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

The first order of business is the roll call.

Ms. Anderson?

MS. ANDERSON: Here.

MR. JONES: Mr. Bogany?

MR. BOGANY: Here.

MR. JONES: Mr. Conine?

MR. CONINE: Here.

MR. JONES: Mr. Gonzalez?

MR. GONZALEZ: Here.

MR. JONES: Mayor Salinas?

MAYOR SALINAS: Here.

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

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

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

Mr. Mitchell, would you like to speak now or at
an agenda item?

MR. MITCHELL: When my item is presented.

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

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

MR. HULL: Yes, but later on.

MR. JONES: And which agenda item?

MR. HULL: 10 and 11.

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

(No response.)

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

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

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

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

MR. BOGANY: Second.

MR. JONES: A motion has been made and
seconded. Further discussion? Hearing none, I assume we’re ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. CONINE: Abstain.

MR. GONZALEZ: Abstain.

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

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

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

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

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

I’d like to take a minute and tell you who’s on this committee besides myself. You all appointed five of us to serve in this capacity on the board in October of 2000, and I’m serving as chair. I work for Advocacy, Inc., which is the protection and advocacy organization
for people with disabilities in the state of Texas. Jean
Langendorf, who works for United Cerebral Palsy of Texas,
serves on the committee; David Wood from Bank One, also
from Houston, serves on the committee; Michelle Crain who
works for the Life Run Center for Independent Living in
Lubbock and Amarillo, Texas; and Ann Denton who works for
the Enterprise Foundation here in Austin comprises our
advisory committee.

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

MR. JONES: Thank you for your service.

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

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

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categories; we’ve got general recommendations for the agency as a whole, and then we’ve got some overall program recommendations, and then we’ve got some specific program recommendations.

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

And just to tell you very briefly, the Olmstead decision was a decision that was passed the United States Supreme Court in June of ’99 and basically that decision said that anyone who is living in an institutional setting, be that a state school for individuals with mental retardation, a nursing home, or a mental health facility, if they’re living in an institution and the individual wishes to move back out into the community with the appropriate support services so that they may live in the community and not in an institutional setting, the court decision said the state has an obligation to, to the best of its ability, provide services to individuals in the community with the appropriate support so that they do not have to live in an institution but they have that choice to move back into the community or move to the
community for the first time.

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

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

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

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

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

The agency needs to seek and commit resources to conduct an in-depth study of the housing needs and preferences of people with disabilities. Currently the Texas Department on Aging is conducting a housing needs study for people who are elderly and it’s very comprehensive, and we would ask that the department look
at committing resources to a similar study to look at the housing needs and preferences of individuals with disabilities.

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

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

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

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

If they are a housing provider and they are providing housing services and people who need their services come to their offices, we want to ensure that their offices are accessible because we have come into situations where a housing provider is providing service and a person with a disability comes to that housing provider to access the services and the office and the place where the services are delivered, be that if you have to come and fill out an
application, they’re not accessible and people can’t get in.

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

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

People with disabilities, many of whom -- not all, but many of whom fall in the 30 percent and below income category, if they’re on Supplemental Security Income, if that is their main source of income -- and SSI
comes through the Social Security Administration -- the
current benefit rate for people living in Texas is $445 a
month. Well, that’s not a lot of money and you can’t even
find a one-bedroom apartment unit for $445 in most places
in Texas, and that income has to stretch and meet all of
their needs, and so tenant-based rental assistance is an
example of having a subsidy to assist an individual with
help with some of their rental costs every month so that
they can live in an apartment and live in the community,
and we would like for the 20 percent target to be exempt
from the current regional allocation formula.

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

Housing Trust Fund. Capacity-building money
needs to target organizations identified as needing to
build capacity; it should not be awarded to organizations
that already have capacity.

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

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

We appreciate the hard work that the department has done and we know that it’s been quite a challenge for
the department to also work with the other health and human services agencies that have to be involved in this process.

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

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

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

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

MR. JONES: Any other questions, comments? Thank you so much for your report and I sure hope you’ll let Jean and David and Michelle and Ann -- I can say it to
Ann and Jean here today -- how much we appreciate all their hard work. Thank you so much. Look forward to working with you.

MR. SCHWARTZ: Thank you.

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

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

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

There was an organization created several years ago called ARCIT, Association of Rural Communities in Texas -- right, Donna? -- and a good friend of ours from the last legislative session, Donna Chatham, who for a long time worked for Chairman Carter who chaired Urban Affairs, Donna was very instrumental and very important on
the housing issues during the last legislative session. Well, Donna has now gone over to ARCIT and she is here this morning to talk about their organization and what it is they’re focusing on and what it is they’re planning on doing, so Donna.

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

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

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

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

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

Mr. Jones: We just did it the way you told us to; whatever you said do, we did.

(General laughter.)

Ms. Chatham: We all need one another, right, Chairman Jones? That’s what a team is all about, and I’m very, very thankful to have got to cut my teeth, so to speak, on the state legislature, coming from a city planning background, I had no experience in the state legislature, so I honestly came to appreciate deeply the
role of state boards, the role of the state legislature because the issues you ladies and gentlemen face are very broad and very deep, and that’s why you need staff, and I came to learn too that’s why you need advocacy groups and that’s why you need lobbyists, it takes a team.

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

I know when I had the privilege of working for the chairman, I wanted to be able to go at a one-stop shop to hear from the rural communities, and I enjoyed and I still do. We sat down and already talked with Texas Municipal League and Frank Sturgell and his staff. Shanna, when she works during the legislative session, obviously TML has to attack such a broad range of issues, they didn’t have the privilege and the time of going down to the programmatic level, and that was primarily why ARCIT was originally formed.

Somebody was asking me just the other day: And where are we going to go from here? Well, we’re evolving,
so the very bottom line, because you’re looking at the
only staff that ARCIT has, the board has identified to
primarily help to give TDHCA assistance on rural needs so
you can have a one-stop shop to go to see what the rural
cities and counties and economic corporations and water-
sewer-utility districts are needing.

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

So we’ve been in a membership drive technically
for probably the last 2-1/2 weeks. We are reaching out to
the 1,200 cities and counties, basically about 1,023
towns, to be exact. The membership includes, it shows you
on page 4: incorporated cities, potential membership with
a population of 50,000 or less; counties with a population
of 200,000 and less; economic development corporations
formed and controlled by a qualified city or county; a
district or other entity formed under state law to provide
water or utility sewer services in a qualified city or
county. Like I shared with you, about 1,000 towns that
qualify, there’s around 217 counties that qualify, there’s
400 economic development corporations that we’re reaching
out to, so this one staffer has a lot on her hands.

Also, very thankfully, we’re starting to
organize things per region and getting volunteers per
region, and I’m starting to set up a membership drive that
has kind of like a volunteer per each region, so our
goal -- and you can hold me accountable and ask me,
Chairman Jones -- our goal is to reach the 300 mark by the
end of August and then it’s the next 500 mark, because the
whole purpose of ARCIT is to develop a broad-based
membership in order to serve state agencies, in order to
serve the legislature so you can have that one-stop shop
to understand what do the rural cities and the counties
and economic development corporations, what’s best for
them.
As Lori shared, at the board retreat the board did an excellent job of all sorts of things, and one of the things they established was the mission statement, and you know, that’s kind of tough to develop a mission statement that’s broad enough and still specific enough to share what you’re all about. And truly by being a strong voice and a resource to government, and that’s what we want to do.

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

And the legislative goal is we desire truly to build a reputation of being a policy facilitator for rural Texas, and I love the definition of what a facilitator is because a facilitator truly does bring people together. We’re not here to put a thumb on anybody. We’re here to serve you, we’re here to bring the expertise of the mayors and the city managers and the county judges from rural Texas here to serve you and to let you know what we’re doing.
On page 8 it tells you more specifically some ways that we can do this. Within the next couple of weeks we’re going to conduct our first quarterly survey. We want to go out to all the potential cities and counties that are our membership to ask them what are their needs and their desires. For example, here’s a case in point, we’ve been hearing a lot at TDHCA and also ORCA about what is local capacity, what does that mean, what does the mayor of Flatonia, when she thinks of local capacity, what does she think? There’s been a lot of things thrown around about what that means and there’s a lot of things it could mean.

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

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

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

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

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

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

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

MR. JONES: Thank you, Donna.

MS. CHATHAM: You’re welcome.

MR. JONES: Any questions, comments?

Yes, Mr. Conine?

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

MS. CHATHAM: Thank you.

MR. CONINE: One of the things I guess probably
specific to this particular agency is a group that’s been out there for quite a long time and the icon, if you will, of rental rural housing, Sox Johnson, I see him sitting out in the audience. Can you tell me how your group plans on interfacing with some of the practitioners that Sox has on his particular group?

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

MS. ANDERSON: Mr. Chairman?

MR. JONES: Yes, Ms. Anderson.

MS. ANDERSON: Congratulations to you.

MS. CHATHAM: Thank you.

MS. ANDERSON: One of the thoughts that crosses my mind that you could be very helpful with is in our Low Income Annual Plan that we prepare that’s based on survey data, and I think last year it was a pretty good survey, it gave us a lot of useful information, but there’s always
room for improvement and the response rate that we receive, and so we can only act on the data we receive back. I know our cities and jurisdictions receive tons of surveys and they can’t possibly answer everyone, and of course we want them to answer ours, and so one of the things that you, I hope, can be very helpful with is encouraging because of your knowledge, Ms. Chatham, of how we develop policy and how we execute our programs, to encourage your members to answer that survey when it comes.

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

MS. S. ANDERSON: We’re moving forward to doing a yearly update.

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

MAYOR SALINAS: What is it that you are going to be doing for the rural communities?
MS. CHATHAM: Good question. Why don’t you address that, Lori.

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

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

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

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

MS. CHATHAM: You bet, right.

MAYOR SALINAS: And they will not get any
housing assistance if they don’t follow the rules.

MS. BERGER: Sure, we understand that.

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

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

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

MS. BERGER: That’s fine.

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

MS. BERGER: Okay.

MS. CHATHAM: And I’ll also share that one of ARCIT’s goals when the board set their mission and their goal statements back in April, was we’re also going to be, starting in September, putting out a monthly newsletter to the cities and the counties which is also going to
continually update them on these new programs that are coming out. And also, something about ARCIT that we are being registered as a 501(c)(4) organization which is a lobbyist organization, so we are representing the constituency. ORCA, we’re so thankful to have them in place; they are the state agency, and as Edwina knows about state agencies -- and so does Chairman Jones -- you just can’t lobby, can you.

MR. JONES: And we don’t.
MS. CHATHAM: And I know you don’t.
MR. JONES: Never happens.
(General laughter.)
MS. CHATHAM: And that’s where also we want to be able to provide assistance during session too in case that we can help you with anything, and also with ORCA as a state agency, you are limited in some things, just like we’re limited in some things.

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

MR. JONES: Amen.

Mr. Bogany?

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

MS. CHATHAM: That’s great, that’s a good idea.
MR. BOGANY: They can help with you and I’m sure they would love to be able to bridge with to help you get your goals done, and I just think that’s an organization you should be a partner with.

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

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

MS. CHATHAM: You bet. Thank you.

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

MS. CHATHAM: Yes, you did.

MS. CARRINGTON: Donna had a retreat with her board, Sam Tessen who is the executive director of ORCA, and I were invited to participate in the retreat on Friday afternoon with her board now about two months ago. And we divided up into groups: If they were interested in housing issues, they went with me; if they were interested in more infrastructure issues, they went with Sam. And we got some really valuable feedback at that meeting about
how TDHCA could be looking at their programs, making
modifications in programs that could be utilized more
efficiently and effectively by the rural communities. So
on this needs assessment, getting surveys back, I feel
like we had some really good discussions, so I think we’ve
started those communications of being able to get the kind
of feedback we need from folks who serve the rural
communities.

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

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

(General laughter.)

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

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

MS. CHATHAM: Great.

MAYOR SALINAS: They should have a list.
MR. JONES: Anything else? Thank you so much for being here, we appreciate it; we look forward to working with you.

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

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

MS. CARRINGTON: Like many of you all in this
room about a year and a half ago, we fairly eagerly looked for the Sunset Advisory Commission report that came out in April of 2000. Many of us had been involved in the question-and-answer and the interview sessions with the Sunset Advisory Commission, we were very concerned about the direction of TDHCA, and it was an eager read for a lot of folks; the first couple of weeks after that report came out, most everybody I talked to had reviewed the Sunset Advisory Commission report.

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

There were several themes that were prevalent in the report and these were themes: that the department was not responsive to and did not welcome public input in its processes; that the department’s approach to funding housing and community support services does not serve Texans with the greatest needs; that the department lacked a Central Database that’s hampered our ability to provide
accurate, prompt information on number of units created, funding sources, et cetera; that there was also little communication along program lines, and one real specific recommendation or comment that our programs operated independently precluding a strategic allocation and best use of housing funds.

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

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

I started at TDHCA a little more than 90 days ago now, had my three-month anniversary I think on Monday of this week, and the reorganization initiative addressing
the concerns of Senate Bill 322, addressing the concerns of the Sunset Advisory Commission report has been one of the items that has been priority to me since I was hired. It was also very clear to me that when I interviewed with the search committee and then I was hired by the board that one of the things that was certainly expected of me was to make effective changes with TDHCA, changes not only internally within the organization, but also externally.

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

So they provided a lot of input; I had multiple meetings; I gathered organizational charts from other state housing finance agencies around the country that administer basically the same kind of programs that TDHCA does that are also state agencies because a lot of state FHAs are maybe not state agencies, they don’t have the component of programs that we have.
So we worked, staff worked to get to what we believe is a functional organizational chart, an organizational chart that focuses on functionality, that concentrates on production with accountability. I knew at that point that we had gone as far as we could go. We then went out, and having come from the private sector, I said, okay, how do I procure organizational development services, and we went through a process with the State Auditor’s Office. They have a division of the State Auditor’s Office called Management Advisory Services, and so since we contracted with another state agency, we didn’t have to go through the very lengthy procurement process.

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

What you’re going to see this morning is what we’ve done with all of the staff now; we finished yesterday afternoon. We had 16 divisional meetings; those divisional meetings went anywhere from an hour to 2-1/2
hours depending on how impacted the divisions were going
to be, and they basically show this presentation. This
was not the first time they had seen it. A week ago
Monday we had an all-staff meeting over here in the
Capitol auditorium where we went through the full
presentation, laid out basically what they could expect
through the process. There were some questions at that
session, however, as you can imagine, the bulk of our
questions, concerns, challenges, thoughts have come up
from the divisional meetings that we’ve had over the last
two weeks.

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

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

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

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

And I will say that in the first 90 days I’ve had 15 meetings: Six senators, nine representatives. Michael Lytle, our governmental affairs representative, is keeping me very busy on the path from our office over to the Capitol. And we’ve also testified, I think, at four hearings, three Urban Affairs, one on financial institutions, and we’ve got two coming up next week. So we really are being very proactive; we are being invited to testify and in some instances we’re volunteering.
We want to become a leader for housing policy in the state, we want to be a partner with advocates, housing providers, trade associations, and other state agencies. Donna’s presentation just a little while ago with what ARCIT is doing, ORCA is a very important partner for us in our Low Income Tax Credit Program, in full utilization of our HOME funds in the rural areas. We’ve partnered with the State Auditor’s Office in the hiring of our management consultant, so we want to also partner with other state agencies.

Why reorganize? As I said, you don’t see anywhere in there TDHCA must create a different organizational structure; however, these themes are throughout the reports. We want to create a functional organizational structure; we want to ensure that the State’s objectives regarding housing and community support services are fulfilled; we want to ensure the State’s most critical needs regarding housing and community support services are identified through our planning processes and also met; we want to achieve the best use of our state’s resources; we want to establish project compliance procedures that ensure the department provides fair access to housing; and pretty much, bottom line, we all want TDHCA to exist, we want to get through the next session of Sunset and have our 12 years before we do this again.
We believe that this reorganization is based on sound business principles. We have a desire to move forward, we want to be more efficient, more effective, productive, accountable and compassionate.

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

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

We want to facilitate the creation of positive changes for staff, agency clients and stakeholders, create better checks and balances to divide responsibilities so that no one area has all of the authority, and as you look
at the proposed chart, the draft chart, what you’ll see is
that we are creating areas of specialization, such as loan
servicing area, asset management, increased
responsibilities in the compliance area that provides
those checks and balances throughout the organization.

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

At this point -- and Tom and I have actually
gotten pretty good at this; I think this is about number
20 for us over the last three weeks -- we were very
fortunate when the State Auditor’s Office came over, the
Division of Management Services, that Tom Schindell was
the person who came over with his boss Deborah Carr, and
we laid out to them what it was we were looking at doing.
We showed them the charts, we explained our rationale,
and they said, Well, you’re already a long way along the
way of getting where you want to be.

Tom is an organizational development
consultant, Ph.D. from UT in adult education and
leadership training and so Tom is with us basically for
four or five months as we go through the phases of this.
He does accuse me of scope creep which I keep adding
things to what we want him to do, but he will be with us through October-November through the implementation, and this is his part of the presentation.

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

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

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

While we were meeting with all the staff, one of the other things that needed to occur in Phase I was to
get some feedback from the organization in terms of what
their concerns were, what potential barriers they saw,
some challenges they saw to implementing this new
structure, and any issues that they had. Also wanted to
get their feedback and their ideas and thoughts about how
the organization could be better or how this transition to
a new organizational structure could occur more
efficiently and effectively.

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

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

   First off, they need to get a baseline picture
of what are all the major processes going on in TDHCA right now, especially in the areas where there’s going to be some reorganizing and some changing going on. They need to get a picture of the baseline in terms of processes, functions, which staff are performing which steps in a process, and what are the major outputs or products or services that are provided from those processes.

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

After that, then the next step will be to figure out how many staff are going to be needed in these redesigned processes, in these redesigned divisions, and then the last step that they really need to focus in on is how do you roll this out, how do we actually get all these new processes and procedures in place. What we’re calling that is we’re following a term from the computer folks and we’re calling that a migration thing, literally how do we migrate from where the organization is how to where the organization wants to be, how do we get there, so which
new division do we put in place first, which new division
do we put in place next, addressing those kinds of issues.

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

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

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

Then they also need to think about we can ease
the transition as part of the migration plan and also we need to be real careful that we ensure that all the requirements for the federal and state funding that TDHCA receives that all the safeguards and requirements are met in the new policies and procedures and processes that are developed.

That will end around September 1 and then we’ll move into Phase III, and Phase III will literally be the implementation of this plan that’s developed in Phase II, so literally nothing is going to change in the organization in its day-to-day operations until Phase III. Phase III we’re thinking will really start around September 1 and then hopefully we’ll be done rolling out a lot of that by the end of November, maybe bump up into December, but certainly we want to have it done by the end of the year.

Instead of having one steering committee that we’ve had in Phase I and we’re forming another steering committee for Phase II, for Phase III we’re picturing actually several different steering committees, literally one for each of the new divisions that’s going to be formed to help them move into their new processes and to help them manage that transition. So that’s what we mean by the others, but basically in Phase III the focus will be moving into this new organizational structure and one
of the first things when folks move into a new division is
to do some team building and to help them literally get
off the ground and get to know each other better and work
together more effectively, so team building is one of the
charges for the activities in Phase III.

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

Depending on your perspective, this can seem
like a very long time frame to implement this
reorganization or it can seem like a very short time frame
to implement this reorganization; it really does just
depend on your perspective. If you think about how long
organizations normally allot for a process like this, it’s
generally between 18 and 24 months, and our schedule is between six and seven, so from my perspective, this is a pretty compressed or a pretty smushed time frame in terms of what we’re trying to do.

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

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

There are some other folks, though, that are saying: Gee, Edwina started in March and we’re just now finishing our division meetings in June. What’s the deal?
Why is this taking so long? Come on, just give us the new chart and let us go. Well, you know, truthfully the agency really is trying to do this the right way and that’s evidenced by their partnership and that’s also evidenced, I think, by the plan that they’re following to actually implement all this, and part of doing that the right way is getting the input and feedback of staff and that takes some time. You can’t just immediately go out there and reorganize and change everything; you need to get feedback and ideas from the folks who do the work in order to be able to incorporate their changes as effectively as possible. So wanting to get everybody’s input takes some time.

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

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

We’ve really alluded to some of this time line; we can probably move on to the Phase I steering committee, the number of times that we’ve met with staff. We did have a very, I think, productive, very informative meeting on June 5. We had a representative from the Governor’s
Office, the Lieutenant Governor’s Office, the Speaker’s Office, two representatives from the State Auditor’s Office, the LBB, Urban Affairs, and they basically saw the same kind of presentation that you are seeing today on our rationale for the reorganization, and we had obviously some very good questions on process and what we’re doing and how it relates to these various reports and budgets, et cetera, that we are having to report, and here we are down today to June 13 to the presentation to the TDHCA board.

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

Ruth and I have attended every meeting; that was a commitment that she and I made and we served as co-chairs of the committee, and we were there. We wanted to make sure that everybody at TDHCA had multiple opportunities to learn about the reorganization and to
share their ideas and concerns. We have some people who have been in state government for quite a while in our agency, and a couple of them have said, Well, I worked for Bullock for a while, and they said, you would just show up on Monday morning and he would give you the new organizational chart and say this is where you show up. I didn’t know a whole lot about this but I knew that that was probably not the way it was going to work and be very effective with TDHCA.

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

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

One of the things that the Phase II group will be doing is they meet with each of the divisions in gathering what are their processes, what are their functions, what’s their output. We’ll be deciding which
divisions or which areas do we migrate first and what’s the most logical way of doing all that.

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

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

There’s two or three really very significant changes on this. We have created a second deputy’s position and this is a deputy director for operations, so right now under our current structure the department has
one deputy director. We will be creating a second and
that will be a deputy director for operations; the other
deputy director will be for the program area.

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

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

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

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

For the department, the area that has the most significant change and most significant impact, if you look at our current organizational chart, there are actually three divisions that are involved in housing production and what we’re doing is creating one division, titling that division Housing Finance Production, and then within that Office of Housing Finance Production there
will be a multifamily area and a single-family area. So right now the individual programs that you see that support, that fund multifamily rental will be integrated into this multifamily area; single-family, the programs, the funding sources that support single-family home ownership will be combined into the single-family area and sort of get out of your mind, don’t think over here as you look at multifamily, oh, tax credits and HOME and bonds. What we’ll be looking at doing is integrating those functions.

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

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

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

We’ve moved the communication function from Government Affairs down here to the Office of Strategic Planning. This area is going to have some increased responsibilities as they look at being the clearinghouse
for all of the kinds of documents and publications that come out of TDHCA. We do NOFAs; we do RFPs; we do RFQs. We do program guidelines; we set up public hearings. We do a variety of activities to correspond with the public, with our external customers on what we’re doing within the department. They do all of our strategic planning for us, they do the Consolidated Plan, they are the ones who are responsible for making sure that agency priorities are implemented. So to the extent that we have guidelines that are developed over here in the functional areas, this group over here is going to serve as the last set of eyes and ears for those documents that go out.

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

We’ve also set up a speaker’s bureau and what we’re doing with that is when I get these multiple invitations to groundbreakings, open houses, et cetera, we’re trying to make sure that someone goes. We want to go; we want to acknowledge TDHCA’s role in whatever it happens to be that they’re doing. They usually ask us to speak. It gives us good recognition, plus it gets us out of the office and helps us really see who we are helping.
as we provide our housing funds and our funds for community affairs also.

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

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

So as we’ve had these division meetings over the last couple of weeks and listened to all the staff, it’s absolutely reaffirmed for me that we are moving in the right direction and doing what we really need to do to
organize ourselves -- even though I know Mr. Jones says we were already organized.

    MR. JONES: Amen.

(General laughter.)

    MS. CARRINGTON: And to be responsible and accountable.

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

    Phase II, we’ve got our volunteers, although I haven’t gone through them yet; we’re looking for about 20 folks; Wednesday was the deadline for them to volunteer. We’ve told them the time commitment is about 30 to 35
hours, and I’ve told staff I knew none of them had that much time sitting around, and so other staff have really been good about picking up, taking on workload and also working late to be able to be involved in the process.

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

MR. SHINDELL: That’s okay.

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

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

MR. JONES: Why don’t we take about a ten-minute break.

(Whereupon, a brief recess was taken.)

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

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

MAYOR SALINAS: I move that we accept the concepts.

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

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

I would just ask that -- as I know they will -- as they continue to refine the organization that we continue to pay attention to span and control issues, that we try to continue to move toward a flatter and less hierarchical and stovepiped organization, and also focus on making sure that we’re making maximum effort to drive out the efficiencies that are possible with this kind of reorganization so that we can gain those efficiencies and then determine the best use of the efficiencies that are achieved.
MR. JONES: Thank you. Mr. Conine?

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

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

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

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. JONES: The motion carries. We then move to item 5, Mr. Conine.

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

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

(Whereupon, Mayor Salinas left the meeting.)

MR. CONINE: Item 5 on the agenda, I’d probably
call the director of Bond Finance up to the podium, Byron
Johnson. Is he around?

MS. CARRINGTON: He was.

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

MR. JONES: I’m not listening to him if he
hasn’t shaved.

(General laughter.)

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

MR. JOHNSON: Yes, sir.

MR. JONES: Does your mother know you don’t
shave?

MR. JOHNSON: She hasn’t seen any pictures yet.

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

(General laughter.)

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

We’re here to request that the board approve an
RFP for trustee services for the single-family bond
indentures. The last time we went out for proposals for
trustee services was in 1996 and the markets have changed
very much since that time, and also the department’s
portfolios and indentures have been evolving, so we want
to go out and see what type of responses we get and take a
look at the market for trustee services. We anticipate,
if it’s approved today, requesting responses by July 26
and presenting staff’s recommendations at the August board
meeting.

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

MR. BOGANY: Second.

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

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

MR. JONES: Yes, Ms. Anderson.

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

MR. JOHNSON: Yes.

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

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

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

MR. JOHNSON: It should be easier.

MS. ANDERSON: Okay, thank you.

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

(A chorus of ayes.)

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

(No response.)

MR. JONES: The motion carries.

MR. JOHNSON: Thank you.

MR. JONES: Thank you.

Item 6, Ms. Carrington.

MS. CARRINGTON: Thank you, Mr. Chairman. Anne Paddock will come up and this was on the board agenda -- no, not Ann? Oh, Sara. Sorry about that. This was on the board agenda last month and we didn’t get to it on the agenda so it was postponed to this month, and this is in response to a requirement in Senate Bill 322 that the department adopt a rule that would address housing sponsors, tenant management, Section 8, and the compliance policy related to management companies leasing to Section 8 tenants that are in Low Income Housing Tax Credit
MS. NEWSOM: Chairman and board, I’m Sara Newsom and I am the Housing Compliance manager.

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

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

MR. BOGANY: So moved.

MS. ANDERSON: Second.
MR. JONES: A motion by Mr. Bogan, second by Ms. Anderson. Further discussion, questions or comments? Hearing none, I assume we’re ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay, (No response.)

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

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

On this day, June 13, 2002, at a regular board meeting of the Texas Department of Housing and Community Affairs held in Austin, Texas, the board of directors adjourned into a closed executive session as evidenced by the following: The board of directors will begin its executive session today, June 13, 2002, at 11:42 a.m. The
subject matter of this executive session deliberation is as follows: litigation and anticipated litigation, potential or threatened, under Section 551.071 and 551.103 of the Texas Government Code Litigation Exception; consultation with attorney pursuant to Section 551.071(2) of the Texas Government Code; and discussion of any item listed on the board meeting agenda of this date. And with that, we will go into executive session.

(Whereupon, at 11:45 a.m., the meeting was recessed, to reconvene this same day, Thursday, June 13, 2002, at 1:00 p.m.)
MR. JONES: On this the 13th day of June 2002, at a regular board meeting of the Texas Department of Housing and Community Affairs, the board of directors adjourned into a closed executive session. The subject matter of the executive session deliberation was as follows: litigation and anticipated litigation, potential or threatened, under Section 551.071 and 551.103 of Texas Government Code Litigation Exception, action taken, none. Consultation with attorney pursuant to Section 551.071(2) Texas Government Code, action taken, none; and discussion of any item on the board meeting agenda of even date, action taken, none.

The board of directors has completed its executive session of the Texas Department of Housing and Community Affairs on June 13, 2002, at approximately 12:30 p.m. I hereby certify that this agenda of an executive session of the Texas Department of Housing and Community Affairs was property authorized pursuant to Section 551.103 of the Texas Government Code, posted at the Secretary of State’s Office seven days prior to the meeting pursuant to Section 551.044 of the Texas Government Code, that all members of the board of directors were present with the exception of Mayor
Salinas, and that this is a true and correct record of the proceedings pursuant to the Texas Open Meetings Act, Chapter 551, Texas Government Code, as amended. Signed by myself as chair of the board.

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

Mr. Gonzalez.

MR. GONZALEZ: We’d like to call on David Gaines, please.

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

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

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

MR. GAINES: High spots. I’m proposing that two projects are being proposed for deletion to the Audit Plan. The initially perceived risks that were considered in putting the projects on the plan do not appear valid based on preliminary procedures and further consideration.
Additionally, the Internal Auditing Division doesn’t have as many hours as originally anticipated in its Audit Plan for various reasons -- and I’ll be glad to go into any of this -- and there was a budget overage on one of our audit projects.

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

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

The committee approved the plan with the amendment that the last project, the controlled self-assessment, not begin until the reorganization has been substantially implemented.
Any further discussion on the proposed amendments to the Audit Plan?

MR. JONES: Any questions?

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

MR. JONES: I understand.

MR. BOGANY: So moved.

MS. ANDERSON: Second.

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

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. JONES: Motion carries.

MR. GAINES: The first report item on the agenda was a report from Deloitte & Touche relating to its opinion audit for the period ending August 31, 2001. George Scott, the managing partner from Deloitte & Touche, presented that this morning; I’ll provide a high-level summary. The report to management is required in connection with their audit. In planning and performing the audit, the auditors consider internal control for the purposes of planning the project and not for the purpose
of expressing an opinion on the control systems, and so accordingly, they didn’t.

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

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

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

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

MR. GAINES: The time period of this audit overlapped with the internal audit somewhat, so it may
relate to the same conditions noted in that audit, and I

  don’t believe those conditions have been fully corrected

  at this point.

    MR. JONES: So in other words, yes?

    MR. GAINES: Yes.

    MR. JONES: Okay, thank you. I’m real slow at

    simple things.

    MR. CONINE: He answered it in lawyer fashion.

    MR. GAINES: With all due respect, that was

    auditor fashion.

    MR. JONES: I don’t really like lawyers myself.

    (General laughter.)

    MR. GONZALEZ: Mr. Chairman, I’d like to

    suggest, though, that the Audit Committee meet on a

    monthly basis to get an update on this until it gets

    resolved.

    MR. JONES: I would be delighted that you would

    do that.

    MR. GAINES: The auditors also recommended

    considering alternatives to the method used in recognizing

    accounts payable at year-end, which is currently to

    recognize only those invoices received within 30 days

    after year-end; management agreed with that. Also to

    continue to develop a fully integrated financial

    management system to minimize manual entry requirements,
to strengthen the integration of data and processes, and
to improve the financial reporting capabilities. This
finding resulted from multiple systems being used by
accounting, manually pulling information together for
financial reporting purposes.

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

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

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

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

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

A related concern, and because of this finding and a similar finding in a previous audit report, HUD issued a letter to the department April 2002 that states the department must review all subrecipient’s draws and project-related soft costs for the fiscal years 1999, 2000
and 2001. If the soft costs in those program years are not adequately supported, HUD has instructed the department to reimburse HUD funding source from non-federal sources, and currently our response to this letter from HUD is pending from the department.

MR. GONZALEZ: When will that one be available?

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

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

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

MS. CEDILLO: Yes.

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

MR. CONINE: Great.

MR. GAINES: The auditors also reported that the State complied in all material respects with applicable requirements except certain compliance requirements that were not met. Among the exceptions that the auditors identified throughout the state, noncompliance was noted relating to the Low Income HOME Energy Assistance Program and Weatherization Assistance Programs. The exception noted related to one of our subrecipients that was involved in some embezzlement
problems that involved these funds, the HOME Energy Assistance and Weatherization Programs. Amounts in question range from $171,000 to $212,000, depending on which auditor or monitoring report you’re relying upon.

KPMG recommended that the department establish amounts owed to TDHCA, issue a management decision and a demand letter demanding repayment. The department responded that it will conduct a field visit, a monitoring visit to make that determination. When they tried to do so, the subrecipient informed them that it would be a waste of time since the related records were with other authorities involved with the embezzlement investigations. At that time the department did issue a demand letter for repayment of its funds; the letter is in the hands of the subrecipient’s legal counsel who is supposed to be contacting our legal counsel to come up with the best way to proceed. Yes, sir?

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

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

MR. BOGANY: Ms. Carrington, what would we do
if they responded back and said, Hey, it’s with our legal counsel and it’s still an open-ended situation, what would be our next step to go after this money?

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

    MS. PADDOCK: No.

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

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

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

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

    MR. BOGANY: Okay. One other questions I have in regards to the board of directors for that group, how do we put them on the list that they don’t ever get monies from this agency again?
MS. PADDOCK: Well, we don’t have any procedure for that. We could develop rules to do that.

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

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

MR. JONES: Yes, ma’am.

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

MS. PADDOCK: This is not a HUD program, this is a DOE/HHS and they don’t have the same type of thing. The deal is it wasn’t the organization, it was an employee of the organization; he was convicted; and it’s an antipoverty organization, it’s not like they have a lot of money. We think they’ve got insurance, you know, so we’re trying to pressure them at least to come up with the insurance money. It wasn’t really mismanagement by the organization; it was embezzlement by an employee.
MR. BOGANY: But I believe that if I represent an organization that whatever I do reflects on it, just as what I do here reflects on this organization, and I think we should jump down them with two feet and get on it. Two years is enough.

MS. PADDOCK: I’ll be referring it to the attorney general to file suit.

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

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

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

MS. PADDOCK: No. They are.

MS. ANDERSON: What are the processes for
termination of a subrecipient that this agency has in place?

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

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

MS. CARRINGTON: Yes.

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

MR. JONES: Would this be the HOME Program you’re referring to?

MR. GAINES: Three reportable conditions relating to the HOME Program were identified. The first one related to soft costs and we’ve previously discussed
that issue. The second audit finding relates to not having adequate controls in place for monitoring subrecipients of the HOME Program and they’ve provided a listing of exceptions they noted relating to monitoring activities that were either not conducted or inadequately conducted. It’s on page 124, if you’re trying to follow me.

MR. JONES: We’re trying. We’re a slow group, though.

(General laughter.)

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

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

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

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

MR. GAINES: Yes, sir.

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

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

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

MR. GAINES: That’s right.

MR. JONES: And we are still having problems, although management thinks it’s making improvement, when we do testing of the improvements they say have been made,
we don’t find evidence of it. Is that true?

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

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

MR. GAINES: Yes, sir.

MR. JONES: And to an extent I understand that your function is really just to report on whether or not it’s being done, it’s not to do it, I understand that, but to the extent you can tell us the schedules we ought to be operating under, to the extent you can tell us how we can
effectively report on management in this regard, I would be very interested in hearing your comments. And I’m not trying to usurp in any way the function of your committee, and I would direct it to his committee, and I’m so glad they’ve volunteered in this area, but I’d be interested in hearing what the Audit Committee tells us.

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

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

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

MR. JONES: Yes, and I’m not even joking anymore, I’m not trying to mess around with words and I know that as an auditor they’re very important to you, so I’m not being critical at all, I just want to move forward. I want desperately for our agency and our HOME Program to be in accordance. When somebody audits it, I
want to her back, you know, you all are doing a good job, you are doing what you need to be doing. That’s where I want to get and these are my own words, very much layman words.

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

MR. CONINE: Maybe I can add on to what the Chairman is saying. It might be helpful to take just the HOME Program and take the summary of audit findings, both internal and external, on just that program and create a matrix that we could track because this continues to be a sore spot, and I’m not suggesting you pull them out of those other audits but just create a new form that just has everything right in front of us and where we are on resolving those findings, and that would probably
highlight the issue at least succinctly for me, anyway, and help see where we are.

MR. GAINES: Okay.

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

MR. GAINES: Yes, sir.

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

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

MR. JONES: I believe you are. There was no criticism implied with that; I was just trying to say it in my own terms and try to see if we were on the same
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page, and I think there’s also a reporting function here, Edwina, for you and your staff. Hopefully you can join in and help us in this area because we know as a board where we want to go and we know where we feel like we have to go for the benefit of this state, but when we listen to your reports -- I’m going to speak for myself, I shouldn’t speak for the board -- when I listen to your reports, I don’t see the progress we need to be making.

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

MR. GAINES: I can take it.

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

MR. JONES: Yes, and that can be an issue at times. But what I’m saying is to the extent you can help us, and if we need to communicate to you better and if we need to communicate to the staff better what we’re trying to do, then maybe somebody can say it better than I’ve said it. But this is an area that we don’t want to keep hearing the same thing, the same thing, the same thing, the same thing. And I’m just speaking for myself, we’ve got to find a way to change this.
MR. GAINES: Well, one strategy I plan on is to paraphrase the transcript and make sure all management has a copy.

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

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

MR. GAINES: Yes, ma’am.

That carries us through the KPMG report item.

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

MR. BOGANY: Can I ask you a question? On those 29 findings, Ms. Carrington, is there any way we
could get the staff to give us a deadline for when they think they’re going to have these things achieved.

    MR. CONINE: It’s here.

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

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

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

    Management has expressed concerns regarding the
nature and scope of the HUD review and is in general
disagreement with some of the criteria used by HUD in
measuring the department and the methodology that HUD used
to project its exceptions to the total population. The
department is also in disagreement with the corrective
actions of reviewing all related files going back to 1998.
In this respect, management personnel have met with HUD
officials to try to come to acceptable solutions.

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

MR. JONES: Do we have any information on where
we’re going there?

MR. GAINES: I think where we’re currently
going -- and the appropriate management may want to speak
to this if I don’t have it entirely correct -- based on
this sampling and kind of falling back to comments I just
made is that there is some general disagreement on how
they came to the conclusions they came to, the methodologies they used. We aren’t necessarily getting the same results; we aren’t convinced in instances that they were using the proper criteria to measure this against, and so these are arguments that are currently planned for the report that will be presented to HUD.

Any other questions relating to that?

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

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

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

Any other questions?

MS. ANDERSON: I have a comment about that. While I think that makes sense going forward, I would urge
management and staff for that not to be a reason that items from 6/4/99 continue on this report until the end of the year when the reorganization is substantially complete. I mean, I think in the Audit Committee and in the commentary of the board in the full board meeting, we’ve made ourselves pretty clear that this is an extremely high priority for this board, that it’s very disappointing and disheartening to look at these records and continually see delay after delay after delay, and you can always find reasons why something didn’t make it on the top of the priority list, and I think that from my position as a board member, there are no excuses left; it’s just time to get the work done and get these items cleared.

MR. GAINES: Yes, ma’am.

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

MR. GAINES: Yes, sir.

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

MR. GAINES: Well, for the issues they’ve
noted, for the most part they’re recommending going back and reviewing all project files since 1998, so just the demand on the human resources to do that is very significant, and then for those issues that we do not resolve satisfactorily, they’re requesting that the department, the State reimburse HUD from non-federal sources.

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

MR. GAINES: I’ll bring that to the next board meeting, and to the extent you have additional input on how I can help you, please let me know.
MR. BOGANY: David, one of the questions I have, and the last statement I’ll make about the audit, is that I’d like to see this as a team effort and how every division can help clear this HOME issue up because it is a team effort, and if one division goes down, it brings the rest of us down. So it’s not just a HOME division problem, it’s an agency problem, and I would like to see when you give my little report that how another agency can help also in this and we all kind of circle the wagons and go in and help clear this up, because we’re talking about going back to 1990-92, that’s a long time and that’s a lot of demand. So I would like staff and management to realize this is a team effort here and it can really hurt us deeply if we don’t correct this issue.

MR. GAINES: Point well taken.

MR. GONZALEZ: Excuse me, David.

MR. GAINES: Yes, sir.

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

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

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

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

The state auditors are planning on a review of certain aspects of the Community Services Block Grant Energy Assistance and Section 8 programs. They’ve recently completed a special investigation of a former department employee who provided false information in an attempt to benefit from one of the department’s programs, and they have a performance measures certification audit to assess the accuracy of the Fiscal Year 2001 performance measurement data reported to LBB and the surrounding controls that provide assurance of the accuracy of that performance information.
On the next page is the status of internal audit projects. Just quickly in summary on that, payroll audit that we’re working on, we’re planning on an exit conference tomorrow, we expect management’s responses back in a week at which time we’ll sit down with executive management to discuss the issues and management’s response with the intent of releasing a report the following week.

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

Any other questions relating to the Audit Committee?

MR. JONES: Anything further?

MR. GONZALEZ: Good report.

MR. GAINES: Thank you.

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

(No response.)

MR. JONES: We will then turn to item 8 on the
agenda. Ms. Carrington?

MS. CARRINGTON: That’s Mr. Gaines also.

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

I’m currently serving in an advisory capacity, a non-voting chairperson of the Information Systems Steering Committee -- excuse me -- the Central Database Steering Committee -- we have several committees there -- I’m currently serving as a non-voting member, the chair of the Central Database Steering Committee; I’m doing this at the request of management and glad to do that. But speaking in that capacity, I just wanted to bring that up, the information I’m providing is based on information that’s been provided to me through the committee itself or from the project team or from operations personnel.
The first section of this report is the project scope as specified in the project charter. The project charter -- which you don’t have in front of you -- defines, among other things, the governance of the project, the business and project objectives, what the project will achieve, the boundaries of the project, and a list of affected stakeholders. The project charter has been approved by department management, by the steering committee reviewing and approving the charter, and it’s been distributed to all functional areas, functional analysts representing the areas of the department within the scope of the project.

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

But back to the planned comments. The programs or divisions to be supported by the project are those listed towards the middle of page 1, if we’ll just turn to that. Those are the programs that will be supported by the project. And the scope -- this is an extract from the project charter -- the project scope is a high-level summary of where the department is going, what it’s going to get, and how the project team is going to get us there.
The project has been divided into three phases. The first phase was the AIMS Compliance Monitoring and Tracking System. This was developed to meet the compliance needs and reporting needs of the multifamily properties that the compliance division monitors during the affordability period of the projects. The system was developed to automate compliance testing and provide for the accumulation and reporting of information such as annual reporting of household income of families residing in individual units and rent charged to each household, the racial/ethnic makeup of multifamily projects currently administered, the tracking and reporting of special needs tenant services, and units designed for the disabled, and identification of compliance violations.

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

The compliance system design and development was completed in January of 2002, the development itself and the design, and as I was just saying, it’s currently
in the final stages. It’s being populated with the multifamily properties we have, the population from the existing Tax Credit system have been migrated over to the new database, the multifamily properties from the HOME Program and the multifamily bond programs is planned to be migrated over within the next week to two weeks. Just as a footnote to that, there’s approximately 2,300 properties from the Tax Credit system that migrated over.

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

All that discussion kind of related to this basic architecture framework of the compliance tracking system. We’re also in what we’re calling the second phase of the project which is projected to continue through December 2003 with a great majority of that phase being completed by the end of this calendar year. This phase will result in the central database that’s used by all the functional areas within the project scope and will provide the essential support or business functions and information needs such as: parties to the contracts, contract terms, budgets, performance information, the
allocation of funds to programs, regions, activities, and set-asides; it will track a dollar from the initial funding source down to the final recipient and back again in cases of deobligations; the draw disbursement process, loan terms, loan status and tracking, and again, the long-term compliance monitoring needs of the division. Another component will be the portfolio management aspect that we’re just beginning to address.

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

So even though we are having to realign our thinking and our time lines which have been by programs realignment by functional areas, we don’t believe it’s
cost us a lot of lost time because we’ve been developing
this system on a very modular basis and we can take those
modules, those functions and move to them to the new
structure.

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

(General laughter.)

MR. VEGA: You’re doing a pretty good job.

MR. GAINES: The third phase of the project is
briefly discussed on page 4 and this phase really relates
to the bells and whistles to complement the basic
functionality that’s being addressed in Phase II. Project
plans and appropriation requests are currently being
developed in connection with the department’s biannual
operating plan which is basically the IS or Information
Services support for its appropriation request that rolls
into the department’s legislative appropriations request.

That information is due this summer and that’s all
currently in progress.

Any questions relating to the project scope?

MR. JONES: Ms. Anderson?

MS. ANDERSON: Yes, I have a question I’d like
to address to Mr. Vega, if I might. I think first this is
a groundbreaking system for this agency, it has a
tremendous amount of promise to help us be more efficient,
more effective, and I view it as a very strategic initiative that’s underway, as you know. My question is this: What do you see as any impediments, either real or things you’re concerned about that might arise, that would cause cost risk or schedule risk slippage to the completion of the Central Database, and let’s just kind of leave it at Phase II right now.

MR. VEGA: I would say possibly resources --

MS. ANDERSON: Would you elaborate?

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

MS. ANDERSON: It’s a pretty typical problem that when you’re doing a development project that the legacy systems are still screaming for maintenance and bug fixes, I mean, that’s pretty endemic. What process do we have in place to evaluate the CSRs or whatever you call them, the change requests for the legacy systems to determine if those changes are in fact mission critical so
that we’re not just always making all the legacy system changes which does put your project at risk? How do we evaluate those?

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

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

MS. ANDERSON: And are there cases where the committee has determined that resources need to come off
the Central Database Project to do some sort of change request for IS services?

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

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

MR. VEGA: One thing that will definitely help
us move forward is the reorganization because it does kind
of streamline who we wind up speaking with, and that will
also help us meet our commitment dates. So thank you very
much, Ms. Carrington.

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

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

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

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

MR. CONINE: Translate that for me.

MR. VEGA: Okay. Between now and then various
functions, as we go ahead functionally versus program by
program, various functions will be able to be accomplished
using the new application, using the Central Database.
MR. CONINE: You were exchanging the word "resource" a minute ago and I get confused. That means cash to me and I think you are talking human.

MR. VEGA: Resource can be cash, human.

MS. CARRINGTON: FTEs.

MR. VEGA: FTE basically.

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

MR. VEGA: I’ve been meeting with my project team and with my software development staff, and we’re in the process -- we have a rough draft of a preliminary plan, a revamped plan. As soon as we finalize that within the next couple of days, I’ll make it available after we review it with the Central Database Steering Committee.
MR. GAINES: This project plan, if I can just insert this, is planned for discussion at next Thursday’s steering committee meeting, and it’s basically taking it by program timelines, flip-flopping it to by functional area timelines.

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

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

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

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

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

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

MR. CONINE: Okay, good.

MR. GAINES: That’s part of the plan.

MR. JONES: Hurry up.

(General laughter.)

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

MR. VEGA: Absolutely, it makes perfect sense.

MR. GAINES: Once Ms. Anderson gets back. I was wishing she’d ask that question of me that she asked of
Walt, so I might bring that back up in a moment.

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

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

The first point I really wanted to make relates to the appropriated funds on page 1 for the 2002-2003 biennium, and that’s the second paragraph. You need to make a correction where it says “Fiscal Year 2002 through 2003,” that’s really 2003 through 2003. Are you with me on that?

Towards the bottom of this paragraph you will note that $798,000 was originally requested for this project, $498,000 was appropriated. This, with other factors, are the primary causes, we believe, for the
original expected completion date of December 2002 to be extended to the following December.

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

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

Beth, you missed some of this but I’ll get with
you at a later time to share this with you.

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

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

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

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

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

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

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

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

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

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

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

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

(General talking and laughter.)

MR. GAINES: The final handout on the status report is basically just a listing of accomplishments to
date for those funds that have been expended that we just
discussed. You’ll notice towards the bottom of the page
there’s been quite a bit that was necessary relating to
software standards and hardware infrastructure.
Considerable effort was necessary just to establish
minimum levels of control to help ensure the success of
the project, not only this project but just software
development projects in general, the hardware
infrastructure was necessary.

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

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

MR. VEGA: Correct.

MR. GAINES: And basically that’s just the
planned use of funds, and so that with the contract terms and draw-down information, it will be a basis for allowing reporting of that kind of information, where we planned for our funds to go, where did they go, who received them, and provide a basis for comparison between the planned and actual performance of the funds. And I think that is the real backbone of where we’re heading, and I know we’re all looking forward to that.

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

Any further questions or comments? Thank you so much.

MR. GAINES: Thank you.

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

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

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

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

On item number 9 you have in your book under Tab 9(a) a list of developments where we’ve had requests for extensions for the June 14 deadline for the closing of
construction loans. Since we prepared this board booklet, two of the developments have closed on their construction loans, and the two would be the Fountains at Tidwell in Houston and Logan’s Pointe in Mt. Vernon. Of the remaining nine, one, The Grand Texan Seniors, we’re also requesting that the extension fee be waived because there was a matter beyond the developer’s control for having to have this extension for the construction loan. You’ll see under 9(b) we’ll have a proposal to restructure the development in McKinney.

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

MR. BOGANY: So moved.

MS. ANDERSON: Second.

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

(A chorus of ayes.)
MR. JONES: All those opposed, nay.

(No response.)

MR. JONES: Motion carries.

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

MR. BOGANY: So moved.

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

MR. CONINE: Second.

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

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

MR. MITCHELL: Move forward, please.

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

(A chorus of ayes.)
MR. JONES: All opposed, nay.

(No response.)

MR. JONES: Motion carries.

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

MR. JONES: Thank you, sir.

MR. BURRELL: Thank you.

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

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

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

Would it be beneficial for me to go ahead and
speak to item 11 now?

MR. JONES: Why don’t you, please, sir. Thank you.

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

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

MR. JONES: Thank you.

Ms. Carrington?

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

TDHCA’s process in certifying CHDOs started as a result of our administration of the HOME Program. The HOME Program has a set-aside for nonprofits; those nonprofits have to be qualified as CHDOs. So we actually started doing this in 1992. With the last two sessions of the legislature, there was House Bill 137 and then House Bill 3383 which opened up tax exemptions for nonprofit
entities. With House Bill 3383 they tied the term "CHDO" to it and so with that, TDHCA sort of got in the fray of what was going on related to the tax exemption that’s being claimed in many of the appraisal districts.

So at the board meeting in April the board did authorize us to go out with a series of public hearings; we did have those public hearings, we took public comment. And on page 2 behind the background information we have the recommendations that we are asking the board to consider and approve today, and basically what these recommendations do is narrow our certification of community housing development organizations.

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

In the second recommendation you have, in the event that an organization is applying for state HOME funds -- in other words, our HOME funds -- and they are serving a population inside a participating
jurisdiction -- and we can do that with 5 percent of our HOME funds as long as it’s related to serving people with disabilities -- then what we say is we want evidence from the local taxing jurisdiction or local participating jurisdiction that they are certified as a CHDO. So that sort of takes care of the 5 percent piece that we have out there.

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

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

MR. CONINE: So moved.

MS. ANDERSON: Second.

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

(A chorus of ayes.)
MR. JONES: All opposed, nay.

(No response.)

MR. JONES: Motion carries.

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

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

“Currently Texas Tax Code Section 11.182 exempts community housing development organizations from paying ad valorem taxes if they use tax-exempt bonds to acquire multifamily housing with the intent to renovate. This exemption takes resources away from the school district and impairs our ability to provide the education our students deserve. Taking existing multimillion dollar properties off district tax rolls resulted in a one-year major loss of revenues to districts to educate the same number of students under our current school finance system.
“Alief has six apartment complexes included in various proposals. The 2001 assessed value of these complexes is $45 million and the annual tax levy is $759,000. At this time 560 students reside in these apartment complexes and they are being educated by our district at the cost of $3.3 million per year. Losing this tax levy, even for one year, will have a significant impact on our budget and will make it more difficult to give our students the education they deserve. Our district currently has a $1.46 tax rate and considering the $1.50 tax cap, Alief has little or no ability to make up the revenue lost through local taxes.

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

“We need your help and ask that the board approve this proposed change. Alief greatly appreciates
TDHCA’s consideration of school districts’ concerns 
regarding the certification of CHDOs.”

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

Item 11, Ms. Carrington.

MS. CARRINGTON: Where item 10 dealt with CHDOs 
who were applying for HOME funds and that will become a 
rule for us, item 11 is a policy change that we are 
recommending to be incorporated in our multifamily rules. 
We currently have multifamily rules, we will be bringing 
those rules back in the next couple of months with some 
changes, so right now what we would anticipate doing, if 
indeed the board approves this policy today, it will 
become a part of the rules and then will be incorporated 
when we bring those rules back.

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

If we have an application on private activity 
bonds and 4 percent credits, there would be a notification 
that would be required to TDHCA if the applicant planned
to apply for a property tax exemption, so that notification would be required. The second one would be confirmation of the CHDO tax-exempt status from the local participating jurisdiction or tax appraisal district. So this is a situation where the developer is going to use TDHCA to issue the bonds, so we would be the issuer; very possibly this transaction is going to be in a participating jurisdiction because the majority of the multifamily bond 4 percent credit transactions are in the larger cities around the state. So what we would require is that they would have to have notified the appraisal district that indeed they were going to be requesting this tax exemption.

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

MR. JONES: Is there a motion?

MR. BOGANY: So moved.
MR. JONES: Motion by Mr. Bogany. Is there a second?

MS. ANDERSON: Second.

MR. JONES: Second.

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

Now, the fact that a school district or a city or a county doesn’t agree with the state legislature, this is certainly not the first time that’s happened, and for us to take a position that we would not consider approving a particular project unless the district happened to agree with the state law or there were payments being made to dance around the state law I think just sets a bad precedent.
I know we’re under a lot of pressure at least from certain legislators to fix the problem, but I’m not sure we have the capacity to fix the problem, and I think maybe the thing for us to do as a staff or as a department might be to underwrite these projects assuming there will be payment of full taxes, and let the other chips fall where they may. For us to get involved in a squabble between the state legislature, a taxing entity, and a nonprofit wanting to do a rental project is just a bad position for us to be in.

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

We pretty much have come up with our recommendation mirroring what many of the local entities
are doing, the local municipalities are doing when they
have an application in their area and we have a local bond
issuer, you have a local housing finance corporation
that’s doing the bond issue, and many of the local
governments are requiring basically the same kind of
treatment at the local level. They’re saying you’re going
to use us as the issuer and so we either agree to the
exemption of all the property taxes or there will be a
PILOT negotiated for some or all of the taxes that would
be assessed on this particular development.

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

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

MR. JONES: Why would not -- and I’m asking,
why would not Mr. Conine’s argument be very persuasive that the legislature would say, Well, look, we’ve made this rule and all you’ve done is given people a way to get around it? Because you’ve added the requirement that each taxing authority, before you’ll do the deal, must waive it, why aren’t we effectively circumventing the legislation? It tends to be a very persuasive argument to me. Am I missing something?

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

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

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

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

MR. CONINE: You know, I have no qualms about communication back and forth. If we are the recipient of
one of these deals and the city, the county and the school
district just hate the fact they’re not going to pay
taxes, they’re welcome to write letters and stick them in
the file, but ultimately when this board makes a decision
about a particular project like that, we should be
following state law, and state law says they are exempt
from property taxes currently. You know, the legislature
can fix it in the future but right now is right now.

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

MS. CARRINGTON: There certainly is already a
lot of attention focused on this that we definitely will
see changes in the legislation, but I think, of course,
what we’re looking to do is address the situations we have
now. And I have several staff who have worked long and
hard on this who have now moved to the front row.
MR. CONINE: You can just see them creeping up here.

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

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

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

MR. JONES: I understand that, but let’s go back to his premise which I think is compelling, unless there’s some reason why it’s not and if there is, tell me. His premise is the legislation, if I read it, says they should be exempt. So we’re saying we’re not going to let you do that deal and consider you exempt, as the legislature says you are, unless the taxing authorities have all signed off on your exemption. Now, why aren’t we circumventing that legislation? Why aren’t we changing that legislation by what we’re doing? If we’re not, just tell me, I just want to understand it.

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

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

MS. CARRINGTON: We are finding some appraisal districts, some taxing entities who are if not refusing to recognize it, creating a substantial amount of resistance and opposition to basically complying with the state law.
MR. JONES: But their failure to comply with state law does not allow me not to comply with state law, and I don’t mean to be a stickler on this but it seems to me like the law is what the law is. Now, where I’m going to is you are trying to come up with a practical solution to a problem, but still tell me why when you do that you’re not rewriting that law.

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

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

MR. CONINE: Mr. Gouris, with all due respect, I think you’re worrying about a problem that is not there today, and you’ll probably be asked to testify over at the Capitol during the hearings when someone tries to reverse
the particular pieces of legislation, and in the course of
testifying you can lay out those that have been put on the
books during the period of time and they’ll have to
create -- they don’t have to create a special situation
for those guys but I would think common sense would
encourage the legislature to do that.

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

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

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

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

MR. JONES: Well, your argument, if you’re
going to make it, is this, that look, I won’t underwrite
this project because there’s a chance this law is not
going to stand up in court, so the only way I’ll
underwrite it is if you get the other side to agree that
they’re not going to challenge it in court. I mean,
that’s basically what we’re telling these people. That’s
what we’re saying; we want to be protected against an
adverse ruling on this issue, and so in order to protect
ourselves we want you to get the other side to say they’ll
never contest it. Well, boy, that’s pretty strong
underwriting techniques.

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

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

MR. GOURIS: Absolutely.

MR. JONES: And that’s with great respect to
them; I think it’s probably good that they don’t. That
being the case, don’t you think that you would have a
tough time testifying in front of one who says look, I
wrote legislation that said this was an exemption, I am
authorized to write such legislation, and you went to the
people I exempted and told them we will not underwrite
your project as though you are exempted even though the
legislature has done that unless you get the taxing
authorities to agree to it first. Wouldn’t that put in
some peril in front of that member of the legislature?

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

MR. CONINE: But in the end it doesn’t make any
difference.

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

MR. JONES: And your argument is going to be to
the legislature that we assumed the courts were going to
strike down the legislation or we thought it was so bad
that we thought that there was a good chance it was going
to be?

MR. GOURIS: No.

MR. JONES: You know, that’s tough, man.

MR. GOURIS: The argument is that --

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

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

MR. JONES: Well, I tell you maybe it’s because
I see Anne back there shaking her head and I just
anticipate making an argument like that to a judge which
is basically, you know: Judge, I know you’re going to be
reversed on appeal so I’m going to act as though your
order really didn’t mean what it says. And I think about making that argument in front of some committee someday and it scares me to death, to be real honest with you, because it’s one thing to be conservative in underwriting, I understand that, but it’s yet another thing to say that a legislatively enacted exemption, we’re not going to consider that it exists unless somebody tells us it exists.

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

And if it was a local issuer in Houston, that local issuer in the city would have worked out a PILOT,
but yet they could use TDHCA as an issuer and there would
not have to be any such agreement. So that’s what
really -- this did not all get started by underwriting
issues, this got started by the fact that TDHCA certifies
nonprofits as a CHDO for purposes of the HOME funds and
then when 3383 came along, it tied us all into that
process.

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

MS. CARRINGTON: It depends on whether
certification --

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

MS. CARRINGTON: So they’ve gotten the
certification from their local taxing entity.

MR. CONINE: Right.

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

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

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

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

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

MR. GOURIS: And it’s very widely known.

MR. CONINE: But I’m back to the underwriting question, forget what those guys locally are doing for just a minute -- we can’t forget them totally -- but again, if I’m a CHDO and -- I would hate to see us taking the position that we’re going to underwrite it with taxes, then if the local guys start raising cane about it, then
the CHDO is going to file suit against the locals and they can resolve it in court, but we have at least kept our skirts clean to that point.

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

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

MR. GONZALEZ: Second.

MR. JONES: Second to the motion to table.

Further discussion of the motion to table? Hearing none, I assume we’re ready to vote. All in favor of the motion to table, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. JONES: Motion carries, item 11 is tabled.

Item 12.

MS. CARRINGTON: Senate Bill 322 says that the department will conduct a market study to determine the feasibility of having a subprime lending component in an upcoming bond program, and actually what the legislation says is that we’ll do it by rule; however, this would be a
one-time rule for the department, so what we are recommending to you all today is that you approve the methodology that’s been laid out to conduct a needs analysis in economically and geographically underserved markets in the state.

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

Yes, Mr. Bogany?

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

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

MS. CARRINGTON: Correct, these will be the factors that will be considered and then the way they’re going to approach doing the study is attached to that.

The second paragraph back on the first page says: “The board by rule shall adopt a methodology.” That was right out of 322. And what we are recommending is or what we’re saying is there might be some things in 322 that we think a different approach needs to be taken since this is going to be a one-time analysis for us that what we are looking at doing is saying to approve the methodology for gathering this information.

MR. BOGANY: I’d like to include one --

MR. CONINE: Get it on the floor first.

MR. BOGANY: I’m sorry.

MR. CONINE: Move for approval.

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

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

MR. CONINE: Yes.
MS. ANDERSON: I’ll second that motion.

MR. JONES: Mr. Bogany?

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

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

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

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

(General laughter.)
MR. JONES: Would you accept the addition of that requirement as an amendment to your motion?

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

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

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

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

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

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

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

MR. BOGANY: I mean, a couple of years ago we had a subprime crisis where all these banks were going under because they were making subprime loans and people were defaulting on them and that was a big issue, and the only thing that I’m saying is that I don’t want us to bless a season on a community out there, and I can tell you who’s getting the subprime loans, and Fannie Mae in a meeting last week told me one out every black person get
a -- no, it's two out of every three get a subprime loan, so that tells me that's an issue. And there are other products that are available now that will cut this out, and I just don’t think we need to get into this business.

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

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

As I said predatory lending is a bad thing and I don’t think this agency is going to get involved in it
and don’t think in any way, shape or form, but if we can provide mortgage loans to folks who have had credit problems in the past, whether they be minority or not, I think it’s incumbent upon us to study the methodologies, study the market that’s out there, and provide the product if we have investment bankers willing to invest in it.

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

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

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

MR. BOGANY: I don’t have a problem with if we want to spend the money and it’s in the legislature to do the 322 study, but I can tell you right now, because I’m out selling houses every day and dealing with the everyday consumer, this is a major issue in the minority community. And I can also tell you that Fannie Mae and FHA has addressed these issues, and I can also tell you if I don’t use credit at all, I have no credit score so does that mean I’m a subprime customer because I believe in the cash basis system.

So I think this is a stronger issue and it amazes me some of the things the legislators do already, but my feeling is that this is an issue, and I think we also in this study ought to have alternatives saying these
are other products available that will help and we don’t have to go there, and that’s all I’m asking for is a fair shot because if you got past issues, the easiest loan out there is FHA, bottom line, and whoever wrote this should have known that, but they were listening to one side of the story. So if you’ve got past credit issues, you should be going FHA because they do not credit score. The other issue I have is that most of these subprime lenders never give a truth in lending statement to the consumer on what they need to do; they are exempt a lot of times, they don’t give them. If you want a 12 percent interest rate, I have no issue with that as long as you know you’re getting it, but they don’t know it. And I’ve sat at enough closings, I sold over 100 houses last year, me personally, and I’ve sat at closings where I represented the seller and saw a consumer’s mouth drop when he had an adjustable rate mortgage at 12 percent, and his family is sitting out there in his truck ready to go move in, what he’s going to do?

So I’m telling you where the tire meets the road, I’m not talking fiction, I’m talking real world here, and all I’m asking is that in your study give them some alternatives that, Hey, we’ve done this study, this is the numbers, but there are so many other products out there, and that’s why I’m asking you guys in your due
diligence to put this together to come in and do your 
study. I’m going to tell you right now you add that 
default rate to it, you’re going to see how many people 
lose their houses. So I’m not just concerned about 
selling a house, I’m concerned about the people keeping 
the house, especially if this agency is going to be 
guaranteeing this loans with bonds and everything else. I 
have concern about that.

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

MR. JONES: Ms. Anderson?

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

MS. S. ANDERSON: I’m going to let my expert
speak. This is good management.

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

   MS. ANDERSON: But you’ve got some progress. Good. Thank you.

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

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

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

   MR. JONES: I see that but I also see that it’s
a market study of the home mortgage credit needs in the
underserved economic and geographic submarkets in the
state which would seem to be everything that he’s talked
about would be part of such a study. So I think it’s
totally in compliance with the legislation. Wanting to
comply with the law, like I do.

(General laughter.)

MR. CONINE: Spoken like a lawyer.

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

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

MR. JOHNSON: Okay.

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

MR. JOHNSON: I believe our objective is to offer alternative to the high fee, high mortgage rate subprime mortgages, particularly for individuals at the lower income levels, and we have initiated that effort, as you know, with the Fannie Mae Expanded Approval mortgage product, and that is a subprime product geared towards the A-type borrower, a borrower who has credit challenges or credit problems but does not qualify at the prime level. And also the EA mortgage is stratified to three levels, 1, 2, 3; the first level is very similar to what the borrower would obtain maybe at the FHA level, but levels 2 and 3 go a little bit deeper into the FICO scores and Fannie Mae will even not consider a FICO score if you have offsetting
compensating factors such as low debt ratio or higher down payment assistance.

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

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

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

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

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

MR. JOHNSON: On our product we are offering at
the EA-1 level at 7.20 -- at the standard approval 1 level
we are offering a 7.20 and at the standard approval level
2 it’s 7.45.

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

MR. JOHNSON: Fixed.

MS. CARRINGTON: Fixed, 30 year.

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

MR. CONINE: Right.

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

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

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

MR. CONINE: Correct. Call the question.
MR. JONES: Let’s vote. Anybody else questions, comments? I assume there are none, we’re ready to vote. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay.

MR. BOGANY: Nay.

MR. GONZALEZ: Nay.

MR. JONES: Are there two nays? Two nays.

Interesting. And the motion is that the market study be done with the added requirements that Mr. Bogany suggested. Correct, that’s the motion on the floor?

MR. CONINE: I added one too.

MR. JONES: What did you add?

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

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

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

MR. JONES: I understand. The Chair will vote in favor of the motion, so the motion carries.
The next item which is the Executive Director’s Report.

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

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

MR. JONES: Thank you. Great report.

MS. CARRINGTON: Take them off the agenda now.

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

MR. CONINE: Yes, board meeting for July.

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

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

MR. JONES: And for this particular meeting,
I’m suggesting we do it at midnight. Wouldn’t it be fun to do the Tax Credit meeting at midnight and see what happens.

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

(General talking and laughter.)

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

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

MS. GRONEK: Except Mr. Bogany.

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

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

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

MS. ANDERSON: Thursday.

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

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

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

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

MR. JONES: Hey, I like to start early. Do you want to start at 6:00?
MS. ANDERSON: Meaning a.m. or 6:00 the evening before?

(General talking and laughter.)

MR. JONES: Okay, so the 25th is a problem. When do we want to move to? The following Tuesday?

What’s the following Tuesday?

MR. CONINE: The 30th.

MS. GRONEK: Just so it’s before July 31.

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

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

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

MS. GRONEK: The 30th.

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

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

(General talking and laughter.)

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

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

MR. CONINE: No, it’s the 24th.
MS. CARRINGTON: I’m sorry. Boy, you can tell I have no idea.

MS. ANDERSON: So we’ve moved to the 24th of June?

MS. GRONEK: 24th of June.

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

MR. JONES: The 24th of June meeting.

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

MS. CARRINGTON: Oh, you’re moving the June board meeting then?

MR. CONINE: No.

MS. ANDERSON: Never mind.

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

MR. CONINE: I’m good.

MR. JONES: I know, Mr. Bogany, you’re out either way, but the mayor has said it will work for him,
so we’re on for the 30th in July.

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

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

   MS. GRONEK: It’s up to you all.

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

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

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

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

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

   MR. GONZALEZ: Right.

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

   MS. GRONEK: Can I say something on that?

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

   MS. GRONEK: Our CFO has to present you the budgets that month so that’s going to be a crunch for him
to get them ready by the 8th.

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

MR. JONES: It’s going to get to where we meet every day.

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

MR. JONES: So we’re going to have to have two board meetings in August, is that what you’re telling us? If there’s any way we can do it, let’s try to coordinate so we just have one board meeting in August. Why doesn’t staff get together and see what our window of opportunity is for one board meeting and then get back to us, and then Delores can spend four days calling everybody.

(General talking and laughter.)

MR. JONES: Is there a motion to adjourn?

MR. CONINE: Motion.

MR. GONZALEZ: I move.

MR. JONES: All in favor, say aye.

(A chorus of ayes.)

MR. JONES: Amen.

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

ON THE RECORD REPORTING
(512) 450-0342
concluded.)
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.

06/25/02
(Transcriber)    (Date)

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