TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

PROGRAMS COMMITTEE MEETING

4:00 p.m.
Wednesday,
May 12, 2004

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

KENT CONINE, Chairman
VIDAL GONZALEZ

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
SARAH ANDERSON, Director of the Housing Center
SUZANNE PHILLIPS, Director of PMC
BILL DALLY, Chief of Agency Administration
ERIC PIKE, Director of Single Family Finance Production
BROOKE BOSTON, Director of Multifamily Finance Production

ALSO PRESENT:

DONNA CHATHAM, Executive Director, Association of Rural Communities in Texas

A G E N D A

P R O C E E D I N G S

CHAIRMAN CONINE: Good afternoon. This is the programs committee meeting of the Texas Department of Housing and Community Affairs on Wednesday, May 12, a little bit after 4:00. I'll call the meeting to order and call the roll. Kent Conine is here as chair.

Beth Anderson?

(No response.)

CHAIRMAN CONINE: Not here. Vidal Gonzalez?

MR. GONZALEZ: Here.

CHAIRMAN CONINE: We've got two present. That's a quorum. We can do some business.

Okay. Any public comment from anyone? If you wish to do public comment, fill out a witness affirmation form and get it to somebody up here in the front. We've got a little bit of public comment coming, it looks like. Would you rather wait or do it now?

MS. CHATHAM: Whatever's easy for you.

CHAIRMAN CONINE: Well, it's easy for me to do it now.

MS. CHATHAM: Okay.

CHAIRMAN CONINE: Come on up.

MS. CHATHAM: All right. Do you want me to scoot out afterwards?

CHAIRMAN CONINE: Yes, you get a pass.

(Pause.)

MS. CHATHAM: For the record, I'm Donna Chatham with the Association of Rural Communities in Texas. We wanted to come in response to Beth Anderson's request that we come and give a little bit of input on the HOME programs. I sure will, but as always, I've got to go back to my board, because this isn't staff driven. This is definitely board driven by the membership.

I talked to my board a couple weeks ago, when we had a meeting right before our annual meeting. They're very excited that you guys are obviously, as always, being very proactive and wanting input from everybody. This is what we thought was maybe the best, most comprehensive way that we could help you guys.

We're going to do a survey out to our now over 280 citizen counties to help them explain the different programs that you all have in HOME. Some of them are very active for the HOME program. Some are not. So we thought we'd very succinctly explain the HOME program to them and ask them which ones are the most -- highest level priorities and help them prioritize it for us.

So we'll come back to you with that survey report. That's number one.

Number two, they also wanted to see if you guys could help us, too -- I'm sure you can; you always are very disclosing -- about trying to determine need out there. We've looked back at the census data and, you know, TDHCA knows far better than I do, that that data is just very hard to find to show single family, multifamily needs out in the rural areas, or even the urban areas.

So what we're thinking about is first of all to do a survey that would help determine that. Secondly, perhaps, the subscription rate to the program, what's the subscription rate to the home buyer's assistance program, the owner-occupied to the base rental assistance, and then also to the set-aside program. So that way, you as an agency, and us as an association, the public can see what is the subscription rate out there, what's the current demand.

And then, I think with one of the TDHCA staff, I think with Eric Pike in public testimony, one time suggested, in the last month or so, and I think it's a great idea -- and one more time today, the way TDHCA operates is more than -- is maybe forming a working group. We'd love to be able to help you form that working group, maybe over the summertime. We'd be more than happy to help you bring in local officials, city and county perspectives from different sized cities and counties, rural perspectives. Obviously, I'm sure you'd also want the disability group in there also because they're the ones that probably use the TBRA.

We could sit down and look at that as a group, together, with all this extra data that we're bringing in and that you guys are doing. Perhaps, also quite frankly, because ORCA has done away, or suggested to do away, with their housing programs, we wanted to develop a stronger, bigger based coalition to come up with a rural affordable housing policy anyway, from our perspective. We wanted to bring everybody in. We definitely wanted TDHCA at the table, too. We're also going to invite ORCA and TEA also, but primarily this group in particular could look at the HOME program. And then, we probably would expand it out a little bit further to talk about other issues also.

As we talked about it to the board, with my board about the different aspects of the HOME program, there is a little bit of concern about the growing amount of set-aside, and you all are the pros here, but meeting the Rider 3. It's my understanding -- and this is very limited knowledge -- your Rider 3 is primarily met out of the HOME owner occupied rehab. As the set-asides continue, we're just concerned for you guys -- and you all already know it, I'm sure -- about being able to meet Rider 3.

Also, it just so happens on the outside looking in -- we haven't done our survey -- we think that owner occupied rehab or reconstruct is probably the number one demand. I do not know about how much over the years that has been allocated, if it's gone up and down or what it is. So maybe we can look at that also.

It's all about need and demand and capacity out there. I personally do not, and I couldn't find -- this is what was a little bit frustrating to me as a former city planner -- I couldn't find any data showing the statistical need of multifamily versus single family in the census data. So we were trying to figure out a good substantive way that we could come up with, from a business perspective, to give you guys an idea of what the cities and counties might need from a rural perspective.

So that's what we're here for. Depending on what you guys feel about it, we'd love to partner with you.

CHAIRMAN CONINE: Okay. Any questions for Ms. Chatham?

(No response.)

CHAIRMAN CONINE: Can you enlighten me a little bit on assessing the need? I know, I guess we all struggle with that. Do you guys interact at all with the county commissioners group --

MS. CHATHAM: Yes, we sure do.

CHAIRMAN CONINE: -- and how they may or may not play a role in assessing need out there?

MS. CHATHAM: Sure do. Our association is made up of both cities and counties. Let's see. We've got 85 counties in our membership of the, what, 200 that are rural and growing. So primarily, as much as we understand it, it's more consultant-driven, educating the county judges about what programs are available.

That's what ARCIT is all about, to take it beyond the consultant level and help them understand the needs out there. We're very thankful there are consultants out there servicing them. We also want them to have even more information if the consultants haven't got to that county. So it's basically, as much as we understand at this point, driven by what they know of the programs that are available.

CHAIRMAN CONINE: Ms. Carrington, I guess she offered up a suggestion of having a workshop or something this summer, especially after she gets her survey back from her membership. Is that something we think we could facilitate?

MS. CARRINGTON: Yes.

CHAIRMAN CONINE: Okay. You mentioned that ORCA had gotten rid of their housing program. How is that situation coming along?

MS. CHATHAM: Well, at the Kerrville meeting, they put it in their CDBG action plan and they passed it with full recommendation from the board. It was a unanimous decision to do away with the statewide set-asides, or the housing infrastructure fund and the housing rehab fund. The logic that was shared in public testimony --

CHAIRMAN CONINE: Do you mind refreshing my memory on what the set-asides were in the CDBG?

MS. CHATHAM: Yes, sir. Combined together, they're about $4.5 million. The housing infrastructure fund is primarily for developers wanting to go out and develop an area. They need infrastructure to know if there was somebody there. And then, housing rehab was the same thing, very similar to what's in the HOME program, too.

CHAIRMAN CONINE: What percentage was that of the total, would you guess?

MS. CHATHAM: Oh, gee, it was 4 million of, what --

CHAIRMAN CONINE: You don't have to guess.

MS. CHATHAM: -- 86 million or something.

CHAIRMAN CONINE: Okay, so 5 percent.

MS. CHATHAM: There you go. I don't have a calculator in front of me.

So their logic in sharing was that -- I'm trying to be succinct -- about two years ago they wanted to take 8 percent off the top of CDBG funds and put it aside in economic development. We said, Whoa, tell us what it's for. They never described it. We kept on saying water-sewer is our main priority. They said, Okay, and they backed away.

Now, they're saying the same basically, but ARCIT told us, and other local officials said, water-sewer is our main priority. So since it is, we're going to do away with housing rehab. Now, we've gone, Whoa, yes, we agree, it's overall priority, but there still are some cities and counties out there.

What you do when you do away with the statewide set-aside programs, the housing rehab, when the regional review committee scores them, it gives the majority of those cities and counties sitting on the regional review committee, set water-sewers as their priority, let's say

20 percent of those cities and counties that want housing rehab or infrastructure, they'll never be scored enough to get any funding. That's what we're concerned about.

They did away with it under the logic of stating publicly that they wanted to give more of the regional control. That's the reason they did it, because they said water-sewer was a priority. So that's why they're doing away with it.

Now, if it's up to the region, the region can still score, if they want to, the housing, but history has shown that it probably won't happen in the majority of those regions.

CHAIRMAN CONINE: Are they broken down into 13 regions like we are?

MS. CHATHAM: Yes, sir.

CHAIRMAN CONINE: Who's doing the scoring for the regions?

MS. CHATHAM: The regional review committee. And then it goes on to a state review committee. That was set up by the governor -- Ms. Carrington, you probably know that better than I do -- many, many years ago when CDBG came down from HUD to the state. And then the state decided to administer it. And then the governor came in and said, this is the way you will score that.

The agency also has some points they come in and score on top of that, but it's primarily driven through the regional review committee and the state review committee. And so they've kind of taken their hands off to have any type of a set-aside for statewide housing programs.

For your information, too, I just got through sitting and talking with the IGR staff, just a few minutes ago. We are taking it to the next level. We've already shared it with them. We're now writing letters to the government, like government senators, IGR oversight and the ag committee, that they're the legislative oversight in the House and in the Senate. We're sharing our concerns.

Especially because they've done away, even at 4 million -- but as your staff shared back in the 77th, I think, when I happened to be working with Chairman Carter, out of all the money that you guys put into the state, I think you meet 1 percent of affordable housing needs. So $4 million is still $4 million. They're doing away with that and that's why we're much more concerned about giving you our opinion about the HOME program.

CHAIRMAN CONINE: Well, that then begs the question. If we're only doing 1 percent of the "need," then why are we having difficulty finding out what the real need is? Or are we having difficulty?

MS. CHATHAM: One more time, I'm talking about showing it statistically from a census viewpoint.

CHAIRMAN CONINE: Okay.

MS. CHATHAM: I think, as much as I -- one more time, as a city planner, I want to show it from a statistical viewpoint. The data is just not there. So what I'm trying to think of it as substantively and quantifiably as you can. Perhaps it's through the survey that we're going to do.

I think also, Ms. Anderson -- I know, she does -- she does a community needs survey. Is it every other year, Ms. Carrington?

MS. CARRINGTON: Yes.

MS. CHATHAM: That would be good also. And then the subscription rate, I think definitely would show demand. If it's 3 to 1, or 4 to 1, and what your different programs break out, and how did that --

MS. CARRINGTON: We had for this round of HOME funding, for our '04 money, we had 120 million in requests --

VOICE: 101.

MS. CARRINGTON: -- 101 million in requests for how much --

VOICE: Twenty.

MS. CARRINGTON: -- 20-some-odd we're allocating, 22 million. Now, that's on the NOFA that's out now, out of single family. That doesn't include the multifamily part that we discussed, but that was like 5 to 1 oversubscribed.

MS. CHATHAM: Right.

MS. CARRINGTON: At least over applied for. Obviously, some of those will be determined to not be eligible --

MS. CHATHAM: Right.

MS. CARRINGTON: -- but it's actually more applications, I think, than what we had last year when we had a double funding cycle or about the same number of applications last year when we had a double funding cycle.

MS. CHATHAM: Also, to clarify one quick point -- thank you, Ruth -- for me to make sure I'm clear too. That's the CDBG action plan that was approved to go out for public comment is now going out for public comment now. I think it has to be back to HUD by July or August. So when it comes back, then the board has to approve it again. So there's one more chance for them to change that action plan. We'll see.

CHAIRMAN CONINE: The reason I was asking those questions is because in our agenda tomorrow, we've got a mutual agreement with ORCA that we're considering. I was just curious. It sounds to me like they're taking away something over here and getting something over here. I'm just curious how that's working since we're not involved in that and you were. I appreciate you clarifying that.

MS. CHATHAM: You bet. Also, Chairman Waters, who chaired the subcommittee, shared in public testimony in Kerrville, he said, you know, TDHCA has all that housing money, and they have all the housing money, we're just here for water-sewer. We shared that as public testimony. Also, Mayor Betty Reinbeck, who is the chair of the state review committee, also shared her deep concerns about doing away with the affordable housing program, on some other type of testimony.

At the time, the motion was to mandate the regions to have 8 percents set-aside for affordable housing. Then it came back, in public record, that Chairman Waters then took away that mandate, and said, you know what, I don't even want that mandate. I'm just going to let the regions do what they choose.

CHAIRMAN CONINE: Any other questions of Ms. Chatham?

(No response.)

CHAIRMAN CONINE: Again, thank you for coming. We appreciate it.

MS. CHATHAM: You bet.

CHAIRMAN CONINE: Any other public comment?

(No response.)

CHAIRMAN CONINE: All right. We will close the public comment period.

Item number 1 is the presentation, discussion, and possible approval of the minutes of our last Program Committee meeting on April 8. Do I hear a motion?

MR. GONZALEZ: So moved with one correction.

CHAIRMAN CONINE: Okay.

MR. GONZALEZ: That was where Elizabeth Anderson supposedly said "jointed the meeting."

CHAIRMAN CONINE: Jointed the meeting?

MR. GONZALEZ: Yes.

CHAIRMAN CONINE: She joined the meeting, okay.

MS. GRONECK: What did I say?

CHAIRMAN CONINE: She jointed the meeting.

MR. GONZALEZ: Or we could leave it that way if you wanted to.

CHAIRMAN CONINE: There's a motion made we approve the minutes with a slight alteration. I'll second it. Any discussion?

(No response.)

CHAIRMAN CONINE: All those in favor, say, Aye.

MR. GONZALEZ: Aye.

CHAIRMAN CONINE: Aye. The motion carries.

Next is a discussion of the update on our issues raised at the April committee meeting. Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chairman. Behind tab 2, behind your minutes, there's a memo to the programs committee outlining three appendices that are in your programs committee book, with information that staff has put together related to the HOME program. Some of it is historical information.

The first appendix is general HOME information, on a HOME program snapshot, which is something that was prepared for HUD.

The overall HOME program rankings, appendix 2, one of the questions that you all had asked at the last meeting in April was -- how do we compare to other participating jurisdictions? How do we program our funds, not only in the state of Texas but other PJs nationwide? That's the information you have in Appendix B.

And then, in Appendix C, you had a discussion at the programs committee meeting about funding predevelopment activities and capacity building activities. And so staff has provided a narrative outlining what we do in those activities in the HOME program. More specifically, we fund most of those activities out of the Housing Trust Fund, but we do detail that for you.

So with that, I am basically going to say, how would you like, Mr. Chairman, to go through this information?

CHAIRMAN CONINE: I was afraid you were going to do that. Who prepared the Appendix A, the state participating jurisdictions? Did you say that was HUD?

MS. CARRINGTON: The snapshot as of December 31, '03, is basically something that is prepared by HUD. It's the comparison, it's the ranking of all of the Pjs around the country. It's the document that staff took a look at. I think it's one of the documents, certainly, it's worth the programs committee spending some time on, taking a look at.

If you look at some numbers, there's 51 participating jurisdictions around the country. Now, this is reflective of allocations of funds since 1992.

CHAIRMAN CONINE: Okay.

MS. CARRINGTON: So the number you see of 423,109,000 is a cumulative number since 1992, which of course was the authorization of the program and the first year of expenditures on the program. This is a snapshot as of 12/31/03.

Looking at the right, on the categories -- well, first of all, your categories are down the left, percentage of funds committed, percentage of funds disbursed, leverage ratio, completed rental disbursements, percent completed CHDO disbursements, low income benefits, LISUP, overall ranking. If you go to the far right, this is how Texas ranks, out of 51 participating jurisdictions, on funds committed. You can see, we rank 50. On funds disbursed, 46, 32, 38, et cetera; we have an overall ranking of 45 out of 51 PJs.

We spent a lot of time looking at this report and preparing an explanation of why we are where we are.

CHAIRMAN CONINE: Is this the first time that the department has gotten this sort of information? Or is this something you've been getting over the course of time?

MS. CARRINGTON: We have been receiving this over the course of time. Our rank does move, has changed some. Staff does tell me that at one point, we were 51 on committed. So sort of the good news is we've moved from 51 to 50.

CHAIRMAN CONINE: Did Puerto Rico beat us or who beat us?

MS. CARRINGTON: I don't know. There is an explanation, if you all would be interested in that.

CHAIRMAN CONINE: I'd love to hear that.

MS. CARRINGTON: Okay. You will remember that last summer we did a double cycle of funding for our HOME program.

CHAIRMAN CONINE: Uh-huh.

MS. CARRINGTON: And so that was '02 and '03. We did that really at HUD's request --

CHAIRMAN CONINE: Right.

MS. CARRINGTON: -- because they felt like it would give us an opportunity to really get the systems in place for some of the things we needed to be doing in the HOME program. So the awards for '02-'03, which was 100 million or so -- Eric, what was our total last summer?

MR. PIKE: 80 some odd.

MS. CARRINGTON: 80 some odd, okay. I don't want to misspeak. Even though the board made those awards in August or September, the contracts didn't go out until November and December. They go out first for execution by the subrecipient, by the applicant. And then, once they execute, they come back to the agency, and then I execute the contracts.

So basically, since this snapshot ended on 12/31/02, a good amount, probably almost all of the contracts that the board approved last summer are not reflected in this amount. So that is certainly one of the big reasons that we are at 50 as opposed to some number that would be higher than that.

There's also a lag time between the time that we receive the HUD contract, we do our public hearings. You may remember that back last fall we did our public hearings over a three month period of time. We were out in September, October, and November, I guess, having public hearings. It would be my guess, although just my guess, that many other PJs have perhaps one public hearing, and so their process moves a whole lot quicker.

So we believe, we really believe, that this number will improve as we award the funds for '04. We are working internally to have the form of the contract ready to go after the board approves these awards, so that there won't be the lag time from the award to the time the contract went out.

Amazingly, sometimes these contracts do sit on the desks of the entities who have been awarded the contracts. Perhaps, they don't return them as quickly as they should. I would say that as soon as they hit our office, we get them approved, executed, and set up into the system with HUD.

So with that, Suzanne, would you like to add anything else to how we think our number may improve?

MS. PHILLIPS: Sure.

MS. CARRINGTON: I'd also say, as Suzanne Phillips is coming up, that over the last year and a half, two years, we believe that we're doing a much better job of managing our HOME program. I think this is evidenced by the work that we've done on reconciling our audit findings. As you all know, when we got the word, all those audit findings have been cleared.

And so I think over the years there's perhaps been not the attention to the program that we are now requiring. We are also deobligating funds on a regular basis. So we're tracking whether contracts are executed, when they're expired, and when they're expired, we're working to deobligate those funds. So we're doing a much, much better job of managing our HOME program now.

MS. PHILLIPS: There's several things that we --

CHAIRMAN CONINE: Good afternoon.

MS. PHILLIPS: Good afternoon.

CHAIRMAN CONINE: How are you?

MS. PHILLIPS: I'm just jumping right in there. I'm Suzanne Phillips, Director of PMC.

CHAIRMAN CONINE: Okay.

MS. PHILLIPS: We have been tracking this snapshot since March before last and trying to identify those things that we could do to move up individual categories. There's some categories that are the result of calculations that are done by HUD, but others that we could specifically address.

The double funding year is going to have some impact, but it's going to take a while. I expect it probably won't have a favorable impact, maybe, until '05. Generally, what you'll see happen is that the disbursements will begin to decrease and the commitments will increase during the year, but the net effect, and the positive effect, won't be until about '05.

The issues that Edwina brought up on the delays in the disbursements absolutely affect and the deobligation process that we have been going through will absolutely affect. The two policy issues that we're going to focus the most on are trying to mitigate the issues, mitigate the effect of the double funding cycle by moving the funds through as quickly as possible.

The last year, we've had about $25 million in expenditures. This coming year, we'll have between 90 million and 125 million in expenditures going out of the department. So it's going to require that we be very efficient, that we identify those areas of duplication within PMC that we can eliminate, things that would slow processing down, that we work closely with production to make sure that we get documents as soon as they're executed, that we can move quickly on, and that we get real clear information from the subrecipients of their program design.

So while we have different activities, TBRA activity, the HOME buyer activity, the owner occupied activity, they often have their own twists and turns to those activities. For instance, TBRA, we're going to have a new turn to TBRA by adding the Olmstead program requirements into that. So we're going to be working to make sure that the implementation workshops that we do provide the administrators not only the TBRA instruction, but also how better to manage the Olmstead activities they're going to do, and to coordinate those into the program, which will be a challenge.

You know, the TBRA is a difficult program, but trying to serve a different population, or a population that historically neither the subrecipients nor the department have actually worked with the beneficiaries, I think we're really going to have to work hard to make sure that we've identified all the things that they need to take care of as they go through their program. Their self-sufficiency process, the eligibility process, is all going to be just a little different than what you would normally do in TBRA.

The issue that we talked about last month, related to the deobligation of funds that go back to 1992 and 1993, are going to impact the snapshot or our standing as well. It also impacts the department's workload considerably, having all of these dollars out on top of our regular funding cycles.

The money as it's deobligated will hit our commitment line, so that our commitment rates will look lower than they do now. Basically, these contracts are set up and shown as committed. When we take that money out of the systems, and reobligate it, it will come out of our commitments.

So I think that strategically in the past years, it was just part of the strategy of the department to get the commitment rate up by not dealing with the deobligated dollars. It was just so difficult to get through the process of not only awarding the dollars and administrating the dollars, but actually closing out all of those contracts and doing the reviews necessary to those contracts. It was a huge amount of work. It's taken a huge amount of resources for us to get where we are on that. I know one of my staff has spent almost 200 hours this year just on the reconciliation, just the accounting side of trying to identify what of those contracts need to be deobligated.

CHAIRMAN CONINE: I think you kind of hit the nail on the head as to why we're going through this exercise. It's because it's not, you know, the 10,000 foot level of we get HOME funds every year, we put them out for four or five different activities, everything is wonderful. It's when you dig down, peel the onion back a little bit into the nuances of doing the program.

I think this exercise, for all of us, is to shed a little light on it, hear how, you know, maybe someone in another state does it better than we do, how we can improve ours, and make our agency more user-friendly, and that's kind of the whole purpose of going through this, and, of course, just the allocation of the funds in general, which is something I still want to focus on and have philosophical argument back and forth and come to an agreement before this thing's over with.

MS. PHILLIPS: The part of Edwina's philosophy in the reorganization was to attack this specifically. We had, in the past, had expectations of our HOME program staff that they could have never met. We expected them to do everything and be everything for everybody. Not only did they have to do the allocation process, implementation workshops, and do the regional coordination and oversight of contracts, then they're expected also to do the accounting and --

MS. CARRINGTON: Monitoring.

MS. PHILLIPS: -- the monitoring. It was just too much to ask for anybody. Under the organization as it's set now, production can focus on getting the money out. When it's time to implement those contracts, they don't have to stop doing what they're doing; they can continue to plan for the next cycle. So I think just that restructure is going to have a huge, huge impact, not only on the snapshot, but the staff's confidence and staff's abilities, because they can specialize in doing the things they need to do, instead of trying to be something for everybody.

CHAIRMAN CONINE: When we deobligate some funds and then recommit them somewhere else, does HUD need to know that, too?

MS. PHILLIPS: Does HUD do what?

CHAIRMAN CONINE: Pick up the reobligated or recommitted funds, that we deobligate, if they go back into the HOME funds.

MS. PHILLIPS: I hope I'm interpreting your question right. They do track what we're doing with our deobligated funds. We had conversations, Sandy and I had conversations with them two weeks ago about one of our audit findings that specifically goes to the close-out process. So they have been very willing, and have known that these funds have been sitting there, but they're getting more enthusiastic about us approaching it more aggressively, you know, to make sure those dollars get moving.

A lot of PJs in the state --

CHAIRMAN CONINE: But they are counting it in these totals --

MS. PHILLIPS: Yes, sir.

CHAIRMAN CONINE: -- that we're looking at?

MS. PHILLIPS: Oh, absolutely, yes, sir.

CHAIRMAN CONINE: If we deobligate money three times, let's say, from '97 programs or something, and we obligate it again, and they don't use it all, and they deobligate it back, they have the sophistication, or we have the sophistication, to keep track of all that and report it in those numbers?

MS. PHILLIPS: Yes. We've been working internally, production, accounting, and PMC, on how our systems are reflecting different program years and to what level do we need to track program years when it comes to our federal dollars. We don't want to over track, but we definitely want to meet the minimum requirements that HUD has. We also need to meet the minimum requirements that Bill Dally sets out for good financial management.

So in some instances, we'll have to track the individual program years and how the dollars run, but in some we may not. HUD definitely does have the ability to track the dollars. That first line, the funds committed, is a cumulative number.

CHAIRMAN CONINE: Right.

MS. PHILLIPS: And so it grows and expands by program income, by deobligated dollars. So they understand the components. If you want to know more information about the details behind how each number comes up, we can probably provide that, or how each of those numbers arrive, we can probably provide that to you.

One of the things that we're working on, as far as the deobligation of those dollars, since the reorganization, we've been looking at the individual contracts that expire on a case-by-case basis. We've had some instances where people clearly had the ability to use the money that was left over from contracts. We've had situations where they couldn't.

A lot of folks have been asking for extensions, as their contracts expire, and asking for additional time to work on contracts. We're going to be more -- it's going to no longer be routine to do extensions. So we're going to take those individual cases and consider them very carefully because those funds sitting in these contracts, and not deobligating and reobligating, do affect our standing, but they also affect the applicants who are coming in for funds. It limits the amount of money that we're able to put out on new contracts.

So we're working with Edwina and production to try to understand how best to manage those contracts that are still trying to be active, or want to be active, in that group, but bottom line, we want to get as much of that money out of the deobligated columns and into production so that they can get NOFAs out on them.

It's my goal to try to get that cleared out by the end of the calendar year, if that's possible. A lot of it will depend on what production staff's able to get out on NOFAs.

MS. CARRINGTON: One comment, once those funds are deobligated, there is a short time period that HUD requires you to reobligate those funds or the funds have to be paid back to HUD. So we have worked, as Suzanne said, over the past year to identify and to deobligate, but we want to make sure as we do that, that we have eligible activities so we can reobligate those funds, as opposed to having to pay them back.

MS. PHILLIPS: Absolutely. The third way that we're looking at to improve our statistical standing is by looking at the information that's in HUD's system. Right now, we know that we have information, and the industry has information, about projects and about activities that aren't in the system. There's a lot of missing and erroneous information that goes back to 1992.

I know HUD has identified between 3,000 and 4,000 individual entries that have errors. The staff has been going through and trying to isolate those 4,000 entries into those that we can correct, and those that we can correct quickly, and those that we really need a lot of work on.

Over the last year, staff has corrected about 2,000 entries. Those that are left are generally related to multifamily projects. Those multifamily projects, we have a project going on with Sara Newsom's staff in our division. We've sent out a mailing to all the current owners and asked them to provide specific information that we need in our systems. As that information comes in, we'll be entering it into the database.

That has to do, mostly, with the actual occupancy of the individual properties, whether they're 0 to 30, 30 to 50, racial and ethnic information, and I think even more important is information about leveraging, that other sources of funds that the subrecipients used on projects other than the HOME funds. So once we get that leveraging information, we'll improve that particular line, but also we'll have a better idea of what other funds went into our projects, and what is the participation of the local communities in actually providing dollars into our rental projects.

What we'll see as this information comes in is that the ratios of leveraging will probably go up, the percentage of rental disbursement line will go up, the percentage of low income benefit will definitely get better. We're already at 20 out of 51 there --

MS. CARRINGTON: 20 out of 51.

MS. PHILLIPS: -- which is really exciting, but I think that will even go up higher in that category. That low income benefit is specifically to the rental property tenant occupants. So while we serve a lot of 0 to 30 in our other activities, HUD, in their snapshot, has provided double weighting to those categories in our overall ranking. So I think that will have a huge impact on our ranking.

We don't have a specific timeframe at this point to do all that data entry. A lot of that is going to depend on the industry and how quickly this information comes back to us. I know that the industry has been very responsive up to this point. A couple of them have even been concerned that if they don't get the information in, that it would stop their contracts being funded. I was kind of sad to hear that, but kind of glad to hear it at the same time. At least, they were thinking about it seriously.

The only thing I think that I have not talked about is the relationship of the 423 million to what production has awarded over the last year, since I think that they have put in just under $6 million, which is a

1.5 percent increase of our committed funds since the first quarter, and 1.6 million disbursed since the first quarter. So we've really put out a lot of contracts and we've paid a lot of expenditures out of the shop, just since the first quarter, and we expect that to accelerate greatly over the next year, you know, from the first quarter disbursing 1.6 million to trying to achieve a 90 million disbursement this year is going to be quite a challenge.

CHAIRMAN CONINE: Back when I was in school, you know, if I could figure out the way the teacher graded the test, I could probably figure out how to fill out the test. This reminds me a lot of that in some respects. You mentioned, going forward, about the next cycle. My question would be -- has staff taken time to look at our historical cycle, which seems, from the way it's been described here, to push, you know, board decisions, contracts going out, contracts coming back to the tail end of the year? Can we figure out a way to pull it back up into the beginning of the year? Is the structure of the way we do business causing us to score bad on the test?

MS. PHILLIPS: In some instances, that is true. We have talked about, for instance, the open cycles with the multifamily and how best we're going to coordinate those open cycles with our capacity building and our implementation workshops.

One of the things that we were doing as part of this budget cycle was anticipating what NOFAs are going to be going out during the next year, and incorporating our implementation workshops, and planning them in a way that the people who are considering applying have the opportunity to take advantage of the courses, either before they decide to apply or during the application process, so that by the time PMC gets the contracts, that we will then not have to divide up those who have capacity to administer and those that need a lot of technical assistance and hand-holding.

So basically we assist production by building a pipeline of a trained industry, at least to the extent that they know how the programs work; so that when they are ready to apply, they've got some real good knowledge of what the program is and our expectation; so that when they send their applications in, they are a more realistic view of how they can actually perform.

And then ultimately we would like to think that then production would be in the position of having an application cycle that includes, you know, dividing those who really have the capacity to move forward quickly and those that need specific capacity building and training, so that we can get the people who are ready to go and move quickly going through the process, and separating those folks who need additional assistance and put them on a different time track. That should help our commitment rate and our expenditure rate, our morale, and the relations that we have with the industry as well.

CHAIRMAN CONINE: You said everything except for changing dates of NOFAs, and commitments, and board decisions, and those sorts of things. Again, production side, is that Eric Pike? He's on the production side?

MS. PHILLIPS: Eric and Ryan.

MS. CARRINGTON: Eric is in single family and Brooke on the multifamily.

CHAIRMAN CONINE: Okay. The production side needs to be at the table, it seems to me, to take a hard look at out cycle. You know, I've always been on the record of being that real estate doesn't happen once a year, twice a year. It happens all the time. I know that creates a lot more work for a lot more people, but it seems to me if it can be done somewhat in that manner, as much as possible, then we'd be a lot more user-friendly and we'd probably score better on the test.

MS. PHILLIPS: Absolutely. The last thing I want to do is for our implementation workshops, and the things that we do, to be an obstacle to getting the contracts moving. You know, we were talking this week in my staff about the timelines of having December awards, January contract dates, and the fact that we're just now getting executed contracts to people, and they're already on the phone, clamoring for us to release their funds.

So, you know, we have the issue of, in our contracts, they're required to do implementation workshops before their contracts can be drawn. So we want to make sure that we get out in front of that, so that production could basically have open cycles as they determine, by having an industry of people ready to go and who know how to administer the program, so we don't have the stop and go events that we have now.

MS. CARRINGTON: It is my understanding that we typically have about a three-month lag time with HUD because HUD typically approves our state low income housing plan in December, and the grant agreement this year came out in either March or April.

MS. PHILLIPS: Right.

MS. CARRINGTON: It came out in April. So there's a period of time from when HUD has approved the plan to the time they get the grant agreement out. Of course, until they do that, you know, we don't have an ability to obligate of expend any funds for that year.

CHAIRMAN CONINE: So that begs the question -- what do the other states do? Don't they have the same problem?

MS. PHILLIPS: I would generally agree and I would suspect that they do --

MS. CARRINGTON: Yes.

MS. PHILLIPS: -- especially with the interplay of HUD's contract periods. You know, everybody sits and waits for the contract funds to come out and sometimes you just can't project when it's going to happen. Given that they then have the timelines associated, things start to crumble.

For instance, we have contract awards that were out in December, that came to the board in December, with a beginning date of February. We get the contracts in May and my workshops aren't until June. So we've got to get on a better track to make sure that these things roll as quickly as possible.

I think some of the things that Edwina mentioned, for instance, having contract templates ready before we get rolling, will help. I know legal has been working really hard on getting all the contract templates revised to reflect the improvements that production has made to the program, things that we've learned from our relationship with ICF, you know, to tighten up our contractual requirements. Things like that have slowed down the process, but hopefully we'll get, you know, eventually, ahead of the curve, and be able to have these packages together before we even go out, or packages put together along with the NOFAs.

CHAIRMAN CONINE: Could I, I guess ask that staff put together a series of suggested enhancements to the cycle we currently have and also maybe come back to the committee with some open cycle, you know, pluses and minuses shall we say, within a couple months from now?

Let's see if we can't see if our structure, along with a lot of the things you've mentioned, Ms. Phillips, with, you know, contract enhancements, and training them a little earlier, ahead of the curve, and all of those things combined in a nice neat package, that the committee and ultimately the board can take a look at.

The other thing I'd suggest is we've got this sheet of paper that shows where Texas ranks for the year end 2003. It would be interesting to see where staff thinks we'll end up at the end of 2004, as sort of a goal column.

MS. PHILLIPS: Well, we know that in some categories that we will be down --

CHAIRMAN CONINE: Good.

MS. PHILLIPS: -- and that some categories will be up. And so as it balances out, we may be in the same place overall. Our overall ranking may not change. We know that we won't look as good in disbursements and expenditures, but we know leveraging and low income benefit, things like that, we'll have a more positive standing in. '05, we can be more positive about, but '04, we can definitely paint you the picture of what we think it looks like.

CHAIRMAN CONINE: I understand that we're a big state, we've got a lot of money to get out the door, and it's not as easy as Rhode Island, or North Dakota, or some of the smaller states to do. I fully appreciate that, but I also believe in goal setting, because when you do that, you tend to try to meet those goals.

Until we know where we all think we might want to be, and reasons why we want to be 45 or 33 or 20 in a particular category, I just think it would be helpful not only for the department, but for the board, to be aware of where we are and where we think we might be at the end of this year. If you want to lay out '05, at the end of '05, that's fine, you know. We'll be able to go back and check the scorecard whenever that time comes. So along with that, in a couple of months, I would appreciate a shot at that, just to see what you think.

MS. PHILLIPS: We can do that.

CHAIRMAN CONINE: The rationale of why Texas should be 50th, or 40th, or 30th, is also interesting --

MS. PHILLIPS: Yes.

CHAIRMAN CONINE: -- for the board to hear.

MS. PHILLIPS: Appendix B, I'm not going to go through unless you would specifically like to. I think they're pretty self-explanatory. You have some charts that give you a general idea of how we compare to the larger states or the larger allocation states. We've selected California, New York, Ohio, Pennsylvania, Michigan, Illinois, North Carolina, Florida, and Georgia to run comparisons, as well as the larger PJs.

CHAIRMAN CONINE: Why does Texas blow the doors off every other state in tenant-based rental assistance?

MS. PHILLIPS: Because everybody's afraid of it. It's a very, very difficult beneficiary-specific program and most state housing agencies' mission is specifically to rental. You know, some of the state housing agencies don't have that sort of delivery system and it's a very difficult program.

CHAIRMAN CONINE: So your response would be -- we're so much better than they are because we've got so much experience, as opposed to, you know, nobody else is doing it, we may be allocating too much money in that category?

MS. PHILLIPS: Well, we're very willing to attack all of the activities. Not all state PJs are. The amounts of money that we put out in individual activities stand up very well over the others. For instance, California only does 15 million in TBRA. We've done 76.

MS. CARRINGTON: Two states in the top ten don't do any at all, Pennsylvania and Florida.

MS. PHILLIPS: The ones that do, Ohio, North Carolina does quite a bit, but their demographics are quite different; the size of their states are quite different. So it's quite a challenge for a state this size to do as many activities and approach them the way we have.

CHAIRMAN CONINE: Well, those are the sort of philosophical discussions I'd like to enter into, at the appropriate time, because this graphically tells you exactly where we fit in with the rest of the states. I know the rest of the board -- I think you would agree, wouldn't you, Vidal -- that they would be really interested in this. So at the point in time that we can look at the whole program structurally, and make some recommendations, and talk about where allocations are going, then put it in a nice neat package and take it to the board. I think that would be very, very well received.

MS. CARRINGTON: We skipped over a chart on the front side of Appendix B, which is rankings overall. What I think is interesting about the chart that shows Texas at 45th is there really are two other large states, what I consider large states, that are below us, which is Pennsylvania and Ohio. And then the rest of them that are below us are certainly states that have a much smaller allocation of HOME funds.

CHAIRMAN CONINE: Weren't we the 45th state to join the Union?

MR. PIKE: 28.

MS. CARRINGTON: I don't think so, no, sir.

CHAIRMAN CONINE: 28th state, okay. Well, I guess that doesn't work.

MS. CARRINGTON: As my staff tells me, the good news is that we came up from 48 to 45.

CHAIRMAN CONINE: You mean the year before?

MS. PHILLIPS: Yes, we've been between -- this is the highest that I know that we've ever been. We're generally between 51 and 48, 49. I think we went to 48 one year, but generally we've been between 49 and 51.

CHAIRMAN CONINE: Okay. Well, I'll go on the record saying I'm not happy with that and we need to do better. Whatever that better is, we'll let you take a stab at it first.

MS. PHILLIPS: All right.

MR. GONZALEZ: It's ironic, Louisiana beat us.

MS. PHILLIPS: Isn't it though? I kind of got depressed when I looked at this.

CHAIRMAN CONINE: The only thing Louisiana beats us in is cooking.

MS. PHILLIPS: I'm not even sure that happens.

CHAIRMAN CONINE: Well --

MS. PHILLIPS: Except in New Orleans.

CHAIRMAN CONINE: -- I've never had a bad meal in New Orleans.

MR. GONZALEZ: Yes.

CHAIRMAN CONINE: Let's talk about predevelopment loans for just a minute.

MS. PHILLIPS: Okay.

CHAIRMAN CONINE: I see where we used to do them and we don't do them much any more, or we're doing them over at the Housing Trust Fund now --

MS. CARRINGTON: Right.

CHAIRMAN CONINE: -- which may be a good use of those funds. Let's just talk about that for a minute. Which is the better program to use for predevelopment loans, in your opinion, Ms. Carrington?

MS. CARRINGTON: I think that the Housing Trust Fund is certainly a much more flexible program. I think the reason we don't currently have a predevelopment loan program out of the HOME program is because we find that the Trust Fund is a funding source that works better for predevelopment. I mean, I think that's why it's there as opposed to in the HOME program.

CHAIRMAN CONINE: Have we -- okay. I mean, that's fine. I think that's a service that we need to be in the business of providing. Whether or not this program does it or the other program does it, it then becomes a matter of how much can you do out of each little kitty. I want to make sure that we've got enough funds in the Housing Trust Fund to be able to do that.

I'm sure the demand has fallen off over the course of the last several years because it just hasn't seemed to be advertised that much in the business of doing it, although my perception is the need is still there. The costs of getting a deal done on the front end continue to go up and are prohibitive for not only non-profits but for-profits, for that matter.

MS. CARRINGTON: Right.

CHAIRMAN CONINE: I'll save that discussion, I guess, for looking at the Housing Trust Fund, whenever we do that.

MS. CARRINGTON: I think as we looked at Housing Trust Fund this year, and made a determination about how much we would put in predevelopment, one of the things that we certainly took into consideration was the fact that we did have a couple of predevelopment contracts that were out there.

The Ark-Tex Council of Governments had an initial allocation, I think, of about 840,000. They basically originated those funds and then they had a second contract from TDHCA on predevelopment. They were in the process of originating that.

There's also an amount that Texas Community Capital, which is a $530,000 award, that the award has been made, and we are waiting for receipt of their C-3 from the Internal Revenue Service. Receiving those once you place an application has turned out to be a very lengthy process for any entity who is looking for that C-3 designation.

They, then, are going to turn around and use that money probably for three or four applications for multifamily around the state. So as we looked to see what we were going to put out of the Trust Fund, we did take a look at what was existing out there currently.

CHAIRMAN CONINE: Do you know if we used to do any predevelopment loans out of the CDBG money?

MS. CARRINGTON: I don't, but Ruth Cedillo can tell us --

CHAIRMAN CONINE: No?

MS. CARRINGTON: -- and she says, No.

MS. CEDILLO: No.

MS. CARRINGTON: I don't think it's an eligible activity, is it Ruth?

CHAIRMAN CONINE: Okay. I just didn't know whether that was getting axed by ORCA as well, but if it didn't exist, it didn't exist.

Tell us about your May 20 meeting with Cynthia Leon, that's noted in your notes here. I see, again, it's related to participating jurisdiction and coordination with not only what we do at the state level, but also the individual cities.

MS. CARRINGTON: We have a full day planned for Ms. Leon and HUD staff. In the morning, we have a meeting scheduled from 10 until 12. That meeting is with about ten or eleven trade associations around the state that have an interest in or are involved in housing: the Texas Apartment Association, the Texas Association of Builders, Tex-Naro [phonetic], Texas Housing Association, those types of groups.

The idea is we wanted to provide a forum and an opportunity, and be the facilitator for those entities to have an opportunity to basically talk to HUD. That's the morning meeting and we're working on the agenda for that morning meeting. I think our invitation list had about ten or twelve trade associations on it. I think Ruth told me earlier today we received RSVPs from like three. So we're going to need to get on the phone and make sure that we do have a good representation.

And then in the afternoon the meeting with Ms. Leon and some staff, most likely from San Antonio, is going to be the department's meeting with the regional director. We have asked the division directors to come up with issues that they would like to have on the agenda and have an opportunity to basically sit with HUD and talk about issues, talk about concerns. So that's our plan.

CHAIRMAN CONINE: None of the cities are going to be there, that are participating jurisdictions, that you know of?

MS. CARRINGTON: No, sir. No, we did not -- the morning session is with trade associations.

CHAIRMAN CONINE: Okay.

MS. CARRINGTON: We either invited their president, if they didn't have an officer, or their staff person.

CHAIRMAN CONINE: Well, it will be, I'm sure, an interesting meeting. I think the follow-up step from that, at least in my mind, is again, you say that happens once a year anyway, I think, at HUD, where the cities show up with their HOME program coordinators, and talk about allocations, and so forth. I just want to make sure that stays on the radar screen for us to participate in, in the future.

MS. CARRINGTON: Now, the interesting conflict that has happened to us that day is that we received notice on Friday of last week, I believe -- I don't see Michael, but I think that the answer was Friday -- we have an Urban Affairs Committee meeting on May 20, that I believe is scheduled for 10 a.m. that morning. So basically what's going to happen is that Ruth Cedillo and

Leonard Spearman will be at the agency and I will be, along with appropriate staff, over at the Urban Affairs Committee, in that hearing, and hoping that we will be back in the afternoon for the meeting with staff.

CHAIRMAN CONINE: Okay. Any other questions?

MR. GONZALEZ: I'm just curious about the Texas Association of County Judges and Commissioners meeting, when that's going to be.

MS. CARRINGTON: We are working on setting up that meeting. Homer Cabello, do you or Ruth have a date for when that meeting is going to happen?

(No response.)

MS. CARRINGTON: Michael's working on that, isn't he?

MR. CABELLO: Yes.

MS. CARRINGTON: Michael Lyttle is working on setting up that meeting. I know he's made some calls, Mr. Gonzalez, and we could certainly find out if we've got a date set.

MR. GONZALEZ: That should be interesting.

MS. CARRINGTON: We think so, also.

CHAIRMAN CONINE: Okay. Anything else, Ms. Carrington, on item 2 of the agenda?

MS. CARRINGTON: I don't think so.

CHAIRMAN CONINE: Okay. You've covered it. Now, moving on to item 3, amendments to the 2004 consolidated plan and one year action plan. Ms. Carrington?

MS. CARRINGTON: Okay. Thank you, Mr. Chairman. This is an action item that is going to need a recommendation from the committee to the board.

On an annual basis, we prepare a consolidated plan and then a one year action plan. Well, we do a one year action plan that applies to our consolidated plan. It addresses four funding sources. It's Community Development Block Grant program. It's basically all HUD funding, which, of course, as you all know, we don't administer; the HOME program, which we do; the Emergency Shelter Grants program, which we administer; and Housing Opportunities for Persons with AIDS, the HOPWA program, which we do not administer.

The plan was approved by the board in December '03. We submitted it to HUD. HUD has asked the department to make three amendments. It's requesting us to address three amendments to the one year action plan.

The first is the American Dream Down Payment program, which, Mr. Conine, you're very well aware, it was passed last year. What Texas will be eligible for as a result of this down payment program is $2 million in '03 and $2 million in '04. The amount of assistance per family is up to $10,000 or 6 percent of the purchase price.

There's a little bit of difference in eligibility for using the money in '03 and '04. In '03, it's down payment assistance. In '04, it actually is opened up to include funds for rehabilitation for first time home buyers in conjunction with home purchases. So that is the first amendment that we would be making to the one year action plan.

The second amendment is language that will address net proceeds. Basically, what we will do in this language is identify, for HUD, the items that will be and can be subtracted. When you sell a multifamily property, you sell a single family property, they're going to have gross proceeds. There are items that can be subtracted from that that would represent net proceeds.

What we will be doing is basically outlining, for HUD, this is what we believe would be eligible expenses that we can subtract from the proceeds of the sale. And so therefore if there's money that has to be recaptured, if HUD is saying, we're going to have recapture on these funds, we have at least outlined activities that are eligible activities, that would not have to be repaid. So that's what we're working to achieve on the net proceeds language.

On Section 504 --

CHAIRMAN CONINE: We haven't drafted that language yet?

MS. CARRINGTON: Have we drafted the language?

MS. SARAH ANDERSON: Yes.

MS. CARRINGTON: Okay. Center for Housing Resources, have you seen the language yet?

MS. SARAH ANDERSON: I haven't seen it, but --

MS. PHILLIPS: Ann Paddock and Ruth Medina [phonetic] have been working on it.

CHAIRMAN CONINE: So what we're recommending to the board from the Programs Committee to do is say to them, draft language, but not see it? Is that what we're doing here?

MS. CARRINGTON: We need for you to approve the concept.

CHAIRMAN CONINE: Here she comes.

MS. PHILLIPS: This language has actually been worked out with HUD, with headquarters staff. We've been in direct communication with Jimmy Sardonne and Mimi Kozar and the ICF staff and our legal staff have worked through the language. So this was jointly defined and jointly agreed upon.

CHAIRMAN CONINE: Could we see it tomorrow before we do this?

MS. PHILLIPS: Yes.

MS. CARRINGTON: Currently, the plan doesn't have any language at all about net proceeds. It's silent.

CHAIRMAN CONINE: I know.

MS. PHILLIPS: Yes, the language has been incorporated in some contracts so, yes, sir, you may.

MS. CARRINGTON: We will have that language for the board.

CHAIRMAN CONINE: Have it ready for the board for tomorrow?

MS. CARRINGTON: Yes, we will.

CHAIRMAN CONINE: I don't need it right at this very minute.

MS. CARRINGTON: Yes, we will.

CHAIRMAN CONINE: I trust you for overnight.

MS. CARRINGTON: We could go find out deputy general counsel if that's what we needed to do.

CHAIRMAN CONINE: Okay. The third?

MS. CARRINGTON: The third is requesting the ability to use deobligated funds for developments that do not meet the 504 accessibility requirements. This would only be for developments that, in line items in their budget, they were not envisioning using HOME funds to make those accommodations. So we're not going to double-fund them. It could be a HOME funded development, but if they had a line item where they were going to use HOME funds to do those accommodations, we would not allow that. If they just didn't do 504 at all, then this would allow us to use deobligated funds for the 504 accommodations.

CHAIRMAN CONINE: Any questions?

(No response.)

CHAIRMAN CONINE: Do I hear a motion to recommend to the board?

MR. GONZALEZ: So moved.

CHAIRMAN CONINE: I'll second. All those in favor, signify by saying, Aye.

MR. GONZALEZ: Aye.

CHAIRMAN CONINE: Aye. Motion carries.

MS. CARRINGTON: Thank you.

CHAIRMAN CONINE: Item 4, update and discussion of department's draft performance measures for '06 and '07, which is a long way out.

MS. CARRINGTON: Yet one more time, we are going to talk about performance measures. Sarah Anderson, do you want to come on up?

MS. SARAH ANDERSON: Okay.

MS. CARRINGTON: I want to point out to the committee that these are not all of the performance measures of the department. So as you all have been looking at performance measures, proposed changes to performance measures, now over, I guess, the last three months. We started the conversation, I believe, in February, that they are only the performance measures that we are recommending changes to.

CHAIRMAN CONINE: Okay.

MS. CARRINGTON: So we have many more performance measures than this.

MS. SARAH ANDERSON: Or new changes to.

MS. CARRINGTON: Well, we've had a couple of revisions. What you're looking at today are revisions since you last looked at performance measures.

CHAIRMAN CONINE: Revisions to the revisions?

MS. CARRINGTON: Yes, sir.

CHAIRMAN CONINE: Okay. Can you highlight those for me?

MS. CARRINGTON: I will let Sarah Anderson do that, but I want to say first --

CHAIRMAN CONINE: Yes?

MS. CARRINGTON: -- that we have really appreciated the work of the Legislative Budget Board. They've been very, very forthcoming in working with us, meeting with staff, discussing these, and also Ed Robertson from the governor's office, who used to be our LBB analyst years ago before I got here. Ed missed the last meeting at the LBB, but did call and staff then met with him and he was very helpful in giving some additional recommendations to staff. So basically what you're looking at today is reflective of the governor's office's comments to what we had proposed.

CHAIRMAN CONINE: It seems like a good idea to stop and say, Thank you, to Lisa Guerrero for showing up, from the governor's office.

MR. GONZALEZ: Yes.

CHAIRMAN CONINE: It's good to see you again.

Go ahead, Ms. Anderson.

MS. SARAH ANDERSON: Okay. I'm Sarah Anderson, Director of the Housing Center. Let's see.

As Ms. Carrington said, we came to you back in March and you approved suggested changes to the performance measures. We took those back to the LBB and to the Governor's Office of Budget and Planning, a couple of weeks ago, to discuss with them. Before we moved forward with our strategic plan which is due in July, we wanted to get at least a nod from them that we were going in the right direction before we got too far in our plan.

There was concurrence that the measures related to portfolio management compliance, the technical assistance, the poor and homeless, and manufactured housing were fine. The changes that were approved by the board were not a problem.

What did come up were there were some issues with the proposed housing measures that we had put forward. As you'll recall, we took all the six measures that we had had before and rolled them up into basically two categories. Rather than having line items by funding source, we were doing them out of two strategies, one for multifamily and one for single family, to better reflect the changes of the agency and our structure.

While in theory the governor's office believes that that was going in the right direction, as far as being reflective of where the agency has gone, what they're trying to do with most of the measures, in going through the appropriations process, was actually to have more line items and more strategies that were broken out by funding rather than less. So going from six or so down to two was problematic for them.

So what we've done is -- I think you have the breakdown of the side by side by side in front of you. That's the one. What you'll see is on your left-hand side are our current measures. On the right-hand side were the proposed changes that you had approved in March. In the middle is the middle ground that we've come up with.

What we've done is rather than going from multifamily to single family, and then breaking down by activity and then through funding source, what they've asked for us is to be able to line item out the funding source first by multifamily, single family, and then go to activity instead.

So basically, we're going to break out our multifamily financing as a line item, multifamily development funds as a line item. So breaking up in one category would be tax credits and bonds as one line item. The next would be the HOME programs multifamily direct funding is another line item. And then Housing Trust Fund multifamily is another line item. And then we'd be doing the same with single family. So we're breaking it out by the funding source.

The rationale for this was as they go through and have to make budget cuts, and do other things, it's much easier for them in the appropriations process to not have everything rolled up and jumbled together. So if they want to make cuts, they understand more specifically what the impact of those cuts or additions will be.

So for us, this is sort of a little bit of a compromise, a happy medium. While we believe that it will be easier for the legislature to understand what our funding does, which is one of the changes we wanted to get across, was so that they would understand what our programs accomplish.

The second thing that we sort of hoped to do was in our measures be able to get rid of double-counting. Unfortunately, as we go back to this, there will be double-counting, simply because we do leverage a lot of our funding sources. Since we've always had double-counting in our measures, frankly, the only people that would have noticed would have been us anyway.

CHAIRMAN CONINE: It makes us look bigger.

MS. SARAH ANDERSON: Yes, bigger and better. So that's about as briefly as I can explain it. Do you have any specific questions?

CHAIRMAN CONINE: No questions from here. Any questions from you, Mr. Gonzalez?

MR. GONZALEZ: No.

CHAIRMAN CONINE: Do you need a recommendation from us or is this just for information?

MS. SARAH ANDERSON: We'd like to get your blessing.

CHAIRMAN CONINE: The board needs to approve it, in other words?

MS. SARAH ANDERSON: I think so.

MS. CARRINGTON: It's on the agenda as an update. Can we?

VOICE: Yes.

MS. CARRINGTON: The general counsel is saying, Yes.

CHAIRMAN CONINE: So we'll just have this for informational purposes and I go to Mr. Dally. He has "the answer," I'm sure, or a question.

MS. CARRINGTON: Well, I don't know. I'm worried when my Chief of Agency Administration is answering an administrative law question.

MR. DALLY: I'm Bill Dally, Chief of Agency Administration. Good morning. I mean, good afternoon.

CHAIRMAN CONINE: You'd better start worrying a little more.

MR. DALLY: No, I'm fine. The timing on this is we still need some more official blessing on the strategic planning and the LAR structure. That will occur later. So I think we're looking to maybe --

MS. CARRINGTON: Incorporate this.

MR. DALLY: -- maybe finalize this June 28.

MS. CARRINGTON: Yes.

MR. DALLY: And then the strategic plan goes in July 2. This going forward, unless we get further feedback, this will be the way we want to go.

MS. CARRINGTON: But it's not all of our performance measures.

MS. SARAH ANDERSON: No.

MR. DALLY: No.

MS. CARRINGTON: It's only a portion of our performance measures.

CHAIRMAN CONINE: It's just the latest round of negotiations?

MR. DALLY: Right.

MS. SARAH ANDERSON: Right.

MS. CARRINGTON: Yes.

MS. SARAH ANDERSON: Obviously, we brought before the board in March the proposed changes for the other measures that we will be sticking with also.

CHAIRMAN CONINE: So are we going to see the entire document later on, I guess, at the June meeting? Is that what you're saying?

MS. CARRINGTON: Yes.

MS. SARAH ANDERSON: You'll see the draft version of the plan at the June 8 meeting. And then we'll vote on the plan at the June 28 meeting.

CHAIRMAN CONINE: Is this an agenda item for the board tomorrow or not?

MS. CARRINGTON: No.

CHAIRMAN CONINE: Okay.

MS. CARRINGTON: It's only under the report from the Programs Committee.

CHAIRMAN CONINE: Okay. Well, I think you've got consensus from the two of us here that we should move forward in this. There are no problems on our side at this point.

MR. GONZALEZ: I second that.

MS. CARRINGTON: Okay.

MS. SARAH ANDERSON: Okay. Good enough.

CHAIRMAN CONINE: Green light.

MS. SARAH ANDERSON: Thank you.

CHAIRMAN CONINE: Okay. Moving on to item 5, it's a discussion of funding sources for preservation. Ms. Carrington?

MS. CARRINGTON: You had asked, in a prior meeting, about our variety of preservation activities, how we funded them, what the legislative requirements were, and also what kind of production we had had out of these various preservation activities. So what we have done is put together a chart. On the left-hand side is the directive for the program. Across the top is HOME program, the preservation set-aside, housing tax credits, the at risk set-aside, and the multifamily Preservation Incentives Program, the PIP.

So basically what we're telling you is that -- actually, I'm sorry, the left-hand side is the source of funds -- that we have three different funding sources that we use to finance preservation activities in the department. The HOME program, we're setting aside approximately $9 million a year. I'm sorry; this was for '02 and '03. Thank you.

Maybe, I'd better have Brooke come up here because I'm not doing too well this afternoon.

CHAIRMAN CONINE: It's late in the day.

MS. CARRINGTON: Come on. Well, we've still got an Audit Committee meeting to go, but thank goodness that's David Gaines.

CHAIRMAN CONINE: Well, another meeting is --

MS. CARRINGTON: I thought I looked at the chart, but maybe I didn't.

MS. BOSTON: Do you just want me to --

CHAIRMAN CONINE: Walk us through it.

MS. BOSTON: Okay.

MS. CARRINGTON: Walk them through it.

MS. BOSTON: Okay. I'll take you through program by program, if that's okay.

CHAIRMAN CONINE: Okay.

MS. BOSTON: Basically, we have three different funding sources that we're --

CHAIRMAN CONINE: Good afternoon, Brooke.

MS. BOSTON: Hi.

MS. CARRINGTON: Brooke Boston is the director of Multifamily.

MS. BOSTON: I'm Brooke Boston, director of Multifamily Finance Production.

MS. CARRINGTON: Thank you.

MS. BOSTON: I'm sorry.

CHAIRMAN CONINE: That's all right.

MS. BOSTON: We have three different funding sources that we're currently funding preservation with. It's the HOME program, the Housing Tax Credit program, and then our Preservation Incentives Program.

The HOME program, the director for it is from the consolidated plan. We're using HOME funds. For this year, we currently have enough out for 9 million. That includes both funds that are from the '02-'03 funding year, that had gone out as a double-funding year, and was not entirely used. Plus, it also includes some '04 funds that would have been in the consolidated plan. Additionally, 4.6 is in deobligated funds.

It's out as an open cycle NOFA. And so we do have -- we actually, just for the record, as we were talking about that earlier, pretty much almost everything in multifamily is on an open cycle, with the exception of the 9 percent round. And then our capacity building is a deadline type thing, but that's not real estate. So we actually were pretty much at what you had suggested.

CHAIRMAN CONINE: Okay. We've got to do work on the single family side.

MS. BOSTON: Um --

CHAIRMAN CONINE: Go ahead. I just wanted a little quick shot. I couldn't resist.

MS. BOSTON: I had put in here, just kind of how regional allocation or any geographic restrictions apply. On the HOME program, it is not subject to the regional allocation formula because it's the set-aside. However, it is only available in non-participating jurisdictions. We don't have a NOFA out right now that would even allow 5 percent to go in the PJs.

We did that more just for facility of running the funds and not having to deal with it. We're just allowing the extra 5 percent that would go into participating jurisdictions, are going to be in the single family side.

CHAIRMAN CONINE: If I were to flip back in my committee notebook here to see if the participating jurisdictions did much of this business, what would I find?

MS. CARRINGTON: You would find a category called rehabilitation, or rehab --

CHAIRMAN CONINE: Rehab.

MS. CARRINGTON: -- which would be probably where most of their -- well, that's where it would be, because the other is owner-occupied.

CHAIRMAN CONINE: Okay. Houston's done 33 percent, Dallas has done 13 percent, and San Antonio has done 9 percent of their total allocation. Okay. Go ahead.

MS. CARRINGTON: They were late.

CHAIRMAN CONINE: They were late.

MS. BOSTON: Okay. For the HOME program, we've defined preservation as it has to be funded in the past by state or federal program and the funding has to be expiring within the next two years. So it's a more simplified version of what you're probably familiar with for the credit program, because we end up talking about that every year at the QAP. We do require that at least 6,000 a unit of hard costs be part of the preservation.

And then on the HOME program, you may remember last month, Suzanne gave you all a good description of some of the concerns of having the affordability and if it's potentially recaptured, then we're liable for that. At their suggestion, we made sure that the NOFA this time was split into two tiers.

And so because HUD has a limited affordability requirement on rental property involving rehab, the way we have done it this year is the first year of the affordability period is the federal requirement for HOME. During that period, we would be liable for the recapture.

Then, separately, to make sure that we're meeting 2306, we're going up to the 30 years. The difference between the two -- so, for instance on here, it shows that a development that did 15,000 or less of HOME funds per unit would only have a five year affordability period; that would be the only part where we would be liable for any potential recapture. The remaining 25 years would just be us monitoring it for state affordability, but we wouldn't be under the federal requirement.

So we purposely split it out to try and limit our liability. That's the only -- because that's the HOME fund that has that, we don't have that same type of requirement on the other two options.

Historically, this has only been around since '01. The first year, in '01, we awarded four developments about $2 million. Last year, in the '02-'03 round, we awarded six developments about 1.6. And then, as I said, we currently have an open cycle NOFA. We definitely do have applications in for these that are companion with tax credit applications that are currently being reviewed. I think if they were to get their credits, we probably will use up a good chunk of that 9 million.

Then, housing tax credits, we have --

MS. CARRINGTON: Brooke, maybe before you move on --

MS. BOSTON: Sure.

MS. CARRINGTON: -- Sarah has given me a chart, that I will share with the committee, of 25 participating jurisdictions around the state. I've highlighted the multifamily rehab portion, which looks like about 9 percent, at least of these 25 PJs, program their funds in multifamily rehab. Multifamily development could potentially be -- I mean, I --

CHAIRMAN CONINE: Only two cities.

MS. CARRINGTON: I would think development probably is new construction.

CHAIRMAN CONINE: Right.

MS. CARRINGTON: So the category we're really looking at is multifamily rehab. I think these are some interesting numbers because, you know, in prior public hearings and public comment periods, the board has heard some discussion about the focus of the HOME program at the federal level and the federal legislation focusing on rehabilitation.

I think one of the questions, maybe, Mr. Conine, you asked, was -- well, do the other PJs around the state do? I think this is very indicative of the fact that there are other participating jurisdictions who have said we have other needs for our HOME funds and are not necessarily going to prioritize the HOME funds for housing rehabilitation as the highest need.

I think one of the things I thought was interesting when I looked at the ten largest PJs around the country, the states where you see multifamily rehab as a really high activity, it's in those states that have a much older housing stock, like Pennsylvania rated very high in the number of dollars that they put into rehabilitation, as did, I think maybe Ohio or one of the other states. They have a different kind of housing stock than what we have in Texas.

CHAIRMAN CONINE: Well, but it's also, I think, indicative of, you know, just direction at the local level. It probably needs to be the subject of -- at least one of the topics of conversation when you go to HUD next week, or whenever it is, because if the original intent of the program was skewed toward multifamily, this is indicative of the fact that a lot of folks didn't get that message. I'd be interested in HUD's reaction to that, as well as when you get down to the conversation with individual cities, it's pretty glaring.

MS. BOSTON: I did just want to point out, also, on the '02-'03 funding year, where it shows that we did six deals at 1.6, the NOFA for that year actually was 4 million. So that was highly undersubscribed, just looking at it kind of as a --

CHAIRMAN CONINE: Is that a marketing problem? Or is it a demand problem? What would you attribute that to?

MS. BOSTON: I couldn't say, actually. I don't think it's a marketing. I mean, we tend to make sure that on the multifamily side, that whenever we release funds, we release it to everyone who participates in any of our multifamily programs. We just have, like, a mass multifamily list. So I think it was definitely known about. It may just be because the HOME program has a lot more hoops --

MS. CARRINGTON: Restrictions.

MS. BOSTON: -- and restrictions, it's not as appealing of a fund. I know we've had people who have applied for our Preservation Incentives Program, purposely avoiding the HOME preservation funds. It may be as the incentive program funds, if those get used up and the sources don't continue to increase, people may not have that as a choice. So maybe it would move people back over to the HOME side.

MS. CARRINGTON: Yes, I think the developers and the applicants are definitely going to go after the funding source that is the most flexible funding source. The HOME program certainly has some very cumbersome -- can I use the word cumbersome, Suzanne?

MS. PHILLIPS: Yes, ma'am.

MS. CARRINGTON: It has some cumbersome

restrictions. I think one of the other factors is that over the last couple of years, I think that the development and the applicant community is building up a comfort level with the department and willing to participate with us. I mean, there certainly have been developers and others in the past who have said, I'm never going to apply for HOME funds again because you all make it so hard; you make it so cumbersome, et cetera.

I think when you look at what happened with our single family NOFA of 102 million, I mean, that's a huge over-subscription. I see that as a couple of things. Yes, I see it as there's a need out there. And so it's reflective of that need, but I think it's also reflective of some applicants who are saying we are happier with what's going on at TDHCA and we're willing to come and apply for your funds.

CHAIRMAN CONINE: Maybe this is something, you know, you work with Ms. Chatham's group with, as a for instance. When I drive around the state of Texas and go through little town after little town after little town, it's easy to find a 20, 30, or 40 unit project that's run down, beat up, and needs some help.

Now, the question is -- have we designed our program, within the flexibilities that the HOME program allows, to market to the doctors, dentists, or whoever, the banker in that town, whoever owns that complex, to get it to him? Does he even know we exist? I think that's the real challenge here. I think it is a marketing problem.

And so I'd like to hear some thoughts from you on that problem, having that project in your head. You know, how can we better reach that particular project? To spend 6,000 a unit should be a piece of cake, almost, for these things.

MS. BOSTON: I guess a part of it, too, is the scenario that you're giving as existing, is it already subsidized?

CHAIRMAN CONINE: No.

MS. BOSTON: Was it just be by nature of being in a community that may just be a very rural community and that the rents are just low enough to probably qualify? Right now, definitely all three of our programs are kind of geared towards there has to be a subsidy on the property first for it to be deemed preservation. Perhaps that's something we want to look at as we move forward as well.

CHAIRMAN CONINE: Between Ms. Chatham's group and Sox Johnson's group, I would think you should be able to get some marketing feedback from them. I'd be curious to hear what they had to say when we talk about this the next time.

Go ahead. I didn't mean to stop you in the middle of your presentation.

MS. BOSTON: Okay.

MS. CARRINGTON: I think I stopped it.

CHAIRMAN CONINE: It's her fault.

MS. BOSTON: Okay. The next one is the Housing Tax Credit program. In that, we have the at risk set-aside that was created with Senate Bill 322. Obviously, the actual authority is through the Internal Revenue Service to do it, to issue the credits, but then the set-aside itself is a state mandate.

It's 15 percent of our region. Well, it's 15 percent of each region. So the way I have it written in here is that it's estimated to be 5.9 million. However, because it's 15 percent of each region, and there were no applications in some regions, cumulatively you may not end up with 15 percent across the state, because it doesn't roll into another region if there are no applications.

So the 2004 credit ceiling is about, as I said, 5.9 million that we think would be if there were enough applications in each region. That is not open cycle.

That's once a year with the 9 percent credit ceiling.

Let's see. On the credit program, it is partially defined in 2306. And then we've added a little bit over the past couple of rounds of QAP revisions. Similar to HOME, it does have to have bene subsidized already and there's a specific list of funding sources, although it's a pretty comprehensive list. It does include Section 42. So basically someone who had been funded under 42 could come back under at risk.

They have to be at risk. Basically, the funding is expiring in the next two years. Additionally, we have expanded the definition to also include housing authorities that are going to do rehab or reconstruction with HOPE VI or their capital funds.

Again, as with all other rehab on credit, there has to be at least 6,000 a unit of hard costs. For this program, it's the 30 year affordability period.

And then we started doing it in 2002. In 2002, we did 2.8 in credits, which was for eight developments, which was undersubscribed. In '03, we did 3.3 in credits, which was 16 developments and was kind of just almost subscribed as 1 to 1. This year, it looks like it's the first year we're over-subscribed, but once things fall out for eligibility and feasibility, I don't know that that will still be the case. So we'll have to kind of wait, and look in June or July, and see how it pans out for '04.

CHAIRMAN CONINE: The point is we're making progress.

MS. BOSTON: Definitely. I think this one, for sure, the first year I think a lot of people didn't quite know how it was going to work. I definitely heard from the applicant pool on the credit side that they're harder to make the mark and they're less profitable. So I think now that people have really seen, because they've been undersubscribed, as long as you put together an application that meets all of our eligibility requirements and is feasible, you've got very strong odds of getting your credits. So I think that's bene an indicator of the increase.

CHAIRMAN CONINE: Okay.

MS. BOSTON: Also, just so you know, the deals that come in as USDA, if they're doing rehab, they qualify as at risk. They don't always necessarily check the box telling us that they're going in both set-asides, but Tom mentioned to me, right before I got up, that the rural rescue deals would technically qualify as these as well.

The last program is the Preservation Incentives Program. It's the one that's actually been called a lot of different names over the years. I think the one that people most commonly refer to it as is, it's the junior lien fund. Basically, this program also is created under 2306.

It didn't have a source. It was just indicated that we needed to have the program. And so over the years, we've used three different sources. We've used junior lien proceeds, proceeds that stemmed from the Below Market Interest Rate program, and residual funds from 1983 bond series.

Right now, we have some activity for this program proposed for the board meeting tomorrow. If that activity is approved, we will be at about 1.2 million as our remaining balance for this program. Basically, at this point, after tomorrow, any funds from the BMIR program will have been depleted. The junior lien and residual funds would be depleted. So it's not clear in the future, once this 1.2 is used up, what a source would be for this program.

These are open cycle NOFAs. They just apply as they are interested. They're first come, first served. They are not allocated regionally.

This is one where the preservation definition is actually defined in the legislation. It kind of has two different classes. One is that it has a federal subsidy and it at risk of nearing expiration. The other is that it's just any other multifamily housing with affordability restrictions, but is not necessarily expiring.

This is the one fund that we do not necessarily have a minimum requirement of rehab for the development. If someone's coming in under one of these classes, they could just come in for the acquisition, which would extend the affordability, but they may not necessarily have to do rehab. That's as it exists right now.

The affordability period is the greater of a 30 year period or the period of time after the recipient takes legal possession of the housing under the remaining term of the assistance. It's actually written that way in the legislation, which is why it sounds a little strange and it doesn't really jibe with any of our other definitions, but we're doing exactly what it told us to in 2306.

Cumulatively, up to this date, we have awarded 4.7 for seven developments.

I had provided on the back, we just provided you a writeup about the BMIR program because occasionally I hear people talk about it and they talk about the

Preservation Incentive Program as though that also is BMIR. And so this kind of provides you the history and helps show that it's a different program.

Any questions?

CHAIRMAN CONINE: No, not really.

MS. BOSTON: Okay.

CHAIRMAN CONINE: You did a good job. It was pretty informative. Just work on the marketing side is all I can say.

Any other questions from you, Mr. Gonzalez?

MR. GONZALEZ: No, sir.

CHAIRMAN CONINE: That's all I had on the agenda for this particular meeting. We don't need an executive session. Do you have anything else, Ms. Carrington?

MS. CARRINGTON: I'd like to ask the committee what you all want to consider --

CHAIRMAN CONINE: Next time?

MS. CARRINGTON: -- next month.

CHAIRMAN CONINE: I think --

MS. CARRINGTON: Or would you like to give us a month off?

CHAIRMAN CONINE: No.

MS. CARRINGTON: No? We're scoring

applications. We're working on our strategic plan. We're --

CHAIRMAN CONINE: No. I think I'd like to look at Section 8 next time and that program and we might as well look at the Housing Trust Fund.

MS. CARRINGTON: Okay.

CHAIRMAN CONINE: Those two. Do you have any thoughts, Mr. Gonzalez?

MR. GONZALEZ: No, that sounds good.

MS. CARRINGTON: Now, would that be for the early June meeting or the late June meeting?

CHAIRMAN CONINE: The late June meeting will be all those other things that we do in late June. They'll probably be swirling about that time.

MS. CARRINGTON: Yes, I'm seeing a mouthing of early.

CHAIRMAN CONINE: I think early would be the appropriate meeting.

MS. CARRINGTON: Okay, early June.

CHAIRMAN CONINE: Seeing nothing else to come before the committee, it stands adjourned. Thank you for being here.

MS. CARRINGTON: Thank you.

(Whereupon, at 5:45 p.m., the meeting was adjourned.)

C E R T I F I C A T E

MEETING OF: TDHCA Programs Committee
LOCATION: Austin, Texas
DATE: May 12, 2004

I do hereby certify that the foregoing pages, numbers 1 through 83, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

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