

BEFORE THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING )  
 )  
 )

Capitol Extension  
Room E1.012  
1400 Congress Avenue  
Austin, Texas

Thursday,  
June 13, 2002

The above-entitled board came on for  
meeting, pursuant to notice, at 10:00 a.m.

BOARD MEMBERS:

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

STAFF:

EDWINA CARRINGTON, Executive Director  
RUTH CEDILLO  
DAVID GAINES  
BILL DALLY  
BYRON JOHNSON  
SARA NEWSOM  
WALT VEGA  
ANNE PADDOCK  
DAVID BURRELL  
TOM GOURIS  
ROBERT ONION  
BRENDA HULL  
SARAH ANDERSON

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P R O C E E D I N G S

1  
2 MR. JONES: I would now like to call to order  
3 the board meeting for the Texas Department of Community  
4 and Housing Affairs for June 13, 2002.

5 The first order of business is the roll call.  
6 Ms. Anderson?

7 MS. ANDERSON: Here.

8 MR. JONES: Mr. Bogany?

9 MR. BOGANY: Here.

10 MR. JONES: Mr. Conine?

11 MR. CONINE: Here.

12 MR. JONES: Mr. Gonzalez?

13 MR. GONZALEZ: Here.

14 MR. JONES: Mayor Salinas?

15 MAYOR SALINAS: Here.

16 MR. JONES: Mike Jones is here so we have 100  
17 percent attendance. I declare we have a quorum.

18 Our next order of business is the public  
19 comment. I have two witness affirmation forms. The first  
20 one is from Mr. Schwartz and I know that Mr. Schwartz  
21 would prefer to talk at the time his item on the agenda  
22 comes up; I think that's an assumption I can safely make.

23 Thank you. The other witness affirmation form I have,  
24 the name is signed but it's not -- Ken Mitchell.

25 Mr. Mitchell, would you like to speak now or at

1 an agenda item?

2 MR. MITCHELL: When my item is presented.

3 MR. JONES: Okay, I'll put you down for the  
4 agenda item. Thank you.

5 Is there anyone else that would like to provide  
6 public comment to the board? Yes, sir?

7 MR. HULL: Yes, but later on.

8 MR. JONES: And which agenda item?

9 MR. HULL: 10 and 11.

10 MR. JONES: 10 and 11, thank you, sir. Anyone  
11 else?

12 (No response.)

13 MR. JONES: Hearing from nobody, we will then  
14 close the time for public comment and take those  
15 individuals up who would like to speak on agenda items.

16 Having done that, I think the next thing on our  
17 agenda is item number 1 which is the presentation,  
18 discussion, and possible approval of the minutes of the  
19 board meeting of May 9, 2002.

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

22 MR. JONES: There is a motion that the minutes  
23 be approved. Is there a second?

24 MR. BOGANY: Second.

25 MR. JONES: A motion has been made and

1 seconded. Further discussion? Hearing none, I assume  
2 we're ready to vote. All in favor of the motion, please  
3 say aye.

4 (A chorus of ayes.)

5 MR. JONES: All opposed, nay.

6 (No response.)

7 MR. CONINE: Abstain.

8 MR. GONZALEZ: Abstain.

9 MR. JONES: We have two abstentions: Mr.  
10 Conine and Mr. Gonzalez.

11 We will then move to item 2 of the agenda, and  
12 Ms. Carrington, would you like to introduce it and we will  
13 go to Mr. Schwartz.

14 MS. CARRINGTON: Thank you, Mr. Chairman. As  
15 part of the Senate Bill 322, our Sunset legislation, a  
16 Disability Advisory Committee was set up to assist the  
17 board in developing policies and to work with the staff on  
18 addressing persons and individuals with disabilities, and  
19 that committee has been meeting since January of this year  
20 with staff on a monthly basis, has been working with Sarah  
21 Anderson to have presentations from various staff so they  
22 can better understand the funding and the programs at  
23 TDHCA. And Jonas Schwartz who is the current chairperson  
24 of that Disability Advisory Committee met with us this  
25 morning and has presented a series of recommendations that

1 are in the board packet, and Jonas will be presenting  
2 those recommendations to the board this morning.

3 MR. SCHWARTZ: Good morning. Chairman Jones  
4 and members of the board, my name is Jonas Schwartz, and  
5 as Ms. Carrington said, I'm currently serving as the chair  
6 of the Disability Advisory Committee for the department,  
7 and I'm very pleased to be here this morning to present to  
8 you our first set of recommendations geared toward  
9 improving the programs and services that the department  
10 provides for persons with disabilities to better  
11 accommodate and address the housing needs that people with  
12 disabilities in our state have.

13 Ms. Carrington gave you a good overview of how  
14 the committee came into being and did say that we have met  
15 since January with staff on a monthly basis to do two  
16 things: to try to better understand the programs and  
17 services that the department offers, and then look at ways  
18 to further enhance those programs and services to  
19 accommodate the housing needs of individuals with  
20 disabilities.

21 I'd like to take a minute and tell you who's on  
22 this committee besides myself. You all appointed five of  
23 us to serve in this capacity on the board in October of  
24 2000, and I'm serving as chair. I work for Advocacy,  
25 Inc., which is the protection and advocacy organization

1 for people with disabilities in the state of Texas. Jean  
2 Langendorf, who works for United Cerebral Palsy of Texas,  
3 serves on the committee; David Wood from Bank One, also  
4 from Houston, serves on the committee; Michelle Crain who  
5 works for the Life Run Center for Independent Living in  
6 Lubbock and Amarillo, Texas; and Ann Denton who works for  
7 the Enterprise Foundation here in Austin comprises our  
8 advisory committee.

9 Jean and Ann and myself are here this morning,  
10 and Jean and Ann are sitting close up to the front.

11 MR. JONES: Thank you for your service.

12 MR. SCHWARTZ: We have really enjoyed our work  
13 on the advisory committee. In January and February we  
14 spent a lot of time listening and learning from each of  
15 the staff that work in the different housing programs that  
16 are administered by the department. So we've learned a  
17 lot and we really appreciate all the time and effort that  
18 staff have put into giving us the information that we need  
19 to begin to do our work, and I especially want to say  
20 thank you to Sarah Anderson who has been our staff liaison  
21 for the work that we've done and she's been great, and the  
22 staff support that we've had from the department has been  
23 excellent.

24 I'd like to start now by just sharing with you  
25 our recommendations and they really fall into three

1 categories; we've got general recommendations for the  
2 agency as a whole, and then we've got some overall program  
3 recommendations, and then we've got some specific program  
4 recommendations.

5 The first ones that I'd like to begin with are  
6 the general recommendations for the agency as a whole, and  
7 our first recommendation is improved commitment to people  
8 with disabilities demonstrated by significant  
9 participation in the State of Texas Olmstead plan  
10 implementation.

11 And just to tell you very briefly, the Olmstead  
12 decision was a decision that was passed the United States  
13 Supreme Court in June of '99 and basically that decision  
14 said that anyone who is living in an institutional  
15 setting, be that a state school for individuals with  
16 mental retardation, a nursing home, or a mental health  
17 facility, if they're living in an institution and the  
18 individual wishes to move back out into the community with  
19 the appropriate support services so that they may live in  
20 the community and not in an institutional setting, the  
21 court decision said the state has an obligation to, to the  
22 best of its ability, provide services to individuals in  
23 the community with the appropriate support so that they do  
24 not have to live in an institution but they have that  
25 choice to move back into the community or move to the

1 community for the first time.

2           The court decision further said that each state  
3 shall come up with a comprehensive effectively working  
4 plan to describe how they're going to allow individuals  
5 the opportunity to move from the institutional setting  
6 back into the community. The State of Texas and the  
7 Legislature passed last session the Promoting Independence  
8 Plan.

9           Well, housing is a crucial component to the  
10 fruition of this plan because as an individual is moving  
11 from an institution where they're currently living out  
12 into the community, they need to have a place to go, they  
13 need to have a home to go to, be that an apartment or a  
14 home or a place of their choosing. So we look forward to  
15 the department playing a very key role in helping to  
16 facilitate the development of housing for individuals that  
17 fall under the Olmstead decision.

18           Our second recommendation is continued  
19 commitment of a minimum of \$30 million from the housing  
20 programs and housing finance programs including activities  
21 beneficial to people with disabilities such as barrier  
22 removal, rental assistance, and down payment assistance.  
23 You all are doing this. Okay? This last year the numbers  
24 that I looked at you spent \$34 million in this effort. We  
25 want to continue to support that and hope to see it

1 increase over time.

2           Revise your policy development process to  
3 routinely include a review of agency planning documents by  
4 the Disability Advisory Committee. What we're asking for  
5 is that as part of the policy development process at some  
6 point there be a step in there where the documents come  
7 before the Disability Advisory Committee so that we can  
8 look at them and give you input on how the policies that  
9 you're developing will impact the housing needs of  
10 individuals with disabilities.

11           The department workload has steadily increased  
12 over the years without additional staff. We recommend  
13 additional full-time equivalent employees be added to the  
14 agency cap to accommodate specific additional activities  
15 to benefit people with disabilities and the implementation  
16 of the Olmstead Supreme Court decision. That's pretty  
17 self-explanatory, and when the time comes I can tell you  
18 we as advocates will be helping in whatever way we can to  
19 advocate for more FTEs.

20           The agency needs to seek and commit resources  
21 to conduct an in-depth study of the housing needs and  
22 preferences of people with disabilities. Currently the  
23 Texas Department on Aging is conducting a housing needs  
24 study for people who are elderly and it's very  
25 comprehensive, and we would ask that the department look

1 at committing resources to a similar study to look at the  
2 housing needs and preferences of individuals with  
3 disabilities.

4           Commit to board training regarding people with  
5 disabilities per your Sunset Legislation requirement. In  
6 our meeting this morning, Ms. Carrington said that you all  
7 have begun your board training process, I understand you  
8 began part of it last night, and so we look forward to  
9 providing whatever assistance we can provide as an  
10 advisory committee when you come to the component in your  
11 training where you're receiving training about the housing  
12 laws and issues that affect individuals with disabilities.

13           Our overall program recommendations:

14 Integration of people with disabilities must be evident in  
15 every program's rules and descriptions. After receiving  
16 public input, the Disability Advisory Committee will  
17 present a comprehensive definition of integration for the  
18 board to consider. Part of the work that the advisory  
19 committee has done over the last five or six months is to  
20 seek public input from the disability community as a whole  
21 in some of these recommendations that we're presenting to  
22 you today to make sure that we are really presenting  
23 recommendations that most of the disability community can  
24 support. So we had public comment at two of our meetings;  
25 people came to both meetings to give us input on the

1 direction that these recommendations are going.

2 I can tell you that one of the things we'll be  
3 looking at is the policy of integration that the board  
4 adopted a couple of years ago, looking at the definition  
5 and making it more of an operational definition that will  
6 work well for the department and make it easier for the  
7 department to implement the concept of integrated housing  
8 in all the programs that you administer.

9 Compliance with Section 504 of the  
10 Rehabilitation Act of 1973, the Americans with  
11 Disabilities Act, and the Fair Housing Act must be evident  
12 in every program. This includes implementation of a  
13 mandatory self-assessment as part of the application  
14 process. What we mean by that, when you have a housing  
15 provider apply for funds from the department, we want to  
16 ensure that they understand the basic laws that affect  
17 people with disabilities in a real practical kind of way.

18 If they are a housing provider and they are providing  
19 housing services and people who need their services come  
20 to their offices, we want to ensure that their offices are  
21 accessible because we have come into situations where a  
22 housing provider is providing service and a person with a  
23 disability comes to that housing provider to access the  
24 services and the office and the place where the services  
25 are delivered, be that if you have to come and fill out an

1 application, they're not accessible and people can't get  
2 in.

3           So what we're asking for in this definition is  
4 that as part of the application process when somebody  
5 applies for funding that they have a self-assessment that  
6 they have to fill out themselves, and that really kind of  
7 raises their awareness about what we're talking about when  
8 we're talking about accessibility and that kind of thing,  
9 and that if they're awarded the funds that they, based on  
10 this self-assessment, sign some assurances that they are  
11 indeed accessible and people can get in and receive the  
12 services that they provide.

13           Some of our specific program recommendations  
14 for the HOME Program -- and I'm going to talk about  
15 tenant-based rental assistance for a moment -- tenant-  
16 based rental assistance is the fastest and easiest way for  
17 extremely low income households, such as the households of  
18 people with disabilities, to access existing housing. The  
19 20 percent target that the department currently has in  
20 place for tenant-based rental assistance program needs to  
21 be exempt from the regional allocation formula.

22           People with disabilities, many of whom -- not  
23 all, but many of whom fall in the 30 percent and below  
24 income category, if they're on Supplemental Security  
25 Income, if that is their main source of income -- and SSI

1 comes through the Social Security Administration -- the  
2 current benefit rate for people living in Texas is \$445 a  
3 month. Well, that's not a lot of money and you can't even  
4 find a one-bedroom apartment unit for \$445 in most places  
5 in Texas, and that income has to stretch and meet all of  
6 their needs, and so tenant-based rental assistance is an  
7 example of having a subsidy to assist an individual with  
8 help with some of their rental costs every month so that  
9 they can live in an apartment and live in the community,  
10 and we would like for the 20 percent target to be exempt  
11 from the current regional allocation formula.

12 We would like the department to do an  
13 assessment of the effect of the 95 percent rural  
14 requirement on people with disabilities. With 95 percent  
15 of the HOME funds going to rural communities, that makes  
16 it harder for people with disabilities to access, and I'm  
17 not saying that people with disabilities do not live in  
18 rural communities because they do, but a lot of people  
19 with disabilities live in the more urban areas also and  
20 they do that because there are services and supports in  
21 the urban areas more so than in the rural areas,  
22 particularly in the arena of transportation.

23 Housing Trust Fund. Capacity-building money  
24 needs to target organizations identified as needing to  
25 build capacity; it should not be awarded to organizations

1 that already have capacity.

2           And then lastly, for the Public Housing  
3 Authority and Section 8 program, we would ask that the  
4 department apply for the Mainstream Housing vouchers which  
5 is a program administered by HUD that TDHCA could take  
6 advantage of; if necessary, contract out the  
7 administration of these vouchers, and then implement the  
8 35 Project Access vouchers and please apply for more.

9           Project Access is a special initiative that was  
10 designed by Housing and Urban Development specifically for  
11 individuals with disabilities who fall under the Olmstead  
12 decision that I talked about earlier. These are Section 8  
13 housing vouchers for people coming out of institutions who  
14 want to live in the community. HUD gave these Access  
15 vouchers to many states; Texas received 35 of them. There  
16 is a process going on right now to quickly utilize these  
17 vouchers and the department is working in very close  
18 partnership with the Texas Department of Human Services  
19 and Health and Human Services Commission to have a process  
20 where people coming out of institutions get these  
21 vouchers, and TDHCA has worked very hard on their end to  
22 make sure that all of the processes are in place for when  
23 people are ready to receive the vouchers.

24           We appreciate the hard work that the department  
25 has done and we know that it's been quite a challenge for

1 the department to also work with the other health and  
2 human services agencies that have to be involved in this  
3 process.

4 That concludes our recommendations. Although  
5 the advisory committee did not have a recommendation for  
6 each of the programs administered by the department at  
7 this time, it is our intent to bring recommendations to  
8 you on a quarterly basis and we will develop  
9 recommendations for each of the programs over time. We  
10 look forward to working with the board on the  
11 implementation of these recommendations as well as future  
12 recommendations to improve the housing options for people  
13 with disabilities in our state. Thank you very much for  
14 this opportunity.

15 MR. JONES: Thank you. Any questions? Mr  
16 Conine?

17 MR. CONINE: You mentioned that the group was  
18 going to be reporting back to the board quarterly. How  
19 frequently is the advisory group meeting? Are they on a  
20 monthly basis, or what, going forward?

21 MR. SCHWARTZ: We have met monthly and it is  
22 our wish to continue to meet monthly.

23 MR. JONES: Any other questions, comments?  
24 Thank you so much for your report and I sure hope you'll  
25 let Jean and David and Michelle and Ann -- I can say it to

1 Ann and Jean here today -- how much we appreciate all  
2 their hard work. Thank you so much. Look forward to  
3 working with you.

4 MR. SCHWARTZ: Thank you.

5 MR. JONES: That brings us to item number 3  
6 that is the presentation and discussion on the report from  
7 the Association of Rural Communities of Texas.

8 Ms. Carrington, would you like to carry on with  
9 this too?

10 MS. CARRINGTON: Thank you, Mr. Chairman. One  
11 of the things that happened at the last legislative  
12 session was the creation of an organization -- a state  
13 agency, rather, that's ORCA which is the Office of Rural  
14 Community Affairs, and ORCA is actually officed in our  
15 building, and our CDBG program and local government  
16 services program went over to ORCA, and the thrust behind  
17 the creation of the state agency was to focus on issues  
18 for rural areas, housing to some degree, community  
19 development, health, infrastructure issues.

20 There was an organization created several years  
21 ago called ARCIT, Association of Rural Communities in  
22 Texas -- right, Donna? -- and a good friend of ours from  
23 the last legislative session, Donna Chatham, who for a  
24 long time worked for Chairman Carter who chaired Urban  
25 Affairs, Donna was very instrumental and very important on

1 the housing issues during the last legislative session.  
2 Well, Donna has now gone over to ARCIT and she is here  
3 this morning to talk about their organization and what it  
4 is they're focusing on and what it is they're planning on  
5 doing, so Donna.

6           MAYOR BERGER: Allow me to introduce myself.  
7 I'm Lori Berger, the mayor of the City of Flatonia; I'm  
8 also a board member for ARCIT. I'd like to read the list  
9 of other board members we have: Jim Dunaway, city manager  
10 for the City of Elgin; Danny Fryer, city manager for the  
11 City of Stanton; Emmett Alvarez, executive director of Bay  
12 City Community Development Corporation; the Honorable Mike  
13 Brown, Tom Green County judge; the Honorable Richard  
14 Evans, Bandera County judge; Jesus Garcia, city manager  
15 for the City of Stockton; the Honorable Mike Mauldin,  
16 mayor, City of Idalou; and Sunny Philip, city manager of  
17 La Feria; and also the Honorable Arnoldo Saenz, Jim Wells  
18 County judge.

19           I think everyone knows here our executive  
20 director Donna Chatham; we're very happy to have her on  
21 board leading us and pushing us in the right direction, we  
22 hope.

23           I'd like to read our mission statement. After  
24 doing a retreat and also a couple of meetings, we've  
25 decided that this best represents our association. "By

1 being a strong voice and resource to government, we  
2 promote the policy of best practices and the delivery of  
3 public services to enhance the quality of life for all  
4 rural Texans." And I think that pretty much sums up what  
5 we intend to do. We want to let you know that we want to  
6 be a helping hand and a guiding hand if you ever need it,  
7 and we'll be there to assist you in any way we can.

8 MS. CHATHAM: Good morning. It's kind of fun  
9 to sit on this side of the bench. I'm thankful, first of  
10 all, to have the privilege of serving the chair for three  
11 years and going through two sessions; I learned an awful  
12 lot from Chairman Carter -- still do. I also honestly  
13 learned a lot from working with the TDHCA staff and  
14 watching Chairman Jones, and before Chairman Jones,  
15 Chairman Bethel, run a very efficient board as you learned  
16 and grew, like we all do.

17 MR. JONES: We just did it the way you told us  
18 to; whatever you said do, we did.

19 (General laughter.)

20 MS. CHATHAM: We all need one another, right,  
21 Chairman Jones? That's what a team is all about, and I'm  
22 very, very thankful to have got to cut my teeth, so to  
23 speak, on the state legislature, coming from a city  
24 planning background, I had no experience in the state  
25 legislature, so I honestly came to appreciate deeply the

1 role of state boards, the role of the state legislature  
2 because the issues you ladies and gentlemen face are very  
3 broad and very deep, and that's why you need staff, and I  
4 came to learn too that's why you need advocacy groups and  
5 that's why you need lobbyists, it takes a team.

6           ARCIT was formed, as Edwina was sharing, right  
7 before the 77th session as primarily the smaller cities  
8 found out that House Bill 7 was coming down and they  
9 wanted to be able to give some input and watch it go along  
10 the process. It was founded by the rural leaders just  
11 before the 77th session, as I shared, in order to provide  
12 a new resource for preserving and improving the quality of  
13 life in rural Texas.

14           I know when I had the privilege of working for  
15 the chairman, I wanted to be able to go at a one-stop shop  
16 to hear from the rural communities, and I enjoyed and I  
17 still do. We sat down and already talked with Texas  
18 Municipal League and Frank Sturgell and his staff.

19 Shanna, when she works during the legislative session,  
20 obviously TML has to attack such a broad range of issues,  
21 they didn't have the privilege and the time of going down  
22 to the programmatic level, and that was primarily why  
23 ARCIT was originally formed.

24           Somebody was asking me just the other day: And  
25 where are we going to go from here? Well, we're evolving,

1 so the very bottom line, because you're looking at the  
2 only staff that ARCIT has, the board has identified to  
3 primarily help to give TDHCA assistance on rural needs so  
4 you can have a one-stop shop to go to see what the rural  
5 cities and counties and economic corporations and water-  
6 sewer-utility districts are needing.

7           And once we talked to Frank, too, he didn't  
8 have any problems with us forming, understandably so, and  
9 he even said when we sat down -- and Danny Fryer who sits  
10 on the board who is the city manager of Stanton who sits  
11 on the Small Cities Advisory Committee for TML, we sat  
12 down and talked with Frank, the ED of TML, and he said,  
13 Once you get to 300, we don't have any problems, maybe  
14 even start deferring to you for rural issues. So that's  
15 our mission right now; our membership is right at 100 and  
16 the charter membership was right at around 70 when it  
17 formed around a year and a half ago, and as you well know,  
18 without staff you can't do too much because these city  
19 managers and mayors, they have other things to do; I just  
20 don't know why they didn't do more. But obviously you can  
21 only grow as much as you have staff to be able to do  
22 because these ladies and gentlemen have so much  
23 themselves.

24           So we've been in a membership drive technically  
25 for probably the last 2-1/2 weeks. We are reaching out to

1 the 1,200 cities and counties, basically about 1,023  
2 towns, to be exact. The membership includes, it shows you  
3 on page 4: incorporated cities, potential membership with  
4 a population of 50,000 or less; counties with a population  
5 of 200,000 and less; economic development corporations  
6 formed and controlled by a qualified city or county; a  
7 district or other entity formed under state law to provide  
8 water or utility sewer services in a qualified city or  
9 county. Like I shared with you, about 1,000 towns that  
10 qualify, there's around 217 counties that qualify, there's  
11 400 economic development corporations that we're reaching  
12 out to, so this one staffer has a lot on her hands.

13           Also, very thankfully, we're starting to  
14 organize things per region and getting volunteers per  
15 region, and I'm starting to set up a membership drive that  
16 has kind of like a volunteer per each region, so our  
17 goal -- and you can hold me accountable and ask me,  
18 Chairman Jones -- our goal is to reach the 300 mark by the  
19 end of August and then it's the next 500 mark, because the  
20 whole purpose of ARCIT is to develop a broad-based  
21 membership in order to serve state agencies, in order to  
22 serve the legislature so you can have that one-stop shop  
23 to understand what do the rural cities and the counties  
24 and economic development corporations, what's best for  
25 them.

1           As Lori shared, at the board retreat the board  
2 did an excellent job of all sorts of things, and one of  
3 the things they established was the mission statement, and  
4 you know, that's kind of tough to develop a mission  
5 statement that's broad enough and still specific enough to  
6 share what you're all about. And truly by being a strong  
7 voice and a resource to government, and that's what we  
8 want to do.

9           On page 7 it talks about some more specific  
10 membership goals and legislative goals that the board  
11 established. They talked about developing, as I shared  
12 earlier, a membership base that will represent a broad  
13 cross-section of rural Texas so, one more time, you will  
14 have a one-stop shop to come ask: how does this affect  
15 rural Texas; how does this affect the small cities and  
16 counties that are less populated in Texas?

17           And the legislative goal is we desire truly to  
18 build a reputation of being a policy facilitator for rural  
19 Texas, and I love the definition of what a facilitator is  
20 because a facilitator truly does bring people together.  
21 We're not here to put a thumb on anybody. We're here to  
22 serve you, we're here to bring the expertise of the mayors  
23 and the city managers and the county judges from rural  
24 Texas here to serve you and to let you know what we're  
25 doing.

1           On page 8 it tells you more specifically some  
2 ways that we can do this. Within the next couple of weeks  
3 we're going to conduct our first quarterly survey. We  
4 want to go out to all the potential cities and counties  
5 that are our membership to ask them what are their needs  
6 and their desires. For example, here's a case in point,  
7 we've been hearing a lot at TDHCA and also ORCA about what  
8 is local capacity, what does that mean, what does the  
9 mayor of Flatonia, when she thinks of local capacity, what  
10 does she think? There's been a lot of things thrown  
11 around about what that means and there's a lot of things  
12 it could mean.

13           So there's been a few things that have been  
14 identified but we'd like to encourage you to help you go  
15 to even a broader level of what does that mean, what does  
16 it mean to the mayors and the cities and counties of rural  
17 Texas, and that's why we're here.

18           The quarterly surveys -- and with your  
19 permission, I'll e-mail you something in a couple of days  
20 to get the board input, and Edwina, I'll definitely keep  
21 you in the loop as far as if you choose to e-mail back to  
22 me and let me know any questions that you would like to  
23 see on that survey. Coming from a city planning  
24 background, I want to make sure the survey is not biased,  
25 and I pledge to you right now that it will be an unbiased

1 survey, and that way we'll also present the information  
2 back to you.

3 We did a presentation at the ORCA board meeting  
4 in Nacogdoches last Friday and I e-mailed them, I'm  
5 already beginning to get their response on things that  
6 they would like to see on the survey. So one more time,  
7 we're here to serve you.

8 Also, we're talking about doing roundtables,  
9 just like I shared with you, about what is perhaps like  
10 the definition of local capacity. If this is something  
11 that my board decides is an issue that they really would  
12 like to look into, we would like to help you sit down  
13 proactively and look at something like this to bring some  
14 more issues to the table to maybe help become, one more  
15 time, a policy facilitator for you and bringing the  
16 expertise of the rural cities to the table for you for  
17 that one-stop shop.

18 The bottom line is on page 9 it talks about why  
19 did we choose surveys and roundtables. Well, the American  
20 Planning Association did a study which determined that the  
21 most effective means of gaining true public involvement  
22 included surveys and advisory groups and ad hoc committees  
23 because these tools show that they're excellent at  
24 obtaining accurate and relevant information, excellent in  
25 obtaining genuine interaction, excellent in ensuring the

1 quality of the information, excellent in the  
2 representation of the constituency.

3           And I'm going to say personally I had the  
4 privilege of, for instance, watching your Low Income  
5 Housing Tax Credit Program evolve to such a place of being  
6 so inclusive, of always wanting to hear every developer,  
7 the lenders, everybody's input, and you really did set a  
8 precedent, I firmly believe, of how a program should  
9 develop, how it should be an open process, how you should  
10 bring everybody to the table before programmatic things  
11 are decided that can affect the constituency, that can  
12 affect the service and the providers. You have done an  
13 excellent job.

14           ARCIT is excited to walk beside TDHCA as its  
15 partner as we journey down this road together to how to  
16 best serve rural Texas, and please let us know if we can  
17 help you with anything.

18           MR. JONES: Thank you, Donna.

19           MS. CHATHAM: You're welcome.

20           MR. JONES: Any questions, comments?

21           Yes, Mr. Conine?

22           MR. CONINE: Congratulations and wish you well  
23 in this particular endeavor.

24           MS. CHATHAM: Thank you.

25           MR. CONINE: One of the things I guess probably

1 specific to this particular agency is a group that's been  
2 out there for quite a long time and the icon, if you will,  
3 of rental rural housing, Sox Johnson, I see him sitting  
4 out in the audience. Can you tell me how your group plans  
5 on interfacing with some of the practitioners that Sox has  
6 on his particular group?

7 MS. CHATHAM: You bet. Sox and I were just  
8 talking a little bit earlier because I've been on board  
9 for about two months, I haven't been able to do everything  
10 yet, and Sox was on my agenda to do to talk to, sit down,  
11 go have a cup of coffee, so I just asked him -- didn't I,  
12 Sox -- right before I came up here that if we can make  
13 sure and get together because his group truly is more of  
14 the stakeholders out in the field that are providing the  
15 actual programs, and we definitely, Mr. Conine, want to  
16 interact with him.

17 MS. ANDERSON: Mr. Chairman?

18 MR. JONES: Yes, Ms. Anderson.

19 MS. ANDERSON: Congratulations to you.

20 MS. CHATHAM: Thank you.

21 MS. ANDERSON: One of the thoughts that crosses  
22 my mind that you could be very helpful with is in our Low  
23 Income Annual Plan that we prepare that's based on survey  
24 data, and I think last year it was a pretty good survey,  
25 it gave us a lot of useful information, but there's always

1 room for improvement and the response rate that we  
2 receive, and so we can only act on the data we receive  
3 back. I know our cities and jurisdictions receive tons of  
4 surveys and they can't possibly answer everyone, and of  
5 course we want them to answer ours, and so one of the  
6 things that you, I hope, can be very helpful with is  
7 encouraging because of your knowledge, Ms. Chatham, of how  
8 we develop policy and how we execute our programs, to  
9 encourage your members to answer that survey when it  
10 comes.

11 MS. CHATHAM: You bet, and thank you for  
12 sharing that, Ms. Anderson, because with your permission  
13 I'll be working with Sarah, Edwina, asking her quarterly:  
14 We're about do another survey; are there any questions  
15 that she would also like to put on there? And perhaps,  
16 too, we can make sure that when you do it once every three  
17 years, I think -- is that correct, Sarah?

18 MS. S. ANDERSON: We're moving forward to doing  
19 a yearly update.

20 MS. CHATHAM: That's great. Then we can just  
21 work in conjunction with that and maybe what they don't  
22 receive on the yearly, we can kind of help you pick up in  
23 the quarterly. That would be great.

24 MAYOR SALINAS: What is it that you are going  
25 to be doing for the rural communities?

1 MS. CHATHAM: Good question. Why don't you  
2 address that, Lori.

3 MAYOR SALINAS: Excuse my ignorance, but what  
4 can you do for the rural communities that ORCA cannot do  
5 by themselves?

6 MS. BERGER: Well, we hope to bring some new  
7 aspects to ORCA from people who actually live and fight  
8 the battle every day in rural Texas. We've got so many  
9 different representatives right now and the more cities we  
10 get involved with, we hope to learn more of their  
11 problems, what their immediate needs are to help guide  
12 ORCA, help guide housing, help guide any state agencies  
13 which may be able to assist them.

14 And I feel like I've been on council and served  
15 as mayor since '91, also lived there all my life, so we  
16 hope that our board members will help bring those aspects  
17 to the table.

18 MAYOR SALINAS: I think one of the things that  
19 you need to do is make sure that all those counties and  
20 all those cities follow the rules because you'll be  
21 surprised that some of those cities and counties in rural  
22 areas are not going by the rules and this is why they  
23 don't get funded.

24 MS. CHATHAM: You bet, right.

25 MAYOR SALINAS: And they will not get any

1 housing assistance if they don't follow the rules.

2 MS. BERGER: Sure, we understand that.

3 MAYOR SALINAS: I think this is the most  
4 important thing that you all can do for the rural  
5 communities.

6 MS. BERGER: I feel that's real important  
7 because if one county or area is taking advantage of the  
8 system, it hurts it for everyone, and we want to make sure  
9 that the assistance remains for everyone who actually  
10 needs it.

11 MAYOR SALINAS: Make sure they have their  
12 services in place and that they follow the model rules on  
13 their subdivisions and they follow the drainage systems,  
14 and if they don't do that, they can't get help from ORCA  
15 or this department.

16 MS. BERGER: That's fine.

17 MAYOR SALINAS: I think that's what they need  
18 to do the most is be sure that they get those things in  
19 place.

20 MS. BERGER: Okay.

21 MS. CHATHAM: And I'll also share that one of  
22 ARCIT's goals when the board set their mission and their  
23 goal statements back in April, was we're also going to be,  
24 starting in September, putting out a monthly newsletter to  
25 the cities and the counties which is also going to

1 continually update them on these new programs that are  
2 coming out. And also, something about ARCIT that we are  
3 being registered as a 501(c)(4) organization which is a  
4 lobbyist organization, so we are representing the  
5 constituency. ORCA, we're so thankful to have them in  
6 place; they are the state agency, and as Edwina knows  
7 about state agencies -- and so does Chairman Jones -- you  
8 just can't lobby, can you.

9 MR. JONES: And we don't.

10 MS. CHATHAM: And I know you don't.

11 MR. JONES: Never happens.

12 (General laughter.)

13 MS. CHATHAM: And that's where also we want to  
14 be able to provide assistance during session too in case  
15 that we can help you with anything, and also with ORCA as  
16 a state agency, you are limited in some things, just like  
17 we're limited in some things.

18 One more time, right, Chairman. It takes a  
19 team, and that's what we're here for.

20 MR. JONES: Amen.

21 Mr. Bogany?

22 MR. BOGANY: Yes. I just would like to  
23 encourage you to get with the Texas Association of  
24 Realtors because they do have lobbyists.

25 MS. CHATHAM: That's great, that's a good idea.

1 MR. BOGANY: They can help with you and I'm  
2 sure they would love to be able to bridge with to help you  
3 get your goals done, and I just think that's an  
4 organization you should be a partner with.

5 MR. BOGANY: Have you got any suggestions of  
6 who you'd like for me to talk to?

7 MR. BOGANY: You need to talk to Benny McMahan  
8 and tell him I asked you to call him because a lot of our  
9 members are in the rural communities and realtors are  
10 typically the windows of the community, and so I would  
11 highly suggest that you try to partner with them to work  
12 with you and help lobby for some of your goals and things  
13 that you think your communities need.

14 MS. CHATHAM: You bet. Thank you.

15 MS. CARRINGTON: I was fortunate to be invited,  
16 what, six weeks ago, two months ago?

17 MS. CHATHAM: Yes, you did.

18 MS. CARRINGTON: Donna had a retreat with her  
19 board, Sam Tessen who is the executive director of ORCA,  
20 and I were invited to participate in the retreat on Friday  
21 afternoon with her board now about two months ago. And we  
22 divided up into groups: If they were interested in  
23 housing issues, they went with me; if they were interested  
24 in more infrastructure issues, they went with Sam. And we  
25 got some really valuable feedback at that meeting about

1 how TDHCA could be looking at their programs, making  
2 modifications in programs that could be utilized more  
3 efficiently and effectively by the rural communities. So  
4 on this needs assessment, getting surveys back, I feel  
5 like we had some really good discussions, so I think we've  
6 started those communications of being able to get the kind  
7 of feedback we need from folks who serve the rural  
8 communities.

9 MS. CHATHAM: You bet. And I meant to give  
10 Edwina an "atta girl" -- not that she was asking for it --  
11 but we are so thankful to have Edwina on board, and my  
12 board -- weren't you, Lori? -- they were so impressed with  
13 Edwina and the professionalism.

14 MR. JONES: You can stop right there; she's  
15 going to want a raise and that's a problem; don't go any  
16 further.

17 (General laughter.)

18 MS. CHATHAM: We're thankful to have Edwina on  
19 board and be able to serve you.

20 MAYOR SALINAS: The other thing you need to do  
21 is contact the attorney general and they'll give you a  
22 list of all those people that you need to talk to and  
23 probably help.

24 MS. CHATHAM: Great.

25 MAYOR SALINAS: They should have a list.

1 MR. JONES: Anything else? Thank you so much  
2 for being here, we appreciate it; we look forward to  
3 working with you.

4 I would like to take this opportunity, there  
5 are a few -- Donna, using one of your words, there are a  
6 few of our facilitators and friends here today that I'd  
7 like to recognize. We have Ed Robertson and Paul Hudson  
8 here from the Governor's Office. We appreciate you being  
9 here. We have Johnnie Morales, our good friends from the  
10 Speaker's Office; Stacy Gunkel from the Lieutenant  
11 Governor's Office; and Julie Street from the Urban Affairs  
12 Committee. Thank you very much for being here and  
13 participating with us.

14 Our next item is item 4, and I want you to know  
15 I'm really excited about this item, about the  
16 reorganization of the Texas Department of Housing and  
17 Community Affairs. Many people have told me that we  
18 weren't organized and I notice it says here we are  
19 reorganizing, so that refutes that, we now have the  
20 evidence that we are organized because we are  
21 reorganizing, and Ms. Carrington is going to tell us all  
22 about that. I think she wants the board to move. Is that  
23 the first reorganization process? We get the board to  
24 move to the audience.

25 MS. CARRINGTON: Like many of you all in this

1 room about a year and a half ago, we fairly eagerly looked  
2 for the Sunset Advisory Commission report that came out in  
3 April of 2000. Many of us had been involved in the  
4 question-and-answer and the interview sessions with the  
5 Sunset Advisory Commission, we were very concerned about  
6 the direction of TDHCA, and it was an eager read for a lot  
7 of folks; the first couple of weeks after that report came  
8 out, most everybody I talked to had reviewed the Sunset  
9 Advisory Commission report.

10 As you all know, that report was fairly  
11 critical of the Texas Department of Housing and Community  
12 Affairs and the recommendation in the report was that the  
13 department be given a two-year probationary period and  
14 during that probationary period there were some very  
15 substantial changes that were expected of the department,  
16 and then we would go back to the legislature in '03 to see  
17 how well we had implemented the intent of the Sunset  
18 Commission report.

19 There were several themes that were prevalent  
20 in the report and these were themes: that the department  
21 was not responsive to and did not welcome public input in  
22 its processes; that the department's approach to funding  
23 housing and community support services does not serve  
24 Texans with the greatest needs; that the department lacked  
25 a Central Database that's hampered our ability to provide

1 accurate, prompt information on number of units created,  
2 funding sources, et cetera; that there was also little  
3 communication along program lines, and one real specific  
4 recommendation or comment that our programs operated  
5 independently precluding a strategic allocation and best  
6 use of housing funds.

7           That was the Sunset Report. Senate Bill 322  
8 came out after that with the last session of the  
9 legislature and mirrored many of the concerns that were in  
10 the Sunset Advisory report. Indeed, we did get a two-year  
11 probation and have some very specific requirements that  
12 we're in the process of implementing as it relates to  
13 Senate Bill 322.

14           Neither Senate Bill 322 nor the Sunset report  
15 said TDHCA must reorganize; they did not come out and  
16 specifically dictate to us that was indeed what needed to  
17 happen. However, they did talk about improved processes,  
18 improving our organizational structure, and having a focus  
19 on production, accountability, responsibility, strategic  
20 planning, internal controls that are well defined, and  
21 processes that are also well defined, and creating checks  
22 and balances within the organization.

23           I started at TDHCA a little more than 90 days  
24 ago now, had my three-month anniversary I think on Monday  
25 of this week, and the reorganization initiative addressing

1 the concerns of Senate Bill 322, addressing the concerns  
2 of the Sunset Advisory Commission report has been one of  
3 the items that has been priority to me since I was hired.

4 It was also very clear to me that when I interviewed with  
5 the search committee and then I was hired by the board  
6 that one of the things that was certainly expected of me  
7 was to make effective changes with TDHCA, changes not only  
8 internally within the organization, but also externally.

9 We've worked on that for about 60 days. I had  
10 multiple meetings with senior staff. Many of them over  
11 the past several years had drawn their own organizational  
12 charts and freely provided those; I asked for them and I  
13 got them. I had staff who also provided comments. We  
14 have staff at the department who have been there for many  
15 years, they've watched the processes, they know and  
16 understand what they do, and they have a real good sense  
17 of what we need to be doing and how we need to be  
18 producing our housing and community affairs.

19 So they provided a lot of input; I had multiple  
20 meetings; I gathered organizational charts from other  
21 state housing finance agencies around the country that  
22 administer basically the same kind of programs that TDHCA  
23 does that are also state agencies because a lot of state  
24 FHAs are maybe not state agencies, they don't have the  
25 component of programs that we have.

1           So we worked, staff worked to get to what we  
2 believe is a functional organizational chart, an  
3 organizational chart that focuses on functionality, that  
4 concentrates on production with accountability. I knew at  
5 that point that we had gone as far as we could go. We  
6 then went out, and having come from the private sector, I  
7 said, okay, how do I procure organizational development  
8 services, and we went through a process with the State  
9 Auditor's Office. They have a division of the State  
10 Auditor's Office called Management Advisory Services, and  
11 so since we contracted with another state agency, we  
12 didn't have to go through the very lengthy procurement  
13 process.

14           So we brought someone on board who is an  
15 organizational development specialist, so we've gone as  
16 far as we could -- staff -- but what I knew we needed at  
17 that point was someone who could help us convey the  
18 message of what it was we wanted to do at TDHCA, so convey  
19 the message to the staff, work to get buy-in of the  
20 message, and develop a plan for us of how we would  
21 actually phase in this reorganization.

22           What you're going to see this morning is what  
23 we've done with all of the staff now; we finished  
24 yesterday afternoon. We had 16 divisional meetings; those  
25 divisional meetings went anywhere from an hour to 2-1/2

1 hours depending on how impacted the divisions were going  
2 to be, and they basically show this presentation. This  
3 was not the first time they had seen it. A week ago  
4 Monday we had an all-staff meeting over here in the  
5 Capitol auditorium where we went through the full  
6 presentation, laid out basically what they could expect  
7 through the process. There were some questions at that  
8 session, however, as you can imagine, the bulk of our  
9 questions, concerns, challenges, thoughts have come up  
10 from the divisional meetings that we've had over the last  
11 two weeks.

12 This is the agenda that the board has in their  
13 packets and if you downloaded it off our website, you also  
14 have this full packet of information.

15 The first thing I did was expand a little bit,  
16 Mr. Conine, on my vision because that's one of the things  
17 we talked about when I was interviewed was what is my  
18 vision for the Texas Department of Housing and Community  
19 Affairs, and what I am striving to do, along with some  
20 very capable staff and board, is to re-establish our  
21 credibility by using the skills and abilities of our  
22 talented staff, the dedication and commitment of our board  
23 of directors to create a state housing finance and  
24 community affairs agency that is responsive to our state's  
25 lower income citizens and is accountable to the

1 legislature.

2 We will design and implement our programs in a  
3 manner that's consistent with agency goals, strategic  
4 priorities through processes that are logical, transparent  
5 and focus on production. My vision is to create a state  
6 housing finance and community affairs agency that will be  
7 a model for professionalism and integrity.

8 This is TDHCA's mission statement: To help  
9 Texans achieve an improved quality of life through the  
10 development of better communities. My idea for TDHCA's  
11 direction, with a lot of input from staff: to create  
12 momentum to move forward in productive, innovative ways;  
13 to earn the reputation of a turnaround agency; to tackle  
14 more creative programs like our taxable \$10 million Junior  
15 Lien Program; to be proactive rather than reactive;  
16 especially with the legislature, take the initiative.

17 And I will say that in the first 90 days I've  
18 had 15 meetings: Six senators, nine representatives.  
19 Michael Lytle, our governmental affairs representative, is  
20 keeping me very busy on the path from our office over to  
21 the Capitol. And we've also testified, I think, at four  
22 hearings, three Urban Affairs , one on financial  
23 institutions, and we've got two coming up next week. So  
24 we really are being very proactive; we are being invited  
25 to testify and in some instances we're volunteering.

1           We want to become a leader for housing policy  
2 in the state, we want to be a partner with advocates,  
3 housing providers, trade associations, and other state  
4 agencies. Donna's presentation just a little while ago  
5 with what ARCIT is doing, ORCA is a very important partner  
6 for us in our Low Income Tax Credit Program, in full  
7 utilization of our HOME funds in the rural areas. We've  
8 partnered with the State Auditor's Office in the hiring of  
9 our management consultant, so we want to also partner with  
10 other state agencies.

11           Why reorganize? As I said, you don't see  
12 anywhere in there TDHCA must create a different  
13 organizational structure; however, these themes are  
14 throughout the reports. We want to create a functional  
15 organizational structure; we want to ensure that the  
16 State's objectives regarding housing and community support  
17 services are fulfilled; we want to ensure the State's most  
18 critical needs regarding housing and community support  
19 services are identified through our planning processes and  
20 also met; we want to achieve the best use of our state's  
21 resources; we want to establish project compliance  
22 procedures that ensure the department provides fair access  
23 to housing; and pretty much, bottom line, we all want  
24 TDHCA to exist, we want to get through the next session of  
25 Sunset and have our 12 years before we do this again.

1           We believe that this reorganization is based on  
2 sound business principles. We have a desire to move  
3 forward, we want to be more efficient, more effective,  
4 productive, accountable and compassionate.

5           The program structure that we have for  
6 delivering our programs at TDHCA has evolved over the  
7 years and what we have is a silo structure, so every time  
8 we have a new funding source, we create a program, we  
9 create an infrastructure around that funding source. What  
10 you'll see in the proposed organizational chart is that we  
11 are creating an organization that will focus on the  
12 production of multifamily rental housing, single-family  
13 home ownership.

14           As I looked at organizational charts of other  
15 state housing finance agencies, really didn't see any that  
16 had created the multiple silos as we had. We know that  
17 horizontal communication can be improved -- this was  
18 referenced in the Sunset report. As I've had meetings  
19 with staff over the last three months, we all know that we  
20 don't communicate as well with one another as we would  
21 like to and as we need to.

22           We want to facilitate the creation of positive  
23 changes for staff, agency clients and stakeholders, create  
24 better checks and balances to divide responsibilities so  
25 that no one area has all of the authority, and as you look

1 at the proposed chart, the draft chart, what you'll see is  
2 that we are creating areas of specialization, such as loan  
3 servicing area, asset management, increased  
4 responsibilities in the compliance area that provides  
5 those checks and balances throughout the organization.

6 We believe there's multiple benefits, first and  
7 foremost, to comply with our legislation, better utilize  
8 staff resources, increase efficiency and effectiveness,  
9 service delivery, and be more responsive to our internal  
10 and external customers.

11 At this point -- and Tom and I have actually  
12 gotten pretty good at this; I think this is about number  
13 20 for us over the last three weeks -- we were very  
14 fortunate when the State Auditor's Office came over, the  
15 Division of Management Services, that Tom Schindell was  
16 the person who came over with his boss Deborah Carr, and  
17 we laid out to them what it was we were looking at doing.

18 We showed them the charts, we explained our rationale,  
19 and they said, Well, you're already a long way along the  
20 way of getting where you want to be.

21 Tom is an organizational development  
22 consultant, Ph.D. from UT in adult education and  
23 leadership training and so Tom is with us basically for  
24 four or five months as we go through the phases of this.  
25 He does accuse me of scope creep which I keep adding

1 things to what we want him to do, but he will be with us  
2 through October-November through the implementation, and  
3 this is his part of the presentation.

4 MR. SCHINDELL: Thank you, Edwina, appreciate  
5 it.

6 What I wanted to visit with you about is just  
7 kind of explain how TDHCA is going to go through this  
8 process of reorganizing itself, and from the big-picture  
9 perspective, there are basically three phases that TDHCA  
10 is going to go through and I'll go through each of these  
11 in a little more detail.

12 Phase I began May 17 and it ends tomorrow and  
13 Phase I primarily has been about communicating with the  
14 organization in terms of what's going on, what's going to  
15 change and to let folks know what's going to be expected,  
16 to get the message out and to get their buy-in and get  
17 their support. There's been a really strong effort on the  
18 part of the Phase I steering committee to get the word  
19 out. As Edwina said, we had an agencywide staff meeting  
20 on June 3, and then we've literally met with the entire  
21 agency as we've met with each of the divisions for the  
22 past two weeks. We've had like two or three meetings a  
23 day so that we could meet with all the staff.

24 While we were meeting with all the staff, one  
25 of the other things that needed to occur in Phase I was to

1 get some feedback from the organization in terms of what  
2 their concerns were, what potential barriers they saw,  
3 some challenges they saw to implementing this new  
4 structure, and any issues that they had. Also wanted to  
5 get their feedback and their ideas and thoughts about how  
6 the organization could be better or how this transition to  
7 a new organizational structure could occur more  
8 efficiently and effectively.

9           Basically, the other task that the Phase I  
10 project had was to get feedback from the organization, so  
11 we literally took notes at all the division meetings;  
12 those notes have been typed up and it's being combined  
13 into a report that needs to be issued tomorrow. That's  
14 pretty much what happened and is happening in Phase I.

15           What will happen in Phase II is that report  
16 that was generated in Phase I will be used by the Phase II  
17 steering committee and the Phase II steering committee  
18 will begin on Monday or Tuesday and will go probably not  
19 till August 1, probably more like September 1 is probably  
20 a more realistic time frame; we'll have to see how that  
21 goes. But this is where the bulk of the work is going to  
22 occur, and the responsibilities of the Phase II steering  
23 committee, you can see there they have quite a lot to do  
24 over the next six to eight weeks.

25           First off, they need to get a baseline picture

1 of what are all the major processes going on in TDHCA  
2 right now, especially in the areas where there's going to  
3 be some reorganizing and some changing going on. They  
4 need to get a picture of the baseline in terms of  
5 processes, functions, which staff are performing which  
6 steps in a process, and what are the major outputs or  
7 products or services that are provided from those  
8 processes.

9           Once they do that, then the next step is to  
10 then go ahead and think about how this needs to be shifted  
11 around, how this needs to be reorganized given the  
12 organizational structure that Edwina will present to you  
13 in a few minutes, given that big-picture perspective, now  
14 what little individual pieces go where, and that's the  
15 work of the Phase II folks.

16           After that, then the next step will be to  
17 figure out how many staff are going to be needed in these  
18 redesigned processes, in these redesigned divisions, and  
19 then the last step that they really need to focus in on is  
20 how do you roll this out, how do we actually get all these  
21 new processes and procedures in place. What we're calling  
22 that is we're following a term from the computer folks and  
23 we're calling that a migration thing, literally how do we  
24 migrate from where the organization is how to where the  
25 organization wants to be, how do we get there, so which

1 new division do we put in place first, which new division  
2 do we put in place next, addressing those kinds of issues.

3           Some of the other things that the Phase II  
4 folks need to keep in mind, some of the things that the  
5 Phase II committee has a conscious charge to look at is  
6 how to increase horizontal communication in the  
7 organization; literally can we build some processes and  
8 some procedure steps in place that facilitate that, and  
9 those are some issues that we want to look at.

10           Also, the Phase II folks will be coming up with  
11 some strategies to help individuals and divisions cope  
12 with change. Often when you're reorganizing an  
13 organization, you just tend to focus in on all the  
14 technical stuff, how do processes and procedures need to  
15 work, and you look at the work of the organization, and  
16 sometimes we tend to forget about the people side of that.

17           Some divisions are literally going to go away and those  
18 functions are going to be formed into new ones, how do we  
19 help those individuals and divisions deal with that change  
20 so that they can cope with that as effectively as  
21 possible. Change is hard for everyone, but as easy as we  
22 can make it for the individuals and divisions, that's  
23 something that we want to do. So that's another  
24 responsibility that the Phase II folks need to look at.

25           Then they also need to think about we can ease

1 the transition as part of the migration plan and also we  
2 need to be real careful that we ensure that all the  
3 requirements for the federal and state funding that TDHCA  
4 receives that all the safeguards and requirements are met  
5 in the new policies and procedures and processes that are  
6 developed.

7 That will end around September 1 and then we'll  
8 move into Phase III, and Phase III will literally be the  
9 implementation of this plan that's developed in Phase II,  
10 so literally nothing is going to change in the  
11 organization in its day-to-day operations until Phase III.

12 Phase III we're thinking will really start around  
13 September 1 and then hopefully we'll be done rolling out a  
14 lot of that by the end of November, maybe bump up into  
15 December, but certainly we want to have it done by the end  
16 of the year.

17 Instead of having one steering committee that  
18 we've had in Phase I and we're forming another steering  
19 committee for Phase II, for Phase III we're picturing  
20 actually several different steering committees, literally  
21 one for each of the new divisions that's going to be  
22 formed to help them move into their new processes and to  
23 help them manage that transition. So that's what we mean  
24 by the others, but basically in Phase III the focus will  
25 be moving into this new organizational structure and one

1 of the first things when folks move into a new division is  
2 to do some team building and to help them literally get  
3 off the ground and get to know each other better and work  
4 together more effectively, so team building is one of the  
5 charges for the activities in Phase III.

6 And then of course we can only go to a certain  
7 level of detail in Phase II so there will be some nitty-  
8 gritty detail that will need to be fleshed out in Phase  
9 III and that will be clarifying for both individuals and  
10 divisions their roles, their responsibilities, and their  
11 performance expectations. And that's important because  
12 one of the reasons for reorganizing and putting everybody  
13 through all these changes is to increase the efficiency  
14 and effectiveness of the agency, and so if you're  
15 expecting a high-level performance from folks as you  
16 reorganize, then you need to be clear about what those  
17 performance expectations are, so one clear piece of this  
18 is really getting clear about what are the performance  
19 expectations of folks in the new organizational structure.

20 Depending on your perspective, this can seem  
21 like a very long time frame to implement this  
22 reorganization or it can seem like a very short time frame  
23 to implement this reorganization; it really does just  
24 depend on your perspective. If you think about how long  
25 organizations normally allot for a process like this, it's

1 generally between 18 and 24 months, and our schedule is  
2 between six and seven, so from my perspective, this is a  
3 pretty compressed or a pretty smushed time frame in terms  
4 of what we're trying to do.

5 At the same time, though, there really are a  
6 lot of really good reasons for wanting to get this done as  
7 quickly as possible. First and foremost is to comply with  
8 the Sunset legislation, and I believe Sunset is coming  
9 back in September -- is that right, Edwina? -- September  
10 to do another desk review of the agency to see how things  
11 are going, so as much progress and support as we can show  
12 folks that the agency is doing to meet their  
13 recommendations, the better off for the agency.

14 In addition to that, the agency, having  
15 submitted its LAR, its Strategic Plan, there are all kinds  
16 of things that are going on, and if nothing else, the  
17 legislature is coming back into town in January and it  
18 would be really good to have all the reorganizing done  
19 before the legislature starts, to minimize confusion and  
20 be able to handle all that as effectively as possible. So  
21 there are lots of reasons to get this done as quickly as  
22 possible.

23 There are some other folks, though, that are  
24 saying: Gee, Edwina started in March and we're just now  
25 finishing our division meetings in June. What's the deal?

1       Why is this taking so long? Come on, just give us the  
2 new chart and let us go. Well, you know, truthfully the  
3 agency really is trying to do this the right way and  
4 that's evidenced by their partnership and that's also  
5 evidenced, I think, by the plan that they're following to  
6 actually implement all this, and part of doing that the  
7 right way is getting the input and feedback of staff and  
8 that takes some time. You can't just immediately go out  
9 there and reorganize and change everything; you need to  
10 get feedback and ideas from the folks who do the work in  
11 order to be able to incorporate their changes as  
12 effectively as possible. So wanting to get everybody's  
13 input takes some time.

14               I believe that takes care of it, and I'm going  
15 to turn it back over to Edwina.

16               MS. CARRINGTON: We thought we had a tough job  
17 until I heard about the President's proposal for the  
18 Homeland Security where they're going to combine the FBI  
19 and the CIA, and I told Tom he'd have a job for years if  
20 he went to work for them.

21               We've really alluded to some of this time line;  
22 we can probably move on to the Phase I steering committee,  
23 the number of times that we've met with staff. We did  
24 have a very, I think, productive, very informative meeting  
25 on June 5. We had a representative from the Governor's

1 Office, the Lieutenant Governor's Office, the Speaker's  
2 Office, two representatives from the State Auditor's  
3 Office, the LBB, Urban Affairs, and they basically saw the  
4 same kind of presentation that you are seeing today on our  
5 rationale for the reorganization, and we had obviously  
6 some very good questions on process and what we're doing  
7 and how it relates to these various reports and budgets,  
8 et cetera, that we are having to report, and here we are  
9 down today to June 13 to the presentation to the TDHCA  
10 board.

11 This is the steering committee. There were 14.

12 They were volunteers; they spent about 25 hours a week  
13 for about three weeks. They put together all the  
14 materials that were in the staff packet a week ago Monday,  
15 they have helped prepare the message, they have attended  
16 and facilitated all of the various division meetings, and  
17 we worked to get a cross-section of folks throughout the  
18 agency in as many different divisions and programs as  
19 possible, and also managers and directors but also  
20 administrative support and clerical-type folks.

21 Ruth and I have attended every meeting; that  
22 was a commitment that she and I made and we served as co-  
23 chairs of the committee, and we were there. We wanted to  
24 make sure that everybody at TDHCA had multiple  
25 opportunities to learn about the reorganization and to

1 share their ideas and concerns. We have some people who  
2 have been in state government for quite a while in our  
3 agency, and a couple of them have said, Well, I worked for  
4 Bullock for a while, and they said, you would just show up  
5 on Monday morning and he would give you the new  
6 organizational chart and say this is where you show up. I  
7 didn't know a whole lot about this but I knew that that  
8 was probably not the way it was going to work and be very  
9 effective with TDHCA.

10 Let's kind of fast-forward through these,  
11 Becky; we've already pretty much done that. Thank you.

12 This is our existing organizational chart, our  
13 current existing organizational chart, and as we have  
14 stressed every meeting we've had with staff, this is the  
15 way we are organized, so external contacts, communication  
16 with folks, our external customers, there is no change to  
17 this. All the questions of course have been, well, who  
18 does HUD call now, and what we've stressed is no changes,  
19 no changes. We're looking at implementing the  
20 organizational structure the 1st of September and then it  
21 will be over a period of time.

22 One of the things that the Phase II group will  
23 be doing is they meet with each of the divisions in  
24 gathering what are their processes, what are their  
25 functions, what's their output. We'll be deciding which

1 divisions or which areas do we migrate first and what's  
2 the most logical way of doing all that.

3           So this is the proposed organizational chart,  
4 and as I told I guess Mr. Jones a couple of days ago,  
5 because of the discussions that we've had with staff over  
6 the last couple of weeks, what I'm asking the board today  
7 to do is to approve our concept of reorganization along  
8 functional lines, along the creation of checks and  
9 balances, along with creating specialized areas of the  
10 department because we've heard some very good comments  
11 over the last couple of weeks that may necessitate some  
12 functions maybe not being in one area but perhaps being in  
13 another area, and we want that flexibility to be able to  
14 do that and not have to come back to the board and say,  
15 Hey, we've moved this box from here to here. Do we have  
16 your permission to do that?

17           The other thing we do need, because of all the  
18 various reports that we have going on at this point,  
19 reports and budgets due and legislative appropriations  
20 requests, is that we do need to be able to focus on what  
21 the new organizational structure will look like.

22           There's two or three really very significant  
23 changes on this. We have created a second deputy's  
24 position and this is a deputy director for operations, so  
25 right now under our current structure the department has

1 one deputy director. We will be creating a second and  
2 that will be a deputy director for operations; the other  
3 deputy director will be for the program area.

4 On the current organizational chart, our bond  
5 finance area, which is the structuring of the single-  
6 family mortgage revenue bond issues -- these are the folks  
7 who work with financial advisors, the investment bankers  
8 to come up with an appropriate structure for our single-  
9 family programs -- this has been under the programs area  
10 and is now, since it is a financial function, in the chief  
11 financial officer's area.

12 The loan servicing area, there's currently some  
13 loan servicing going on right now in this area; we are  
14 looking at expanding the responsibilities of that area and  
15 consolidating. We have loan servicing going on in a  
16 variety of program areas throughout the department, so  
17 what we're looking to do is consolidate as much of that  
18 loan servicing as possible into an area where there will  
19 be people in that area who are skilled and talented and  
20 what they do is loan servicing. So it allows us to  
21 develop a level of expertise, provides checks and  
22 balances, also allows us to look for best practices -- in  
23 several areas you'll see this -- allows us to implement  
24 some better practices.

25 In the programs area, thought it was important

1 to list the four offices that we have: Office of Colonia  
2 Initiatives -- a lot of people from the outside look at  
3 our organization chart and many of them don't know where  
4 we have offices, so we feel like that was important.  
5 There was basically no change in their structure. Again,  
6 as we're going through Phase II and looking at all the  
7 processes, all the functions that are performed in each of  
8 these divisions, there may very possibly be some  
9 activities in the Office of Colonia Initiatives that will  
10 be consolidated into the loan servicing area or  
11 construction monitoring activities here, or perhaps  
12 closing. Those are things that we are determining as we  
13 go through Phase II.

14 Just think about somebody coming into your  
15 office and saying, okay, what is it you do, define all of  
16 your processes for me, explain what you do and how you do  
17 it, and so that's what we're looking at doing on the areas  
18 that are going to be impacted.

19 For the department, the area that has the most  
20 significant change and most significant impact, if you  
21 look at our current organizational chart, there are  
22 actually three divisions that are involved in housing  
23 production and what we're doing is creating one division,  
24 titling that division Housing Finance Production, and then  
25 within that Office of Housing Finance Production there

1 will be a multifamily area and a single-family area.

2           So right now the individual programs that you  
3 see that support, that fund multifamily rental will be  
4 integrated into this multifamily area; single-family, the  
5 programs, the funding sources that support single-family  
6 home ownership will be combined into the single-family  
7 area and sort of get out of your mind, don't think over  
8 here as you look at multifamily, oh, tax credits and HOME  
9 and bonds. What we'll be looking at doing is integrating  
10 those functions.

11           Underwriting: We've got a contest going on for  
12 two names because we have two titles of divisions up here  
13 we don't like, so we do have some name suggestions. The  
14 Underwriting Division, that title is not reflective of  
15 some expanded responsibilities of this department which  
16 are closings and fundings on contract awards, also cost  
17 certifications. That's expanded in some centralized  
18 functions there. Actually, the department about three  
19 years ago or four years ago when it did create the  
20 Underwriting Division, underwriting does currently  
21 underwrite not only for the Low Income Housing Tax Credit  
22 Program but for tax-exempt bonds and 4 percent credits,  
23 they also underwrite for the HOME Program, they also  
24 underwrite for the Trust Fund. So we already have that  
25 sort of specialization going on in the department, so what

1 this is is a continuation of that kind of philosophy.

2 Portfolio Management and Compliance, there were  
3 actually a couple of things that Sunset was real specific  
4 about and this was one of them. It said, The department  
5 will do risk-base monitoring so that as you're doing  
6 evaluations, as you're doing underwriting that you  
7 evaluate the risk of particular transactions and then you  
8 start monitoring those transactions basically from the  
9 get-go. You don't wait, as we were talking this morning,  
10 until you're 75 percent into the transaction; basically  
11 you start it at the beginning. So we are looking at  
12 consolidating that. This division right now is already  
13 doing, to some degree, some of this construction  
14 monitoring, but much increased and expanded  
15 responsibilities as a result of 322 in this area.

16 We're also creating an Asset Management  
17 Division. Don't want to get anybody upset, make you think  
18 we've got a lot of REO potential -- we don't, but we do  
19 have some loans in trouble and we need to be paying  
20 special attention to them so we are creating this asset  
21 management workout area.

22 We've moved the communication function from  
23 Government Affairs down here to the Office of Strategic  
24 Planning. This area is going to have some increased  
25 responsibilities as they look at being the clearinghouse

1 for all of the kinds of documents and publications that  
2 come out of TDHCA. We do NOFAs; we do RFPs; we do RFQs.  
3 We do program guidelines; we set up public hearings. We  
4 do a variety of activities to correspond with the public,  
5 with our external customers on what we're doing within the  
6 department. They do all of our strategic planning for us,  
7 they do the Consolidated Plan, they are the ones who are  
8 responsible for making sure that agency priorities are  
9 implemented. So to the extent that we have guidelines  
10 that are developed over here in the functional areas, this  
11 group over here is going to serve as the last set of eyes  
12 and ears for those documents that go out.

13 We want to have consistency with the way  
14 documents look in the agency. We have things going out  
15 now from various different program areas and we're using  
16 different letterheads and there's not this consistency;  
17 there's not this image that we want to have for TDHCA.

18 We've also set up a speaker's bureau and what  
19 we're doing with that is when I get these multiple  
20 invitations to groundbreakings, open houses, et cetera,  
21 we're trying to make sure that someone goes. We want to  
22 go; we want to acknowledge TDHCA's role in whatever it  
23 happens to be that they're doing. They usually ask us to  
24 speak. It gives us good recognition, plus it gets us out  
25 of the office and helps us really see who we are helping

1 as we provide our housing funds and our funds for  
2 community affairs also.

3 The last area, Information Services, as I've  
4 said all along from functional standpoint of what they do,  
5 they are not really impacted at all -- well, they're not  
6 impacted from a functional standpoint but from this  
7 reorganization of course there's a tremendous amount of  
8 work that's falling within Information Services, and one  
9 of the things that we talked about this morning was on  
10 multiple databases that our auditor from Deloitte & Touche  
11 mentioned.

12 Our last group that we met with yesterday  
13 afternoon was IS, Information Services, and one of the  
14 things that they talked about at that meeting was how  
15 right now what we have going on in individual program  
16 areas either developing their own software or going out  
17 and buying the software and then expecting our Information  
18 Services area to support that software, and our IS folks  
19 may or may not know it and perhaps you have one person in  
20 that area who knows it really well and then if they leave,  
21 you know, where are you.

22 So as we've had these division meetings over  
23 the last couple of weeks and listened to all the staff,  
24 it's absolutely reaffirmed for me that we are moving in  
25 the right direction and doing what we really need to do to

1 organize ourselves -- even though I know Mr. Jones says we  
2 were already organized.

3 MR. JONES: Amen.

4 (General laughter.)

5 MS. CARRINGTON: And to be responsible and  
6 accountable.

7 We went through a bunch of questions with the  
8 staff, you know. What does it mean to me; what are your  
9 concerns; what do you think our challenges are? We got  
10 wonderful feedback; this is already what Tom has mentioned  
11 a few minutes ago that is in a report that's being written  
12 up that's going to be used with the Phase II group. And  
13 we've given them multiple opportunities -- them being  
14 staff -- we've given them multiple opportunities to  
15 communicate with us. The intranet on our web page. They  
16 can also send comments anonymously; they can also send  
17 questions if they want a response. We are going to be  
18 doing weekly updates on the intranet so that anyone in the  
19 agency who wants to see what's happening that week as  
20 we're going forward can look on that and see where we are  
21 in the process.

22 Phase II, we've got our volunteers, although I  
23 haven't gone through them yet; we're looking for about 20  
24 folks; Wednesday was the deadline for them to volunteer.  
25 We've told them the time commitment is about 30 to 35

1 hours, and I've told staff I knew none of them had that  
2 much time sitting around, and so other staff have really  
3 been good about picking up, taking on workload and also  
4 working late to be able to be involved in the process.

5 I think that's about it. Tom, I took your  
6 thunder, those are your last slides.

7 MR. SHINDELL: That's okay.

8 MR. JONES: Are we ready to get reorganized up  
9 there?

10 MS. CARRINGTON: Mr. Jones, I think we can be  
11 reorganized now. Thank you.

12 MR. JONES: Why don't we take about a ten-  
13 minute break.

14 (Whereupon, a brief recess was taken.)

15 MR. JONES: I'll call our meeting back to  
16 order, and I want to thank you, Edwina for an excellent  
17 presentation. It's exciting really what you are doing  
18 there, no kidding.

19 At this point I would just remind the board  
20 that as far as an action item on this matter, the action  
21 that's been requested by the staff is that we approve the  
22 concepts that were presented to us.

23 MAYOR SALINAS: I move that we accept the  
24 concepts.

25 MR. GONZALEZ: Second.

1 MR. JONES: We have a motion made and seconded.  
2 Any discussion, comments on the motion, questions?

3 MS. ANDERSON: I really think that we should  
4 commend Ms. Carrington and the staff and particularly the  
5 Phase I steering committee. These kinds of discussions  
6 aren't easy but I really think we owe a thanks to the  
7 staff of this agency for the progress they've made to date  
8 and try to take a fresh look and think about how to make  
9 this agency more effective and accountable and efficient  
10 going forward, so I really think that's in order. And I  
11 certainly support this motion because I think that the  
12 management of the agency has demonstrated thus far and has  
13 earned the right to have the flexibility as they continue  
14 to refine this organization to do that in a reasonable  
15 way.

16 I would just ask that -- as I know they will --  
17 as they continue to refine the organization that we  
18 continue to pay attention to span and control issues, that  
19 we try to continue to move toward a flatter and less  
20 hierarchical and stovepiped organization, and also focus  
21 on making sure that we're making maximum effort to drive  
22 out the efficiencies that are possible with this kind of  
23 reorganization so that we can gain those efficiencies and  
24 then determine the best use of the efficiencies that are  
25 achieved.

1 MR. JONES: Thank you. Mr. Conine?

2 MR. CONINE: Ditto those comments. I think  
3 this is a great thought process and probably long overdue.  
4 The question I would have for Ms. Carrington would be I  
5 know that the board is not supposed to micromanage  
6 anything, but I'm sure that all of us have certain  
7 thoughts or would like to express certain thoughts, and  
8 how best for the board to give you the input on what  
9 you've presented here today as we move forward?

10 MS. CARRINGTON: I would welcome any  
11 communication any way you all would like to provide that  
12 to me: telephone call, e-mail. That is welcome.

13 MR. JONES: Any other comments, questions,  
14 discussion? Hearing none, I assume we're ready to vote.  
15 All in favor of the motion, please say aye.

16 (A chorus of ayes.)

17 MR. JONES: All opposed, nay.

18 (No response.)

19 MR. JONES: The motion carries.

20 We then move to item 5, Mr. Conine.

21 MAYOR SALINAS: Mr. Chairman, may I be excused?

22 MR. JONES: You sure may be excused, and thank  
23 you, Mayor. The Mayor has an important meeting.

24 (Whereupon, Mayor Salinas left the meeting.)

25 MR. CONINE: Item 5 on the agenda, I'd probably

1 call the director of Bond Finance up to the podium, Byron  
2 Johnson. Is he around?

3 MS. CARRINGTON: He was.

4 MR. CONINE: Go get him, go get fuzzy face.

5 MR. JONES: I'm not listening to him if he  
6 hasn't shaved.

7 (General laughter.)

8 MR. CONINE: Mr. Johnson, would you come  
9 explain this RFP to us, please?

10 MR. JOHNSON: Yes, sir.

11 MR. JONES: Does your mother know you don't  
12 shave?

13 MR. JOHNSON: She hasn't seen any pictures yet.

14 MR. JONES: Can you give me her phone number?

15 (General laughter.)

16 MR. JOHNSON: Fuzzy Johnson, director of Bond  
17 Finance.

18 We're here to request that the board approve an  
19 RFP for trustee services for the single-family bond  
20 indentures. The last time we went out for proposals for  
21 trustee services was in 1996 and the markets have changed  
22 very much since that time, and also the department's  
23 portfolios and indentures have been evolving, so we want  
24 to go out and see what type of responses we get and take a  
25 look at the market for trustee services. We anticipate,

1 if it's approved today, requesting responses by July 26  
2 and presenting staff's recommendations at the August board  
3 meeting.

4 MR. CONINE: Mr. Chairman, I guess I'll move  
5 that we approve this circulation for an RFP for trustee  
6 services for the agency.

7 MR. BOGANY: Second.

8 MR. JONES: We have a motion that's been  
9 seconded by Mr. Bogany. Further discussion?

10 MS. ANDERSON: May I ask a question of Fuzzy?

11 MR. JONES: Yes, Ms. Anderson.

12 MS. ANDERSON: My question is I noticed in one  
13 of the terms of the RFP that you're asking for an EEO  
14 matrix and the draft RFP specifically indicates that you  
15 don't want people to submit some form that might -- I  
16 guess I'm interpreting must be a standard Form EEO-1, you  
17 want this matrix?

18 MR. JOHNSON: Yes.

19 MS. ANDERSON: Just in the interest of  
20 minimizing overhead on the part of people that might  
21 choose to respond to this, can you help me understand why  
22 we need sort of a custom form?

23 MR. JOHNSON: I believe the other form is more  
24 expanded and this is more consolidated; they can take the  
25 official form and just extract information from that and

1 include it on this.

2 MS. ANDERSON: So it should be easier for them.

3 MR. JOHNSON: It should be easier.

4 MS. ANDERSON: Okay, thank you.

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

8 (A chorus of ayes.)

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

11 (No response.)

12 MR. JONES: The motion carries.

13 MR. JOHNSON: Thank you.

14 MR. JONES: Thank you.

15 Item 6, Ms. Carrington.

16 MS. CARRINGTON: Thank you, Mr. Chairman. Anne  
17 Paddock will come up and this was on the board agenda --  
18 no, not Ann? Oh, Sara. Sorry about that. This was on  
19 the board agenda last month and we didn't get to it on the  
20 agenda so it was postponed to this month, and this is in  
21 response to a requirement in Senate Bill 322 that the  
22 department adopt a rule that would address housing  
23 sponsors, tenant management, Section 8, and the compliance  
24 policy related to management companies leasing to Section  
25 8 tenants that are in Low Income Housing Tax Credit

1 developments.

2 Sara.

3 MS. NEWSOM: Chairman and board, I'm Sara  
4 Newsom and I am the Housing Compliance manager.

5 About two years ago this board, to give you a  
6 little bit of background, adopted a policy regarding  
7 Section 8 occupancy in our Tax Credit projects. 322 and  
8 now statute wants to extent that to the other programmatic  
9 areas of the department; this rule will satisfy that  
10 requirement and it has to do with occupancy in our  
11 properties that are funded by the department regarding  
12 Section 8 tenants, which if there is a financial or a  
13 minimum income requirement on these properties, it sets  
14 that at no more than to 2.5 times the tenant-paid portion,  
15 so it allows that minimum standard or that standard across  
16 the board on our properties. It will also set some  
17 penalties if they do not follow this policy and these  
18 rules.

19 By adopting these rules, it will allow the rule  
20 to be put into the *Texas Register* which will allow public  
21 comment and then we'll come back to the board for final  
22 adoption of the rule. Staff recommends that you approve  
23 this draft rule.

24 MR. BOGANY: So moved.

25 MS. ANDERSON: Second.

1 MR. JONES: A motion by Mr. Bogan, second by  
2 Ms. Anderson. Further discussion, questions or comments?

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

5 (A chorus of ayes.)

6 MR. JONES: All opposed, nay,

7 (No response.)

8 MR. JONES: Motion carries. Thank you so much,  
9 appreciate that.

10 At this point in time before we take up item 7,  
11 it is necessary for the board to go into executive  
12 session. I would like to suggest this: we will  
13 immediately have the executive session; thereafter we'll  
14 take a lunch break; I would imagine, my best would be,  
15 that we would be getting back here again and restarting  
16 the board meeting at about one o'clock this afternoon. So  
17 for those members of the audience who need to plan, that  
18 would be the plan I would be operating under. And with  
19 that, I will call us into executive session.

20 On this day, June 13, 2002, at a regular board  
21 meeting of the Texas Department of Housing and Community  
22 Affairs held in Austin, Texas, the board of directors  
23 adjourned into a closed executive session as evidenced by  
24 the following: The board of directors will begin its  
25 executive session today, June 13, 2002, at 11:42 a.m. The

1 subject matter of this executive session deliberation is  
2 as follows: litigation and anticipated litigation,  
3 potential or threatened, under Section 551.071 and 551.103  
4 of the Texas Government Code Litigation Exception;  
5 consultation with attorney pursuant to Section 551.071(2)  
6 of the Texas Government Code; and discussion of any item  
7 listed on the board meeting agenda of this date. And with  
8 that, we will go into executive session.

9 (Whereupon, at 11:45 a.m., the meeting was  
10 recessed, to reconvene this same day, Thursday, June 13,  
11 2002, at 1:00 p.m.)

A F T E R N O O N      S E S S I O N

(1:00 p.m.)

1  
2  
3           MR. JONES: On this the 13th day of June 2002,  
4 at a regular board meeting of the Texas Department of  
5 Housing and Community Affairs, the board of directors  
6 adjourned into a closed executive session. The subject  
7 matter of the executive session deliberation was as  
8 follows: litigation and anticipated litigation, potential  
9 or threatened, under Section 551.071 and 551.103 of Texas  
10 Government Code Litigation Exception, action taken, none.  
11 Consultation with attorney pursuant to Section 551.071(2)  
12 Texas Government Code, action taken, none; and discussion  
13 of any item on the board meeting agenda of even date,  
14 action taken, none.

15           The board of directors has completed its  
16 executive session of the Texas Department of Housing and  
17 Community Affairs on June 13, 2002, at approximately 12:30  
18 p.m. I hereby certify that this agenda of an executive  
19 session of the Texas Department of Housing and Community  
20 Affairs was property authorized pursuant to Section  
21 551.103 of the Texas Government Code, posted at the  
22 Secretary of State's Office seven days prior to the  
23 meeting pursuant to Section 551.044 of the Texas  
24 Government Code, that all members of the board of  
25 directors were present with the exception of Mayor

1 Salinas, and that this is a true and correct record of the  
2 proceedings pursuant to the Texas Open Meetings Act,  
3 Chapter 551, Texas Government Code, as amended. Signed by  
4 myself as chair of the board.

5 With that, I believe we will turn to item 7 of  
6 our agenda which is a report by the Audit Committee.

7 Mr. Gonzalez.

8 MR. GONZALEZ: We'd like to call on David  
9 Gaines, please.

10 MR. GAINES: Good afternoon, Chairman, board  
11 members, Ms. Carrington.

12 The first item on the agenda for the Audit  
13 Committee earlier today was discussion of possible  
14 amendments to the Audit Plan for the current year. The  
15 Audit Committee did approve the plan and I believe they  
16 recommend full approval to the board. I'll be glad to  
17 touch on the details of those amendments if you'd like,  
18 depending on how thorough you are with your understanding.

19 Touch on the details?

20 MR. JONES: Yes, if you don't mind, please.

21 MR. GAINES: High spots. I'm proposing that  
22 two projects are being proposed for deletion to the Audit  
23 Plan. The initially perceived risks that were considered  
24 in putting the projects on the plan do not appear valid  
25 based on preliminary procedures and further consideration.

1 Additionally, the Internal Auditing Division doesn't have  
2 as many hours as originally anticipated in its Audit Plan  
3 for various reasons -- and I'll be glad to go into any of  
4 this -- and there was a budget overage on one of our audit  
5 projects.

6 We're also proposing an amendment to reclassify  
7 the project management tools being used in the development  
8 of the Central Database project, reclassify that from an  
9 audit to an advisory services project due to recent  
10 changes in professional standards relating to independence  
11 and management's belief that I can add more value on the  
12 project serving in that capacity as opposed to an audit  
13 function.

14 There was an additional project that was  
15 proposed to the Audit Plan which relates to the Internal  
16 Auditing Division facilitating a controlled self-  
17 assessment program that would be owned by management, and  
18 a controlled self-assessment program is basically a  
19 proactive review to ensure processes, systems, and  
20 activities are controlled and executed in a manner that  
21 supports and achieves the business objectives.

22 The committee approved the plan with the  
23 amendment that the last project, the controlled self-  
24 assessment, not begin until the reorganization has been  
25 substantially implemented.

1 Any further discussion on the proposed  
2 amendments to the Audit Plan?

3 MR. JONES: Any questions?

4 MR. GAINES: And I believe that this is  
5 something that the board adopts or not.

6 MR. JONES: I understand.

7 MR. BOGANY: So moved.

8 MS. ANDERSON: Second.

9 MR. JONES: A motion by Mr. Bogany, seconded by  
10 Ms. Anderson. Further discussion of the motion? Hearing  
11 none, I assume we're ready to vote. All in favor of the  
12 motion, please say aye.

13 (A chorus of ayes.)

14 MR. JONES: All opposed, nay.

15 (No response.)

16 MR. JONES: Motion carries.

17 MR. GAINES: The first report item on the  
18 agenda was a report from Deloitte & Touche relating to its  
19 opinion audit for the period ending August 31, 2001.  
20 George Scott, the managing partner from Deloitte & Touche,  
21 presented that this morning; I'll provide a high-level  
22 summary. The report to management is required in  
23 connection with their audit. In planning and performing  
24 the audit, the auditors consider internal control for the  
25 purposes of planning the project and not for the purpose

1 of expressing an opinion on the control systems, and so  
2 accordingly, they didn't.

3           During the course of the audit several  
4 recommendations were made based on the auditor's  
5 observations. The observations and recommendations  
6 included considering alternatives for accounting for the  
7 Housing Trust Fund loans that are currently accounted for  
8 in governmental and proprietary funds of the department by  
9 offering some alternatives, and management agreed to do  
10 that. They recommended the need for the department to  
11 implement policies to ensure HOME down payment assistance  
12 transactions and the associated loans are processed in  
13 their entirety. Currently documentation may not be  
14 received in full from the HOME contract administrators to  
15 support the posting of loan receivables to the accounting  
16 records and to the loan servicing system.

17           MR. JONES: Is that a problem that's arisen  
18 with respect to prior audits? Is this the first time it's  
19 ever been brought up?

20           MR. GAINES: An internal audit did bring this  
21 up in, I believe it was the fall of 2001.

22           MR. JONES: And so this would mean it's still  
23 not fixed yet?

24           MR. GAINES: The time period of this audit  
25 overlapped with the internal audit somewhat, so it may

1 relate to the same conditions noted in that audit, and I  
2 don't believe those conditions have been fully corrected  
3 at this point.

4 MR. JONES: So in other words, yes?

5 MR. GAINES: Yes.

6 MR. JONES: Okay, thank you. I'm real slow at  
7 simple things.

8 MR. CONINE: He answered it in lawyer fashion.

9 MR. GAINES: With all due respect, that was  
10 auditor fashion.

11 MR. JONES: I don't really like lawyers myself.

12 (General laughter.)

13 MR. GONZALEZ: Mr. Chairman, I'd like to  
14 suggest, though, that the Audit Committee meet on a  
15 monthly basis to get an update on this until it gets  
16 resolved.

17 MR. JONES: I would be delighted that you would  
18 do that.

19 MR. GAINES: The auditors also recommended  
20 considering alternatives to the method used in recognizing  
21 accounts payable at year-end, which is currently to  
22 recognize only those invoices received within 30 days  
23 after year-end; management agreed with that. Also to  
24 continue to develop a fully integrated financial  
25 management system to minimize manual entry requirements,

1 to strengthen the integration of data and processes, and  
2 to improve the financial reporting capabilities. This  
3 finding resulted from multiple systems being used by  
4 accounting, manually pulling information together for  
5 financial reporting purposes.

6 And finally they reported that we need to begin  
7 developing or enhance our understanding of the provisions  
8 of GASB-34 which is basically an accounting statement  
9 issued by GASB, or the Government Accounting Standards  
10 Board, that will require significant changes in the way  
11 that the department collects, all governmental entities  
12 collect, record and report its financial information. It  
13 will be much closer aligned to commercial financial  
14 statements.

15 Management is in general agreement with all the  
16 findings and the recommendations and intends to take  
17 appropriate actions.

18 The next report item on the agenda relates to a  
19 report on federal compliance and controls relating to the  
20 State's federal single audit for the fiscal year ending  
21 August 31, 2001. The report was issued in February 2002  
22 by KPMG, who is contracted with the State Auditor's Office  
23 to perform this work. The audit was for the state as a  
24 whole so the information in your board book relates only  
25 to those portions of the report that relate to the

1 department.

2           The department's determined compliance with the  
3 types of requirements prescribed by the U.S. Office of  
4 Management and Budget's Circular A-133 Compliance  
5 Supplement that are applicable to all major federal  
6 programs. The report goes on to say that it's the  
7 responsibility of management to ensure compliance while  
8 expressing an opinion on the compliance is the  
9 responsibility of the auditors.

10           The audit was conducted under Generally  
11 Accepted Auditing Standards except that the auditors were  
12 unable to obtain sufficient documentation or satisfy  
13 themselves by other auditing procedures that department  
14 fulfilled the subrecipient monitoring compliance  
15 requirements relating to the HOME Program. The finding  
16 specifically pointed out that documentation supporting  
17 soft costs were lacking, the auditors tests identified  
18 \$29,000 in questioned costs in their sample, and since  
19 there was no documentation maintained, they estimated a  
20 total questioned cost of \$2.3 million.

21           A related concern, and because of this finding  
22 and a similar finding in a previous audit report, HUD  
23 issued a letter to the department April 2002 that states  
24 the department must review all subrecipient's draws and  
25 project-related soft costs for the fiscal years 1999, 2000

1 and 2001. If the soft costs in those program years are  
2 not adequately supported, HUD has instructed the  
3 department to reimburse HUD funding source from non-  
4 federal sources, and currently our response to this letter  
5 from HUD is pending from the department.

6 MR. GONZALEZ: When will that one be available?

7 MR. GAINES: That response, I'm not able to  
8 speak to that on when it will be available.

9 MR. CONINE: Ms. Carrington, do you want to  
10 give us an idea what you may think?

11 MS. CARRINGTON: Ms. Cedillo, next week, is  
12 that what I hear?

13 MS. CEDILLO: Yes.

14 MS. CARRINGTON: So we will have our response  
15 next week that will be going to HUD.

16 MR. CONINE: Great.

17 MR. GAINES: The auditors also reported that  
18 the State complied in all material respects with  
19 applicable requirements except certain compliance  
20 requirements that were not met. Among the exceptions that  
21 the auditors identified throughout the state,  
22 noncompliance was noted relating to the Low Income HOME  
23 Energy Assistance Program and Weatherization Assistance  
24 Programs. The exception noted related to one of our  
25 subrecipients that was involved in some embezzlement

1 problems that involved these funds, the HOME Energy  
2 Assistance and Weatherization Programs. Amounts in  
3 question range from \$171,000 to \$212,000, depending on  
4 which auditor or monitoring report you're relying upon

5 KPMG recommended that the department establish  
6 amounts owed to TDHCA, issue a management decision and a  
7 demand letter demanding repayment. The department  
8 responded that it will conduct a field visit, a monitoring  
9 visit to make that determination. When they tried to do  
10 so, the subrecipient informed them that it would be a  
11 waste of time since the related records were with other  
12 authorities involved with the embezzlement investigations.

13 At that time the department did issue a demand letter for  
14 repayment of its funds; the letter is in the hands of the  
15 subrecipient's legal counsel who is supposed to be  
16 contacting our legal counsel to come up with the best way  
17 to proceed. Yes, sir?

18 MR. BOGANY: What's the time frame that we give  
19 them to respond that they respond and said they're with  
20 their legal counsel, how long do we go along with this?  
21 What's our next step?

22 MR. GAINES: I believe at this point we're  
23 wondering why we haven't heard from them, but I cannot  
24 really speak to that in detail.

25 MR. BOGANY: Ms. Carrington, what would we do

1 if they responded back and said, Hey, it's with our legal  
2 counsel and it's still an open-ended situation, what would  
3 be our next step to go after this money?

4 MS. CARRINGTON: We would focus on it. Anne  
5 may have more information about whether we've actually had  
6 contact from their legal staff.

7 MS. PADDOCK: No.

8 MS. CARRINGTON: The demand letter went out --  
9 I guess I saw the demand letter maybe three weeks ago.

10 MS. PADDOCK: Right, and they were supposed to  
11 respond to us either with a payment plan or a check within  
12 like 15 days; we got the letter saying that they were  
13 going to call me and they never did; so we've prepared a  
14 letter referring it to the attorney general for action  
15 because this has been going on for two years.

16 MR. BOGANY: So this is the next step, it goes  
17 to the attorney general?

18 MS. PADDOCK: Yes. When they didn't give us  
19 the money back or plan to pay it back within the time we  
20 asked for it, the next step is to turn it over to the  
21 attorney general.

22 MR. BOGANY: Okay. One other questions I have  
23 in regards to the board of directors for that group, how  
24 do we put them on the list that they don't ever get monies  
25 from this agency again?

1 MS. PADDOCK: Well, we don't have any procedure  
2 for that. We could develop rules to do that.

3 MR. BOGANY: I mean, any time someone owes this  
4 agency money and we lose taxpayers' money, I'd like to see  
5 that those names are filed and kept on file because they  
6 may come with another group looking for funds or whatever,  
7 and I'd like to try to categorize that so we don't give  
8 the same people money.

9 MS. ANDERSON: May I ask Ms. Paddock a  
10 question?

11 MR. JONES: Yes, ma'am.

12 MS. ANDERSON: Isn't debarment an option that  
13 we have? I mean, I know that agency because grants have  
14 been made from the Corporation for National Service to  
15 that agency. Is that not an option available to us as  
16 well?

17 MS. PADDOCK: This is not a HUD program, this  
18 is a DOE/HHS and they don't have the same type of thing.  
19 The deal is it wasn't the organization, it was an employee  
20 of the organization; he was convicted; and it's an  
21 antipoverty organization, it's not like they have a lot of  
22 money. We think they've got insurance, you know, so we're  
23 trying to pressure them at least to come up with the  
24 insurance money. It wasn't really mismanagement by the  
25 organization; it was embezzlement by an employee.

1 MR. BOGANY: But I believe that if I represent  
2 an organization that whatever I do reflects on it, just as  
3 what I do here reflects on this organization, and I think  
4 we should jump down them with two feet and get on it. Two  
5 years is enough.

6 MS. PADDOCK: I'll be referring it to the  
7 attorney general to file suit.

8 MS. CARRINGTON: I do think certainly that we  
9 can start tracking in the department board members of  
10 organizations such as this where ultimately, even though  
11 it was an employee of the organization that embezzled, I  
12 mean, their board of directors is ultimately responsible  
13 for the affairs of the organization, and I mean,  
14 internally we certainly could track who sits on the boards  
15 of organizations that we have funded and they have not  
16 been able to repay us.

17 MR. BOGANY: I'm just saying for this to go on  
18 for two years is unacceptable and I think we need to  
19 facilitate and accelerate whatever it takes to clear this  
20 issue up.

21 MS. ANDERSON: When did we make our last -- I  
22 assume -- I guess I'll back up -- I assume that they're no  
23 longer a weatherization grantee of ours.

24 MS. PADDOCK: No. They are.

25 MS. ANDERSON: What are the processes for

1 termination of a subrecipient that this agency has in  
2 place?

3 MS. PADDOCK: I wish the director of that  
4 division was here but they do have procedures for doing  
5 that, but he could better speak to what's been going on  
6 with that firm.

7 MS. ANDERSON: Since Mr. Gonzalez has asked  
8 that the Audit Committee meet monthly, may we request, Ms.  
9 Carrington, that the director of Community Affairs come to  
10 that meeting and tell us what his plans are to initiate  
11 termination proceedings against the grantee?

12 MS. CARRINGTON: Yes.

13 MR. GAINES: The final portion of the report  
14 relates to several agencies among the department  
15 identified as having reportable conditions. These are  
16 matters that came to the auditors' attention relating to  
17 significant deficiencies in the design or operation of  
18 internal controls over compliance that could adversely  
19 affect the State's ability to administer the federal  
20 program in accordance with the requirements.

21 MR. JONES: Would this be the HOME Program  
22 you're referring to?

23 MR. GAINES: Three reportable conditions  
24 relating to the HOME Program were identified. The first  
25 one related to soft costs and we've previously discussed

1 that issue. The second audit finding relates to not  
2 having adequate controls in place for monitoring  
3 subrecipients of the HOME Program and they've provided a  
4 listing of exceptions they noted relating to monitoring  
5 activities that were either not conducted or inadequately  
6 conducted. It's on page 124, if you're trying to follow  
7 me.

8 MR. JONES: We're trying. We're a slow group,  
9 though.

10 (General laughter.)

11 MR. GAINES: And I am going at a real high  
12 level; we've been through this in greater detail with the  
13 Audit Committee. If I'm too high up, let me know and I'll  
14 try to come back down to earth.

15 And finally the third area that they identified  
16 was issues relating to tracking on-site monitoring visits.  
17 Management has acknowledged the conditions and has stated  
18 that they'll take corrective actions recommended going  
19 forward.

20 MR. JONES: Mr. Gaines, looking at this from a  
21 more general perspective, would you agree with me that  
22 with regard to the various audits that have been done,  
23 internal, external, governmental, of the HOME Program that  
24 we have similar findings and problems coming up  
25 consistently?

1 MR. GAINES: Yes, sir.

2 MR. JONES: I mean, it's something we see  
3 periodically through the years. Right? We could go back  
4 years and find that. You know, you report to us. Right?

5 MR. GAINES: Yes, sir.

6 MR. JONES: Are you coming to us today to tell  
7 us that, boy, we're making a lot of improvement, things  
8 are a lot better now, or are you coming to us and telling  
9 us today that it looks like things are about like they've  
10 looked over the years? Where are we?

11 MR. GAINES: Management of the program has  
12 reported considerable improvements that has yet to be  
13 subject to testing. The most recent testing of time  
14 periods up through August 2001 does not reflect that  
15 significant improvements have been made.

16 MR. JONES: Well, then the way I take that  
17 comment -- again, I want to make sure I understand you --  
18 is that the situation we find ourselves in is that  
19 management has agreed with the findings for the most  
20 part -- I can't recall when we didn't agree with it.  
21 Correct?

22 MR. GAINES: That's right.

23 MR. JONES: And we are still having problems,  
24 although management thinks it's making improvement, when  
25 we do testing of the improvements they say have been made,

1 we don't find evidence of it. Is that true?

2 MR. GAINES: Yes, that's true, but I think  
3 especially since August 2001, ten months ago, management  
4 has represented significant improvements in how they're  
5 administering the HOME Program; none of that time frame  
6 has been subject to audit at this point.

7 MR. JONES: Let me ask you to do this, the  
8 chairman of the Audit Committee has already said they're  
9 going to meet monthly, and I would just ask that you put  
10 this issue always on your reports to them and then they  
11 can report to us when they see fit. But let me ask you to  
12 do this for us, since you answer to us. Obviously  
13 improving in this area, the area of HOME and the various  
14 issues that have been raised by various audits -- I don't  
15 want to just zero in on these -- if you could tell us in  
16 your opinion how to improve this, how to get beyond the  
17 stage we're at, we would be very interested in hearing  
18 about that because you're our auditor, as I understand  
19 things and you answer to us, not management.

20 MR. GAINES: Yes, sir.

21 MR. JONES: And to an extent I understand that  
22 your function is really just to report on whether or not  
23 it's being done, it's not to do it, I understand that, but  
24 to the extent you can tell us the schedules we ought to be  
25 operating under, to the extent you can tell us how we can

1 effectively report on management in this regard, I would  
2 be very interested in hearing your comments. And I'm not  
3 trying to usurp in any way the function of your committee,  
4 and I would direct it to his committee, and I'm so glad  
5 they've volunteered in this area, but I'd be interested in  
6 hearing what the Audit Committee tells us.

7 MR. GONZALEZ: Mr. Chairman, I'd also like to  
8 point out that in our January 17 minutes we discussed some  
9 of these issues, and obviously we haven't had much  
10 progress, and that is one of the reasons that we're  
11 planning on meeting on a monthly basis so we can monitor  
12 it and set it as a top priority.

13 MR. JONES: To me it is a very high priority  
14 and I know there's another element to that and that's  
15 management's element of that they're doing, but I'd like  
16 to get at it from both perspectives.

17 MR. GAINES: Did I understand you to request  
18 that you'd like periodic assessments of management's plans  
19 addressing the issues?

20 MR. JONES: Yes, and I'm not even joking  
21 anymore, I'm not trying to mess around with words and I  
22 know that as an auditor they're very important to you, so  
23 I'm not being critical at all, I just want to move  
24 forward. I want desperately for our agency and our HOME  
25 Program to be in accordance. When somebody audits it, I

1 want to her back, you know, you all are doing a good job,  
2 you are doing what you need to be doing. That's where I  
3 want to get and these are my own words, very much layman  
4 words.

5 Now, having said that, maybe you can put it in  
6 auditor words, but to the extent it comes under your  
7 heading as the auditor that reports to this board, I look  
8 for every bit of assistance you can get, and I know  
9 there's a lot to that function that I just talked about  
10 that falls under Edwina's responsibility and I know we'll  
11 have her help and support in this matter. I do think that  
12 what Mr. Gonzalez has suggested, that the Audit Committee  
13 is going to be looking at this monthly and just making  
14 sure we're making progress is something that's going to be  
15 very beneficial to us too. I think he's very wise in  
16 that.

17 MR. CONINE: Maybe I can add on to what the  
18 Chairman is saying. It might be helpful to take just the  
19 HOME Program and take the summary of audit findings, both  
20 internal and external, on just that program and create a  
21 matrix that we could track because this continues to be a  
22 sore spot, and I'm not suggesting you pull them out of  
23 those other audits but just create a new form that just  
24 has everything right in front of us and where we are on  
25 resolving those findings, and that would probably

1 highlight the issue at least succinctly for me, anyway,  
2 and help see where we are.

3 MR. GAINES: Okay.

4 MR. BOGANY: And you send us monthly e-mails of  
5 reports.

6 MR. GAINES: Yes, sir.

7 MR. BOGANY: I want to know where in the chain  
8 that we're getting the most resistance to get these things  
9 done and the progress that's being made; I want to know  
10 where we are from a standpoint of who's giving you  
11 resistance where you ask for things to be done and this is  
12 about the third or fourth time you've asked and it's still  
13 not being done. I want to know who those staff,  
14 management are, and because of being on the Audit  
15 Committee and I feel somewhat responsible, when I come I  
16 want to know where my weakness is.

17 MR. GAINES: Okay. I'd just like to encourage  
18 you, and I guess this is directed to all of you and in  
19 response to the comment you made, Mr. Jones, my goal is to  
20 communicate effectively, so to the extent I am using audit  
21 language, that's not my intent. I want to clearly  
22 communicate where we're at.

23 MR. JONES: I believe you are. There was no  
24 criticism implied with that; I was just trying to say it  
25 in my own terms and try to see if we were on the same

1 page, and I think there's also a reporting function here,  
2 Edwina, for you and your staff. Hopefully you can join in  
3 and help us in this area because we know as a board where  
4 we want to go and we know where we feel like we have to go  
5 for the benefit of this state, but when we listen to your  
6 reports -- I'm going to speak for myself, I shouldn't  
7 speak for the board -- when I listen to your reports, I  
8 don't see the progress we need to be making.

9 I also understand -- and don't take this as  
10 critical of you because I know you're like an umpire,  
11 you're calling the balls and strikes and then we're  
12 criticizing you because the pitcher is not very good,  
13 Okay? I understand that, I'm not trying to do that.

14 MR. GAINES: I can take it.

15 MR. CONINE: You may need to know where the  
16 strike zone is.

17 MR. JONES: Yes, and that can be an issue at  
18 times. But what I'm saying is to the extent you can help  
19 us, and if we need to communicate to you better and if we  
20 need to communicate to the staff better what we're trying  
21 to do, then maybe somebody can say it better than I've  
22 said it. But this is an area that we don't want to keep  
23 hearing the same thing, the same thing, the same thing,  
24 the same thing. And I'm just speaking for myself, we've  
25 got to find a way to change this.

1 MR. GAINES: Well, one strategy I plan on is to  
2 paraphrase the transcript and make sure all management  
3 has a copy.

4 MR. JONES: That's great, that's fine by me.

5 MS. ANDERSON: And in that I would ask that you  
6 paraphrase -- I won't repeat the comments that I made in  
7 the Audit Committee this morning about the responsibility  
8 of staff in leadership positions with this agency taking  
9 this seriously, and not just mentally taking it seriously  
10 but acting on that, if you would include that in your  
11 transcript, I'd appreciate it.

12 MR. GAINES: Yes, ma'am.

13 That carries us through the KPMG report item.

14 The next agenda item is prior audit issues and  
15 we've kind of been talking about a lot of this. There's  
16 currently 29 issues on the database; these are issues that  
17 have not previously been reported as implemented by  
18 management. Once management reports them as implemented  
19 or otherwise disposed of, they'll be reported to you and  
20 then removed from future reports; however, they remain on  
21 the database until they're independently verified as  
22 implemented or otherwise disposed of, either by internal  
23 or external audit.

24 MR. BOGANY: Can I ask you a question? On  
25 those 29 findings, Ms. Carrington, is there any way we

1 could get the staff to give us a deadline for when they  
2 think they're going to have these things achieved.

3 MR. CONINE: It's here.

4 MR. GAINES: That is information we try to  
5 include on that report, Mr. Bogany, and I will say of the  
6 29, 19 of the issues relate to three recently released  
7 reports, of course leaving ten that are older outstanding  
8 issues. And of course, our goal needs to be to be  
9 proactive to where they aren't showing up in the first  
10 place.

11 The discussion that I had planned relating to  
12 prior audit issues fully concentrates on a HUD report that  
13 was issued in November of 2001. I wanted to focus on  
14 those because of the potential significant impact on the  
15 resources of the department and the HOME Program.

16 The overriding issues throughout the report  
17 relates to the department not providing adequate  
18 monitoring and oversight of properties acquired under  
19 several HOME Program activities. The review focused on  
20 one of the department's subrecipients, and there were  
21 several specific concerns that HUD identified and as part  
22 of their required corrective actions have instructed the  
23 department to investigate all related files going back to  
24 the 1998 fiscal year.

25 Management has expressed concerns regarding the

1 nature and scope of the HUD review and is in general  
2 disagreement with some of the criteria used by HUD in  
3 measuring the department and the methodology that HUD used  
4 to project its exceptions to the total population. The  
5 department is also in disagreement with the corrective  
6 actions of reviewing all related files going back to 1998.

7 In this respect, management personnel have met with HUD  
8 officials to try to come to acceptable solutions.

9 The compliance division has recently completed  
10 the review of the same sample items that HUD tested in  
11 their review. They also took additional sample items with  
12 the intent of either verifying or negating the conclusions  
13 that HUD came to in their report. This is currently in  
14 the report-writing phase in the compliance division.  
15 Their intent is to route that to executive I believe  
16 within the next two weeks for executive's consideration,  
17 review and approval before it's routed to HUD proposing  
18 how to best proceed.

19 MR. JONES: Do we have any information on where  
20 we're going there?

21 MR. GAINES: I think where we're currently  
22 going -- and the appropriate management may want to speak  
23 to this if I don't have it entirely correct -- based on  
24 this sampling and kind of falling back to comments I just  
25 made is that there is some general disagreement on how

1 they came to the conclusions they came to, the  
2 methodologies they used. We aren't necessarily getting  
3 the same results; we aren't convinced in instances that  
4 they were using the proper criteria to measure this  
5 against, and so these are arguments that are currently  
6 planned for the report that will be presented to HUD.

7 Any other questions relating to that?

8 MR. CONINE: Deja vu all over again. I'm so  
9 tired of seeing the first ten items, I guess, dating all  
10 the way back to '99, '98 in one case. Got to get them off  
11 of here.

12 MR. GAINES: I will say that a lot of the older  
13 outstanding issues relate to those issues that cross  
14 divisional lines and I believe it has to do with the  
15 coordination between divisions and assigning specific  
16 authority and responsibility for getting those off the  
17 list.

18 One of the reasons I wasn't discussing those  
19 specifically is because of our reorganization along  
20 functional lines, I'm cautiously optimistic that authority  
21 will be centrally defined relating to the functions that  
22 can address these issues.

23 Any other questions?

24 MS. ANDERSON: I have a comment about that.  
25 While I think that makes sense going forward, I would urge

1 management and staff for that not to be a reason that  
2 items from 6/4/99 continue on this report until the end of  
3 the year when the reorganization is substantially  
4 complete. I mean, I think in the Audit Committee and in  
5 the commentary of the board in the full board meeting,  
6 we've made ourselves pretty clear that this is an  
7 extremely high priority for this board, that it's very  
8 disappointing and disheartening to look at these records  
9 and continually see delay after delay after delay, and you  
10 can always find reasons why something didn't make it on  
11 the top of the priority list, and I think that from my  
12 position as a board member, there are no excuses left;  
13 it's just time to get the work done and get these items  
14 cleared.

15 MR. GAINES: Yes, ma'am.

16 MR. JONES: I think Ms. Anderson said it real  
17 well. I guess I'm just making sure I know what we can  
18 expect you to help us do in this area, David, because I  
19 agree with her comments in totality, because the  
20 ramifications of this are pretty -- I mean, that's why  
21 you're bringing them up, they're pretty big. Right?

22 MR. GAINES: Yes, sir.

23 MR. JONES: You want to explain them to us one  
24 more time?

25 MR. GAINES: Well, for the issues they've

1 noted, for the most part they're recommending going back  
2 and reviewing all project files since 1998, so just the  
3 demand on the human resources to do that is very  
4 significant, and then for those issues that we do not  
5 resolve satisfactorily, they're requesting that the  
6 department, the State reimburse HUD from non-federal  
7 sources.

8 MR. JONES: And then add to that that we really  
9 do kind of need to have a good relationship with HUD; I  
10 mean, that's kind of essential to this department. And I  
11 think you bind those three factors and it's a very  
12 important issues. And I guess again I just say that we're  
13 looking for help from you not only to tell us the  
14 situation but also to tell us if there's anything that we  
15 can do as a board to bring this matter to a completion and  
16 conclusion. This Audit Committee is going to do a great  
17 job with it, I'm sure they'll succeed; prior audit  
18 committees tried and we're still where we are and none of  
19 these three members were even on it then. Anyway you can  
20 help us, anyway you can tell us how to put timetables in  
21 place, anything you can do to help us in this area because  
22 we just want to accomplish the result.

23 MR. GAINES: I'll bring that to the next board  
24 meeting, and to the extent you have additional input on  
25 how I can help you, please let me know.

1 MR. BOGANY: David, one of the questions I  
2 have, and the last statement I'll make about the audit, is  
3 that I'd like to see this as a team effort and how every  
4 division can help clear this HOME issue up because it is a  
5 team effort, and if one division goes down, it brings the  
6 rest of us down. So it's not just a HOME division  
7 problem, it's an agency problem, and I would like to see  
8 when you give my little report that how another agency can  
9 help also in this and we all kind of circle the wagons and  
10 go in and help clear this up, because we're talking about  
11 going back to 1990-92, that's a long time and that's a lot  
12 of demand. So I would like staff and management to  
13 realize this is a team effort here and it can really hurt  
14 us deeply if we don't correct this issue.

15 MR. GAINES: Point well taken.

16 MR. GONZALEZ: Excuse me, David.

17 MR. GAINES: Yes, sir.

18 MR. GONZALEZ: Will we be able to have  
19 something on the 24th, something or an update or anything?  
20 I know we're meeting on the 24th. Is that possible or do  
21 we need to wait for a month?

22 MR. GAINES: I don't believe I would be able to  
23 bring much additional information than what I'm doing  
24 today.

25 MR. GONZALEZ: Okay.

1 MR. GAINES: Any other discussion on the audit  
2 issues? I hope that covers it.

3 The final report item on the agenda item on the  
4 Audit Committee agenda was the status of audits, and just  
5 briefly, the statewide single audit is back ongoing, it's  
6 currently underway, auditors are on site, so the auditors  
7 aren't going away. That work is being done by KPMG in  
8 contract with the State Auditor's Office. And then the  
9 State Auditor's Office has other projects planned  
10 including a review of the implementation of Sunset  
11 recommendations that will be coming in mid-July, looking  
12 at recommendations that we represent as completed, and  
13 then the Sunset staff will come back later in the year to  
14 review the remaining items.

15 The state auditors are planning on a review of  
16 certain aspects of the Community Services Block Grant  
17 Energy Assistance and Section 8 programs. They've  
18 recently completed a special investigation of a former  
19 department employee who provided false information in an  
20 attempt to benefit from one of the department's programs,  
21 and they have a performance measures certification audit  
22 to assess the accuracy of the Fiscal Year 2001 performance  
23 measurement data reported to LBB and the surrounding  
24 controls that provide assurance of the accuracy of that  
25 performance information.

1           On the next page is the status of internal  
2 audit projects. Just quickly in summary on that, payroll  
3 audit that we're working on, we're planning on an exit  
4 conference tomorrow, we expect management's responses back  
5 in a week at which time we'll sit down with executive  
6 management to discuss the issues and management's response  
7 with the intent of releasing a report the following week.

8           The tax credit project that we've been working on  
9 relating to the deliverables, the controls for the  
10 deliverables with tax projects, it's reflected, I believe,  
11 as June on your report, because of various  
12 circumstances -- and I'll throw in the additional  
13 reporting requirements you've got going forwards -- I'm  
14 expecting that that project won't be completed at this  
15 point, it will be late July or early August is what I'm  
16 expecting on that.

17           Any other questions relating to the Audit  
18 Committee?

19           MR. JONES: Anything further?

20           MR. GONZALEZ: Good report.

21           MR. GAINES: Thank you.

22           MR. JONES: Mr. Gonzalez, anything else from  
23 the Audit Committee?

24           (No response.)

25           MR. JONES: We will then turn to item 8 on the

1 agenda. Ms. Carrington?

2 MS. CARRINGTON: That's Mr. Gaines also.

3 MR. GAINES: I'd like to ask Walt Vega to join  
4 me. Walt is the software development manager for the  
5 department and the project manager on the Central Database  
6 Project. What we have before you is our first run of  
7 providing periodic status reports to the board regarding  
8 the status of the Central Database Project. This will be  
9 an ongoing report going forward; I'm not sure it will be  
10 monthly but it's something we want to keep you apprised of  
11 as to where we're at and where we're going, and so as we  
12 move forward with this, if you have suggestions,  
13 additional information needs, please let us know and we'll  
14 start incorporating that as well.

15 I'm currently serving in an advisory capacity,  
16 a non-voting chairperson of the Information Systems  
17 Steering Committee -- excuse me -- the Central Database  
18 Steering Committee -- we have several committees there --  
19 I'm currently serving as a non-voting member, the chair of  
20 the Central Database Steering Committee; I'm doing this at  
21 the request of management and glad to do that. But  
22 speaking in that capacity, I just wanted to bring that up,  
23 the information I'm providing is based on information  
24 that's been provided to me through the committee itself or  
25 from the project team or from operations personnel.

1           The first section of this report is the project  
2 scope as specified in the project charter. The project  
3 charter -- which you don't have in front of you --  
4 defines, among other things, the governance of the  
5 project, the business and project objectives, what the  
6 project will achieve, the boundaries of the project, and a  
7 list of affected stakeholders. The project charter has  
8 been approved by department management, by the steering  
9 committee reviewing and approving the charter, and it's  
10 been distributed to all functional areas, functional  
11 analysts representing the areas of the department within  
12 the scope of the project.

13           I introduced Walt, but he's been with us since  
14 October of 2001, when he formally started managing the  
15 software project, and we're real glad to have Walt. I'd  
16 go into his resume but we might be the rest of the day  
17 doing that.

18           But back to the planned comments. The programs  
19 or divisions to be supported by the project are those  
20 listed towards the middle of page 1, if we'll just turn to  
21 that. Those are the programs that will be supported by  
22 the project. And the scope -- this is an extract from the  
23 project charter -- the project scope is a high-level  
24 summary of where the department is going, what it's going  
25 to get, and how the project team is going to get us there.

1           The project has been divided into three phases.

2           The first phase was the AIMS Compliance Monitoring and  
3 Tracking System. This was developed to meet the  
4 compliance needs and reporting needs of the multifamily  
5 properties that the compliance division monitors during  
6 the affordability period of the projects. The system was  
7 developed to automate compliance testing and provide for  
8 the accumulation and reporting of information such as  
9 annual reporting of household income of families residing  
10 in individual units and rent charged to each household,  
11 the racial/ethnic makeup of multifamily projects currently  
12 administered, the tracking and reporting of special needs  
13 tenant services, and units designed for the disabled, and  
14 identification of compliance violations.

15           The compliance system is just one portion of  
16 the Central Database project but it plays an integral role  
17 since it really provides the initial framework or the  
18 foundation for the remaining pieces of the database. So  
19 in other words, it's the basic architecture for the  
20 database itself and that's why this is a real important  
21 component to have substantially complete, and it's  
22 currently in the final testing phases.

23           The compliance system design and development  
24 was completed in January of 2002, the development itself  
25 and the design, and as I was just saying, it's currently

1 in the final stages. It's being populated with the  
2 multifamily properties we have, the population from the  
3 existing Tax Credit system have been migrated over to the  
4 new database, the multifamily properties from the HOME  
5 Program and the multifamily bond programs is planned to be  
6 migrated over within the next week to two weeks. Just as  
7 a footnote to that, there's approximately 2,300 properties  
8 from the Tax Credit system that migrated over.

9 This will allow compliance to automatically  
10 perform compliance tests of the unit status report data as  
11 it's entered going forward. The historical data was not  
12 captured in an automated fashion, so as we enter that unit  
13 data, it will allow for automatic compliance testing and  
14 identification of exceptions, if you will.

15 All that discussion kind of related to this  
16 basic architecture framework of the compliance tracking  
17 system. We're also in what we're calling the second phase  
18 of the project which is projected to continue through  
19 December 2003 with a great majority of that phase being  
20 completed by the end of this calendar year. This phase  
21 will result in the central database that's used by all the  
22 functional areas within the project scope and will provide  
23 the essential support or business functions and  
24 information needs such as: parties to the contracts,  
25 contract terms, budgets, performance information, the

1 allocation of funds to programs, regions, activities, and  
2 set-asides; it will track a dollar from the initial  
3 funding source down to the final recipient and back again  
4 in cases of deobligations; the draw disbursement process,  
5 loan terms, loan status and tracking, and again, the long-  
6 term compliance monitoring needs of the division. Another  
7 component will be the portfolio management aspect that  
8 we're just beginning to address.

9           The high-level functionality will be supported  
10 by Phase II as listed on pages 2 and 3 of the project  
11 charter, and these are bullets, one-word bullets, very  
12 high-level. And an example of greater detail is the  
13 functional requirements for the Housing Trust Fund which,  
14 of course, is one of our smaller programs but the Housing  
15 Trust Fund has much of the same functionality as the other  
16 programs, so that functionality, especially as we move  
17 forward and we're aligned organizationally by function,  
18 we'll be able to move that function as it's currently  
19 designed for the Housing Trust Fund and go a step further  
20 and ensure: Is this sufficient, is there anything else we  
21 need relating to the draw-down process, and use these  
22 specifications going forward?

23           So even though we are having to realign our  
24 thinking and our time lines which have been by programs  
25 realignment by functional areas, we don't believe it's

1 cost us a lot of lost time because we've been developing  
2 this system on a very modular basis and we can take those  
3 modules, those functions and move to them to the new  
4 structure.

5 Walt, anytime you want to jump in, just go for  
6 it.

7 (General laughter.)

8 MR. VEGA: You're doing a pretty good job.

9 MR. GAINES: The third phase of the project is  
10 briefly discussed on page 4 and this phase really relates  
11 to the bells and whistles to complement the basic  
12 functionality that's being addressed in Phase II. Project  
13 plans and appropriation requests are currently being  
14 developed in connection with the department's biannual  
15 operating plan which is basically the IS or Information  
16 Services support for its appropriation request that rolls  
17 into the department's legislative appropriations request.  
18 That information is due this summer and that's all  
19 currently in progress.

20 Any questions relating to the project scope?

21 MR. JONES: Ms. Anderson?

22 MS. ANDERSON: Yes, I have a question I'd like  
23 to address to Mr. Vega, if I might. I think first this is  
24 a groundbreaking system for this agency, it has a  
25 tremendous amount of promise to help us be more efficient,

1 more effective, and I view it as a very strategic  
2 initiative that's underway, as you know. My question is  
3 this: What do you see as any impediments, either real or  
4 things you're concerned about that might arise, that would  
5 cause cost risk or schedule risk slippage to the  
6 completion of the Central Database, and let's just kind of  
7 leave it at Phase II right now.

8 MR. VEGA: I would say possibly resources --

9 MS. ANDERSON: Would you elaborate?

10 MR. VEGA: -- resources being diverted to other  
11 projects within the agency, such as the reorganization, or  
12 possibly due to existing maintenance to keep the agency  
13 running, also lack of financial resources to adequately  
14 get the project done within a timely manner. In addition  
15 to everything that's going on within the agency, we have  
16 to obviously support the rest of the agency in all of its  
17 efforts, we also have to show progress on the Central  
18 Database, so that would be a paramount concern.

19 MS. ANDERSON: It's a pretty typical problem  
20 that when you're doing a development project that the  
21 legacy systems are still screaming for maintenance and bug  
22 fixes, I mean, that's pretty endemic. What process do we  
23 have in place to evaluate the CSRs or whatever you call  
24 them, the change requests for the legacy systems to  
25 determine if those changes are in fact mission critical so

1 that we're not just always making all the legacy system  
2 changes which does put your project at risk? How do we  
3 evaluate those?

4 MR. VEGA: Well, at present what we do right  
5 now is we have a request for IS services form and we have  
6 a process in place that is followed as to where something  
7 can come in as a trouble ticket -- let's call it a work  
8 order -- it comes in, brings it to our attention, and then  
9 we determine based upon our speaking with the developers  
10 and having an initial meeting with the users and with that  
11 division we find out exactly what it is that they need to  
12 get accomplished and by when, and then we determine, based  
13 on the amount of resources and everything else taken into  
14 consideration, as to whether or not it is doable within a  
15 short time frame or whether it's a project.

16 If it's a project, then we have them fill out a  
17 request for IS services form, it goes to the Central  
18 Database Steering Committee for prioritization, at which  
19 point that division manager or the representative goes to  
20 the meeting and pretty much tries to justify whether or  
21 not the project is important enough for it to be  
22 accomplished, and then the Central Database Committee  
23 helps prioritize our efforts.

24 MS. ANDERSON: And are there cases where the  
25 committee has determined that resources need to come off

1 the Central Database Project to do some sort of change  
2 request for IS services?

3 MR. VEGA: In some cases yes and in some cases  
4 there's been kind of a compromise as to where an FTE has  
5 been made available to us to accommodate completion of  
6 that task.

7 MS. ANDERSON: Well, again, I appreciate  
8 getting a better understanding of how that process works.  
9 Again, I just reiterate the strategic importance of this  
10 system and ask that everyone in the agency be very prudent  
11 in the requests they make of IS that risk cost and  
12 schedule delay for this system in order to do a -- and  
13 there are some bug fixes that have to be done, but I just  
14 ask that management of the agency make sure that we are  
15 minimizing diversion of the resources dedicated to the  
16 Central Database project so that we can keep this on  
17 track. It was part of 322, it's something the legislature  
18 expects us to have, and if we have to sort of limp along  
19 in something that we'd like to have fixed but we can live  
20 without having it fixed and that helps us protect the  
21 schedule and the budget for the Central Database Project,  
22 I ask us to take a really hard look at those kinds of  
23 situations and try to protect the resources of Walt's  
24 team.

25 MR. VEGA: One thing that will definitely help

1 us move forward is the reorganization because it does kind  
2 of streamline who we wind up speaking with, and that will  
3 also help us meet our commitment dates. So thank you very  
4 much, Ms. Carrington.

5 MR. CONINE: Where can I see a list of those  
6 commitment dates? And you start speaking a different  
7 language like this guy did here a minute ago. Where can I  
8 find a list of commitment dates.

9 MR. VEGA: The original project plan was  
10 provided in the last board meeting, I believe, initials  
11 snapshot. That was before the decision to move ahead  
12 functionally was announced and how we were going to  
13 proceed forward. That obviously has caused us to update  
14 the project plan and one could be made available to you,  
15 an updated one as soon as possible.

16 MR. CONINE: I see here in this first  
17 paragraph: Phase II by December 21, '03.

18 MR. VEGA: That's when the end-to-end  
19 functionality of the Central Database Project will be  
20 finalized, so between --

21 MR. CONINE: Translate that for me.

22 MR. VEGA: Okay. Between now and then various  
23 functions, as we go ahead functionally versus program by  
24 program, various functions will be able to be accomplished  
25 using the new application, using the Central Database.

1 MR. CONINE: You were exchanging the word  
2 "resource" a minute ago and I get confused. That means  
3 cash to me and I think you are talking human.

4 MR. VEGA: Resource can be cash, human.

5 MS. CARRINGTON: FTEs.

6 MR. VEGA: FTE basically.

7 MS. ANDERSON: So the schedule could slip. If  
8 we've got three people writing code for this thing and  
9 somebody gets pulled off for three weeks to do some fix on  
10 a legacy system, then that's three man weeks they're not  
11 working on what they were supposed to be working on on the  
12 Central Database. And I do think sending out a revised  
13 chart at a high level, not that detailed but at a high  
14 level, and particularly that would help meet the request I  
15 discussed with David earlier. I'm very interested in what  
16 will be done halfway through Phase II which is the end of  
17 this year, what's going to be operational that the  
18 departments can use to do their jobs at the end of this  
19 year.

20 MR. VEGA: I've been meeting with my project  
21 team and with my software development staff, and we're in  
22 the process -- we have a rough draft of a preliminary  
23 plan, a revamped plan. As soon as we finalize that within  
24 the next couple of days, I'll make it available after we  
25 review it with the Central Database Steering Committee.

1 MR. GAINES: This project plan, if I can just  
2 insert this, is planned for discussion at next Thursday's  
3 steering committee meeting, and it's basically taking it  
4 by program timelines, flip-flopping it to by functional  
5 area time lines.

6 MR. VEGA: I will say that the experience that  
7 we've gained by going through the Housing Trust Fund  
8 program end to end allowed us to gather a lot of the  
9 requirements that we already need going forward; it's just  
10 a matter of sitting down with the remainder of the program  
11 area and if we gather or can improve on any business  
12 processes and standardize those moving forward, that will  
13 also be in the Central Database -- whatever we realize in  
14 that will also be in the Central Database. So it wasn't  
15 for naught; everything that we've done, thank God, we're  
16 going forward object by object, is something that is not  
17 throw-away, something that we can reuse.

18 MR. CONINE: Isn't it true that if we had had  
19 this thing in four years ago, five years ago -- and I  
20 realize the technology is different today, but if we'd  
21 have had it in there that some of these audit findings we  
22 talked about a minute ago might have mitigated themselves?

23 MR. GAINES: Well, our response is the Central  
24 Database will fix it, so presumably so.

25 MR. JONES: Kent is sharp.

1 (General laughter.)

2 MR. CONINE: Are we contemplating -- this is  
3 obviously my guess; again, I'm asking layman's questions  
4 here -- an internal system, are we going to connect this  
5 to our website so that externally there is some talking  
6 back and forth with fire walls and all that kind of good  
7 stuff?

8 MR. VEGA: Absolutely. Several portions of the  
9 Central Database are actually in operation now and a lot  
10 of the information there will be interfaces to the public,  
11 yes.

12 MR. GAINES: For example, the Tax Credit  
13 property owners will be entering their own data from the  
14 field for the compliance monitoring function.

15 MR. CONINE: Okay, good.

16 MR. GAINES: That's part of the plan.

17 MR. JONES: Hurry up.

18 (General laughter.)

19 MS. CARRINGTON: What the board did a little  
20 earlier today including the concept of the organization  
21 certainly gives Walt and his team the direction they need  
22 as they move forward with the design.

23 MR. VEGA: Absolutely, it makes perfect sense.

24 MR. GAINES: Once Ms. Anderson gets back. I was  
25 wishing she'd ask that question of me that she asked of

1 Walt, so I might bring that back up in a moment.

2           The next session is a series of slides which  
3 just provides a high-level overview of why the Central  
4 Database initiative has been undertaken and how the  
5 department intends to accomplish its objectives. And for  
6 the sake of time, these slides don't really relate to the  
7 status of the project, so I'm just going to skip over  
8 these and make you aware of them there.

9           The next piece of the report is the status-of-  
10 funds report, and basically this report identifies the  
11 sources of funds being used for the project, the original  
12 high-level plans for the project, high-level plans for the  
13 funds, the funds used to date, encumbrances as of the end  
14 of May 2002, and the remaining unexpended, unobligated  
15 balance as of that date.

16           The first point I really wanted to make relates  
17 to the appropriated funds on page 1 for the 2002-2003  
18 biennium, and that's the second paragraph. You need to  
19 make a correction where it says "Fiscal Year 2002 through  
20 2003," that's really 2003 through 2003. Are you with me  
21 on that?

22           Towards the bottom of this paragraph you will  
23 note that \$798,000 was originally requested for this  
24 project, \$498,000 was appropriated. This, with other  
25 factors, are the primary causes, we believe, for the

1 original expected completion date of December 2002 to be  
2 extended to the following December.

3           The second point to be made or that I wanted to  
4 emphasize relates to unexpended balances as of May 31  
5 which is about mid-page on page 2, the unexpended  
6 balances. Obligations and plans for these funds relate  
7 primarily to fees for contract system analysts, business  
8 data architecture, and computer programming services.  
9 Those funds have been committed for those purposes leaving  
10 a remaining balance of \$43,000 on page 3, and the reason I  
11 wanted to bring this up is that \$43,000 while that balance  
12 hadn't been specifically planned on, the point I'm trying  
13 to make here is that at the current burn rate, we're  
14 expecting these monies to be expended by March 2003 which  
15 leaves the remaining six months of the 2003 fiscal year  
16 without funds or funds that have not been identified to  
17 continue.

18           So beginning September 1, the next year's  
19 appropriations kick in and we're ready to go forward, but  
20 as of March 2003, additional funds have not been  
21 identified to continue on as of that point in time from  
22 April 1 through August 31. So that's something our  
23 financial officer is aware of, it's something we're  
24 keeping an eye out for additional funds.

25           Beth, you missed some of this but I'll get with

1 you at a later time to share this with you.

2 But that's a concern we need to deal with;  
3 otherwise, we're on hold for six months which is  
4 unacceptable.

5 MR. BOGANY: So where do we get the money to  
6 complete the project?

7 MR. GAINES: There's different options and  
8 maybe we have appropriations for normal growth depending  
9 on how much we use on just normal maintenance and stuff.  
10 As we get closer to that point in time, some of those  
11 funds might free up even though they were originally  
12 planned for other purposes. There may be some fees that  
13 are loosely restricted, if you will, available. Those  
14 have not been specifically identified.

15 MR. CONINE: Why don't we ask staff to come  
16 back in a couple of months with some thoughts on that  
17 subject. You've got enough to do in the next 30 days.

18 MR. GAINES: Right. It's on our radar screen,  
19 we'll be watching that closely and looking for strategies  
20 on how to satisfy that gap.

21 MR. BOGANY: We've given out the S-Bill 322 and  
22 then you've got the audit, but it seems as though if you  
23 had your centralized database in place, it would solve  
24 some of your audit issues and some of your other issues,  
25 things of that nature. You guys' plates are full.

1 MR. GAINES: Yes, sir.

2 Beth, I'd mentioned once you got back I was  
3 going to backtrack a little bit and just say I wished  
4 you'd asked that question of me that you asked to Walt,  
5 and my response would have been real similar, but what I  
6 have seen -- one of my biggest concerns is a lack of  
7 dedicated resources that Walt can manage because in the  
8 absence of that it's very difficult, and I've seen the  
9 anxiety and I've seen the problems it's caused relating to  
10 scheduling audits, scheduling time lines. He has  
11 basically resources to work with which he has no control  
12 over right now, functionality, and calendars, so anytime  
13 one of those gives, it affects the other two.

14 So Walt did touch on it, he hit on it, but I'd  
15 consider that to be one of the most significant risks and  
16 as far as the management of the department, I think  
17 they've been real cooperative in recognizing that this is  
18 a priority from the sense that they realize, don't be  
19 coming to the table with new projects, don't be coming to  
20 the table with new enhancements. That's been very  
21 minimal, but it's just the ongoing maintenance and the  
22 unexpected maintenance that comes up that has to be taken  
23 care of for operations to get through the next day and the  
24 next week; it's those unexpected maintenance problems  
25 that's really causing Walt, I believe, and the project

1 team a lot of problems.

2 I also believe it's hard to recognize Walt was  
3 successful or recognize where the problems are if he  
4 doesn't have control over the resources to do the project.

5 MS. ANDERSON: I'd be interested, formally or  
6 informally, however is appropriate to do it, in your  
7 recommendations, David -- and this is very appropriate  
8 because of your role as chairman of the steering  
9 committee -- specific sort of recommendations for Ms.  
10 Carrington to consider that might give Walt more control  
11 over those resources, and then we've got to recognize we  
12 still have maintenance and bug-fix kind of problems and is  
13 there a way to still address those and do it in a way that  
14 protects Walt's resources too. I mean, maybe we can get  
15 creative, maybe you could have some creative ideas.

16 MR. GAINES: That's an excellent point, and one  
17 thing I do need to do is start bringing Edwina in more  
18 frequently and briefing her on the results of these  
19 discussions we're having during the committee meetings.  
20 And I'll pledge to do that, Ms. Carrington.

21 MS. CARRINGTON: I look forward to it, Mr.  
22 Gaines.

23 (General talking and laughter.)

24 MR. GAINES: The final handout on the status  
25 report is basically just a listing of accomplishments to

1 date for those funds that have been expended that we just  
2 discussed. You'll notice towards the bottom of the page  
3 there's been quite a bit that was necessary relating to  
4 software standards and hardware infrastructure.

5 Considerable effort was necessary just to establish  
6 minimum levels of control to help ensure the success of  
7 the project, not only this project but just software  
8 development projects in general, the hardware  
9 infrastructure was necessary.

10 The other accomplishments to date are listed  
11 there. It's not real obvious from the list but I just  
12 wanted to point out that the database currently has  
13 information on all its business partners that it has  
14 business with, both organizations and individuals, so I  
15 think that's something that is a worthy accomplishment  
16 that the project hasn't done a good enough job letting  
17 people be aware of it.

18 The pending big pieces remaining, in addition  
19 to the business partners and the individuals who we're  
20 doing business with, really relates to the allocation of  
21 funds for which the requirements are substantially  
22 completed. In fact, I believe the requirements are  
23 completed pending confirmation by management.

24 MR. VEGA: Correct.

25 MR. GAINES: And basically that's just the

1 planned use of funds, and so that with the contract terms  
2 and draw-down information, it will be a basis for allowing  
3 reporting of that kind of information, where we planned  
4 for our funds to go, where did they go, who received them,  
5 and provide a basis for comparison between the planned and  
6 actual performance of the funds. And I think that is the  
7 real backbone of where we're heading, and I know we're all  
8 looking forward to that.

9 MR. JONES: Sounds good. We appreciate it,  
10 David.

11 Any further questions or comments? Thank you  
12 so much.

13 MR. GAINES: Thank you.

14 MR. JONES: All right, we will then move to  
15 item 9 on our agenda. Ms. Carrington?

16 MS. CARRINGTON: 9(a) and 9(b) will be  
17 presented to the board by David Burrell.

18 MR. JONES: I tell you what, give us the high  
19 points.

20 MR. BURRELL: Just the high points. Good  
21 afternoon, Mr. Chairman, members of the board, and Ms.  
22 Carrington.

23 On item number 9 you have in your book under  
24 Tab 9(a) a list of developments where we've had requests  
25 for extensions for the June 14 deadline for the closing of

1 construction loans. Since we prepared this board booklet,  
2 two of the developments have closed on their construction  
3 loans, and the two would be the Fountains at Tidwell in  
4 Houston and Logan's Pointe in Mt. Vernon. Of the  
5 remaining nine, one, The Grand Texan Seniors, we're also  
6 requesting that the extension fee be waived because there  
7 was a matter beyond the developer's control for having to  
8 have this extension for the construction loan. You'll see  
9 under 9(b) we'll have a proposal to restructure the  
10 development in McKinney.

11 The nine here, we re requesting that you extend  
12 the deadline dates to the dates we have stated; the nine  
13 that we're requesting would be: The Grand Texan Seniors  
14 in McKinney; Springdale Estates in Austin; North Star  
15 Apartments in Raymondville; Laurel Point Senior Apartments  
16 in Houston; Bell Oaks Village Apartments in Bellville; The  
17 Village at Meadowbend in Temple; Autumn Oaks of Corinth in  
18 Corinth, Texas; Clark's Crossing in Laredo; and Parkway  
19 Senior Apartments in Pasadena.

20 MR. BOGANY: So moved.

21 MS. ANDERSON: Second.

22 MR. JONES: We have a motion and a second. Any  
23 further discussion, questions or comments? All those in  
24 favor of the motion, please say aye.

25 (A chorus of ayes.)

1 MR. JONES: All those opposed, nay.

2 (No response.)

3 MR. JONES: Motion carries.

4 MR. BURRELL: Under 9(b) we're requesting that  
5 the board allow us to restructure The Grand Texan Seniors  
6 community apartments. We would be reducing it from a  
7 total of 230 units that was approved back in the fall of  
8 2001 down to a total of 100 units. Under the restructured  
9 development there would be 54 Low Income Housing Tax  
10 Credit units which is the same that you approved in the  
11 fall of 2001, and we would be reducing the market rate  
12 units down to 46.

13 MR. BOGANY: So moved.

14 MR. JONES: We have a motion. Can we have a  
15 second?

16 MR. CONINE: Second.

17 MR. JONES: Motion has been made and seconded.  
18 Further questions, comments?

19 Mr. Mitchell, do you care to speak or do you  
20 want us to move forward?

21 MR. MITCHELL: Move forward, please.

22 MR. JONES: Hearing no further questions or  
23 comments, I assume we're ready to vote. All in favor of  
24 the motion, please say aye.

25 (A chorus of ayes.)

1 MR. JONES: All opposed, nay.

2 (No response.)

3 MR. JONES: Motion carries.

4 MR. MITCHELL: I would say I'm very pleased  
5 with the recommendation. I agree 100 percent and I  
6 express my thanks to everybody.

7 MR. JONES: Thank you, sir.

8 MR. BURRELL: Thank you.

9 MR. JONES: Thank you. We will then move to  
10 item 10. Yes, Mr. Hull, 10 and 11, Mr. Hull wanted to  
11 speak.

12 MR. HULL: Good afternoon, Mr. Chairman, board  
13 members, Ms. Carrington. I will be very brief. My name  
14 is Matt Hull, I'm a policy analyst with the Texas  
15 Association of Community Development Corporations. We  
16 represent over 300 CDCs and CDFIs and CHDOs working across  
17 the state in housing and economic development. As you  
18 mentioned, I'm here to speak on issues 10 and 11.

19 On item 10, we participated in the agency's  
20 public hearing process regarding the certification of  
21 CHDOs and we're very pleased to see the resulting policy  
22 recommendations that are before you today. We support the  
23 recommended changes in the certification process for CHDOs  
24 and ask that you adopt them today.

25 Would it be beneficial for me to go ahead and

1 speak to item 11 now?

2 MR. JONES: Why don't you, please, sir. Thank  
3 you.

4 MR. HULL: Very similarly, we support the  
5 agency's efforts to implement a policy with regard to its  
6 bond issuances for properties that may potentially use ad  
7 valorem property tax exemptions intended for CHDOs. We  
8 ask that you adopt this recommendation as well.

9 Thank you very much for allowing me to speak to  
10 the board.

11 MR. JONES: Thank you.

12 Ms. Carrington?

13 MS. CARRINGTON: Thank you, Mr. Jones. What  
14 you have before you today is a proposed rule for how the  
15 department will address the certification of community  
16 housing development organizations as they relate to  
17 applicants using HOME funds. This is a presentation that  
18 we made yesterday to Urban Affairs.

19 TDHCA's process in certifying CHDOs started as  
20 a result of our administration of the HOME Program. The  
21 HOME Program has a set-aside for nonprofits; those  
22 nonprofits have to be qualified as CHDOs. So we actually  
23 started doing this in 1992. With the last two sessions of  
24 the legislature, there was House Bill 137 and then House  
25 Bill 3383 which opened up tax exemptions for nonprofit

1 entities. With House Bill 3383 they tied the term "CHDO"  
2 to it and so with that, TDHCA sort of got in the fray of  
3 what was going on related to the tax exemption that's  
4 being claimed in many of the appraisal districts.

5 So at the board meeting in April the board did  
6 authorize us to go out with a series of public hearings;  
7 we did have those public hearings, we took public comment.

8 And on page 2 behind the background information we have  
9 the recommendations that we are asking the board to  
10 consider and approve today, and basically what these  
11 recommendations do is narrow our certification of  
12 community housing development organizations.

13 There are three recommendations related to the  
14 rule that we're asking for. The first one is you have a  
15 nonprofit who is applying for HOME funds, 95 percent of  
16 our funds have to be used outside major metropolitan  
17 areas, so if we have a nonprofit needs a certification,  
18 applying for HOME funds and outside the participating  
19 jurisdiction, then we will only certify them as a CHDO if  
20 indeed they also submit an application for HOME funds. So  
21 that's one piece of this.

22 In the second recommendation you have, in the  
23 event that an organization is applying for state HOME  
24 funds -- in other words, our HOME funds -- and they are  
25 serving a population inside a participating

1 jurisdiction -- and we can do that with 5 percent of our  
2 HOME funds as long as it's related to serving people with  
3 disabilities -- then what we say is we want evidence from  
4 the local taxing jurisdiction or local participating  
5 jurisdiction that they are certified as a CHDO. So that  
6 sort of takes care of the 5 percent piece that we have out  
7 there.

8 In the last recommendation, in the event that  
9 you have an entity that is applying in a PJ, in a  
10 participating jurisdiction, and yet the entity does not do  
11 a certification process, for whatever reason they don't do  
12 a certification process, then TDHCA would certify in that  
13 particular situation.

14 So this would be a rule that we're asking the  
15 board, the department to adopt, and it has been  
16 resoundingly welcomed by the communities that have been  
17 very interested in this issue.

18 MR. CONINE: So moved.

19 MS. ANDERSON: Second.

20 MR. JONES: We have a motion to approve the  
21 recommendation in regard to item 10, it's been seconded.  
22 Mr. Conine, Ms. Anderson. Any further discussions,  
23 questions or comments? Hearing none, I assume we're ready  
24 to vote. All in favor of the motion, please say aye.

25 (A chorus of ayes.)

1 MR. JONES: All opposed, nay.

2 (No response.)

3 MR. JONES: Motion carries.

4 We'll now turn our attention to item 11. We do  
5 have public comment on item vis-a-vis a letter from the  
6 Alief Independent School District which will become part  
7 of our record. The letter is by Louis Stoerner, Alief  
8 Schools.

9 "Alief Independent School District which is  
10 located in southwest Houston was founded in 1917 and  
11 encompasses 36.6 square miles. Our district is the most  
12 ethnically diverse of school districts of comparable size  
13 in Texas, virtually every culture of the modern world is  
14 represented in its 43,000-student enrollment.

15 "Currently Texas Tax Code Section 11.182  
16 exempts community housing development organizations from  
17 paying ad valorem taxes if they use tax-exempt bonds to  
18 acquire multifamily housing with the intent to renovate.  
19 This exemption takes resources away from the school  
20 district and impairs our ability to provide the education  
21 our students deserve. Taking existing multimillion dollar  
22 properties off district tax rolls resulted in a one-year  
23 major loss of revenues to districts to educate the same  
24 number of students under our current school finance  
25 system.

1           "Alief has six apartment complexes included in  
2 various proposals. The 2001 assessed value of these  
3 complexes is \$45 million and the annual tax levy is  
4 \$759,000. At this time 560 students reside in these  
5 apartment complexes and they are being educated by our  
6 district at the cost of \$3.3 million per year. Losing  
7 this tax levy, even for one year, will have a significant  
8 impact on our budget and will make it more difficult to  
9 give our students the education they deserve. Our  
10 district currently has a \$1.46 tax rate and considering  
11 the \$1.50 tax cap, Alief has little or no ability to make  
12 up the revenue lost through local taxes.

13           "Alief Independent School District submits this  
14 letter to urge the Texas Department of Housing and  
15 Community Affairs board to adopt TDHCA's staff's suggested  
16 rule changes regarding the applications to the TDHCA's  
17 multifamily bond program for financing of multifamily  
18 rental projects which are owned or partially owned by a  
19 nonprofit corporation qualifying as a CHDO. Specifically,  
20 TASB and its members strongly support the adoption of a  
21 requirement that CHDOs provide a letter of nonopposition  
22 to every affected taxing entity or unit affected by the  
23 exemption, including school districts.

24           "We need your help and ask that the board  
25 approve this proposed change. Alief greatly appreciates

1 TDHCA's consideration of school districts' concerns  
2 regarding the certification of CHDOs."

3 If we need any further information, we can  
4 contact him and he gives his telephone number. So we  
5 thank them for that public comment.

6 Item 11, Ms. Carrington.

7 MS. CARRINGTON: Where item 10 dealt with CHDOs  
8 who were applying for HOME funds and that will become a  
9 rule for us, item 11 is a policy change that we are  
10 recommending to be incorporated in our multifamily rules.

11 We currently have multifamily rules, we will be bringing  
12 those rules back in the next couple of months with some  
13 changes, so right now what we would anticipate doing, if  
14 indeed the board approves this policy today, it will  
15 become a part of the rules and then will be incorporated  
16 when we bring those rules back.

17 The recommendations that we are making to you  
18 are down on the bottom of this page and there's four of  
19 them. We are involved in 501(c)(3) bond transactions,  
20 we're also involved in private activity bonds with 4  
21 percent credit, and so these are what we're addressing  
22 down at the bottom.

23 If we have an application on private activity  
24 bonds and 4 percent credits, there would be a notification  
25 that would be required to TDHCA if the applicant planned

1 to apply for a property tax exemption, so that  
2 notification would be required. The second one would be  
3 confirmation of the CHDO tax-exempt status from the local  
4 participating jurisdiction or tax appraisal district. So  
5 this is a situation where the developer is going to use  
6 TDHCA to issue the bonds, so we would be the issuer; very  
7 possibly this transaction is going to be in a  
8 participating jurisdiction because the majority of the  
9 multifamily bond 4 percent credit transactions are in the  
10 larger cities around the state. So what we would require  
11 is that they would have to have notified the appraisal  
12 district that indeed they were going to be requesting this  
13 tax exemption.

14 And then we want one of two things: We either  
15 want number 3 or number 4 from the developer. Number 3  
16 would be a letter of nonopposition from every taxing  
17 entity that would be affected by this particular  
18 development. So if they can get a letter from all of the  
19 entities saying, We're not opposed, then that would be  
20 acceptable to us. Or number 4 if indeed there were some  
21 entities that did oppose the tax exemption that there  
22 would be a payment in lieu of taxes between the taxing  
23 entity and the development entity.

24 MR. JONES: Is there a motion?

25 MR. BOGANY: So moved.

1 MR. JONES: Motion by Mr. Bogany. Is there a  
2 second?

3 MS. ANDERSON: Second.

4 MR. JONES: Second.

5 MR. CONINE: I've got some issues, I guess. I  
6 don't see how we can as a body here usurp the intent of  
7 the state legislature which this would appear to me to be  
8 doing. The intent of the legislation that's currently on  
9 the books was to provide incentive, if you will, for  
10 affordable rental housing to be placed in various  
11 communities and one of the ways to gain affordability is  
12 an exemption from property taxes. And if you look at our  
13 state property tax code, that happens in a lot of  
14 different circumstances: churches, agriculture, whatever  
15 the case may be are exempt from property taxes. And the  
16 legislature chose in its last session to grant these sorts  
17 of properties a tax-exempt status.

18 Now, the fact that a school district or a city  
19 or a county doesn't agree with the state legislature, this  
20 is certainly not the first time that's happened, and for  
21 us to take a position that we would not consider approving  
22 a particular project unless the district happened to agree  
23 with the state law or there were payments being made to  
24 dance around the state law I think just sets a bad  
25 precedent.

1 I know we're under a lot of pressure at least  
2 from certain legislators to fix the problem, but I'm not  
3 sure we have the capacity to fix the problem, and I think  
4 maybe the thing for us to do as a staff or as a department  
5 might be to underwrite these projects assuming there will  
6 be payment of full taxes, and let the other chips fall  
7 where they may. For us to get involved in a squabble  
8 between the state legislature, a taxing entity, and a  
9 nonprofit wanting to do a rental project is just a bad  
10 position for us to be in.

11 MS. CARRINGTON: Let me respond at least to  
12 part of that. When we do receive an application in the  
13 department for private activity and 4 percent credits, if  
14 we do not have any kind of a letter that says a PILOT has  
15 been negotiated, we do automatically go ahead and  
16 underwrite these transactions with a full component of  
17 property taxes. One of the things that was asked  
18 yesterday at Urban Affairs by Representative Hamric from  
19 Houston, she said, Well, you know, what happens if after  
20 you've begun underwriting then you do have a letter saying  
21 that taxes are going to be abated to the tune of 25  
22 percent or 50 percent, and we certainly do go back and  
23 then re-underwrite the transaction based on that.

24 We pretty much have come up with our  
25 recommendation mirroring what many of the local entities

1 are doing, the local municipalities are doing when they  
2 have an application in their area and we have a local bond  
3 issuer, you have a local housing finance corporation  
4 that's doing the bond issue, and many of the local  
5 governments are requiring basically the same kind of  
6 treatment at the local level. They're saying you're going  
7 to use us as the issuer and so we either agree to the  
8 exemption of all the property taxes or there will be a  
9 PILOT negotiated for some or all of the taxes that would  
10 be assessed on this particular development.

11 So as we took our public comment and evaluated  
12 what the approaches would be, we basically looked at what  
13 was going on already at the local level and looked to  
14 adopt that within our program.

15 MR. CONINE: I'm not sure that even the local  
16 issuing agencies are standing on good legal ground  
17 relative to that if they were to be challenged because  
18 state statute says that if you meet these qualifications,  
19 you would be exempt from property taxes. Obviously we  
20 haven't had enough time for a court case to evolve and I  
21 certainly don't want us to be involved in one, but if a  
22 nonprofit wanted to push it relative to that, I think  
23 they'd be on pretty solid ground by saying look, the state  
24 law allows me to do this.

25 MR. JONES: Why would not -- and I'm asking,

1 why would not Mr. Conine's argument be very persuasive  
2 that the legislature would say, Well, look, we've made  
3 this rule and all you've done is given people a way to get  
4 around it? Because you've added the requirement that each  
5 taxing authority, before you'll do the deal, must waive  
6 it, why aren't we effectively circumventing the  
7 legislation? It tends to be a very persuasive argument to  
8 me. Am I missing something?

9 MS. CARRINGTON: And we actually started  
10 looking at this in January at the request of several  
11 members of the legislature, of course, and the Governor's  
12 office.

13 MR. JONES: I understand that, but sometimes  
14 they don't always agree, and if I'm the guy that sponsored  
15 this bill, why wouldn't I say that the department has just  
16 circumvented it?

17 MS. CARRINGTON: And of course what we heard  
18 yesterday was really kudos to the department for what we  
19 were looking at proposing.

20 MR. JONES: I understand, but I'm just hesitant  
21 to make an end run around a statute because it sure seems  
22 like that's what we're doing. Maybe they like it,  
23 sometimes they don't, though.

24 MR. CONINE: You know, I have no qualms about  
25 communication back and forth. If we are the recipient of

1 one of these deals and the city, the county and the school  
2 district just hate the fact they're not going to pay  
3 taxes, they're welcome to write letters and stick them in  
4 the file, but ultimately when this board makes a decision  
5 about a particular project like that, we should be  
6 following state law, and state law says they are exempt  
7 from property taxes currently. You know, the legislature  
8 can fix it in the future but right now is right now.

9 I know we've got some more of these coming  
10 through the hoop here fairly soon, I would think, to  
11 finish the private activity bond allocation for this year,  
12 and I just can't see us getting in this particular  
13 position. Maybe the fact that we don't really take this  
14 position, or at least the one I'm advocating, would  
15 encourage the legislature to make some changes, would  
16 encourage the lobbying of the local municipalities to  
17 lobby their state legislators and tell them how bad the  
18 issue is, but it's not incumbent upon us to fix it, I  
19 don't think.

20 MS. CARRINGTON: There certainly is already a  
21 lot of attention focused on this that we definitely will  
22 see changes in the legislation, but I think, of course,  
23 what we're looking to do is address the situations we have  
24 now. And I have several staff who have worked long and  
25 hard on this who have now moved to the front row.

1 MR. CONINE: You can just see them creeping up  
2 here.

3 MR. JONES: Okay, and I'd like to also re-ask  
4 my question, and not that you didn't answer it but it's  
5 not a rhetorical question, I mean, if I'm missing  
6 something, if the logic of Mr. Conine's argument is not as  
7 good as I think it is, please tell me, I'd love to hear  
8 it.

9 MR. CONINE: Well, these guys aren't from the  
10 attorney general's office so we may not get an answer to  
11 that, but I'm still interested in what he has to say.

12 MR. ONION: Robert Onion, director of  
13 multifamily finance. I think the issue that we have is  
14 not necessarily what the law is but from an underwriting  
15 standpoint and from the possibility of the default of the  
16 bonds. We certainly realize that this is going to be  
17 revisited in the legislature next session, nobody can say  
18 with any certainty what's going to happen other than it is  
19 going to change in the fact that it could be retroactive  
20 could cause a default in the bonds. And so what we're  
21 looking at, not from a standpoint of the law, we just want  
22 to be able to know how to underwrite the transaction, and  
23 if we underwrite with full taxes, then that will have the  
24 effect of the project would not be feasible and so  
25 therefore the nonprofit would not have the benefit of that

1 property tax exemption.

2 MR. JONES: I understand that, but let's go  
3 back to his premise which I think is compelling, unless  
4 there's some reason why it's not and if there is, tell me.

5 His premise is the legislation, if I read it, says they  
6 should be exempt. So we're saying we're not going to let  
7 you do that deal and consider you exempt, as the  
8 legislature says you are, unless the taxing authorities  
9 have all signed off on your exemption. Now, why aren't we  
10 circumventing that legislation? Why aren't we changing  
11 that legislation by what we're doing? If we're not, just  
12 tell me, I just want to understand it.

13 MR. ONION: From an underwriting standpoint, we  
14 just want that confirmation from the taxing entity that  
15 they recognize the status as a CHDO and are adhering to  
16 the law.

17 MR. CONINE: But that's a legal issue that one  
18 side is right and one side is wrong because what if the  
19 taxing authority says no, they aren't, and what if they  
20 say yes, we are, look at the legislation, then don't we  
21 have to underwrite based upon what the facts are?

22 MS. CARRINGTON: We are finding some appraisal  
23 districts, some taxing entities who are if not refusing to  
24 recognize it, creating a substantial amount of resistance  
25 and opposition to basically complying with the state law.

1 MR. JONES: But their failure to comply with  
2 state law does not allow me not to comply with state law,  
3 and I don't mean to be a stickler on this but it seems to  
4 me like the law is what the law is. Now, where I'm going  
5 to is you are trying to come up with a practical solution  
6 to a problem, but still tell me why when you do that  
7 you're not rewriting that law.

8 MR. GOURIS: Tom Gouris, director of credit  
9 underwriting. It's a tremendous risk to assume that that  
10 law is going to stay in place the way it is today, and if  
11 we want to ensure the long-term financial feasibility, the  
12 ongoing capacity of that project to do what it says it's  
13 going to do, we need to be able to have some confidence  
14 that that exemption is going to be in place, so we're  
15 asking for some confirmation that everybody is agreeing to  
16 that exemption or something in lieu of that exemption, a  
17 PILOT.

18 MR. JONES: What are we going to do when they  
19 sue us, when they say, The state law says I'm exempt, you  
20 won't underwrite my project because I can't get the taxing  
21 authorities to agree to it?

22 MR. CONINE: Mr. Gouris, with all due respect,  
23 I think you're worrying about a problem that is not there  
24 today, and you'll probably be asked to testify over at the  
25 Capitol during the hearings when someone tries to reverse

1 the particular pieces of legislation, and in the course of  
2 testifying you can lay out those that have been put on the  
3 books during the period of time and they'll have to  
4 create -- they don't have to create a special situation  
5 for those guys but I would think common sense would  
6 encourage the legislature to do that.

7 But for right now, if you do this now you're  
8 exposing the department to some legal ramifications that I  
9 don't think is prudent.

10 MR. GOURIS: I think either way we have some  
11 exposure there because I don't know that some of the  
12 taxing authorities don't think that they still have the  
13 ability to contest that issue, and I'm not an attorney.

14 MR. JONES: And I think that they probably do,  
15 I'm not denying that they do, but I'm saying we're not the  
16 ones to decide that dispute.

17 MR. GOURIS: Well, I think what's appropriate  
18 for us is to attempt to gather that information, to  
19 attempt to get it. If a situation occurs where we cannot,  
20 then we have to take that on a case-by-case basis and  
21 decide what to do with that.

22 MR. JONES: Well, your argument, if you're  
23 going to make it, is this, that look, I won't underwrite  
24 this project because there's a chance this law is not  
25 going to stand up in court, so the only way I'll

1 underwrite it is if you get the other side to agree that  
2 they're not going to challenge it in court. I mean,  
3 that's basically what we're telling these people. That's  
4 what we're saying; we want to be protected against an  
5 adverse ruling on this issue, and so in order to protect  
6 ourselves we want you to get the other side to say they'll  
7 never contest it. Well, boy, that's pretty strong  
8 underwriting techniques.

9 MR. GOURIS: We want to bring stability to that  
10 project, to that development, and one way of doing that to  
11 keep it to be less controversial is to try to get that up  
12 front, to try to make our underwriting and the  
13 syndicator's underwriting and the lender's underwriting  
14 all be consistent and prudent. It may not be that we're  
15 the only ones who are going to be asking for this but if  
16 we set this as our standard and then deal with it on a  
17 case-by-case basis, if we can't get there, I think that is  
18 a prudent thing to do.

19 MR. JONES: Let me ask you this, there are  
20 other members of the legislature, Ms. Carrington has just  
21 told us, that think this is a real good idea, would it not  
22 be safe to say, though, that we can anticipate that the  
23 legislators don't act uniformly on any issue ever?

24 MR. GOURIS: Absolutely.

25 MR. JONES: And that's with great respect to

1 them; I think it's probably good that they don't. That  
2 being the case, don't you think that you would have a  
3 tough time testifying in front of one who says look, I  
4 wrote legislation that said this was an exemption, I am  
5 authorized to write such legislation, and you went to the  
6 people I exempted and told them we will not underwrite  
7 your project as though you are exempted even though the  
8 legislature has done that unless you get the taxing  
9 authorities to agree to it first. Wouldn't that put in  
10 some peril in front of that member of the legislature?

11 MR. GOURIS: It sure might but I think I might  
12 be able to respond to them saying that we're trying to do  
13 what was prudent and trying to bring them to the table  
14 with the local authorities to get the local folks some  
15 input.

16 MR. CONINE: But in the end it doesn't make any  
17 difference.

18 MR. GOURIS: And if we can't get there, then  
19 I'm suggesting maybe a modification to this proposed  
20 policy is that we take that into account on a case-by-case  
21 basis and bring that -- and maybe have to then underwrite  
22 it without if we can't get them there, but I think we need  
23 something to be able to say yes, we are going to  
24 affirmatively try to get everybody together on this issue.

25 MR. JONES: And your argument is going to be to

1 the legislature that we assumed the courts were going to  
2 strike down the legislation or we thought it was so bad  
3 that we thought that there was a good chance it was going  
4 to be?

5 MR. GOURIS: No.

6 MR. JONES: You know, that's tough, man.

7 MR. GOURIS: The argument is that --

8 MR. JONES: And they may call the chairman of  
9 this board over there to talk about this very issue.

10 MR. GOURIS: The argument I think would be that  
11 we're just trying to be prudent in doing conservative  
12 underwriting, because when we look at the landscape of all  
13 the other issuers and the other folks, this is not an  
14 issue that we're just bringing up on our own and off on  
15 the side here doing something that's erratic, we're being  
16 kind of pushed to do this by other folks who are saying  
17 the same things. This is something we can work together  
18 on and I think we can stand on firm ground by saying we're  
19 trying to incorporate the local participants in the  
20 project.

21 MR. JONES: Well, I tell you maybe it's because  
22 I see Anne back there shaking her head and I just  
23 anticipate making an argument like that to a judge which  
24 is basically, you know: Judge, I know you're going to be  
25 reversed on appeal so I'm going to act as though your

1 order really didn't mean what it says. And I think about  
2 making that argument in front of some committee someday  
3 and it scares me to death, to be real honest with you,  
4 because it's one thing to be conservative in underwriting,  
5 I understand that, but it's yet another thing to say that  
6 a legislatively enacted exemption, we're not going to  
7 consider that it exists unless somebody tells us it  
8 exists.

9 MS. CARRINGTON: Me, then you, Robert. I think  
10 the overriding theme of what you see here is that TDHCA is  
11 working or is attempting to work and be a good partner  
12 with the local taxing entities. We have several CHDOs  
13 running around that are statewide CHDOs that have a  
14 designation from TDHCA and yet they're going to do a bond  
15 deal in Houston or Dallas -- Houston in particular where  
16 there's been a tremendous amount of opposition to this,  
17 and basically what we said is we acknowledge that there is  
18 some opposition not to the transaction but opposition to  
19 the tax exemption, law or not, but we want to work with  
20 you and we want to work with the developer. Because  
21 basically they're saying since they're certified by TDHCA,  
22 we're taking the hit and getting all the blame, and so  
23 what we said is we want to be a good partner with you.

24 And if it was a local issuer in Houston, that  
25 local issuer in the city would have worked out a PILOT,

1 but yet they could use TDHCA as an issuer and there would  
2 not have to be any such agreement. So that's what  
3 really -- this did not all get started by underwriting  
4 issues, this got started by the fact that TDHCA certifies  
5 nonprofits as a CHDO for purposes of the HOME funds and  
6 then when 3383 came along, it tied us all into that  
7 process.

8 MR. CONINE: But Ms. Carrington, if a nonprofit  
9 brings a deal in today where TDHCA is the issuer on a  
10 private activity bond with a 4 percent credit on it, is he  
11 going to underwrite it with taxes or without taxes?

12 MS. CARRINGTON: It depends on whether  
13 certification --

14 MR. CONINE: They're fine. They're a local  
15 CHDO; they've already got that certification elsewhere.

16 MS. CARRINGTON: So they've gotten the  
17 certification from their local taxing entity.

18 MR. CONINE: Right.

19 MS. CARRINGTON: Well, then they are going to  
20 do whatever their local taxing entity says they can do.  
21 If their local taxing entity say, You've got 100 percent  
22 exemption, then they're going to come in and we're not  
23 going to underwrite it with taxes; if their local entity  
24 has said to use us as a local issuer and to get this deal  
25 done, we want you to have a PILOT, then that's how we will

1 underwrite.

2 MR. CONINE: Right, but that's my point, if you  
3 have a PILOT, you do need to underwrite with taxes, but in  
4 the example I put forward if it's a clean deal, it seems  
5 like we have to underwrite it without taxes.

6 MR. GOURIS: And what I'm saying is we'd try to  
7 do everything we can to find out if that's a likely  
8 scenario or not. In fact, we had a case, a similar  
9 situation -- it wasn't a CHDO, it was a PHA that was going  
10 to be part of a general partnership -- we'd received some  
11 information --

12 MR. CONINE: Well, the way you're speaking is  
13 if the local taxing districts have to agree to the tax  
14 exemption, and my impression is that you have an existing  
15 CHDO previously certified and they want to come in with a  
16 project, they automatically qualify for tax-exempt status.

17 MS. CARRINGTON: Not all the appraisal  
18 districts are taking that approach, though.

19 MR. GOURIS: And it's very widely known.

20 MR. CONINE: But I'm back to the underwriting  
21 question, forget what those guys locally are doing for  
22 just a minute -- we can't forget them totally -- but  
23 again, if I'm a CHDO and -- I would hate to see us taking  
24 the position that we're going to underwrite it with taxes,  
25 then if the local guys start raising cane about it, then

1 the CHDO is going to file suit against the locals and they  
2 can resolve it in court, but we have at least kept our  
3 skirts clean to that point.

4 Mr. Chairman, I guess I'd make a motion we  
5 table this and ask for some legal counsel either from the  
6 Attorney General's office or elsewhere to get back with us  
7 on this issue. It's just a little sticky for me, so I'd  
8 make a move to table.

9 MR. JONES: Is there a second to the motion to  
10 table?

11 MR. GONZALEZ: Second.

12 MR. JONES: Second to the motion to table.  
13 Further discussion of the motion to table? Hearing none,  
14 I assume we're ready to vote. All in favor of the motion  
15 to table, please say aye.

16 (A chorus of ayes.)

17 MR. JONES: All opposed, nay.

18 (No response.)

19 MR. JONES: Motion carries, item 11 is tabled.  
20 Item 12.

21 MS. CARRINGTON: Senate Bill 322 says that the  
22 department will conduct a market study to determine the  
23 feasibility of having a subprime lending component in an  
24 upcoming bond program, and actually what the legislation  
25 says is that we'll do it by rule; however, this would be a

1 one-time rule for the department, so what we are  
2 recommending to you all today is that you approve the  
3 methodology that's been laid out to conduct a needs  
4 analysis in economically and geographically underserved  
5 markets in the state.

6 The areas that are going to be looked at or the  
7 factors that are going to be looked at are on the first  
8 page, 1 through 8. We have put the methodology attached  
9 behind this. We do have someone who is working in the  
10 Housing Resource Center right now beginning to gather the  
11 data and analyze the data and under the proposed action in  
12 the second paragraph, we tell you that if the board indeed  
13 does approve this methodology today, that we're going to  
14 make the methodology available for a three-week public  
15 comment period beginning Monday, June 17 and ending  
16 Monday, July 8, and in addition, TDHCA will have one  
17 public hearing on the methodology. So what we're asking  
18 for today is your approval of this.

19 Yes, Mr. Bogany?

20 MR. BOGANY: You know, I've read through this  
21 and I really don't understand what you're asking us to do,  
22 and when you say a rule, explain to me, I'm a little slow  
23 on this subject here. If you could just kind of -- are  
24 you asking us to okay for you guys to do a market study,  
25 bottom line is that what you're asking for?

1 MS. CARRINGTON: The methodology for the market  
2 study.

3 MR. BOGANY: You're going to use these items  
4 here to come up with an idea whether or not we should  
5 include subprime lending in one of our programs.

6 MS. CARRINGTON: Correct, these will be the  
7 factors that will be considered and then the way they're  
8 going to approach doing the study is attached to that.  
9 The second paragraph back on the first page says: "The  
10 board by rule shall adopt a methodology." That was right  
11 out of 322. And what we are recommending is or what we're  
12 saying is there might be some things in 322 that we think  
13 a different approach needs to be taken since this is going  
14 to be a one-time analysis for us that what we are looking  
15 at doing is saying to approve the methodology for  
16 gathering this information.

17 MR. BOGANY: I'd like to include one --

18 MR. CONINE: Get it on the floor first.

19 MR. BOGANY: I'm sorry.

20 MR. CONINE: Move for approval.

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

23 MS. ANDERSON: I'll second the motion. The  
24 motion is to approve this methodology?

25 MR. CONINE: Yes.

1 MS. ANDERSON: I'll second that motion.

2 MR. JONES: Mr. Bogany?

3 MR. BOGANY: Since it's on the floor now, I  
4 would like to also see the default rate be included in  
5 here of subprime loans on what's going on in the  
6 marketplace. I've said over and over I'm totally against  
7 this and I don't have any problem because I've had  
8 meetings with Fannie Mae and I can tell you the people  
9 doing subprime loans are primarily minorities and I've got  
10 an issue with that when I can take a map and look at where  
11 all the subprime loans are being done and they're all  
12 being done in minority neighborhoods and I've got a  
13 problem with minorities continuing to pay more than the  
14 majority community for home ownership.

15 And I'd like to see included a number 9 as a  
16 default rate because I think you need to look at the  
17 default rate of this sort of type of loan. I think Fannie  
18 Mae, Freddie Mac have come up with programs that help  
19 people get in homes who have had past credit issues, some  
20 of them don't even do any credit scoring, and I don't  
21 really think we need to be in the subprime lending  
22 business at all based on the situation out there, and I  
23 would like to see that number 9 be issued that we look at  
24 the default ate of people doing subprime lending.

25 I feel that you've got a Timely Rewards program

1 through Fannie Mae, you've got E-Z Access loans that are  
2 available through Fannie Mae, and Fannie Mae has a score  
3 of other products that do not credit score at all. And  
4 considering that the people that are getting subprime  
5 loans are minorities, I have some serious issues with this  
6 because some minorities are getting subprime loans when  
7 the lender knew they were a FHA buyer and knew that they  
8 could have gotten a Fannie Mae loan but because the lender  
9 makes his money based on the highest point of interest  
10 rate he can give a consumer, that's how he makes his  
11 money.

12           And I think it's unfair for us to go out there  
13 and say it's okay, and then when you see these subprime  
14 fees that they're charging, predatory lending is very  
15 rampant and when you see the fees, that people are paying  
16 ten grand to move into a \$50,000 house and only \$1,000 is  
17 going toward down payment and the rest is going into the  
18 lender's pocket, I have a serious issue with this agency  
19 getting into subprime lending. And Fannie Mae has a  
20 serious issue with it; that's why they're coming in with  
21 all these different programs. I don't think you can  
22 justify this agency getting into subprime loans other than  
23 the lenders asking you to do it, so I really don't think  
24 you can justify it. I'm through.

25           (General laughter.)

1 MR. JONES: Would you accept the addition of  
2 that requirement as an amendment to your motion?

3 MR. CONINE: Yes, I would, using default rates.  
4 We might want to hear from staff.

5 MR. JONES: I want to hear from staff, I just  
6 want to make sure we all understood what the motion was  
7 that was on the floor before staff spoke to it in such an  
8 eloquent fashion.

9 MS. S. ANDERSON: I'll try. My name is Sarah  
10 Anderson, for the record, and I'm the director of the  
11 Housing Resource Center and I've been charged to head this  
12 up. Next to me I have Brenda Hull who is the person who  
13 has been actually working on the study, and of course  
14 Byron Johnson who heads up our bond finance. I'm really  
15 just sort of the manager over the project so I'm going to  
16 let the experts discuss the feasibility of even getting  
17 that information because they both tapped me on the  
18 shoulder and wanted me to know that that's extraordinarily  
19 difficult information, so I thought I'd let Brenda sort of  
20 give an outline of the feasibility of even being able to  
21 find that.

22 MR. BOGANY: Well, Brenda, I'm going to take  
23 your comments, but you can't tell me that if I went to  
24 Bank America and went to their subprime division, they  
25 can't tell you how many loans they've had default, I just

1 find that hard to believe.

2 MR. HULL: I don't think they want to tell you  
3 how many loans they have default. I know Fannie and  
4 Freddie, for example, keep that kind of information very  
5 close to their chest. For the past few weeks I've been  
6 researching data, census data, definitions of subprime  
7 lenders and the like, so I'm familiar with the type of  
8 information that's out there at the state level, the  
9 county level, and even at the census tract level -- which  
10 is what we're hoping to accomplish with this study --  
11 default rates in general are very hard to get.

12 I think at the national level possibly,  
13 regional perhaps, but in my opinion I haven't seen  
14 anything at the state level.

15 MR. GONZALEZ: You may want to check the  
16 Uniform Bank Performance Report and that will give you  
17 that information; they have that all on banks.

18 MR. BOGANY: I mean, a couple of years ago we  
19 had a subprime crisis where all these banks were going  
20 under because they were making subprime loans and people  
21 were defaulting on them and that was a big issue, and the  
22 only thing that I'm saying is that I don't want us to  
23 bless a season on a community out there, and I can tell  
24 you who's getting the subprime loans, and Fannie Mae in a  
25 meeting last week told me one out every black person get

1 a -- no, it's two out of every three get a subprime loan,  
2 so that tells me that's an issue. And there are other  
3 products that are available now that will cut this out,  
4 and I just don't think we need to get into this business.

5 MR. CONINE: Well, let me see if I can chime in  
6 here to help Mr. Bogany. A subprime loan is not a bad  
7 thing, a predatory loan is a bad thing; I think there's a  
8 distinct difference between the two. The whole reason  
9 that subprime came into existence, just the word in and of  
10 itself, has to do with the fact that the three credit-  
11 scoring agencies got together and developed a scoring  
12 methodology that instead of now having a prime and a  
13 subprime cliff that you fell off of, you now have this  
14 gradation that ratchets down based upon your previous  
15 credit history.

16 And as you match up loans and default rates  
17 attached to each one of those particular credit scores as  
18 they come down, there is a default rate attached to that,  
19 there is a risk attached to that, and there should be a  
20 commensurate premium attached to a lender taking that  
21 risk, but the bottom line is that homeowner got into that  
22 home because that particular loan was available to him,  
23 and I think that's something we should explore.

24 As I said predatory lending is a bad thing and  
25 I don't think this agency is going to get involved in it

1 and don't think in any way, shape or form, but if we can  
2 provide mortgage loans to folks who have had credit  
3 problems in the past, whether they be minority or not, I  
4 think it's incumbent upon us to study the methodologies,  
5 study the market that's out there, and provide the product  
6 if we have investment bankers willing to invest in it.

7           There's one other thing I think would help  
8 satisfy some additional concerns which might be number 10  
9 on this list, because I think there's another state agency  
10 which could be involved in looking at the consumer side of  
11 this. Don't we have an Office of Consumer Credit or  
12 something? If we could get some input from them and their  
13 study relative to the information as it comes back here,  
14 that will help this board make this decision that Mr.  
15 Bogany is currently grappling with.

16           MS. CARRINGTON: And we are working with them.  
17 They testified at the same hearing we testified at last  
18 week. It's Commissioner Leslie Pettijohn and then also  
19 Rob Schneider from Consumers Union testified, and Sarah  
20 has been over the past several months in contact with both  
21 of those entities, and we are coordinating what we're  
22 doing the information that they're gathering, and then  
23 we're looking at Senate Bill 322 and Senate Bill 322 said,  
24 You will do this market study, this market analysis to  
25 determine the subprime lending needs for purchase money

1 mortgages, for first lien mortgages.

2           And what we're finding is some of what  
3 Commissioner Pettijohn is doing relates to the home equity  
4 loan issue where Texas is the second-highest state in the  
5 country with home equity loans that are at subprime and  
6 predatory rates. So there is some overlap, we absolutely  
7 are coordinating with them, but when we look at the mandate  
8 of Senate Bill 322, it also has this other component which  
9 is why we are proposing this methodology to you today to  
10 comply with Senate Bill 322 but also to give us the go-  
11 ahead to do what we need to do.

12           MR. BOGANY: I don't have a problem with if we  
13 want to spend the money and it's in the legislature to do  
14 the 322 study, but I can tell you right now, because I'm  
15 out selling houses every day and dealing with the everyday  
16 consumer, this is a major issue in the minority community.

17           And I can also tell you that Fannie Mae and FHA has  
18 addressed these issues, and I can also tell you if I don't  
19 use credit at all, I have no credit score so does that  
20 mean I'm a subprime customer because I believe in the cash  
21 basis system.

22           So I think this is a stronger issue and it  
23 amazes me some of the things the legislators do already,  
24 but my feeling is that this is an issue, and I think we  
25 also in this study ought to have alternatives saying these

1 are other products available that will help and we don't  
2 have to go there, and that's all I'm asking for is a fair  
3 shot because if you got past issues, the easiest loan out  
4 there is FHA, bottom line, and whoever wrote this should  
5 have known that, but they were listening to one side of  
6 the story. So if you've got past credit issues, you  
7 should be going FHA because they do not credit score.

8           The other issue I have is that most of these  
9 subprime lenders never give a truth in lending statement  
10 to the consumer on what they need to do; they are exempt a  
11 lot of times, they don't give them. If you want a 12  
12 percent interest rate, I have no issue with that as long  
13 as you know you're getting it, but they don't know it.  
14 And I've sat at enough closings, I sold over 100 houses  
15 last year, me personally, and I've sat at closings where I  
16 represented the seller and saw a consumer's mouth drop  
17 when he had an adjustable rate mortgage at 12 percent, and  
18 his family is sitting out there in his truck ready to go  
19 move in, what he's going to do?

20           So I'm telling you where the tire meets the  
21 road, I'm not talking fiction, I'm talking real world  
22 here, and all I'm asking is that in your study give them  
23 some alternatives that, Hey, we've done this study, this  
24 is the numbers, but there are so many other products out  
25 there, and that's why I'm asking you guys in your due

1 diligence to put this together to come in and do your  
2 study. I'm going to tell you right now you add that  
3 default rate to it, you're going to see how many people  
4 lose their houses. So I'm not just concerned about  
5 selling a house, I'm concerned about the people keeping  
6 the house, especially if this agency is going to be  
7 guaranteeing this loans with bonds and everything else. I  
8 have concern about that.

9           So you know, I'm just asking you to look at the  
10 big picture of things, and yes, I'm thinking about the  
11 minority community because 41 percent only own homes, so  
12 the majority of the emerging markets in the future are  
13 going to be minorities because that's where the growth is  
14 because most of them are renting. So yes, I'm concerned  
15 about it and I'd just like for you to include it in your  
16 point.

17           MR. JONES: Ms. Anderson?

18           MS. ANDERSON: In item number (e) which is the  
19 loan interest rates and terms, you indicate that data is  
20 not available on the census tract and county level, and  
21 then further you talk about the fact that it will be  
22 available for the HMDA data in the future, so what are we  
23 really saying our methodology is for this market study  
24 with regard to the rates and terms items?

25           MS. S. ANDERSON: I'm going to let my expert

1 speak. This is good management.

2 MS. HULL: Well, there have been a couple of  
3 changes to the draft methodology since we published the  
4 board book, and this is one of the changes. I have been  
5 able to locate interest rate data at the MSA and state  
6 level. The Federal Housing Finance Board surveys lenders  
7 and produces quarterly, and in some cases, monthly, survey  
8 results of what the interest rates are, and there's also a  
9 private company, HSH Associates that sells that kind of  
10 data, so I have found it. It's not at the census tract  
11 level as of yet but we've made some progress.

12 MS. ANDERSON: But you've got some progress.  
13 Good. Thank you.

14 MS. CARRINGTON: Byron, is there anything you  
15 want to wade in on this?

16 MR. JONES: As I read the statute, though, the  
17 things that Mr. Bogany is asking you to do are almost  
18 contemplated by the statute, are they not?

19 MS. S. ANDERSON: Yes, and ultimately I guess I  
20 would ask you to keep in mind that the intention of the  
21 study was to either support whether or not 40 percent of  
22 the bond program should be put toward a subprime lending  
23 product; it's to support that or to say that we cannot  
24 support that.

25 MR. JONES: I see that but I also see that it's

1 a market study of the home mortgage credit needs in the  
2 underserved economic and geographic submarkets in the  
3 state which would seem to be everything that he's talked  
4 about would be part of such a study. So I think it's  
5 totally in compliance with the legislation. Wanting to  
6 comply with the law, like I do.

7 (General laughter.)

8 MR. CONINE: Spoken like a lawyer.

9 MR. JOHNSON: I just wanted to add that  
10 delinquency rates are available but the lenders keep them  
11 close to their chest. I've tried for about a year to  
12 obtain them through cost-effective means. I went to  
13 investment bankers and they tried and it's very difficult  
14 to obtain them at the state level. We most likely will be  
15 able to pull them on a national scale and look at it from  
16 that perspective, but I just wanted to bring to light that  
17 of course we're going to try to fulfill your request but  
18 it may be difficult and we may have to fall back to  
19 delinquency rates that are national level.

20 MR. GONZALEZ: Have you checked with the State  
21 Banking Commission? I believe they have those figures as  
22 far as state banks in Texas are concerned.

23 MR. JOHNSON: Okay.

24 MR. BOGANY: The only thing I'm saying if you  
25 have no credit and you believe in a cash basis, you have

1 no credit score so that means that you're a subprime  
2 customer based on these subprime lenders. That's the only  
3 thing I'm saying: zero credit, you just happen to want to  
4 pay cash for everything, Byron, you don't want credit, and  
5 those people are subject to getting subprime loans, and I  
6 just find it hard to believe that we're going to subsidize  
7 those lenders who like to charge all these fees. And  
8 there's other products out there. Fannie Mae, who is in  
9 the business of making money, would not be in this  
10 business, they wouldn't come up with all these different  
11 products if they know -- they know it's an issue and it's  
12 a problem out there, that's why they're doing it.

13 MR. JOHNSON: I believe our objective is to  
14 offer alternative to the high fee, high mortgage rate  
15 subprime mortgages, particularly for individuals at the  
16 lower income levels, and we have initiated that effort, as  
17 you know, with the Fannie Mae Expanded Approval mortgage  
18 product, and that is a subprime product geared towards the  
19 A- type borrower, a borrower who has credit challenges or  
20 credit problems but does not qualify at the prime level.  
21 And also the EA mortgage is stratified to three levels, 1,  
22 2, 3; the first level is very similar to what the borrower  
23 would obtain maybe at the FHA level, but levels 2 and 3 go  
24 a little bit deeper into the FICO scores and Fannie Mae  
25 will even not consider a FICO score if you have offsetting

1 compensating factors such as low debt ratio or higher down  
2 payment assistance.

3 So we're not looking to become or promote the  
4 subprime borrowers, we're looking to offer alternative  
5 products for those who may fall into the subprime  
6 category.

7 MS. CARRINGTON: And it's an alternative  
8 product that has no additional fees than what a prime  
9 borrower would pay. That was the question that was asked  
10 of me when I testified last week. They said, Well, what  
11 will the fees be? And it's the same fees that a prime  
12 borrower would pay with no mandatory arbitration  
13 requirements, no insurance requirements none of those  
14 other kinds of issues that you've addressed that make it  
15 truly a predatory lending situation.

16 MR. GONZALEZ: Excuse me. What do you consider  
17 a high mortgage rate?

18 MR. JOHNSON: I guess the FHA/Conventional rate  
19 right now is around 6.85, 7 percent; Fannie Mae product  
20 tends to go for about 8-1/2, 8.75; the national A- average  
21 is 9-3/4 to 10 percent; and if you get into the B and C  
22 categories, it goes to 10, 11, 12, 13 percent.

23 MS. CARRINGTON: Which we are not getting into,  
24 we are not getting into at all.

25 MR. JOHNSON: On our product we are offering at

1 the EA-1 level at 7.20 -- at the standard approval 1 level  
2 we are offering a 7.20 and at the standard approval level  
3 2 it's 7.45.

4 MR. GONZALEZ: And are these fixed or floating  
5 rates?

6 MR. JOHNSON: Fixed.

7 MS. CARRINGTON: Fixed, 30 year.

8 MR. JONES: Again, we're just doing the study  
9 right now. Right?

10 MR. CONINE: Right.

11 MR. JONES: And I think one of the issues of  
12 the study that's clearly contemplated by the legislation  
13 is whether or not it's needed, and I find the arguments  
14 that have been made very compelling that there may already  
15 be a source for funds for people with bad credit, there's  
16 a better place to go to, and that's certainly -- I'm not  
17 saying how the study will come out but that's certainly  
18 something that we need to examine and look at.

19 MR. CONINE: On the other hand, if we can  
20 produce a product that's cheaper than what's out there as  
21 a choice, we ought to consider it.

22 MR. JONES: I'm not denying that, but I'm  
23 saying part of the study should look at all those factors,  
24 as has been suggested today.

25 MR. CONINE: Correct. Call the question.

1 MR. JONES: Let's vote. Anybody else  
2 questions, comments? I assume there are none, we're ready  
3 to vote. All in favor of the motion, please say aye.

4 (A chorus of ayes.)

5 MR. JONES: All opposed, nay.

6 MR. BOGANY: Nay.

7 MR. GONZALEZ: Nay.

8 MR. JONES: Are there two nays? Two nays.  
9 Interesting. And the motion is that the market study be  
10 done with the added requirements that MR. Bogany  
11 suggested. Correct, that's the motion on the floor?

12 MR. CONINE: I added one too.

13 MR. JONES: What did you add?

14 MR. CONINE: To go to the other state agency,  
15 the consumer credit agency to get their input. They're  
16 doing a study over there too and I just wanted to take  
17 advantage of all the state resources.

18 MS. S. ANDERSON: And actually this is only  
19 just to -- this isn't actually approving the methodology,  
20 this is approving our putting it out for public comment to  
21 be brought back to the board for approval.

22 MS. CARRINGTON: In compliance with what Senate  
23 Bill 322 mandates us to do.

24 MR. JONES: I understand. The Chair will vote  
25 in favor of the motion, so the motion carries.

1           The next item which is the Executive Director's  
2 Report.

3           MS. CARRINGTON: These are report items that  
4 we've carried over for two or three months, and so I would  
5 just really like to get them off the agenda. The three  
6 items are items that the board has voted on in the past  
7 and we basically want to tell you that we have implemented  
8 and we have carried forward what the board requested us to  
9 do or what the board voted us to do.

10           We've closed the taxable junior lien program;  
11 we did the refunding on the single-family mortgage revenue  
12 bonds; and on the CMOs we redeemed bonds and we also  
13 created a surplus of almost \$600,000 that will be used in  
14 the Bootstrap Program.

15           MR. JONES: Thank you. Great report.

16           MS. CARRINGTON: Take them off the agenda now.

17           MR. JONES: Is there anything else that we need  
18 to discuss?

19           MR. CONINE: Yes, board meeting for July.

20           MR. JONES: Yes, board meeting for July. We  
21 must meet, as I understand it, sometime between July 25  
22 and July 31. Right, Delores?

23           MS. GRONEK: And everybody can come on July 25  
24 in the morning early except Mr. Bogany.

25           MR. JONES: And for this particular meeting,

1 I'm suggesting we do it at midnight. Wouldn't it be fun  
2 to do the Tax Credit meeting at midnight and see what  
3 happens.

4 MS. ANDERSON: We would still have as big a  
5 group.

6 (General talking and laughter.)

7 MR. JONES: When do we want to meet? Do we  
8 want to call Delores?

9 MS. ANDERSON: You think everyone can be here  
10 on the 25th?

11 MS. GRONEK: Except Mr. Bogany.

12 MS. ANDERSON: Is there any date that everybody  
13 can be here?

14 MS. GRONEK: No, not that last week when we  
15 have to do it; he's out all week.

16 MR. JONES: What day of the week is the 25th?

17 MS. ANDERSON: Thursday.

18 MR. JONES: Do we want to go for the 25th?

19 MR. CONINE: I need to be in D.C. that night  
20 for a dinner.

21 MR. JONES: Well, we better not do it then.

22 MR. CONINE: It could be a late meeting; it's  
23 just a question of how early you start.

24 MR. JONES: Hey, I like to start early. Do you  
25 want to start at 6:00?

1 MS. ANDERSON: Meaning a.m. or 6:00 the evening  
2 before?

3 (General talking and laughter.)

4 MR. JONES: Okay, so the 25th is a problem.  
5 When do we want to move to? The following Tuesday?  
6 What's the following Tuesday?

7 MR. CONINE: The 30th.

8 MS. GRONEK: Just so it's before July 31.

9 MR. JONES: Okay, if we go to the 30th, that  
10 Tuesday, do we know the mayor's schedule?

11 MS. GRONEK: Everybody gave me a yes on that  
12 except Mr. Bogany.

13 MR. JONES: On the 30th or the 25th?

14 MS. GRONEK: The 30th.

15 MR. JONES: So can we do the 30th, Ms.  
16 Anderson, will that work?

17 MS. ANDERSON: Works for me, Mr. Chairman.

18 (General talking and laughter.)

19 MR. CONINE: Is there some packaging up? I  
20 know it has to get to the Governor's Office.

21 MS. CARRINGTON: Then you have to have a  
22 meeting in July that is no sooner than 30 days after your  
23 June meeting, so that would you put you at about the 30th  
24 of July.

25 MR. CONINE: No, it's the 24th.

1 MS. CARRINGTON: I'm sorry. Boy, you can tell  
2 I have no idea.

3 MS. ANDERSON: So we've moved to the 24th of  
4 June?

5 MS. GRONEK: 24th of June.

6 MR. CONINE: But we're talking July, we have to  
7 wait 30 days, so there's a five-day window that we've got.

8 MR. JONES: The 24th of June meeting.

9 MS. ANDERSON: So that's a Wednesday then,  
10 Wednesday instead of Thursday for the June board meeting.

11 MS. CARRINGTON: Oh, you're moving the June  
12 board meeting then?

13 MR. CONINE: No.

14 MS. ANDERSON: Never mind.

15 MR. JONES: We got confused here. We have a  
16 meeting in June on the 24th and that's for sure -- which,  
17 by the way, I may not be at, I'm going to be in Chicago,  
18 but that's another story, but we'll deal with that because  
19 Mr. Conine is going to take care of it. So we have the  
20 June board meeting on the 24th. The proposal on the floor  
21 right now is that we have the July board meeting on the  
22 30th which is Tuesday the 30th. Would that work?

23 MR. CONINE: I'm good.

24 MR. JONES: I know, Mr. Bogany, you're out  
25 either way, but the mayor has said it will work for him,

1 so we're on for the 30th in July.

2 MS. GRONEK: So June 24 and the 30th of July.

3 MR. JONES: Now, what time do we want to meet  
4 on the Tax Credit, do we want to go at 8:30 on the Tax  
5 Credit?

6 MS. GRONEK: It's up to you all.

7 MS. ANDERSON: Well, we've just said we're  
8 going to have an Audit Committee meeting every month.

9 MR. JONES: Okay, let's go 9:30 then.

10 MS. ANDERSON: And we're going to have an Audit  
11 Committee meeting on July 30.

12 MR. JONES: That will let you do yours at 8:30.

13 MS. ANDERSON: Yes. There will not be an Audit  
14 Committee meeting, I understand, Mr. Gonzalez, on June 24  
15 since that's a week from Monday.

16 MR. GONZALEZ: Right.

17 MR. CONINE: I bring to the attention of the  
18 Chair that the next August meeting is August 8 which would  
19 be a week after the July 30 meeting, so you might want to  
20 think about that one.

21 MS. GRONEK: Can I say something on that?

22 MR. CONINE: Sure, you can say something on  
23 that.

24 MS. GRONEK: Our CFO has to present you the  
25 budgets that month so that's going to be a crunch for him

1 to get them ready by the 8th.

2 MS. CARRINGTON: Then we'll also probably have  
3 some bond deals that are going to be going -- Robert, do  
4 we have anything that will go in August that the board  
5 will need to act on prior to the Bond Review Board's work  
6 session?

7 MR. JONES: It's going to get to where we meet  
8 every day.

9 MS. CARRINGTON: Maybe we can have alternate  
10 board members so you can kind of take a break.

11 MR. JONES: So we're going to have to have two  
12 board meetings in August, is that what you're telling us?

13 If there's any way we can do it, let's try to coordinate  
14 so we just have one board meeting in August. Why doesn't  
15 staff get together and see what our window of opportunity  
16 is for one board meeting and then get back to us, and then  
17 Delores can spend four days calling everybody.

18 (General talking and laughter.)

19 MR. JONES: Is there a motion to adjourn?

20 MR. CONINE: Motion.

21 MR. GONZALEZ: I move.

22 MR. JONES: All in favor, say aye.

23 (A chorus of ayes.)

24 MR. JONES: Amen.

25 (Whereupon, at 3:20 p.m., the meeting was

1 concluded.)

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MEETING OF: TDHCA Board  
LOCATION: Austin, Texas  
DATE: June 13, 2002

I do hereby certify that the foregoing pages, numbers 1 through 172, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

\_\_\_\_\_  
(Transcriber) 06/25/02  
(Date)

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