTER CONTROLS** | **MITIGATION** |
|---|---|---|---|---|---|---|
| current user can not submit help desk | l | m | **LM** | l | **LL** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |

# *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Modifying an Account-(2, 21)** | **IMPACT** | **PROB. BEFORE CONTROLS** | **RANKING BEFORE CONTROLS** | **PROB. AFTER CONTROLS** | **RANKING AFTER CONTROLS** | **MITIGATION** |
|---|---|---|---|---|---|---|
| Administrators can conceal their identity or steal their identity (fraud) | h | m | **HM** | m | **HM** | UNIX administrator log, (monitoring logs- automated software), (upgraded domain infrastructure) |
| grant user additional access (fraud) | h | m | **HM** | l | **HL** | periodic system audits, prudent hiring practices with background checks, (separation of duties) |
| failure to modify an account results in insufficient access | m | h | **MH** | l | **ML** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| failure to set up PC correctly | m | m | **MM** | l | **ML** | Standard PC Image, HR notification, end testing |
| inability to access/receive email | m | m | **MM** | l | **ML** | notification from HR, checklist, staff backup, supervisor notification, employee inability to access |
| IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | m | h | **MH** | l | **ML** | SOP directive, supervisor notification, (signature card for the agency) |
| Limited staff availability on People Soft which prevents modifying the account | m | h | **MH** | l | **ML** | staff back up |
| wrong/no information received from HR | m | m | **MM** | l | **ML** | call from employee's supervisor, (standard name information from HR) |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |

# *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| **Periodic system audits-(25, 26)** | **IMPACT** | **PROB. BEFORE CONTROLS** | **RANKING BEFORE CONTROLS** | **PROB. AFTER CONTROLS** | **RANKING AFTER CONTROLS** | **MITIGATION** |
|---|---|---|---|---|---|---|
| failure to detect active/unauthorized accounts | h | h | **HH** | m | **HM** | maintain history of logs, review logs when requested or required and when system work is needed, (review logs more often), (purchase software) |
| inability to detect fraud-no performance audits currently being performed | h | h | **HH** | m | **HM** | maintain history of logs, review logs when requested or required and when system work is needed, (review logs more often), (conduct performance audits), (purchase software) |
| servers with limited space could crash | h | h | **HH** | l | **HL** | monitoring software, IS staff monitoring, upgrade servers, request users to delete files |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |
| | | | **n/a** | | **n/a** | |

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| | | | RISKS | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| # | ACTIVITIES | | 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | 9 | | 10 | | 11 | | 12 |
| 3 | Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | HM | create fraudulent account (fraud) | HM | grant user excessive access (fraud) | HH | if profile not correct user can install unlicensed/harmful software | MH | failure to create accounts results in loss of employee productivity | MH | failure to create an account results in insufficient access | MM | failure to set up PC correctly | MM | inability to access email | MH | Limited staff availability on People Soft which prevents creating the account | MM | wrong/no information received from HR | LM | current user can not submit help desk | - | n/a | - | n/a |
| 5 | Periodic system audits-(25, 26) | HH | failure to detect active/unauthorized accounts | HH | inability to detect fraud-no performance audits currently being performed | HH | servers with limited space could crash | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 1 | Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | HM | fraudulent request for system access | HM | untimely correspondence from HR could allow terminated employees access | MH | supervisor may fail to inform of change resulting in incorrect security access | MM | improper security setup resulting in incorrect access because of wrong information | MH | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted | MH | Supervisor may not realize extended permissions requested | MH | termination date extends beyond last date in building | MM | untimely correspondence from HR could result in lost time/productivity | LL | email system fails to deliver request | - | n/a | - | n/a | - | n/a |
| 4 | Modifying an Account-(2, 21) | HM | Administrators can conceal their identity or steal their identity (fraud) | HM | grant user additional access (fraud) | MH | failure to modify an account results in insufficient access | MM | failure to set up PC correctly | MM | inability to access/receive email | MH | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | MH | Limited staff availability on People Soft which prevents modifying the account | MM | wrong/no information received from HR | - | n/a | - | n/a | - | n/a | - | n/a |
| 2 | Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | HM | fail to disable/delete account which allows unauthorized access | HM | Limited staff availability on People Soft and ORACLE which prevents disabling the account | ML | delete/disable wrong account | ML | disable account too soon | LM | invalid inventories in Track-It results in software licensing issues and reporting | LL | no removal from email groups results in storage issues | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 6 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 7 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 8 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 9 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 10 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |

| | | |
|---|---|---|
| **HH, HM** | (red) | **= Manage, monitor, and audit (Manager, Supervisors, Staff)** |
| **HL, MH** | (yellow) | **= Manage and Monitor (Manager or a designee, Supervisors, Staff)** |
| **MM, ML, LH** | (green) | **= Monitor (Supervisors, Staff)** |
| **LM, LL** | (gray) | **= Accept (staff)** |

**Use for Risk Management Plan:**

| | |
|---|---|
| (red) | **Audit work should be performed and the Division Manager should perform the oversight controls to ensure that supervisory & execution controls are working.** |
| (yellow) | **The Division Manager (or a designee) should perform oversight controls to ensure that the supervisory and execution controls are working.** |
| (green) | **Supervisors should perform oversight function to see that supervisory and execution controls are working.** |
| (gray) | **Staff should ensure they are using correct policies and procedures in their area.** |

*ISD-User Accounts for TDHCA and ORCA for Board Mtg*
*Control Self-Assessment*

| # | ACTIVITIES | | RISKS 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | 9 | | 10 | | 11 | | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5 | Periodic system audits-(25, 26) | HM | failure to detect active/unauthorized accounts | HM | inability to detect fraud-no performance audits currently being performed | HL | servers with limited space could crash | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 4 | Modifying an Account-(2, 21) | HM | Administrators can conceal their identity or steal their identity (fraud) | HL | grant user additional access (fraud) | ML | failure to modify an account results in insufficient access | ML | failure to set up PC correctly | ML | inability to access/receive email | ML | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | ML | Limited staff availability on People Soft which prevents modifying the account | ML | wrong/no information received from HR | - | n/a | - | n/a | - | n/a | - | n/a |
| 3 | Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | HL | create fraudulent account (fraud) | HL | grant user excessive access (fraud) | HL | if profile not correct user can install unlicensed/harmful software | ML | failure to create accounts results in loss of employee productivity | ML | failure to create an account results in insufficient access | ML | failure to set up PC correctly | ML | inability to access email | ML | Limited staff availability on People Soft which prevents creating the account | ML | wrong/no information received from HR | LL | current user can not submit help desk | - | n/a | - | n/a |
| 1 | Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | HL | fraudulent request for system access | HL | untimely correspondence from HR could allow terminated employees access | MH | supervisor may fail to inform of change resulting in incorrect security access | ML | improper security setup resulting in incorrect access because of wrong information | ML | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted | ML | Supervisor may not realize extended permissions requested | ML | termination date extends beyond last date in building | ML | untimely correspondence from HR could result in lost time/productivity | LL | email system fails to deliver request | - | n/a | - | n/a | - | n/a |
| 2 | Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | HL | fail to disable/delete account which allows unauthorized access | HL | Limited staff availability on People Soft and ORACLE which prevents disabling the account | ML | delete/disable wrong account | ML | disable account too soon | LL | invalid inventories in Track-It results in software licensing issues and reporting | LL | no removal from email groups results in storage issues | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 6 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 7 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 8 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 9 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |
| 10 | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a | - | n/a |

| Develop and Implement Controls (Complete Action Plan) or Control Level is Acceptable | | | |
|---|---|---|---|
| **Develop & Implement Controls** | | **Level of Control is Accptable** | |
| **HH, HM, MH, MM** | | **HL, ML, LH, LM, LL** | |

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| | | | | |
|---|---|---|---|---|
| | | | **Mitigation** | |
| | | | *(items in parentheses are staff-suggested mitigation strategies to address identified risks)* | |
| | | | 1 | (Automatic Email On Any Change In Employee Status) |
| | | | 2 | (Conduct Performance Audits) |
| | | | 3 | (Employee Training) |
| **Total High Risk Mitigations** | **43** | | 4 | (Monitoring Logs- Automated Software) |
| | | | 5 | (Purchase Software) |
| | | | 6 | (Report On Newly Created Accounts) |
| | | | 7 | (Review Logs More Often) |
| | | | 8 | (Security Software) |
| | | | 9 | (Separation Of Duties) |
| | | | 10 | (Single User Sign On) |
| | | | 11 | (Upgraded Domain Infrastructure) |
| | | | 12 | Automatic Notification For Certain Systems |
| | | | 13 | Checklist |
| | | | 14 | Correspondence With Affected Parties |
| | | | 15 | Correspondence With Hr |
| | | | 16 | Disable People Soft Account At Nt Level Which Prevents All Access |
| | | | 17 | Email From Hr |
| | | | 18 | Email From System |
| | | | 19 | Email To Supervisor When Work Completed |
| | | | 20 | Firewalls |
| | | | 21 | Help Desk System |
| | | | 22 | Imaging Software |
| | | | 23 | Is Staff Monitoring |
| | | | 24 | Judgment |
| | | | 25 | Level 1 Sop |
| | | | 26 | Level 2 Sop |
| | | | 27 | Maintain History Of Logs |
| | | | 28 | Monitoring Software |
| | | | 29 | Periodic Audits |
| | | | 30 | Periodic System Audits |
| | | | 31 | Periodic System Audits Of Other Accounts |

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| | | | Mitigation | |
|---|---|---|---|---|
| | | | 32 | Periodic System Audits Of Power User Accounts |
| | | | 33 | Phone Calls From Hr |
| | | | 34 | Prudent Hiring Practices With Background Checks |
| | | | 35 | Request Users To Delete Files |
| | | | 36 | Review Logs When Requested Or Required And When System Work Is Needed |
| | | | 37 | Sop |
| | | | 38 | Staff Back Up |
| | | | 39 | System Configurations |
| | | | 40 | Tracking |
| | | | 41 | Unix Administrator Log |
| | | | 42 | Upgrade Servers |
| | | | 43 | Windows 2000 Restricted Access |

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Periodic system audits-(25, 26) | failure to detect active/unauthorized accounts | Maintain History Of Logs | HH | HM | | | | |
| Periodic system audits-(25, 26) | failure to detect active/unauthorized accounts | (Purchase Software) | HH | HM | | | | |
| Periodic system audits-(25, 26) | failure to detect active/unauthorized accounts | (Review Logs More Often) | HH | HM | | | | |
| Periodic system audits-(25, 26) | failure to detect active/unauthorized accounts | Review Logs When Requested Or Required And When System Work Is Needed | HH | HM | | | | |
| Periodic system audits-(25, 26) | inability to detect fraud-no performance audits currently being performed | Maintain History Of Logs | HH | HM | | | | |
| Periodic system audits-(25, 26) | inability to detect fraud-no performance audits currently being performed | (Purchase Software) | HH | HM | | | | |
| Periodic system audits-(25, 26) | inability to detect fraud-no performance audits currently being performed | (Conduct Performance Audits) | HH | HM | | | | |
| Periodic system audits-(25, 26) | inability to detect fraud-no performance audits currently being performed | (Review Logs More Often) | HH | HM | | | | |
| Periodic system audits-(25, 26) | inability to detect fraud-no performance audits currently being performed | Review Logs When Requested Or Required And When System Work Is Needed | HH | HM | | | | |
| Modifying an Account-(2, 21) | Administrators can conceal their identity or steal their identity (fraud) | Unix Administrator Log | HM | HM | | | | |
| Modifying an Account-(2, 21) | Administrators can conceal their identity or steal their identity (fraud) | (Upgraded Domain Infrastructure) | HM | HM | | | | |
| Modifying an Account-(2, 21) | Administrators can conceal their identity or steal their identity (fraud) | (Monitoring Logs- Automated Software) | HM | HM | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | Periodic System Audits Of Power User Accounts | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | (Report On Newly Created Accounts) | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | (Single User Sign On) | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | (Upgraded Domain Infrastructure) | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | (Security Software) | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | Firewalls | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | System Configurations | HM | HL | | | | |

***High Level Of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | create fraudulent account (fraud) | Periodic System Audits Of Other Accounts | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | grant user excessive access (fraud) | Periodic System Audits | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | grant user excessive access (fraud) | (Separation Of Duties) | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | grant user excessive access (fraud) | Prudent Hiring Practices With Background Checks | HM | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | if profile not correct user can install unlicensed/harmful software | Windows 2000 Restricted Access | HH | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | if profile not correct user can install unlicensed/harmful software | (Employee Training) | HH | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | if profile not correct user can install unlicensed/harmful software | Sop | HH | HL | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | if profile not correct user can install unlicensed/harmful software | Imaging Software | HH | HL | | | | |
| Periodic system audits-(25, 26) | servers with limited space could crash | Monitoring Software | HH | HL | | | | |
| Periodic system audits-(25, 26) | servers with limited space could crash | Request Users To Delete Files | HH | HL | | | | |
| Periodic system audits-(25, 26) | servers with limited space could crash | Upgrade Servers | HH | HL | | | | |
| Periodic system audits-(25, 26) | servers with limited space could crash | Is Staff Monitoring | HH | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | fraudulent request for system access | Email To Supervisor When Work Completed | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | fraudulent request for system access | Correspondence With Affected Parties | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | fraudulent request for system access | Help Desk System | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | fraudulent request for system access | Judgment | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could allow terminated employees access | Automatic Notification For Certain Systems | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could allow terminated employees access | (Automatic Email On Any Change In Employee Status) | HM | HL | | | | |

***High Level Of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could allow terminated employees access | Email From System | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could allow terminated employees access | Email From Hr | HM | HL | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could allow terminated employees access | Phone Calls From Hr | HM | HL | | | | |
| Modifying an Account-(2, 21) | grant user additional access (fraud) | Periodic System Audits | HM | HL | | | | |
| Modifying an Account-(2, 21) | grant user additional access (fraud) | (Separation Of Duties) | HM | HL | | | | |
| Modifying an Account-(2, 21) | grant user additional access (fraud) | Prudent Hiring Practices With Background Checks | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | fail to disable/delete account which allows unauthorized access | Correspondence With Hr | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | fail to disable/delete account which allows unauthorized access | Periodic Audits | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | fail to disable/delete account which allows unauthorized access | Tracking | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | fail to disable/delete account which allows unauthorized access | Checklist | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | Limited staff availability on People Soft and ORACLE which prevents disabling the account | Staff Back Up | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | Limited staff availability on People Soft and ORACLE which prevents disabling the account | Level 2 Sop | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | Limited staff availability on People Soft and ORACLE which prevents disabling the account | Level 1 Sop | HM | HL | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | Limited staff availability on People Soft and ORACLE which prevents disabling the account | Disable People Soft Account At Nt Level Which Prevents All Access | HM | HL | | | | |

***High Level Of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| | | | Mitigation | |
|---|---|---|---|---|
| | | | *(items in parentheses are staff-suggested mitigation strategies to address identified risks)* | |
| | | | 1 | (Automatic Email On Any Change In Employee Status) - Ml |
| | | | 2 | (Hr Consistently Enters Employee Termination On Last Day In Office-Not Last Payroll Date) - Ml |
| | | | 3 | (Signature Card For The Agency) |
| | | | 4 | Checklist |
| **Total Medium Risk Mitigations** | **18** | | 5 | Email From Hr |
| | | | 6 | Employee Inability To Access |
| | | | 7 | Employees Inability To Access Programs And Data |
| | | | 8 | Hr Sop |
| | | | 9 | Is Staff Explains Consequences |
| | | | 10 | Is Staff Judgment |
| | | | 11 | Is Staff Verifies Request |
| | | | 12 | Notification From Hr |
| | | | 13 | Sop Directive |
| | | | 14 | Staff Back Up |
| | | | 15 | Staff Backup |
| | | | 16 | Supervisor Notification |
| | | | 17 | System Access Request Form |
| | | | 18 | Track-It Work Order |

***Medium Level Mitigation Summary***

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | supervisor may fail to inform of change resulting in incorrect security access | Hr Sop | MH | MH | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | supervisor may fail to inform of change resulting in incorrect security access | (Automatic Email On Any Change In Employee Status) -Ml | MH | MH | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | supervisor may fail to inform of change resulting in incorrect security access | System Access Request Form | MH | MH | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | supervisor may fail to inform of change resulting in incorrect security access | Employees Inability To Access Programs And Data | MH | MH | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create accounts results in loss of employee productivity | Notification From Hr | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create accounts results in loss of employee productivity | Employee Inability To Access | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create accounts results in loss of employee productivity | Supervisor Notification | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create accounts results in loss of employee productivity | Staff Backup | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create accounts results in loss of employee productivity | Checklist | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create an account results in insufficient access | Notification From Hr | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create an account results in insufficient access | Employee Inability To Access | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create an account results in insufficient access | Supervisor Notification | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create an account results in insufficient access | Staff Backup | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to create an account results in insufficient access | Checklist | MH | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | Limited staff availability on People Soft which prevents creating the account | Staff Backup | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted | Sop Directive | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted | Track-It Work Order | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | Supervisor may not realize extended permissions requested | Is Staff Judgment | MH | ML | | | | |

***Medium Level of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | Supervisor may not realize extended permissions requested | Is Staff Verifies Request | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | Supervisor may not realize extended permissions requested | Is Staff Explains Consequences | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | termination date extends beyond last date in building | Email From Hr | MH | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | termination date extends beyond last date in building | (Hr Consistently Enters Employee Termination On Last Day In Office-Not Last Payroll Date) - Ml | MH | ML | | | | |
| Modifying an Account-(2, 21) | failure to modify an account results in insufficient access | Notification From Hr | MH | ML | | | | |
| Modifying an Account-(2, 21) | failure to modify an account results in insufficient access | Employee Inability To Access | MH | ML | | | | |
| Modifying an Account-(2, 21) | failure to modify an account results in insufficient access | Supervisor Notification | MH | ML | | | | |
| Modifying an Account-(2, 21) | failure to modify an account results in insufficient access | Staff Backup | MH | ML | | | | |
| Modifying an Account-(2, 21) | failure to modify an account results in insufficient access | Checklist | MH | ML | | | | |
| Modifying an Account-(2, 21) | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | Sop Directive | MH | ML | | | | |
| Modifying an Account-(2, 21) | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | (Signature Card For The Agency) | MH | ML | | | | |
| Modifying an Account-(2, 21) | IS failure to notify supervisor of work completed which prevents supervisor QA of the access granted (fraud) | Supervisor Notification | MH | ML | | | | |
| Modifying an Account-(2, 21) | Limited staff availability on People Soft which prevents modifying the account | Staff Back Up | MH | ML | | | | |

***Medium Level of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| | | | Mitigation | |
|---|---|---|---|---|
| | | | *(items in parentheses are staff-suggested mitigation strategies to address identified risks)* | |
| | | | 1 | (Automatic Email On Any Change In Employee Status) |
| | | | 2 | (Standard Name Information From Hr) |
| | | | 3 | Automated Email |
| **Total Low Risk Mitigations** | **26** | | 4 | Automated Email System |
| | | | 5 | Automatic Notification For Certain Systems |
| | | | 6 | Call From Employee'S Supervisor |
| | | | 7 | Checklist |
| | | | 8 | Correspond With Supervisor For Clarification |
| | | | 9 | Correspondence Initiated By Supervisor |
| | | | 10 | Email From Hr |
| | | | 11 | Email From System |
| | | | 12 | Employee Inability To Access |
| | | | 13 | End Testing |
| | | | 14 | Established Network Setup |
| | | | 15 | Hr Correspondence |
| | | | 16 | Hr Notification |
| | | | 17 | Judgment |
| | | | 18 | Manual Email By Hr |
| | | | 19 | Notification From Hr |
| | | | 20 | Phone Calls From Hr |
| | | | 21 | Sop'S On User Accounts |
| | | | 22 | Staff Backup |
| | | | 23 | Staff Notify Inability To Access |
| | | | 24 | Staff Verify Own Work |
| | | | 25 | Standard Pc Image |
| | | | 26 | Supervisor Notification |

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to set up PC correctly | Standard Pc Image | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to set up PC correctly | End Testing | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | failure to set up PC correctly | Hr Notification | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | inability to access email | Notification From Hr | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | inability to access email | Employee Inability To Access | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | inability to access email | Supervisor Notification | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | inability to access email | Staff Backup | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | inability to access email | Checklist | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | wrong/no information received from HR | Call From Employee'S Supervisor | MM | ML | | | | |
| Creating an Account-(1, 3,4,5,6,7,8,9,10,11, 15, 18) | wrong/no information received from HR | (Standard Name Information From Hr) | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | improper security setup resulting in incorrect access because of wrong information | Judgment | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | improper security setup resulting in incorrect access because of wrong information | Established Network Setup | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | improper security setup resulting in incorrect access because of wrong information | Sop'S On User Accounts | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | improper security setup resulting in incorrect access because of wrong information | Correspond With Supervisor For Clarification | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | Automatic Notification For Certain Systems | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | (Automatic Email On Any Change In Employee Status) | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | Correspondence Initiated By Supervisor | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | Email From System | MM | ML | | | | |
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | Email From Hr | MM | ML | | | | |

***Low Level of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

***ISD-User Accounts for TDHCA and ORCA for Board Mtg***
***Control Self-Assessment***

| Key Activity | Risks | Mitigation | Risk Rating Before Controls | Risk Rating After Controls | Person Responsible | Evidence of Control | Date | Comments |
|---|---|---|---|---|---|---|---|---|
| Corresponding with divisions/ORCA- (16, 17, 19, 20, 23) | untimely correspondence from HR could result in lost time/productivity | Phone Calls From Hr | MM | ML | | | | |
| Modifying an Account-(2, 21) | failure to set up PC correctly | Standard Pc Image | MM | ML | | | | |
| Modifying an Account-(2, 21) | failure to set up PC correctly | End Testing | MM | ML | | | | |
| Modifying an Account-(2, 21) | failure to set up PC correctly | Hr Notification | MM | ML | | | | |
| Modifying an Account-(2, 21) | inability to access/receive email | Notification From Hr | MM | ML | | | | |
| Modifying an Account-(2, 21) | inability to access/receive email | Employee Inability To Access | MM | ML | | | | |
| Modifying an Account-(2, 21) | inability to access/receive email | Supervisor Notification | MM | ML | | | | |
| Modifying an Account-(2, 21) | inability to access/receive email | Staff Backup | MM | ML | | | | |
| Modifying an Account-(2, 21) | inability to access/receive email | Checklist | MM | ML | | | | |
| Modifying an Account-(2, 21) | wrong/no information received from HR | Call From Employee'S Supervisor | MM | ML | | | | |
| Modifying an Account-(2, 21) | wrong/no information received from HR | (Standard Name Information From Hr) | MM | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | delete/disable wrong account | Automated Email System | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | delete/disable wrong account | Staff Verify Own Work | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | delete/disable wrong account | Hr Correspondence | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | delete/disable wrong account | Manual Email By Hr | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | disable account too soon | Automated Email | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | disable account too soon | Staff Notify Inability To Access | ML | ML | | | | |
| Disable/Delete an Account-(12, 13, 14, 22, 24, 27) | disable account too soon | Staff Verify Own Work | ML | ML | | | | |

***Low Level of Monitoring to Ensure Control Procedures Are Effective and Properly/Consistently Applied***

# *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
# *Control Self-Assessment*

| Consolidated Activity | Risks | Staff-Suggested Mitigation Strategy / Action Steps | Once Mitigation Strategy Implemented / Action Steps Taken | | | Assigned to | Expected Completion Date |
|---|---|---|---|---|---|---|---|
| | | | Impact | Prob. | Ranking | | |
| **Corresponding with Divisions/ORCA** | Untimely Correspondence from HR Could Allow Terminated Employees' Access | Automatic email on any change in employee status | H | L | HL | | |
| | Supervisor may fail to inform IS of change resulting in incorrect security access | Automatic email on any change in employee status | M | L | ML | | |
| | Termination Date Extends Beyond Last Date in Building | HR consistently enters employee termination on last date in office-not last payroll date | M | L | ML | | |
| | Untimely Correspondence From HR Could Result in Lost Time/Productivity | Automatic email on any change in employee status | M | L | ML | | |
| | | | | | | | |
| **Creating an Account** | Create Fraudulent Account (Fraud) | Security software | H | L | HL | | |
| | Create Fraudulent Account (Fraud) | Upgraded domain infrastructure | H | L | HL | | |
| | Create Fraudulent Account (Fraud) | Single user sign on | H | L | HL | | |
| | Create Fraudulent Account (Fraud) | Report on newly created accounts | H | L | HL | | |
| | Grant User Excessive Access (Fraud) | Separation of duties | H | L | HL | | |
| | If Profile Not Correct User Can Install Unlicensed/Harmful Software | Employee training | H | L | HL | | |
| | Wrong/No Information Received from HR | Standardized name information from HR | M | L | ML | | |
| | | | | | | | |
| **Modifying an Account** | Administrators Can Conceal Their Identity or Steal Their Identity (Fraud) | Monitoring logs-automated software | H | M | HM | | |
| | Administrators Can Conceal Their Identity or Steal Their Identity (Fraud) | Upgraded domain infrastructure | H | M | HM | | |

***Action Plan***

TDHCA
Enterprise Risk Management

## *ISD-User Accounts for TDHCA and ORCA for Board Mtg*
## *Control Self-Assessment*

| Consolidated Activity | Risks | Staff-Suggested Mitigation Strategy / Action Steps | Once Mitigation Strategy Implemented / Action Steps Taken | | | Assigned to | Expected Completion Date |
|---|---|---|---|---|---|---|---|
| | | | Impact | Prob. | Ranking | | |
| **Modifying an Account** | Grant User Additional Access (Fraud) | Separation of duties | H | L | HL | | |
| | IS Failure to Notify Supervisor of Work Completed Which Prevents Supervisor QA of the Access Granted (Fraud) | Signature card for the agency to verify authenticity of the requestor's identity | M | L | ML | | |
| | Wrong/No Information Received from HR | Standardized name information from HR | M | L | ML | | |
| **Periodic System Audits** | Failure to Detect Active/Unauthorized Accounts | Review logs more often | H | M | HM | | |
| | Failure to Detect Active/Unauthorized Accounts | Purchase software | H | M | HM | | |
| | Inability to Detect Fraud-No Performance Audits Currently Being Performed | Review logs more often | H | M | HM | | |
| | Inability to Detect Fraud-No Performance Audits Currently Being Performed | Conduct performance audits | H | M | HM | | |
| | Inability to Detect Fraud-No Performance Audits Currently Being Performed | Purchase software | H | M | HM | | |

| Develop and Implement Controls (Complete Action Plan) or Control Level is Acceptable | | | |
|---|---|---|---|
| **Develop & Implement Controls** | | **Level of Control is Acceptable** | |
| **HH, HM, MH, MM** | | **HL, ML, LH, LM, LL** | |

## *Action Plan*

***Texas Department of Housing and Community Affairs***

## ***Status of TDHCA's Risk Management Program***

# Texas Department of Housing and Community Affairs

# Risk Management Program

# Business Processes Identified and Assessed

# As of March 30, 2005

| | Processes Identified and Assessed by Management | | | | | |
|---|---|---|---|---|---|---|
| | High Impact | | Medium Impact | | Total | |
| | Number Identified | Completed | Number Identified | Completed | Number Identified | Completed |
| **TOTALS** | **117** | **7** | **151** | **4** | **268** | **11** |

**FINANCE COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437 – Boardroom, Austin, Texas 78701**
**Thursday, April 7, 2005 9:30 a.m.**

# A G E N D A

| | |
|---|---|
| **CALL TO ORDER, ROLL CALL** | Vidal Gonzalez |
| **CERTIFICATION OF QUORUM** | Chair of Committee |

**PUBLIC COMMENT**
The Finance Committee of the Board will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by the department staff and motions made by the Finance Committee.

The Finance Committee of the Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**ACTION ITEMS**

| | | |
|---|---|---|
| Item 1 | Presentation, Discussion and Possible Approval of Minutes of Finance Committee Meeting of February 10, 2005 | Vidal Gonzalez |
| Item 2 | Presentation, Discussion and Possible Approval of Criteria and Methodology Recommended for the Selection of Co-Senior Managers in Conjunction with the Sale of TDHCA's Single Family Mortgage Revenue Bonds | Edwina Carrington |
| Item 3 | Presentation, Discussion and Possible Approval of Program Modifications for Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B | Edwina Carrington |
| Item 4 | Presentation, Discussion and Possible Approval of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate) for Program 62 | Edwina Carrington |

**EXECUTIVE SESSION** — Vidal Gonzalez
If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session

**OPEN SESSION** — Vidal Gonzalez
Action in Open Session on Items Discussed in Executive Session

**ADJOURN** — Vidal Gonzalez

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*Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made.*

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*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

**FINANCE COMMITTEE MEETING**
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**
**507 Sabine, Room 437, Austin, Texas 78701**
**February 10, 2005 10:30 a.m.**

## Summary of Minutes

**CALL TO ORDER, ROLL CALL**
**CERTIFICATION OF QUORUM**
The Finance Committee Meeting of the Texas Department of Housing and Community Affairs of February 10, 2005 was called to order by Chairman Vidal Gonzalez 10:40 a.m. It was held at 507 Sabine, Room 437, Austin, Texas. Roll call certified a quorum was present.

Members present:
Vidal Gonzalez -- Chair
C. Kent Conine – Member
Shad Bogany – Member

Staff of the Texas Department of Housing and Community Affairs was also present.

**PUBLIC COMMENT**
Chair Vidal Gonzalez called for public comment and those signing up wished to give comments at the time of the agenda items.

**ACTION ITEMS**

**(1) Presentation, Discussion and Possible Approval of Criteria and Methodology Recommended for the Selection of Senior Managers in Conjunction with the Sale of TDHCA's Single Family Mortgage Revenue Bonds**
Ms. Carrington stated this item is the consideration of the criterion and methodology that the Department uses for the selection of senior managers with the Single Family Mortgage Revenue Bond Program. The last time the Board reviewed criterion was in 2001. At that time the Board selected 12 investment banking firms to provide services for TDHCA. Staff is asking the Board to consider the methodology for the evaluation of the performance of the underwriters.

Byron Johnson, Director of Single Family Bond Division, stated the Department has been working with a group of firms for the past 4-5 years but now feels there is a need to consolidate those six firms down to three.

The quantitative items are:

| Items | Descriptions |
|---|---|
| 1,2,3,4 | Personnel |
| 5 | Total number of bankers specializing in SF Mortgage Revenue Bonds |
| 6,7 | Capital and equity of the firm |
| 8 | Total retail sales people specializing in muni bonds, etc. |
| 9 | TDHCA distribution results |
| 10 | Par amount of negotiated single family bonds over a three-year period |
| 11 | Current number of state housing finance agency clients |
| 12 | Swaps |
| 13 | Interest rate swaps |

The Qualitative items are:

| Items | Descriptions |
|---|---|
| 1 | Underwriting, sales execution; stability, willingness to underwrite TDHCAs bonds under both favorable and unfavorable market conditions; accurately gauge the timing of pricing; and investor demand |
| 2 | Innovativeness |
| 3 | Responsiveness |

At this time Public Comment was taken.

Richard Bool, Investment Agreement Broker, Wessex Group, Dallas, Texas
Mr. Bool stated they are one of the Department's investment agreement brokers and felt there is a case to be made for brokering the interest rates which would save the Department money.

Gary Machak, Financial Advisor, Dain Rauscher, Dallas, Texas
Mr. Machak stated the Bond Finance Division, financial advisor, bond counsel and staff are all trying to get the citizens of Texas and the State of Texas the lowest mortgage rate and lowest cost of capitol and he felt this criterion presented above should be used.

Dale Lehman, Investment Banker, Piper Jaffrey, Houston, Texas
Mr. Lehman stated they have been part of the underwriting team for the Department. He stated he would add references to the items under the quantative items. He asked to consider a system that sets minimum standards for the senior managers. He also felt that of importance is the type of senior professionals in a firm with experience in the single family housing field. He felt there should be at least two senior bankers with at least ten years experience that demonstrate and have experience in structuring deals, have analytic experience as well as marketing and understanding the different programs in single family housing.

There should be at least two analysts or associates that have the capability and the demonstrated capability of running the extensive cash flow analysis. There should be a minimum amount set on the net capital and excess capitol. There should be at least ten institutional sales people and/or 100 retail persons. There should also be a minimum standard for housing agency experience.

Motion made by C. Kent Conine and seconded by Shad Bogany to recommend this particular matrix to the full Board with the potential of adjustments or amendments at the full Board meeting as opposed to adding them at this meeting.
Passed Unanimously

**(2) Presentation, Discussion and Preliminary Approval of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate) and 2005 Series B (Variable Rate) for Program 62**

**(3) Presentation, Discussion and Preliminary Approval of Taxable Mortgage Program**

**(4) Presentation, Discussion and Possible Approval of Resolution Authorizing the Extension of the Certificate Purchase Period for Residential Mortgage Revenue Bonds, Series 2002AB (Program 59)**

**(5) Presentation, Discussion and Possible Approval of First Quarter Investment Report**

**(6) Presentation, Discussion and Possible Approval of Texas Department of Housing and Community Affairs Investment Policy**

These items were not presented at the Committee Meeting but will be presented to the full Board for action.

**EXECUTIVE SESSION**

If permitted by law, the Committee may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

There was no Executive Session held.

**ADJOURN**

Motion made by Kent Conine and seconded by Shad Bogany to adjourn the meeting.
Passed Unanimously

The meeting adjourned at 11: 55 a.m.

Respectfully submitted,

Delores Groneck, Board Secretary

fcminfeb/dg

**BOND FINANCE DIVISION**

**BOARD ACTION REQUEST**
**April 7, 2005**

## Action Item

Criteria, methodology and selection process for co-senior managers in conjunction with the sale of TDHCA's single family mortgage revenue bonds

## Required Action

Review and approve criteria, methodology and selection process for co-senior managers in conjunction with the sale of TDHCA's single family mortgage revenue bonds

## Background

In 2001, the Board selected twelve investment banking firms to provide single family bond underwriting services for the TDHCA. Six firms were designated as senior managers. Bond Finance worked directly with those firms since that time and recommended reducing the number of senior managers from six to three. The Board approved three firms to provide senior manager investment banking services at its meeting on March 10, 2005. Moving forward with the process, Bond Finance is presenting two options for the Board's consideration in the assignment of co-senior managers.

**Option One** would result in the assignment of firms as co-senior managers. This option requires ranking and scoring information obtained from firms interested in serving TDHCA as a co-senior manager. The selection process would be based on seven factors related to capitalization, retail distribution capacity, institutional distribution capacity, negotiated single family bond experience, actual performance on prior TDHCA issues and the firms' history of successfully generating tangible, economic value for TDHCA. Please see Exhibit A for a complete listing of the recommended selection criteria.

**Option Two** entails eliminating the co-senior role with a provision for the Board assigning firms as co-seniors on a bond issue-by-bond issue basis. The criteria for recommending and approving firms as co-seniors for specific bond issues would be limited to evidence that the firm generated tangible economic value for TDHCA, i.e. an executed and closed financing idea resulting in a measurable cash benefit for TDHCA's programs.

## Recommendation

Review and approve criteria, methodology and selection process for co-senior managers in conjunction with the sale of TDHCA's single family mortgage revenue bonds

**Texas Department of Housing and Community Affairs**
**Co-Senior Managers Qualifications Review**
**Qualifications Summary**

**Exhibit A**

| | Data Reviewed | Description | Source/Basis for Inclusion | Purpose | Desired Results | Scored (1) | Weighting | Criteria Used in 2001 RFQ (2) | Criteria Used in 2003 RFQ (3) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Net Capital as of September 30, 2004 | Equity capitalization of securities firms. Amount calculated based on standards set forth by the Securities and Exchange Commission's "Net Capital Rule." | Industry Standard | Ensure that the firm is well capitalized and able to perform under adverse bond market conditions | Generally, a greater amount of net capital provides firms with greater underwriting capacity, ability to takedown bonds, and flexibility in scheduling bond pricings | Yes | 5% | Yes | Yes |
| 2 | Excess Net Capital as of September 30, 2004 | Equity capitalization of securities firms adjusted for reserves required for securities inventory balances. Amount calculated based on standards set forth by the Securities and Exchange Commission's "Net Capital Rule." | Industry Standard | Ensure that the firm is well capitalized and able to perform under adverse bond market conditions | Generally, a greater amount of excess net capital provides firms with greater underwriting capacity, greater ability to takedown bonds, and more flexibility in scheduling bond pricings | Yes | 5% | Yes | Yes |
| 3 | Number of Total Retail Salespeople and Number of Total Institutional Municipal Bond Salespeople | Number of employees who market municipal bonds to retail and institutional buyers | TDHCA Specific | Measure ability of the firm to distribute municipal bonds to investors | Generally, a higher number of salespeople indicates a greater likelihood of successfully distributing bonds to retail and institutional investors | Yes | 5% | No | No |
| 4 | TDHCA Distribution Results | Quantitative measure of actual co-senior manager and co-manager underwriting performance | TDHCA Specific | Measure actual ability of the firm to distribute TDHCA's bonds | A meaningful quantitative measure indicative of actual co-senior and co-manager underwriting performance | Yes | 35% | No | No |
| 5 | Par Amount of Negotiated Single Family Bonds Co-Senior Managed in 2002, 2003 and 2004 (Full Credit to Book Manager) | Volume of single family mortgage revenue bonds sold as co-senior manager | Industry Standard | Measure co-senior manager experience through volume of single family mortgage revenue bonds sold in co-senior manager role | A greater volume of co-senior managed single family bond issues reflects a firm's experience gained directly with an HFA/single family bond issuer client base and a more likely heightened ability to sell single family bonds | Yes | 5% | Yes | Yes |
| 6 | Par Amount of Negotiated Single Family Bonds Co-Managed in 2002, 2003, and 2004 (Full Credit to Book Manager) | Volume of single family mortgage revenue bonds sold as co-manager | Industry Standard | Measure co-manager experience through volume of single family mortgage revenue bonds sold in co-manager role | A greater volume of co-managed single family bond issues reflects a firm's experience gained directly with an HFA/single family bond issuer client base and a more likely heightened ability to sell single family bonds | Yes | 5% | Yes | Yes |
| 7 | Innovativeness | Offering creative financing solutions that add measurable and tangible economic value to TDHCA's capital markets initiatives | Industry Standard/ TDHCA Specific | Assessment of petential co-senior managers' innovativeness, by firm, throughout rotation period | High level of feasible, value-added, financing ideas that achieve desired financial and programmatic objectives | Yes | 40% | Not Applicable | Not Applicable |
| | | | | | | | 100% | | |

(1) See Scoring Methodology (last page)

(2) 2001 RFQs issued for senior and co-managers

(3) 2003 RFQ issued for co-managers

**Texas Department of Housing and Community Affairs**
**Co-Senior Managers Qualifications Review**
**Scoring Methodology**

## Exhibit A

### Criteria 1 - 6 Scoring Methodology

6 items scored; 3 points maximum total score

| *Rank* | *Points* |
|---|---|
| 1 | 5 |
| 2 | 4 |
| 3 | 3 |
| 4 | 2 |
| 5 | 1 |

### Criteria 7 Scoring Methodology

1 item scored; 2 points maximum total score

***Rating Scale***

| | |
|---|---|
| 5 | Closed transaction producing value for TDHCA |
| 4 | |
| 3 | |
| 2 | |
| 1 | |
| 0 | No ideas submitted |

### Combined Scoring Methodology

Combined Criteria: 7 items scored; 5 points maximum total score

**BOND FINANCE DIVISION**

**BOARD ACTION REQUEST**
**April 7, 2005**

## Action Items

Resolution authorizing conversion of assisted loans to low rate, zero point mortgage loans (a program modification) for Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B (Program 61)

## Required Action

Approve the attached resolution authorizing conversion of assisted loans to low rate, zero point mortgage loans (a program modification) for Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B (Program 61)

## Background

Bond Finance and Single Family Production recommend converting Program 61's remaining assisted funds to "zero point" mortgage loan funds. This new mortgage program offering, mortgage loans with no points and a low rate, will provide a new mortgage loan option for borrowers accessing TDHCA's First Time Home Buyer Program.

TDHCA closed its Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B (Program 61) on April 28, 2004. The mortgage interest rates ranged from 4.99% (unassisted) to 5.50% (assisted). All $70.9 million of the non-targeted, unassisted funds have been reserved. However, TDHCA has closed and funded only $18.1 million of $84.8 million (21%) in non-targeted assisted mortgage loans. Program 61's mortgage loan origination period will terminate on November 1, 2005. The table below reflects Program 61's balances as of March 30, 2005.

| Type of Funds | Original Allocation | Rate | Committed/ In Pipeline | Loans Purchased | Uncommitted Allocation |
|---|---|---|---|---|---|
| Unassisted Non-Targeted | $70,879,423 | 4.99% | $8,131,024 | $62,705,217 | $43,182 |
| Unassisted Targeted | $5,058,560 | 4.99% | $495,740 | $311,044 | $4,251,776 |
| Total Unassisted | $75,937,983 | | $8,626,764 | $63,016,261 | $4,294,958 |
| | | | | | |
| Assisted Non-Targeted | $84,824,319 | 5.50% | $6,532,073 | $11,643,622 | $66,648,624 |
| Assisted Targeted | $15,175,681 | 5.50% | $125,680 | $789,568 | $14,260,433 |
| Total Assisted | $100,000,000 | | $6,657,753 | $12,433,190 | $80,909,057 |
| | | | | | |
| **Total All Funds:** | $175,937,983 | | $15,210,355 | $75,449,451 | $85,204,015 |

No additional deposits will be required to accomplish this program modification. Existing resources, such as unused Down Payment Assistance funds, within Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B (Program 61) will be used to pay borrower points.

Bond Finance and Single Family Production estimate that Program 61's assisted funds have been impacted by the proliferation of downpayment assistance programs over the past year.

## **Recommendation**

Approve the attached resolution authorizing conversion of assisted loans to low rate, zero point mortgage loans (a program modification) for Single Family Mortgage Revenue Bonds, 2004 Series A and 2004 Series B (Program 61)

**Resolution No. 05-024**

RESOLUTION APPROVING PROGRAM MODIFICATIONS FOR TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS SINGLE FAMILY MORTGAGE REVENUE BONDS, 2004 SERIES A AND 2004 SERIES B THROUGH BOND PROGRAM NO. 61; MAKING CERTAIN FINDINGS AND DETERMINATIONS IN CONNECTION THEREWITH; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

WHEREAS, the Texas Department of Housing and Community Affairs (the “Department”) has been duly created and organized pursuant to and in accordance with the provisions of Chapter 2306, Texas Government Code, as amended (the “Act”), for the purpose, among others, of providing a means of financing the costs of residential ownership, development and rehabilitation that will provide decent, safe, and affordable living environments for individuals and families of low and very low income (as defined in the Act) and families of moderate income (as described in the Act and determined by the Governing Board of the Department (the “Board”) from time to time); and

WHEREAS, the Act authorizes the Department: (a) to make and acquire and finance, and to enter into advance commitments to make and acquire and finance, mortgage loans and participating interests therein, secured by mortgages on residential housing in the State of Texas (the “State”); (b) to issue its bonds, for the purpose, among others, of obtaining funds to acquire, finance or acquire participating interests in such mortgage loans, to establish necessary reserve funds and to pay administrative and other costs incurred in connection with the issuance of such bonds; and (c) to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such single family mortgage loans or participating interests, and to mortgage, pledge or grant security interests in such mortgages or participating interests, mortgage loans or other property of the Department, to secure the payment of the principal or redemption price of and interest on such bonds; and

WHEREAS, the Department has issued its (i) Single Family Mortgage Revenue Refunding Bonds, 2004 Series A in the original aggregate principal amount of $123,610,000 pursuant to the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980 (as amended and supplemented, the “Single Family Indenture”), between the Department, as successor to the Texas Housing Agency, and J.P. Morgan Trust Company, National Association, as successor trustee (the “Trustee”), and the Thirty-Sixth Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of April 1, 2004 (the “Thirty-Sixth Supplement”) between the Department and the Trustee, and its (ii) Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2004 Series B in the original aggregate principal amount of $53,000,000 pursuant to the Single Family Indenture and the Thirty-Seventh Supplemental Single Family Mortgage Revenue Bond Trust Indenture dated as of April 1, 2004 between the Department and the Trustee, for the purpose, among others, of providing funds to make to implement the Department’s Single Family Mortgage Revenue Bond Program designated as Bond Program No. 61 (the “Program”); and

WHEREAS, the Department has issued its Taxable Single Family Variable Rate Mortgage Revenue Bonds, Series 2004A pursuant to the Junior Lien Trust Indenture dated as of May 1, 1994, as amended by the Fourth Supplemental Junior Lien Trust Indenture (Series Supplement 2004A) dated as of April 1, 2004, each between the Department and the Trustee, for the purpose, among others, of financing down payment and closing cost assistance (hereinafter referred to as “Mortgage Assistance”) under the Program; and

WHEREAS, the Department and certain mortgage lenders (the “Mortgage Lenders”) have executed a Mortgage Origination Agreement, as supplemented by a Program Supplement for Texas Department of Housing and Community Affairs Bond Program No. 61 (collectively, the “Program Agreement”) for the purpose of setting forth the terms and conditions relating to the origination and sale from time to time of qualifying mortgage loans (the “Mortgage Loans”) by the Mortgage Lenders and the financing of such Mortgage Loans by the Department under the Program; and

WHEREAS, pursuant to Resolution No. 04-070 adopted on September 9, 2004, the Board approved the conversion of Mortgage Assistance under the Program from a non-forgivable, second lien loan to a grant that does not require repayment; and

WHEREAS, the Board now desires to further modify the Program by (i) reducing the amount of Mortgage Assistance available to qualified eligible borrowers from 4.0% of the principal amount of the Mortgage Loan to 2.0% of the principal amount of the Mortgage Loan; (ii) discontinuing collection by the Mortgage Lenders of the 1.0% Origination Fee and the 1.0% Buyer/Seller Points on Mortgage Loans that include Mortgage Assistance under the Program (hereinafter referred to as "Assisted Mortgage Loans"); and (iii) approving the execution and delivery of all documents and instruments necessary to effect such modifications;

NOW THEREFORE BE IT RESOLVED BY THE GOVERNING BOARD OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS THAT:

## ARTICLE I

## APPROVAL OF DOCUMENTS

Section 1.1—Approval of Program Modifications. The reduction of the amount of Mortgage Assistance available to qualified eligible borrowers from 4.0% of the principal amount of the Mortgage Loan to 2.0% of the principal amount of the Mortgage Loan and the discontinuing of collection by the Mortgage Lenders of the 1.0% Origination Fee and the 1.0% Buyer/Seller Points on Assisted Mortgage Loans under the Program is hereby approved, and the authorized representatives of the Department named in this Resolution each are authorized hereby to execute and deliver all documents and instruments necessary to effect such modifications, including amendments to the Thirty-Sixth Supplement and the Program Agreement.

Section 1.2--Execution and Delivery of Other Documents. The authorized representatives of the Department named in this Resolution each are authorized hereby to execute and deliver all agreements, certificates, contracts, documents, instruments, releases, financing statements, letters of instruction, notices, written requests and other papers, whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution.

Section 1.3--Authorized Representatives. The following persons are each hereby named as authorized representatives of the Department for purposes of executing and delivering the documents and instruments referred to in this Article I: the Chair of the Board, the Vice Chairman of the Board; the Secretary of the Board; the Executive Director of the Department; and the Director of Bond Finance of the Department.

## ARTICLE II

## GENERAL PROVISIONS

Section 2.1--Purpose of Resolution. The Board has expressly determined and hereby confirms that the reduction in the amount of Mortgage Assistance coupled with discontinuing collection by the Mortgage Lenders of the of the Origination Fee and Buyer/Seller Points on Assisted Mortgage Loans under the Program will accomplish a valid public purpose of the Department by providing for the housing needs of persons and families of low, very low and extremely low income and families of moderate income in the State.

Section 2.2--Effective Date. This Resolution shall be in full force and effect from and upon its adoption.

Section 2.3--Notice of Meeting. Written notice of the date, hour and place of the meeting of the Board at which this Resolution was considered and of the subject of this Resolution was furnished to the Secretary of State and posted on the Internet for at least seven (7) days preceding the convening of such meeting; that during regular office hours a computer terminal located in a place convenient to the public in the office of the Secretary of State was provided such that the general public could view such posting; that such meeting was open to the public as required by law at all times during which this Resolution and the subject matter hereof was discussed, considered and formally acted upon, all as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended; and that written notice of the date, hour and place of the meeting of the Board and of the subject of this Resolution was published in the Texas Register at least seven (7) days preceding the convening of such meeting, as required by the Administrative Procedure and Texas Register Act, Chapters 2001 and 2002, Texas Government

Code, as amended. Additionally, all of the materials in the possession of the Department relevant to the subject of this Resolution were sent to interested persons and organizations, posted on the Department's website, made available in hard-copy at the Department, and filed with the Secretary of State for publication by reference in the Texas Register not later than seven (7) days before the meeting of the Board as required by Section 2306.032, Texas Government Code, as amended.

(EXECUTION PAGE FOLLOWS)

PASSED AND APPROVED this 7th day of April, 2005.

______________________________________
Elizabeth Anderson, Chair

ATTEST:

______________________________________
Delores Groneck, Secretary

(SEAL)

**BOND FINANCE DIVISION**

**BOARD ACTION REQUEST**
**April 7, 2005**

## Action Items

Approval of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate Bonds) for Program 62A

## Required Action

Approve the attached resolution authorizing the issuance of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate Bonds) for Program 62A

## Background

TDHCA's annual volume cap allocation in 2004 for single family bonds equaled $165,151,534. TDHCA issued Convertible Option Bonds (COBs) that deferred some of the 2004 volume cap for additional mortgages in 2005. TDHCA has depleted its current balance of unassisted mortgage funds available for very low, low and moderate income Texans seeking to purchase their first home. Bond Finance recommends issuing TDHCA's next single family bond issue to refund the COBs and provide funds for unassisted mortgages. The following table illustrates the various components of the proposed transaction.

| Program | Series | Amount | Purpose | Bond Description |
|---|---|---|---|---|
| 62A | 2005 A | $88,000,000 | Refunding of Convertible Option Bonds (2004 Series F) to Provide Tax-Exempt Funds for Below Market Rate Mortgages | Variable Rate Demand Bonds |
| 62A | 2005 B | 12,000,000 | Refunding of Commercial Paper to Provide Tax-Exempt Funds for Below Market Rate Mortgages | Variable Rate Demand Bonds |
| Total | | $100,000,000 | | |

Interest rates remain at historically low levels. To take advantage of these historical lows and create a marketable and competitive mortgage product for first-time homebuyers, Bond Finance recommends issuing 100% of the transaction in the form of *variable rate demand bonds*. In order to reduce interest rate exposure associated with unhedged variable interest rates that change according to market conditions, Bond Finance recommends implementing a hedge referred to as an *interest rate swap*. An interest rate swap is a contractual agreement whereby two parties, called counterparties, agree to exchange periodic interest payments. Through an interest rate swap agreement, TDHCA will pay a highly rated counterparty a fixed interest rate. In exchange, the highly rated counterparty will pay TDHCA a variable interest rate which is reasonably expected to be similar to the variable interest rate TDHCA will pay on the variable rate demand bonds. An interest rate swap contract is a derivative security.

Bond Finance successfully incorporated TDHCA's first variable rate demand bonds and an interest rate swap for 30% of the transaction total in TDHCA's March 2004 issue and for 40% of TDHCA's October 2004 issue. The proposed bond structure, comprised of 100% variable rate demand bonds, deviates from the previous structures due to advances in interest rate swap technology.

The interest rate hedge proposed for this transaction, referred to as a "Matched Amortization Interest Rate Swap," offers unique call features permitting TDHCA to cancel any amount of this interest rate swap from prepayments received with no market termination fees, starting immediately after the transaction closing. As a consequence of this feature, this structure effectively mitigates the amortization mismatch (prepayment) risk associated with swapped bonds secured by mortgages.

Overall, this structure provides the following benefits:

- Replicates more closely the cash flow behavior of underlying mortgages
- Achieves significant savings in bond yield (approximately 40 basis points) compared to traditional fixed-rate bond structure
- Attains full spread while creating a marketable mortgage rate
- Mitigates interest rate basis risk
- Eliminates state law naked hedging concerns
- Reduces negative arbitrage through forward start on swap
- Eliminates amortization mismatch associated with mortgage prepayments
- Does not require swap termination insurance
- Reduces bond underwriting fees by over 50% compared to traditional TDHCA structure
- Provides Aaa/AAA rated affiliated, non-terminating counterparty (no intermediaries or third parties required)
- Neutralizes rating agency stress run effects on TDHCA's SFMRB indenture

Matched Amortization Interest Rate Swaps originated in the taxable mortgage market. Bond Finance reviewed this form of swap proposal in 2003 but elected to wait due to counterparty legal matters, which have been addressed.

The new mortgages will be unassisted low rate mortgages with projected interest rates of approximately 4.99% - 5.40%. Without issuing variable rate bonds, TDHCA would attain mortgage rates of approximately 6.05% - 6.25% for unassisted mortgages. The mortgages will be securitized and will be marketed to very low and moderate income residents of Texas. If authorized, the bonds are expected to be sold in April and the bond closing will occur approximately two to three weeks subsequent to the bond pricing.

Bond Finance recommends Bear, Stearns & Co. Inc. to lead this transaction. In addition, Bond Finance recommends Bear, Stearns & Co. Inc. for the role of interest rate swap provider. Bear, Stearns & Co. Inc. executes interest rate swaps on a principal basis with many other state housing finance agencies and proposed this proprietary, innovative and beneficial swap (that it has executed with other state HFAs) that will help TDHCA alleviate risk and achieve program objectives. TDHCA's Bond Finance Division and TDHCA's Finance Team have reviewed documents related to the proposed interest rate swap.

For this specific transaction, Bond Finance recommends George K. Baum & Company to serve as co-senior manager. For the past five or six years, TDHCA has maintained a policy of encouraging competition and innovation from its investment banking pool. Recently, George K. Baum & Company submitted an unsolicited proposal and executed a board approved financing which generated $1.1 million for TDHCA's Bootstrap Program.

In keeping with TDHCA's policy of rotating firms in the co-manager pool, Bond Finance recommends the following firms to serve as co-managers for this transaction:

Bank of America Securities LLC
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Keegan & Company, Inc.

The following table provides certain details related to this plan of finance.

| | |
|---|---|
| Program Designation | Program 62A |
| Down Payment Assistance (%) | None; All funds unassisted |
| Down Payment Assistance (% of Loans) | None; All funds unassisted |
| 2004 Volume Cap | $165 million |
| Unassisted Lendable Funds Available in November 2004 | $75 million |
| Unassisted Lendable Funds Deferred Until April 2005 | $88 million |
| **TDHCA Approval Date** | **April 7, 2005** |
| **Bond Review Board Planning Session** | **March 8, 2005** |
| **Bond Review Board Approval Date** | **March 17, 2005** |
| **Pricing Window** | **April 7 – 19, 2005** |
| **Pre-Closing/Closing Dates** | **April 19/20, 2005** |

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## Recommendation

Approve the attached resolution authorizing the issuance of Single Family Mortgage Revenue Bonds, 2005 Series A (Variable Rate Bonds) for Program 62A

## Supplemental Information

Current lendable proceeds in existing programs as of March 30, 2005

| Program Number | Original Allocation | Rate | Committed/ In Pipeline | Loans Purchased | Uncommitted Allocation | Targeted Area Balances |
|---|---|---|---|---|---|---|
| 56 | 125,242,028 | 6.25% | 409,207 | 124,750,614 | 82,207 | |
| 57A | 107,432,736 | 4.99% - 5.90% | 28,265,322 | 77,185,061 | 1,982,353 | |
| 59 | 40,000,000 | 5.30%- 5.99% | 2,160,797 | 37,684,376 | 154,827 | |
| 59A | 71,056,914 | 4.99%- 5.99% | 3,419,628 | 52,489,995 | 15,147,291 | |
| 61 | 175,937,983 | 4.99%- 5.50% | 15,284,517 | 75,449,451 | 85,204,015 | 18,512,209 |
| 62 | 71,600,000 | 4.99% | 41,411,303 | 16,893,097 | 13,295,600 | 13,295,599 |
| **TOTAL:** | 591,269,661 | | 90,950,774 | 384,452,594 | 115,866,293 | |

**Program 62A Investment Banking Underwriting Team Recommendations**

Estimated Transaction Size: $ 100,000,000

| Firm | Underwriting Role | Liability% |
|---|---|---|
| Bear, Stearns & Co. Inc. | Senior Manager | 45.0% |
| George K. Baum & Company | Co-Senior | 25.0% |
| Bank of America Securities LLC | Co-Manager | 7.5% |
| Loop Capital Markets, LLC | Co-Manager | 7.5% |
| Merrill Lynch & Co. | Co-Manager | 7.5% |
| Morgan Keegan & Company, Inc. | Co-Manager | 7.5% |
| | | 100.0% |

| | Per Bond | Dollars |
|---|---|---|
| Management Fee | $ 0.50 | $ 50,000.00 |
| Take-Down | 1.25 | 125,000.00 |
| Expenses | 0.37 | 37,252.78 |
| Structuring Fee | 0.75 | 75,000.00 |
| Underwriters' Counsel | 0.30 | 30,000.00 |
| Underwriters' Risk | 0.00 | 0.00 |
| Gross Spread | $ 3.17 | $ 317,252.78 |

The proposed designation policy follows:

- Three (3) or more firms must be designated.
- No more than 45% allocated to any one firm.
- Minority designations must be at least 10%.

**Resolution No. 05-021**

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS SINGLE FAMILY VARIABLE RATE MORTGAGE REVENUE REFUNDING BONDS, 2005 SERIES A; AUTHORIZING THE APPROVAL OF THE FORM AND SUBSTANCE OF THE SERIES SUPPLEMENT, THE PROGRAM SUPPLEMENT, THE PROGRAM GUIDELINES, THE SERVICING AGREEMENT, THE FUNDING AGREEMENT, THE DEPOSITORY AGREEMENT, THE BOND PURCHASE AGREEMENT, THE REMARKETING AGREEMENT, THE STANDBY BOND PURCHASE AGREEMENT, THE CONTINUING DISCLOSURE AGREEMENT, THE SWAP AGREEMENT, AND THE OFFICIAL STATEMENT FOR THE BONDS; AUTHORIZING THE EXECUTION OF DOCUMENTS AND INSTRUMENTS NECESSARY OR CONVENIENT TO CARRY OUT THE SINGLE FAMILY MORTGAGE REVENUE BOND PROGRAM; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

WHEREAS, the Texas Department of Housing and Community Affairs (the "Department") has been duly created and organized pursuant to and in accordance with the provisions of Chapter 2306, Texas Government Code (the "Act"), as amended from time to time, for the purpose of providing a means of financing the costs of residential ownership, development and rehabilitation that will provide decent, safe and sanitary housing for individuals and families of low and very low income and families of moderate income (as described in the Act as determined by the Governing Board of the Department (the "Governing Board") from time to time) at prices they can afford; and

WHEREAS, the Act authorizes the Department: (a) to acquire, and to enter into advance commitments to acquire, mortgage loans (including participations therein) secured by mortgages on residential housing in the State of Texas (the "State"); (b) to issue its bonds, for the purpose of obtaining funds to make and acquire such mortgage loans or participations therein, to establish necessary reserve funds and to pay administrative and other costs incurred in connection with the issuance of such bonds and to enter into interest rate swap agreements related to such bonds; and (c) to pledge all or any part of the revenues, receipts or resources of the Department, including the revenues and receipts to be received by the Department from such mortgage loans or participations therein, and to mortgage, pledge or grant security interests in such mortgages, mortgage loans or other property of the Department, to secure the payment of the principal or redemption price of and interest on such bonds; and

WHEREAS, the Act further authorizes the Department to issue its revenue bonds for the purpose of refunding any bonds theretofore issued by the Department or the Texas Housing Agency, its predecessor (the "Agency"), under such terms, conditions and details as shall be determined by the Governing Board; and

WHEREAS, the Agency or the Department, as its successor, has, pursuant to and in accordance with the provisions of the Act, issued, sold and delivered or authorized the issuance, sale and delivery of prior series of its Single Family Mortgage Revenue Bonds pursuant to the Single Family Mortgage Revenue Bond Trust Indenture dated as of October 1, 1980 (as amended by supplemental indentures numbered First through Forty-First and any amendments thereto, collectively, the "Single Family Indenture") between the Department, as successor to the Agency, and J.P. Morgan Trust Company, National Association, as successor trustee (the "Trustee"), to implement the various phases of the Agency's (now the Department's) Single Family Mortgage Revenue Bond Program; and

WHEREAS, the Department has issued its Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A identified in Schedule I to this Resolution (the "Refunded Notes") in order to refund certain single family mortgage revenue bonds of the Department subject to redemption as a result of the receipt by the Department of prepayments on the mortgage loans securing such bonds; and

WHEREAS, Section 302 of the Single Family Indenture authorizes the issuance of additional Bonds for the purposes of acquiring Mortgage Loans or participations therein, payment of costs of issuance, funding of reserves, payments of certain Department expenses and refunding Bonds; and

WHEREAS, the Governing Board has determined to authorize the issuance of the Department's Single Family Mortgage Revenue Bonds, to be known as its Single Family Variable Rate Mortgage Revenue Refunding Bonds, 2005 Series A (the "Series 2005 Bonds") pursuant to the Single Family Indenture for the purposes of refunding (i) its Single Family Mortgage Revenue Bonds, 2004 Series F (the "Refunded Bonds") and (ii) the Refunded Notes, thereby providing funds to make and acquire qualifying mortgage loans (including participations therein through the purchase of mortgage-backed securities ("Mortgage Certificates") issued and guaranteed by Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") or Government National Mortgage Association ("Ginnie Mae")) (referred to herein as "Mortgage Loans"), to pay a portion of the costs of issuance and to fund capitalized interest; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a Forty-Second Supplemental Single Family Mortgage Revenue Bond Trust Indenture (the "Series Supplement") in substantially the form attached hereto relating to the Series 2005 Bonds; and

WHEREAS, in connection with the Mortgage Origination Agreement, the Governing Board desires to authorize the execution and delivery of a First Amendment to Program Supplement (the "Program Supplement") between the Department and certain mortgage lenders (the "Mortgage Lenders") participating in the Department's home loan purchase program designated as Bond Program No. 62A (the "Program") and the Program Guidelines (the "Program Guidelines") in substantially the forms attached hereto, setting forth the terms and conditions upon which Mortgage Loans will be purchased by the Department and the terms of such Mortgage Loans; and

WHEREAS, under the Program Guidelines, 100% of the funds available under the Program will be available to Mortgage Lenders participating in a controlled, first-come, first-served reservation system with approximately $17,600,000 of such funds reserved in the first year of the Program to finance Mortgage Loans to eligible borrowers in certain targeted areas; and

WHEREAS, the Governing Board has further determined that the Department should enter into one or more Bond Purchase Agreements relating to the sale of the Series 2005 Bonds (collectively, the "Bond Purchase Agreement") with Bear, Stearns & Co. Inc., as representative of the group of underwriters listed on Exhibit A to this Resolution (the "Underwriters"), and/or Fannie Mae setting forth certain terms and conditions upon which the Underwriters and/or Fannie Mae will purchase the Series 2005 Bonds from the Department and the Department will sell the Series 2005 Bonds to the Underwriters and/or Fannie Mae; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a Remarketing Agreement relating to the Series 2005 Bonds (the "Remarketing Agreement") with Bear, Stearns & Co. Inc., as remarketing agent (the "Remarketing Agent"), in substantially the form attached hereto setting forth the terms under which the Series 2005 Bonds will be remarketed from time to time; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a Standby Bond Purchase Agreement relating to the Series 2005 Bonds (the "Standby Bond Purchase Agreement") with DEPFA BANK plc, acting by and through its New York Branch (the "Liquidity Bank"), in substantially the form attached hereto setting forth the terms under which the Liquidity Bank will advance funds from time to time for the purchase of Series 2005 Bonds; and

WHEREAS, the Governing Board has determined that it may reduce its obligation to pay interest on the Series 2005 Bonds by issuing the Series 2005 Bonds as variable rate bonds and entering into an interest rate swap transaction (the "Swap Transaction") with respect to the Series 2005 Bonds, pursuant to which the

Department would agree to pay the swap provider a fixed interest rate (the "Fixed Rate"), and the swap provider would agree to pay the Department a variable interest rate based upon a formulation approved by an authorized representative of the Department named in this resolution (the "Floating Rate Option"), in each case on an initial notional principal amount equal to the anticipated principal amount of the Series 2005 Bonds that will be reduced according to the anticipated amortization schedule of the Series 2005 Bonds; and

WHEREAS, the expected close correlation between the Floating Rate Option and the interest rate payable by the Department on the Series 2005 Bonds, when combined with the Fixed Rate payable by the Department, will result in the Department having a virtual "synthetic" fixed rate obligation with respect to the Series 2005 Bonds; and

WHEREAS, the Governing Board has determined to enter into the Swap Transaction with Bear Stearns Financial Products, Inc. or such other swap counterparty approved by an authorized representative of the Department named in this resolution (in any event, the "Swap Counterparty"); and

WHEREAS, the Governing Board desires to authorize the execution of an ISDA Master Agreement, Schedule and Credit Support Annex (collectively, the "Swap Agreement") in substantially the form attached hereto setting forth the general terms under which the Department will enter into interest rate swap transactions with the Swap Counterparty; and

WHEREAS, the Governing Board desires to grant a subordinate lien on the Trust Estate (as defined in the Single Family Indenture) to the Swap Counterparty as set forth in the Series Supplement; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a First Amendment to Program Administration and Servicing Agreement (the "Servicing Agreement") in substantially the form attached hereto setting forth the terms under which Countrywide Home Loans, Inc., as master servicer (the "Servicer"), will review, acquire, package and service the Mortgage Loans and sell the Mortgage Certificates to the Trustee on behalf of the Department; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a Funding Agreement (the "Funding Agreement") in substantially the form attached hereto setting forth the terms under which the Servicer will advance funds to the Department to be used to pay a portion of the costs of issuance of the Series 2005 Bonds; and

WHEREAS, the Governing Board has determined to authorize the execution and delivery of a 2005 Supplement to Depository Agreement relating to the Series 2005 Bonds (the "Depository Agreement"), by and among the Department, the Trustee and the Texas Treasury Safekeeping Trust Company to provide for the holding, administering and investing of certain moneys and securities relating to the Series 2005 Bonds; and

WHEREAS, the Governing Board has been presented with a draft of an official statement to be used in the public offering of the Series 2005 Bonds, (the "Official Statement") and the Governing Board of the Department desires to approve such Official Statement in substantially the form attached hereto; and

WHEREAS, the Governing Board desires to authorize the execution and delivery of a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") in substantially the form attached hereto between the Department and the Trustee; and

WHEREAS, the Governing Board of the Department has determined to authorize the purchase of a municipal bond insurance policy (collectively, the "Bond Insurance"), if needed, pursuant to which the timely payment of principal of and interest on the Series 2005 Bonds when due will be secured; and

WHEREAS, the Governing Board of the Department has determined to authorize the purchase of a swap insurance policy (the "Swap Insurance"), if needed, pursuant to which the timely payment when due of the Department's obligations other than for termination payments under the Swap Agreement will be secured; and

WHEREAS, the Governing Board has determined to authorize the investment of the proceeds of the Series 2005 Bonds and any other amounts held under the Single Family Indenture with respect to the Series 2005 Bonds in one or more guaranteed investment contracts (the "GICs") on or after the closing date or such other investments as the authorized representatives named herein may approve; and

WHEREAS, the Governing Board desires to approve the use of an amount not to exceed $650,000 of Department funds to pay a portion of the costs of issuance of the Series 2005 Bonds or to fund capitalized interest; and

WHEREAS, the Governing Board desires to authorize the use of up to $4,000,000 of 0% loan funds made available through the issuance of the Department's Single Family Mortgage Revenue Bonds, 2004 Series C, Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D and Single Family Mortgage Revenue Refunding Bonds, 2004 Series E (collectively, the "2004 Series C/D/E Bonds") in connection with the Program; and

WHEREAS, in accordance with Section 2306.142(m) of the Act, the Governing Board has determined that the issuance of bonds to finance Mortgage Loans to meet the credit needs of borrowers in underserved economic and geographic submarkets in the State is unfeasible or would damage the financial condition of the Department and desires to authorize the authorized representatives of the Department named in this Resolution to seek from the Texas Bond Review Board a waiver of the requirements of Section 2306.142(l) of the Act; and

WHEREAS, the Governing Board hereby determines that the purpose for which the Department may issue the Series 2005 Bonds constitutes "public works" as contemplated by Chapter 1371, Texas Government Code, as amended; and

WHEREAS, the Governing Board desires to approve the forms of the Series Supplement, the Bond Purchase Agreement, the Remarketing Agreement, the Standby Bond Purchase Agreement, the Official Statement, the Swap Agreement, the Depository Agreement, the Program Supplement, the Servicing Agreement, the Funding Agreement, the Continuing Disclosure Agreement and the Program Guidelines, in order to find the form and substance of such documents to be satisfactory and proper and the recitals contained therein to be true, correct and complete; and has determined to implement the Program in accordance with such documents by authorizing the issuance of the Series 2005 Bonds, the execution and delivery of such documents and the taking of such other actions as may be necessary or convenient to carry out the Program; NOW, THEREFORE,

BE IT RESOLVED BY THE GOVERNING BOARD OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS:

## ARTICLE I
## ISSUANCE OF BONDS; APPROVAL OF DOCUMENTS

<u>Section 1.1--Issuance, Execution and Delivery of the Series 2005 Bonds</u>. That the issuance of the Series 2005 Bonds is hereby authorized, all under and in accordance with the Single Family Indenture, and that, upon execution and delivery of the Series Supplement, the authorized representatives named herein are each hereby authorized to execute, attest and affix the Department's seal to the Series 2005 Bonds and to deliver the Series 2005 Bonds to the Attorney General of Texas (the "Attorney General") for approval, the Comptroller of Public Accounts of the State of Texas (the "Comptroller") for registration and the Trustee for authentication, and thereafter to deliver the Series 2005 Bonds to or upon the order of the Underwriters and/or Fannie Mae pursuant to the Bond Purchase Agreement.

Section 1.2--Authority to Approve Form of Documents, Determine Interest Rates, Principal Amounts, Maturities and Prices. That the Chair of the Governing Board or the Executive Director of the Department (i) are hereby authorized and empowered to determine whether the Series 2005 Bonds shall be issued on a taxable or a tax-exempt basis and to determine whether the Series 2005 Bonds will be issued as new money bonds, refunding bonds, or governmental purpose bonds (or any combination thereof) and (ii) are hereby authorized and empowered, in accordance with Chapter 1371, Texas Government Code, as amended, to fix and determine the interest rates (which will be determined from time to time by the Remarketing Agent), principal amounts and maturities of, and the prices at which the Department will sell to the Underwriters and/or Fannie Mae, the Series 2005 Bonds, all of which determinations shall be conclusively evidenced by the execution and delivery by the Chair of the Governing Board or the Executive Director of the Department of the Series Supplement, the Depository Agreement, the Bond Purchase Agreement and the Official Statement; provided, however, that: (a) the aggregate principal amount of the Series 2005 Bonds shall not exceed $100,000,000; (b) the final maturity of the Series 2005 Bonds shall occur not later than September 1, 2037; (c) the price at which the Series 2005 Bonds are sold to the Underwriters and/or Fannie Mae shall not exceed 100% of the principal amount thereof; and (d) the Underwriters' fee shall not exceed the amount approved by the Texas Bond Review Board. In no event shall the interest rate on the Series 2005 Bonds (including any default interest rate) exceed the maximum interest rate permitted by applicable law.

Section 1.3--Authorization of Swap Transaction. That the authorized representatives of the Department named in this resolution are hereby severally authorized and directed to negotiate and enter into a confirmation (the "Confirmation") of the Swap Transaction with the Swap Counterparty, provided that (i) the initial notional amount of the Swap Transaction is equal to the anticipated initial principal amount of the Series 2005 Bonds, (ii) the Swap Transaction shall terminate on the anticipated final maturity date of the Series 2005 Bonds, (iii) the Fixed Rate may not exceed 5.50% per annum, and (iv) if the Series 2005 Bonds are not issued by May 20, 2005, the Swap Transaction shall terminate automatically pursuant to the terms of the Swap Agreement, and such authorized representatives are hereby severally directed and authorized, in the name and on behalf of the Department to execute and deliver, and, if requested, affix the seal of the Department to, the Confirmation.

Section 1.4--Approval, Execution and Delivery of the Series Supplement. That the form and substance of the Series Supplement are hereby approved, and that the authorized representatives of the Department named in this Resolution each are hereby authorized to execute, attest and affix the Department's seal to the Series Supplement, and to deliver the Series Supplement to the Trustee.

Section 1.5--Approval, Execution and Delivery of the Bond Purchase Agreement. That the sale of the Series 2005 Bonds to the Underwriters and/or Fannie Mae pursuant to the Bond Purchase Agreement is hereby approved and that the authorized representatives of the Department named in this Resolution are each hereby authorized to execute, attest and affix the Department's seal to the Bond Purchase Agreement and to deliver the Bond Purchase Agreement to the Underwriters and/or Fannie Mae.

Section 1.6--Approval, Execution and Delivery of the Remarketing Agreement. That the form and substance of the Remarketing Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are each hereby authorized to execute, attest and affix the Department's seal to the Remarketing Agreement and to deliver the Remarketing Agreement to the Remarketing Agent.

Section 1.7--Approval, Execution and Delivery of the Standby Bond Purchase Agreement. That the form and substance of the Standby Bond Purchase Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are each hereby authorized to execute, attest and affix the Department's seal to the Standby Bond Purchase Agreement and to deliver the Standby Bond Purchase Agreement to the Liquidity Bank.

Section 1.8--Official Statement. That the Official Statement relating to the Series 2005 Bonds, in substantially the form presented to the Governing Board, is hereby approved; that prior to the execution of the Bond Purchase Agreement, the authorized representatives of the Department named in this Resolution, acting for and on behalf of the Governing Board, are hereby authorized and directed to finalize the Official Statement for distribution by the Underwriters to prospective purchasers of the Series 2005 Bonds, with such changes therein as the authorized representatives of the Department named in this Resolution may approve in order to permit such an authorized representative, for and on behalf of the Governing Board, to deem the Official Statement relating to the Series 2005 Bonds final as of its date, except for such omissions as are permitted by Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), such approval to be conclusively evidenced by the distribution of such Official Statement; and that within seven business days after the execution of the Bond Purchase Agreement, the authorized representatives of the Department named in this Resolution, acting for and on behalf of the Governing Board, shall cause the final Official Statement, in substantially the form of the Official Statement attached hereto, with such changes as such an authorized representative may approve, such approval to be conclusively evidenced by such authorized representative's execution thereof, to be provided to the Underwriters in compliance with Rule 15c2-12.

Section 1.9--Approval of Swap Agreement. That the form and substance of the Swap Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Swap Agreement and to deliver the Swap Agreement to the Swap Counterparty approved by such authorized representative.

Section 1.10--Approval of Subordinate Lien. That the Department hereby authorizes the granting of a subordinate lien on the Trust Estate to the Swap Counterparty.

Section 1.11--Approval of Program Guidelines. That the form and substance of the Program Guidelines are hereby authorized and approved.

Section 1.12--Approval of Program Supplement. That the form and substance of the Program Supplement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Program Supplement and to deliver the Program Supplement to the Mortgage Lenders.

Section 1.13--Approval of Servicing Agreement. That the form and substance of the Servicing Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Servicing Agreement and to deliver the Servicing Agreement to the Trustee and the Servicer.

Section 1.14--Approval of Funding Agreement. That the form and substance of the Funding Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Funding Agreement and to deliver the Funding Agreement to the Servicer and the Trustee.

Section 1.15--Approval of Depository Agreement. That the form and substance of the Depository Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Depository Agreement and to deliver the Depository Agreement to the Trustee and to the Texas Treasury Safekeeping Trust Company.

Section 1.16--Approval of Continuing Disclosure Agreement. That the form and substance of the Continuing Disclosure Agreement are hereby authorized and approved and that the authorized representatives of the Department named in this Resolution are hereby authorized to execute, attest and affix the Department's seal to the Continuing Disclosure Agreement and to deliver the Continuing Disclosure Agreement to the Trustee.

Section 1.17--Approval of Purchase of Bond Insurance. That the purchase of the Bond Insurance is hereby approved and that the Executive Director and the Chair of the Governing Board of the Department are hereby authorized to determine whether to obtain such Bond Insurance based on interest rate savings to the Department in comparison with the costs of such Bond Insurance and, if appropriate, complete arrangements for the purchase of the Bond Insurance and to deliver the Bond Insurance policies or the commitments therefor to the Trustee.

Section 1.18--Approval of Purchase of Swap Insurance. That the purchase of the Swap Insurance is hereby approved and that the Executive Director and the Chair of the Governing Board of the Department are hereby authorized to determine whether to obtain such Swap Insurance based on interest rate savings to the Department in comparison with the costs of such Swap Insurance and, if appropriate, complete arrangements for the purchase of the Swap Insurance and to deliver the Swap Insurance policy or the commitment therefor to the Swap Counterparty.

Section 1.19--Approval of Investment in GICs. That the investment of funds held under the Single Family Indenture in connection with the Series 2005 Bonds in GICs is hereby approved and that the Executive Director or the Director of Bond Finance of the Department is hereby authorized to complete arrangements for the investment in GICs or such other investments as the authorized representatives named herein may approve.

Section 1.20--Approval of GIC Broker. That the Executive Director or the Director of Bond Finance and the Chair of the Governing Board are hereby authorized to select a GIC Broker, if any.

Section 1.21--Execution and Delivery of Other Documents. That the authorized representatives of the Department named in this Resolution are each hereby authorized to execute, attest, affix the Department's seal to and deliver such other agreements, advance commitment agreements, assignments, bonds, certificates, contracts, documents, instruments, releases, financing statements, letters of instruction, notices of acceptance, written requests and other papers, whether or not mentioned herein, as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution, the Single Family Indenture, the Series Supplement, the Bond Purchase Agreement, the Swap Transaction, the Depository Agreement, the Remarketing Agreement, the Standby Bond Purchase Agreement and the Continuing Disclosure Agreement.

Section 1.22--Power to Revise Form of Documents. That, notwithstanding any other provision of this Resolution, the authorized representatives of the Department named in this Resolution are each hereby authorized to make or approve such revisions in the form of the documents attached hereto as exhibits as, in the judgment of such authorized representative, and in the opinion of Vinson & Elkins L.L.P., Bond Counsel to the Department, may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution, such approval to be evidenced by the execution of such documents by the authorized representatives of the Department named in this Resolution.

Section 1.23--Exhibits Incorporated Herein. That all of the terms and provisions of each of the documents listed below as an exhibit shall be and are hereby incorporated into and made a part of this Resolution for all purposes:

| | | |
|---|---|---|
| Exhibit B | - | Series Supplement |
| Exhibit C | - | Bond Purchase Agreement |
| Exhibit D | - | Remarketing Agreement |
| Exhibit E | - | Standby Bond Purchase Agreement |
| Exhibit F | - | Official Statement |
| Exhibit G | - | Swap Agreement |
| Exhibit H | - | Program Guidelines |
| Exhibit I | - | Program Supplement |
| Exhibit J | - | Servicing Agreement |
| Exhibit K | - | Funding Agreement |

| | | |
|---|---|---|
| Exhibit L | - | Depository Agreement |
| Exhibit M | - | Continuing Disclosure Agreement |

Section 1.24--Authorized Representatives. That the following persons are each hereby named as authorized representatives of the Department for purposes of executing, attesting, affixing the Department's seal to, and delivering the documents and instruments and taking the other actions referred to in this Article I: Chair and Vice Chairman of the Governing Board, Executive Director of the Department, Deputy Executive Director of Housing Operations of the Department, Deputy Executive Director of Programs of the Department, Chief of Agency Administration of the Department, Director of Financial Administration of the Department, Director of Bond Finance of the Department and the Secretary of the Governing Board.

Section 1.25--Department Contribution. That the contribution of Department funds in an amount not to exceed $650,000 to pay a portion of the costs of issuance of the Series 2005 Bonds or to fund capitalized interest is hereby authorized.

Section 1.26--Use of 0% Loan Funds. That the use of up to $4,000,000 of 0% loan funds made available through the issuance of the 2004 Series C/D/E Bonds in connection with the Program is hereby authorized.

## ARTICLE II

## APPROVAL AND RATIFICATION OF CERTAIN ACTIONS

Section 2.1--Submission to the Attorney General of Texas. That the Governing Board of the Department hereby approves the submission by the Department's Bond Counsel to the Attorney General of Texas, for his approval, of a transcript of the legal proceedings relating to the issuance, sale and delivery of the Series 2005 Bonds and the Swap Transaction.

Section 2.2--Engagement of Other Professionals. That the Executive Director or the Director of Bond Finance is authorized to engage an accounting firm to perform such functions, audits, yield calculations and subsequent investigations as necessary or appropriate to comply with the Bond Purchase Agreement and the requirements of the purchasers of the Series 2005 Bonds and Bond Counsel to the Department, provided such engagement is done in accordance with applicable State law.

Section 2.3--Certification of the Minutes and Records. That the Secretary and any Assistant Secretary of the Governing Board of the Department are hereby authorized to certify and authenticate minutes and other records on behalf of the Department for the Program, the issuance of the Series 2005 Bonds and all other Department activities.

Section 2.4--Approval of Requests for Rating from Rating Agencies. That the Executive Director, the Director of Bond Finance and the Department's consultants are authorized to seek ratings from Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

Section 2.5--Ratifying Other Actions. That all other actions taken or to be taken by the Executive Director and the Department's staff in connection with the Program and the issuance of the Series 2005 Bonds are hereby ratified and confirmed.

Section 2.6--Authority to Invest Funds. That the Executive Director or the Director of Bond Finance is hereby authorized to undertake all appropriate actions required under the Single Family Indenture and the Depository Agreement and to provide for investment and reinvestment of all funds held under the Single Family Indenture.

Section 2.7--Redemption of Refunded Bonds. That the Executive Director or the Director of Bond Finance is hereby authorized and directed: (i) to instruct the trustee for the Refunded Bonds to redeem the outstanding Refunded Bonds with the proceeds of the Series 2005 Bonds not later than 90 days after the date of issuance of the Series 2005 Bonds and (ii) to take all other actions necessary to cause such redemption to occur.

Section 2.8--Redemption of Refunded Notes. That the Executive Director or the Director of Bond Finance is authorized and directed (i) to instruct the Department staff and the issuing and paying agent for the Refunded Notes to redeem the outstanding Refunded Notes and (ii) to take all other actions necessary to cause such redemption to occur.

Section 2.9--Eligibility for Refunding Under Commercial Paper Program. That Series 2005 Bonds qualify as "Refunding Bonds" for purposes of the Department's Amended and Restated Commercial Paper Resolution adopted on June 10, 1996, as amended from time to time.

Section 2.10--Waiver from Texas Bond Review Board. That the Governing Board of the Department ratifies actions taken by the authorized representatives of the Department named in this Resolution seeking from the Texas Bond Review Board a waiver of the requirements of Section 2306.142(l) of the Act in accordance with Section 2306.142(m) of the Act.

ARTICLE III

CERTAIN FINDINGS AND DETERMINATIONS

Section 3.1--Determination of Interest Rate. That the Governing Board of the Department hereby declares that the Department shall fix and determine the interest rates on the Mortgage Loans for the Program at the time and in accordance with the procedures set forth in the Single Family Indenture and the Program Guidelines and that such rates shall be established at levels such that the Mortgage Loans for the Program will produce, together with other available funds, the amounts required to pay for the Department's costs of operation with respect to the Program and debt service on the Series 2005 Bonds, and enable the Department to meet its covenants with and responsibilities to the holders of the bonds issued under the Single Family Indenture without adversely affecting the exclusion from gross income for federal income tax purposes of interest on any of such bonds.

Section 3.2--Bonds to Finance Mortgage Loans in Underserved Economic and Geographic Markets. That, in accordance with Section 2306.142(m) of the Act, the Governing Board hereby finds that the issuance of bonds to finance Mortgage Loans to meet the credit needs of borrowers in underserved economic and geographic submarkets in the State is unfeasible or would damage the financial condition of the Department.

Section 3.3--Purpose of Series 2005 Bonds. The Governing Board hereby determines that the purpose for which the Department may issue the Series 2005 Bonds constitutes "public works" as contemplated by Chapter 1371, Texas Government Code, as amended.

ARTICLE IV

GENERAL PROVISIONS

Section 4.1--Limited Obligations. That the Series 2005 Bonds and the interest thereon, and the obligations of the Department to the Swap Counterparty, shall be limited obligations of the Department payable solely from the trust estate pledged under the Single Family Indenture to secure payment of the bonds issued under the Single Family Indenture and payment of the Department's costs and expenses for the Program thereunder and under the Single Family Indenture, and the obligations of the Department to the Swap

Counterparty, and under no circumstances shall the Series 2005 Bonds, or the obligations of the Department to the Swap Counterparty, be payable from any other revenues, funds, assets or income of the Department.

Section 4.2--Non-Governmental Obligations. That the Series 2005 Bonds, and the obligations of the Department to the Swap Counterparty, shall not be and do not create or constitute in any way an obligation, a debt or a liability of the State or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State.

Section 4.3--Purposes of Resolution. That the Governing Board of the Department has expressly determined and hereby confirms that the issuance of the Series 2005 Bonds and the implementation of the Program contemplated by this Resolution accomplish a valid public purpose of the Department by providing for the housing needs of persons and families of low, very low and extremely low income and families of moderate income in the State.

Section 4.4--Notice of Meeting. That written notice of the date, hour and place of the meeting of the Governing Board at which this Resolution was considered and of the subject of this Resolution was furnished to the Secretary of State and posted on the Internet for at least seven (7) days preceding the convening of such meeting; that during regular office hours a computer terminal located in a place convenient to the public in the office of the Secretary of State was provided such that the general public could view such posting; that such meeting was open to the public as required by law at all times during which this Resolution and the subject matter hereof was discussed, considered and formally acted upon, all as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended; and that written notice of the date, hour and place of the meeting of the Board and of the subject of this Resolution was published in the Texas Register at least seven (7) days preceding the convening of such meeting, as required by the Administrative Procedure and Texas Register Act, Chapters 2001 and 2002, Texas Government Code, as amended. Additionally, all of the materials in the possession of the Department relevant to the subject of this Resolution were sent to interested persons and organizations, posted on the Department's website, made available in hard-copy at the Department, and filed with the Secretary of State for publication by reference in the Texas Register not later than seven (7) days before the meeting of the Governing Board as required by Section 2306.032, Texas Government Code, as amended.

Section 4.5--Effective Date. That this Resolution shall be in full force and effect from and upon its adoption.

*[Signature page follows.]*

PASSED AND APPROVED this 7th day of April, 2005.

________________________________________
Chair, Governing Board

ATTEST:

____________________________________
Secretary

(SEAL)

SCHEDULE I

Refunded Notes

**Single-Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A**

| New CP Issue Date: | | | 8/21/2003 | | | | ***42 Month Rule*** | ***10 Year Rule*** | ***32 Year Rule*** |
|---|---|---|---|---|---|---|---|---|---|
| *Bond Series* | *Refunded Bond Series* | *Tax Status* | *Amount* | *Original Bond Issue Date* | *Original Refunded Bond Issue Date (Earliest)* | *CP Cusip #* | | | |
| SF 1995A-1 | | AMT | $ 4,782,000.00 | 11/16/1995 | N/A | 88274WX99 | 5/16/1999 | 11/16/2005 | 11/16/2027 |
| Total | | | $ 4,782,000.00 | | | | | | |

| New CP Issue Date: | | | 12/10/2003 | | | | ***42 Month Rule*** | ***10 Year Rule*** | ***32 Year Rule*** |
|---|---|---|---|---|---|---|---|---|---|
| *Bond Series* | *Refunded Bond Series* | *Tax Status* | *Amount* | *Original Bond Issue Date* | *Original Refunded Bond Issue Date (Earliest)* | *CP Cusip #* | | | |
| RMRB 1998A | | AMT | $ 4,810,000.00 | 12/3/1998 | N/A | 88274WX40 | 6/3/2002 | 12/3/2008 | 12/3/2030 |
| RMRB 1999B-1 | | AMT | $ 2,408,000.00 | 12/2/1999 | N/A | 88274WX40 | 6/2/2003 | 12/2/2009 | 12/2/2031 |
| Total | | | $ 7,218,000.00 | | | | | | |

Total Series A $ 12,000,000.00

EXHIBIT A

List of Underwriters

Senior Manager

Bear, Stearns & Co. Inc.

Co-Managers

Banc of America Securities LLC
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Keegan & Company, Inc.

**EXECUTIVE SESSION**

If permitted by law, the Board may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

**REPORT ITEMS**

Executive Directors Report

1. Department Outreach Activities – Meetings, Trainings, Conferences, Workshops for March, 2005
2. Freddie Mac Affordable Housing Advisory Committee
3. Quarterly Report on Transfers
4. Update on Legislation Impacting TDHCA
5. Report on Marketing for the Single Family Bond Program
6. Texas Clean Air Challenge – Charter Partner
7. Section 8 HCV Eligibility Certification Exam/HCV Rent Calculation Certification Exam
8. Faith-based and Community Initiatives

**ADJOURN**