TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING

Thursday,
April 8, 2004

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

BOARD MEMBERS:

ELIZABETH ANDERSON, Chair
SHADRICK BOGANY
C. KENT CONINE, Vice Chairman
VIDAL GONZALEZ
PATRICK GORDON
NORBERTO SALINAS

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
BILL DALLY
DELORES GRONECK
ROBERT ONION

ON THE RECORD REPORTING
(512) 450-0342
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Action Items:

**Item 1** Presentation, Discussion and Possible Approval of Minutes of Board Meeting of March 11, 2004

**Item 2** Presentation and Discussion of Report from the Programs Committee
   (a) HOME Program

**Item 3** Presentation, Discussion and Possible Approval of Programmatic Items:
   (a) Proposed New Title 10, Part 1, Chapter 35 - Multi-family Housing Revenue Bond Rules
   (b) Amendment to Trust Indenture for Red Hill Villas, Round Rock, Texas

**Item 4** Presentation, Discussion and Possible Approval of Housing Tax Credit Items:
   (a) Issuance of Determination Notices on Tax Exempt Bond Transactions with other Issuers:

   04-402 Blue Water Garden Apartments, Hereford Panhandle Regional Housing Finance Corp., Issuer (Requested Amount of $229,154 and recommended
Amount of $228,973)  
04-403 Stonehouse Valley Apartments, San Antonio, San Antonio Housing Finance Corp, Issuer (Requested Amount of $570,337 and recommended Amount of $549,784)  

(b) Proposed Amendments to Housing Tax Credit Projects:  
03-163 Cedar View, Mineral Wells, Texas  

(c) Waiver of Specific 2004 Qualified Allocation Plan Requirement under Subsection 50.3(47) for Three of the Five 2004 Forward Commitment Awards  

Item 5 Presentation, Discussion and Possible Approval of Second Quarter Investment Report:  

REPORT ITEMS:  

Executive Director's report  
1. Bethel Senior Housing - HOME rental CHDO contract  
2. Joint hearing of the Senate Inter-governmental Relations Committee and the House Urban Affairs Committee on March 24, 2004  
3. Ex-parte explanatory document for the Department's web site.  
4. Pricing of mortgage revenue bond program 61A  

ADJOURNMENT:  

ON THE RECORD REPORTING  
(512) 450-0342
MS. ANDERSON: I call to order the Board meeting of the Texas Department of Housing and Community Affairs for Thursday, April 8.

Good morning. The first item of business is to call the roll.

Kent Conine?

MR. CONINE: Here.

MS. ANDERSON: Shad Bogany?

MR. BOGANY: Here.

MS. ANDERSON: Vidal Gonzalez?

MR. GONZALEZ: Here.

MS. ANDERSON: Pat Gordon?

MR. GORDON: Here.

MS. ANDERSON: Mayor Salinas?

MR. SALINAS: Here.

MS. ANDERSON: And I, Beth Anderson, am here. We have six present. We have a quorum.

The next item of business is to solicit public comment. As is our normal practice, we will have this public comment available at the option of the member of the public at the beginning of the meeting, and we also provide for public comment on each agenda item after the presentation is made by the Department staff and motion is made by the Board.
The first witness affirmation -- and if you want to make public comment, please be sure that you've completed a witness affirmation form. The first form I have is from Councilman Gary Coe.

MR. COE: Good morning.

MS. ANDERSON: Good morning.

MR. COE: I'm here to speak on Item -- Action Item 3(b), and I'm here on behalf of Round Rock -- the City of Round Rock and the city council of Round Rock.

We were in favor of the original application for this housing development, Red Hill Villas, and we have no objections and are still in favor of any amendment to this trust indenture. And I'm here to answer any questions or anything about any of the comments that we've received back from the neighborhood from any of the Board members if there's any questions or comments.

MS. ANDERSON: Any questions?

(No response.)

MS. ANDERSON: Thank you, Mr. Coe.

MR. COE: Thank you.

MS. ANDERSON: Sox Johnson?

MR. JOHNSON: Sox Johnson with the Rural Rental Housing Association. The first time I've spoken to you folks in quite a while, but they all tell me, Don't talk long. Okay. I'll keep it brief.

One, I wanted to say we're pleased to, working from the
Rural Rental Housing Association, join in a partnership with the TDHCA staff to conduct some compliance-training workshops. We have our first one scheduled for May 20 in Athens, Texas, and we're going to do another one in mid-November in College Station. I know you're doing that with the Texas Apartment Association as the Agency wanted to get out of doing the training but to support it.

So we're looking forward to that, and I wanted to announce that. So we've got that training experience coming up.

Another area that I know you have been struggling with some bit on the training of and that we're trying to work and help on it is -- has to do with some fair-housing training. You've been traditionally putting on a course every year that was open to people. That has been tough, and I know you want to get out of that. So, hopefully, you can.

And I'm just here to say our association is very much interested not necessarily in sponsoring it -- we will do -- but I'm trying to get someone involved. And we will be talking to you more about that because we feel there is some good, one full day of training needed in the affordable housing area. So I wanted to mention that, again.

I'd like to compliment the staff -- the director and staff. This week, we ran into some problems with the HOME program. That was a real concern to us. And I was happy to hear this morning in your Programs Committee that another $9 million would be open for
everybody to compete for on first-come/first-served. And we
appreciate that.

We are working with the staff on the 2005 QAP. And we're going to be having a meeting this afternoon. The meeting on definitions is going to meet here following yours today.

So we're trying to stay active with you, but we appreciate the efforts of the staff and want to compliment them.

Thank you.

MS. ANDERSON: Questions? Comments?

(No response.)

MS. ANDERSON: Thank you. We appreciate your collaboration in so many ways with the Department.

Bobby Bowling?

MR. BOWLING: Good morning, Madam Chair and members of the Board.

Delores, good morning.

I wanted to speak on Item 4(c). I have one of the five projects that are asking for a waiver of specific QAP requirements, and I have -- the staff's recommending approval of my request. I just want to give you a little background and answer any questions on my project if you have any.

My project is Diana Palms; it was submitted as a 36-unit, 100 percent three-bedroom project. And that's the exception that I'm requesting today. Just to let you know what my specific
dilemma is, I've got -- of course, I -- my real problem is that I need those rents for the three bedrooms. My operating expenses would be the same if I did three's, two's and one's like the QAP requires this year.

However, there's a specific instance with regard to El Paso that changed from 2003 to 2004, and it's that we lost our DDA designation from HUD, which -- the DDA is the same as the QC-2. Without getting into too much technical explanation, what it basically means is I'm now eligible for 30 percent less tax credits than I was awarded in 2003 for that project.

So my project will still underwrite, and it will still be feasible, but it's going to get real close and may not be feasible if I have to do two-bedroom and one-bedroom units. So I'm asking -- also, just to throw it in, the three-bedrooms -- the 100 percent three-bedrooms that I have proposed in this project are similar to some of the other small projects that I've already done in El Paso.

The three-bedroom 100 percent concept works in my existing projects; they're all 100 percent occupied, with waiting lists. So a market study bears out that the three-bedroom concept would be fine in this area of El Paso, also.

So if there's any questions, I'd love to answer them. I apologize. I might have to leave before you vote on this; I've got a plane to catch or I'm stuck here for another six hours or so. So --

MR. CONINE: Just a quick question, Bobby.
MR. BOWLING: Yes, sir.

MR. CONINE: This is consistent with the way the project was applied for, is it not?

MR. BOWLING: Yes, sir. It's -- there's no change from my 2003 project. It was in full compliance with the 2003 QAP. It's just that when you all made that change to 2004 --

MR. CONINE: Right.

MR. BOWLING: -- this was one of those changes --

MR. CONINE: Okay.

MR. BOWLING: -- that kind of fell in between the cracks.

MR. CONINE: That's all I have.

MS. ANDERSON: Any other questions?

(No response.)

MS. ANDERSON: Thank you.

MR. BOWLING: Thank you.

MS. ANDERSON: Donna Chatham?

MR. CONINE: Twice in one day? This is great.

MS. CHATHAM: Let's see. It is morning. So good morning. I'm Donna Chatham with the Association of Rural Communities in Texas. And I have three things -- quick things and a question and then a short, brief report and then a praise.

So the first question I'll have is just in wanting to share again and get you to share with the public about the status of
the HOME NOFA funds. Secondly, the regrettable report I have is very sobering.

The ORCA executive committee on Thursday and Friday in Kerrville last -- just last week did away with the housing infrastructure fund, the set-aside, and the housing rehab. They took the 2.79 of the housing infrastructure fund, and they took the housing rehab fund of 1.75, which equals 4.45 altogether. They collapsed it down. That was the set-aside program -- the statewide set-aside program.

They collapsed it down into what they're now calling -- and that is being passed out for public comment in their 2005 action plan -- their community development supplemental fund. It -- originally in the proposal in the action plan, they were going to go ahead and mandate that the -- each region set aside 8 percent.

But when the motion was passed out, the chairman of the regional allocation task force, Mike Waters, requested that that also would be taken out. So now there is no mandate to request the regions to set aside 8.85 percent against the housing fund.

And this was done under a lot of good public testimony, and I have to clarify this for public record, too, and I will be more than happy to next time. I believe that the chairman for the state review committee, Mayor Betty Reinbeck, also testified and requested -- had a concern of doing away with the housing programs -- along with ORCA, along with the Texas Association of CDCs, along with
the Texas Low-Income Housing Information. So there was good, strong
public testimony about the concerns of doing away with it.

We have requested ORCA and we will continue to request
ORCA to establish a roundtable and to get everybody at the table to
look more seriously at this issue. Understandably -- and when I got
to talk to some of the ORCA executive members one on one, they were
sharing, understandably so, because we represent local rural
officials, that there is such limited funds. And their concern is
for the water and sewer of those funds.

And as I was sharing with Mr. Alders on a one on one, I
said, You know, when -- if 70 percent of the local officials want and
need water and sewer but the other 30 percent need and want
affordable housing and it will make a major difference in their rural
economy, now they probably won't be able to get it if there's not a
state set-aside program or even at the original level. So we're very
concerned.

ORCA is going to be forming a working group. I don't
know yet the response of ORCA establishing a working group. We've
been requesting this, and we haven't gotten a response. But we're
going to go ahead and establish one, and we're going to bring all the
stakeholders to the table.

We want to bring Texas Low-Income Housing Information
Service, TACTIC [phonetic], TALFA, everybody -- the developers, the
consultants and everybody that's out there to start looking more at
the rural housing policies so that we can look at it more in depth along with local officials. So, hopefully, we can maybe build that forum to give that ORCA board a little bit more information about establishing it and hopefully maintaining it.

But right now, it's going out to public comment. And it will go out for -- I believe the next Board meeting will be in June, when they will pass or deny or do whatever they're going to do with the action plan. Hopefully, it'll be put back in. Quite frankly, it doesn't look like it, though. So right now, it has been done away with.

My last thing is a word of praise. On -- I shared this with the programs committee back in March, but I surely wanted to share it with the whole Board for public record.

ORCA has now been around for over two years, and we have over 250 cities and counties in rural Texas -- nonentitlement cities and counties. And we -- the 78th session was our first session to walk through to give some advice on rural policy as asked and, sometimes, being more proactive and lobbying sometimes, too, because we are a 501(c)(4).

Through the 78th and after my board has gone through it -- and we have all learned an awful lot -- we decided to establish a rural partner award. And the rural partner award is for a member of the Senate and a member of the House that were our friends for rural Texas.
So we have notified and are awarding at our April 22 legislative annual meeting Senator Frank Madla as the senator for the rural partner award for the 78th. And then we are also honoring Representative Robby Cook, who is the chair of the rural caucus, as another rural partner.

My board also, hands-down, wanted to award the state agency that really had been quite another success story as far as we're concerned for rural Texas. We were looking for such things as the state agency to be inclusive -- that is: Inclusive in their policy making; they want everybody at the table -- that, Number 2, was proactive in their problem solving and going beyond public comments -- and as you well know, public comments are great, but, sometimes, the deeper issues are solved when you have roundtable discussions -- and, thirdly, the receptivity of the staff.

And so, hands-down, we wanted to award TDHCA with our rural partners award and, in particular, Ms. Edwina Carrington for the wonderful, outstanding job that she has done and continues to do for rural Texas of wanting to be inclusive and wanting to hear not only from us, but from everybody, getting everybody at the table. And you guys are just awesome, and we really appreciate you. Thank you.

(Applause.)

MS. CHATHAM: Any questions?

MS. ANDERSON: I have a question --
MS. CHATHAM: Yes, ma'am.

MS. ANDERSON: -- about your first reference --

MS. CHATHAM: Yes, ma'am.

MS. ANDERSON: -- to the HOME NOFA. I think I know what you're talking about there, but could you elaborate about that a little bit?

MS. CHATHAM: Yes, ma'am. Ms. Carrington shared a little bit at the Programs Committee meeting, and we just wanted her to be able to share a little bit more for the public here.

MS. ANDERSON: Okay.

Ms. Carrington?

MS. CARRINGTON: Yesterday afternoon after five o'clock, we were checking our web site. It did happen, I think, a little bit after five o'clock. We did have two NOFAs for HOME funds that went up on our web site. The NOFAs are $9 million each, and they are both for multifamily. So it's a total of 18 million for the two.

One of the NOFAs is for preservation, which does include rehabilitation. And it does have a minimum amount of rehab attached to it, and that is the same amount of minimum that is required in the low-income housing tax credit program, which is $6,000 a unit.

And then the other 9 million is a NOFA that is available for CHDOs, for Community Housing Development Organizations. And part of that -- as the programs committee heard this morning, part of what makes up that 9 million is some deobligated funds, about a third of
what we believe we have in deobligated funds, to increase the size of
that CHDO NOFA.

So those are up, and they are available. They are on a
first-come/first-served basis. As you all heard this morning in the
programs committee, these are -- the multifamily has not typically
been oversubscribed. It has been some applications where we have had
a need to work with the applicants. And so we are encouraging those
who are interested to please apply. And all of that information is
on our web site.

MS. ANDERSON: Thank you.

Before we get into our agenda, I want to recognize our
special guests this morning. We have Liza Gonzales from the
governor’s office, Scott Sims from the speaker’s office and Beau
Rothchild from the House Urban Affairs Committee.

MR. CONINE: Make them stand up.

MS. CARRINGTON: And they're all shy.

MR. CONINE: Have them stand up.

MS. CARRINGTON: And they're all shy. What's the --

MR. CONINE: Stand up.

MS. CARRINGTON: Yes.

(Pause.)

MR. CONINE: There we go.

MS. CARRINGTON: All right.

(Applause.)
MS. ANDERSON: And we know you all invest a good amount of your time in following the activities and events at the Agency. And we appreciate that investment and your interest. And I think I speak on behalf of the whole Board and the staff of our interest and commitment to work with all of you as you go about your business up on the other end of Congress. Thank you for being here.

The first item of business is the presentation, discussion and possible approval of the minutes of the Board meeting of March 11.

MR. CONINE: Move approval

MR. BOGANY: Second.

MS. ANDERSON: Any discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we're ready to vote. All in favor, please say aye.

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: Motion carries.

MR. GONZALEZ: One abstention.

MS. ANDERSON: With one abstention, Mr. Gonzalez. Mr. Salinas -- Mayor Salinas abstains, also.

MR. SALINAS: I wasn't here. So --

MS. ANDERSON: Yes. Thank you for that clarification.
The second item on the agenda is a discussion of the Programs Committee.

Mr. Conine?

MR. CONINE: Thank you, Madam Chairwoman.

We had another good Programs Committee meeting, for the Board's knowledge, this morning, and no action items that I'm aware of. But we delved into all of the activities of the HOME program and asked staff to report back at our next meeting with some issues regarding the rental housing development program and owner-occupied assistance and tenant-based rental assistance and the myriad of things that we do there.

I think the time frame for us to probably get some public comment from a lot of the different HOME programs over the summer and be ready to come back to the Board this fall with some direct recommendations as to some changes in the way we do things, as well as some allocation issues -- we've got time to do that between now and December, when that actual deadline is that the new -- the '05 program policies will be approved by this Board.

So I am very pleased with the direction that we're heading and, hopefully, over the course of the summer, will have some more exciting news to bring to you. That concludes my report.

MS. ANDERSON: Any questions for the Vice Chairman?

(No response.)

MS. ANDERSON: Okay. Thank you very much.
MR. CONINE: Uh-huh.

MS. ANDERSON: Now, Item 3(a). It's my understanding, Ms. Carrington, that the -- all the materials were not complete. So we want to --

MS. CARRINGTON: Defer that item.

MS. ANDERSON: -- defer that item?

MS. CARRINGTON: Until next month, yes.

MS. ANDERSON: Okay. Thank you.

Item 3(b) then is an amendment to the trust indenture for the Red Hill Villas in Round Rock.

Mr. Conine?

MR. CONINE: Me?

MS. ANDERSON: Well, your name's kind of by it.

MR. CONINE: All right.

We heard this -- I guess one of those council people speak to this issue earlier. And I'll turn it over to Ms. Carrington.

MS. CARRINGTON: Thank you, Mr. Conine.

In December of 2000, the Department issued both tax-exempt and taxable bonds to finance a multifamily property in Round Rock. The trust indenture that applied to that particular property had a 24-month period for stabilization after the completion date of the development. The development was not able to meet that 24-month completion date.
You all are somewhat familiar with the market in Round Rock, having looked at Meadow Ridge two or three months ago. And so what is being asked of the Department today -- and we are recommending that the Board does accept our recommendation -- is that there be a first supplemental trust indenture executed which would extend the mandatory redemption period of a portion of the bonds by 18 months. So it would actually take out the redemption period from 24 months to 42 months.

Of course, we're doing this -- the partnership is going to pay a fee. And that yield maintenance fee which is estimated that the partnership will be paying is about $355,000.

We have provided you some information on the structure of the transaction along with the resolution, and staff is recommending approval of a first supplemental trust indenture of multifamily housing revenue bonds for Red Hill Villas.

MR. CONINE: I'll move for approval just to get it on the floor.

MS. ANDERSON: We do have -- Ms. Bast is available to answer any questions --

MR. CONINE: Okay.

MS. ANDERSON: -- if we have any.

MR. BOGANY: Second.

MR. CONINE: A question or two.

The staff -- it says in here that we switched management
companies recently.

MS. CARRINGTON: Yes. And --

MR. CONINE: But I don't know who was there and who wasn't there. And I don't know if it's appropriate to ask, but I thought I would.

MR. CONINE: We did not provide that information to you in the write-up. So I would suggest that we ask Robert Onion to come talk about any of the management -- the operational changes of the property.

MR. ONION: The previous management company was a Hunt-related property management company that was operated out of El Paso. When the applicant had requested this extension of time, they explained that one of the difficulties that they had was the fact that they were trying to operate the property from the main office and that just the sheer distance between Round Rock and El Paso -- they realized that that was causing a problem as far as the day-to-day management and the direction for the property manager, given the soft market.

They have since changed over to Capstone, which is a local property management company. And as a result of doing that, within about a 90-day period, they've changed it -- the occupancy from 70 percent to 80 percent. And Capstone is very familiar with the tax credit and bond program and the requirements for compliance.

And so they are pleased that they have made the
selection of this property management company. And the property has
seen some positive results.

MR. CONINE: Okay. And secondly, I guess, in looking at
the second sentence of the summary, which -- and this is staff
language: "Round Rock and the surrounding Austin apartment market
have suffered from an oversupply of Class A apartment developments,
job losses in the high-tech industry and a movement of apartment
tenants to single-family home ownership."

I think that sort of message has been emanating around
the Austin market and Round Rock market and others for quite some
time now. And I would be curious to see if this is a trend
developing on doing this in the future or whether or not we've just
flat oversaturated the area with multifamily units. Do you --

MR. ONION: There's certainly in -- the true statement
as far as there has been Class A apartment complexes built between
2000 and 2003. But more importantly, because of the historically low
interest rate for first-time homebuyers, that -- actually, you have
had a flight of tenants going to first-time home ownership. And that
has caused more of a problem for the apartment market in the
occupancy and an impact on the rental rates.

We do see an improvement in the market as the economy
improves, as interest rates go up and as the job market gets
stronger. I think you're going to have a whole new group of
apartment tenants that are going to be empty-nesters that are --
they're going to be coming out of mom's and dad's house. They'll have their jobs. They'll be looking to be apartment dwellers.

And so I think you'll see an improvement in the market, but it's not going to happen overnight. And it probably will take two or three years before you'll see a major impact.

MR. CONINE: Okay.

And I'm going to amend my motion to include the
Resolution Number -- I forgot to include it -- 04-020. That's all the questions I have.

MS. ANDERSON: Other questions?

(No response.)

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed?

(No response.)

MS. ANDERSON: Motion carries.

Item 4(a): Issuance of determination notices -- I'm having trouble this morning -- on tax exempt bond transactions.

These are with issuers other than the Department, and we have two today.

Ms. Carrington?
MS. CARRINGTON: Thank you.

The first one is Blue Water Garden Apartments, which is located in Hereford. And this is out of the 2004 private activity bond allocation. The issuer for this transaction is the Panhandle Regional Housing Finance Corporation.

This transaction is an acquisition rehab; it was a property that was built in 1972. It does have a housing assistance payments contract with it, and the developer does plan to keep the interest reduction payment loan on the property. It has an occupancy of about 96.9 percent, doing almost 20,000-a-unit rehab.

If you look at the Board action request which is right behind the sheet that lists these two particular properties, you will see that the priority that the developer's choosing on this particular property is Priority 1(b), which sets aside 15 percent of the units at cap rents at 30 percent of 30 percent AMFI and then the other 85 percent at 30 percent of 60 percent AMFI.

As is typical with most all of our transactions that we recommend to you all, there are some conditions to commitment on this one. Different from some of the others you've looked at are review, receipt and acceptance by cost certification of evidence indicating that the leaky transformer has been repaired or replaced.

In this case, the Department is recommending an allocation of the 4 percent tax credits. And the tax credits that we are recommending on this transaction are $228,973. And staff is
recommending approval of the credits on this transaction.

MR. CONINE: Move for approval.

MR. BOGANY: Second.

MS. ANDERSON: Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: Motion carries.

Ms. Carrington?

MS. CARRINGTON: The second item for your consideration is Stonehouse Valley Apartments, located in -- to be located in San Antonio with the San Antonio Housing Finance Corporation as the issuer. This is proposed new construction. The credit allocation on this particular transaction staff would be recommending is $549,784.

You can see on your summary page that in this particular instance, they have chosen Priority 1(c), which is setting aside 100 percent of the units that cap rents at 30 percent of 60 percent of AMFI. But this one is only for projects located in a census tract with median income that's greater than the median income of the county MSA.

My thought is, as this was put in the legislation, it's
to encourage these developments to go into areas into census tracts that have a higher median income than census tracts in the area that surrounds. So in this case, that is the priority that they have selected. And staff is recommending the approval of the tax credits for this transaction.

MR. BOGANY: So move.

MR. CONINE: Second.

MS. ANDERSON: I have one witness affirmation form for this agenda item.

Mr. Verma?

MR. VERMA: Well, I am Manish Verma, and I represent the developer on this transaction. And I'm here today to answer or respond to any questions or comments you all may have at this time. That's it.

(Pause.)

MR. VERMA: Okay. Thank you.

MS. ANDERSON: Thank you.

Any discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)
MS. ANDERSON: Motion carries.

Agenda Item 4(b) is proposed amendments to housing tax credit projects. This is Ms. Carrington's.

MR. CONINE: One item for your consideration today for an amendment is to a housing tax credit application that involves a material change. You will remember that the QAP does say that if staff determines that the change would be considered material, then we do bring this to the Board for your consideration.

Cedar View Apartments is an allocation of tax credit in Mineral Wells. It is a 2003 tax credit allocation. And what the applicant is requesting is permission to remove two small tracts of land -- one of them .85 acres; the other one .98 acres -- from the original site, which was a little over 21 acres.

It's going to increase the density a small amount, but, actually -- a small amount in acres, but it would be 9 percent greater than the original density. And our tolerance is 5 percent. So that's why you all are looking at it.

From our standpoint, from a staff standpoint, we feel like this is a positive for the development. These two small tracts that are being removed eliminate environmental issues and would have had no difference -- would have made no difference in the award of credits. This was in the rural set-aside, and this would not have selected -- would have not affected this development's ability to be selected for an allocation of tax credits --
MR. CONINE: Move for approval.


MR. BOGANY: Second.

MS. ANDERSON: Any questions or discussion from the Board?

(No response.)

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

(A chorus of ayes.)

MS. GRONECK: Who seconded?

MS. ANDERSON: Mr. Bogany, I believe, seconded.

MR. BOGANY: Yes. I did.

MS. GRONECK: Okay.

MS. ANDERSON: I'm sorry.

Opposed?

(No response.)

MR. SALINAS: Motion carries.

Item 4(c): Waiver of specific 2004 QAP requirement.

Ms. Carrington?

MS. CARRINGTON: Thank you.

As has previously been mentioned by one person during public testimony, we, the Board, issued forward commitments for 2004 allocations of tax credits in 2003. There were five developments that the Board issued forward commitments to. Three of those five
developments are coming to the Board to request a waiver specifically of the one requirement that has percentage limits on the number of units for one-bedroom, two-bedroom and three-bedroom units.

As the Board did the forward commitments in September of last year, the 2004 QAP was not in place, and their developments were based on 2003 requirements. And has been presented to us with the five developments that you see listed at the bottom, three of those are not in a position to comply with the percentage-of-unit requirement.

The two that are prepared to comply are Villas on Sixth -- their total -- their unit mix is in compliance -- when they applied, it was in compliance with the 2004 QAP. And Palacio del Sol is elderly. And elderly developments were excluded from that requirement.

So we have three developments: Diana Palms, which is located in El Paso; Cricket Hollow, which is located in Willis, and; Kingsland Trails, which is in Kingsland, I believe.

Kingsland, or Marble Falls? Kingsland, I think.

MS. ANDERSON: Kingsland, I think.

MS. CARRINGTON: Those three are requesting a waiver. This is the only waiver they are requesting. And they are prepared to move forward, but they are requesting a waiver of the cap on percentages of bedroom -- certain bedroom sizes.

MR. CONINE: Move for approval.
MR. GONZALEZ: Second.

MR. BOGANY: Second.

MS. ANDERSON: Questions? Discussion?

(No response.)

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

(A chorus of ayes.)

MS. ANDERSON: Opposed, no.

(No response.)

MS. ANDERSON: Motion carries.

Item 5 is a presentation, discussion and possible approval of the second quarter investment report.

Mr. Gonzalez?

MR. GONZALEZ: Yes. And we'll call on Bill Dally for this.

MR. DALLY: Good morning, Madam Chair, Board members and Ms. Carrington.

I'm not sure how your tabs are marked, but this should be the last tabbed item: The investment report.

MS. CARRINGTON: Yes. Tab 5.

MR. DALLY: Tab 5. And this is the second quarter report for that quarter ending February 29, 2004. It has all the required elements of the Public Funds Investment Act and the Department investment policy.
This first schedule will show you by funds where our funds are. And then, in those last -- well, I guess, the second two columns before the end will show you the current value and the fair value of those investments at the end of the quarter. There was a 4.2 million unrealized gain over this last quarter. And the difference between the fair value and the carrying value of those investments is now at $30.3 million.

If you'll flip the chart, there's a bar graph showing by indenture the movement from the first of the quarter to the end of the quarter. You'll notice in the single-family and the RMRV that those -- as percentages decreased, that's the result of some of the -- our refinance activity. The mortgages paying off are coming in at twice the rate of our originations at this point, and so the one is overwhelming the other.

You'll notice, too, that the multifamily has gone up. That's because we had eight new issues close in this last quarter for a total of $120.6 million.

Then this next chart shows you basically by the investment types some of the statistics on those, what the coupon rates are and stuff. And then you'll see some graphs that show the general interest rate trend over the last year, and, as you can see, it has basically been down.

Then if you flip to the next bar graph, again you'll see -- this is by investment types -- that the mortgage-backed
securities have decreased from 54-1/2 percent to 48 percent. Here again, that's -- the refinance are overwhelming the new originations.

You'll also see in that next two columns the guaranteed investment contracts. Those are our lendable funds. We represent the single-family lendable funds. And so we've got an accumulation of funds there for our new loans.

The next two groups, the investment agreements and Treasury-backed mutual funds, are typically your multifamily lendable funds. We also in this last quarter -- over in the "other" you'll see a spike there. We've got some T notes. Some of the multifamily deals are investing temporarily in T notes until those things draw down and do their construction.

Then on the opposite page there, you'll see again a chart, a table of the investment types. You'll see the mortgage-backed security on that first line in purchases. That's where you see the $17.6 million. Those were the purchases that we had over this last quarter.

And I want to stop here and say this is where the trustee has bought from the master servicer these securities into pools. And it's now part of the trust estate. It does not reflect the activity that is in the pipeline with Countrywide and that's servicing our lenders.

So, you know, we've made some moves and adjustments in
some of our own money and lowered some rates and stuff, but that stuff will still be in the pipeline. It won't be reflected yet in this quarterly report.

And then you'll see -- moving over, you'll see that maturities were about 34.6 million. So roughly, we had about twice as many refi's, or the pool's maturing.

And then I guess I'll preface with a comment. Based on -- this, of course, is the quarter that ended February 29. We just had a huge move in the 10-year Treasury last Friday because of the beyond-expectations job report. So as that 10-year Treasury moves up, market mortgage rates are going to move up, and our portfolio will see some unrealized losses.

Now, right now, we have about a 30.3 cushion in there, but the critical thing is always that those par values and those mortgage-backed securities be in match and in parity with the bonds that are outstanding. And they're priced at market so that the bonds and those investments are in sync for the life of that indenture regardless of what the market activity is from there on.

Are there any questions on this?

MR. BOGANY: I have one.

MR. DALLY: Yes.

MR. BOGANY: Why would we lose money possibly if the interest rates go up if you have bonds out there with lower interest rates?
MR. DALLY: Well, we don't lose money.

MR. BOGANY: Okay.

MR. BOGANY: But the value of it goes down. In other words, the yields are going up. People are asking for more money because they think there's some inflation or something -- the economy's heating up. So our basket of bonds, with our rates that we've priced in the past, as a price will go down.

MR. BOGANY: Okay.

MR. DALLY: But it's not that price -- it's not that market value that's critical. It's the par value of the carrying value. That's what the coupon rates pay on. And that's where the cash flow comes from to pay the bonds.

MR. BOGANY: Okay. Thank you.

MR. DALLY: And then I need to -- I'm going to 'fess up here. I was a little delinquent on bringing you a report on my own board training for public funds investment. The Act, as part of our policy, does require that I bring on kind of a two-year basis what have been the significant changes in the legislation related to investments.

And there was one significant change, and that was the disclosure by investment advisors of any -- to the Department of any business and financial interest they may have with other parties that are also doing business with the department. So it's a disclosure and ethics thing. And that was added and amended into our investment
policy in December.

And then, last month, if you'll remember, we went and
were putting that in a rural. The difference there is the rural has
more teeth than the policy.

I did attend and have ten hours of training provided by
the Center of Public Management this past August. They're affiliated
with the University of North Texas.

This group developed Public Funds Investment Act
curricula for several years and is a primary source of training for
investment officers across the state. The curriculum is adjusted as
new developments in the law occur and the investment industry
changes.

My training included first of all compliance with the
Public Funds Investment Act, the authorized investments and
associated risk per the Act, the management of risk, investment
strategies, the factors affecting interest rates and cash flow
forecasting.

This curriculum is broad enough that it's for even
public entities like school districts and cities that really have
what I would call an active investment plan. In other words, they're
constantly receiving cash receipts and tax receipts that they then
turn into short-term investments to meet their operating and budget
needs.

Ours I would typify as more of a passive investment
strategy in that our funds come from the issuance of the bonds. A structure's set up, and we'll price -- the GICs and the mortgage-backed securities will be priced in relation to that transaction. So the rates and those investments and decisions are part and parcel with that bond issuance.

The balance of the funds, the operating funds, are invested by Safekeeping Treasury Investment Processionals. And those are in overnight repurchase agreements and are rolled in basically the same way, with the available investable funds for the state as a whole.

And finally, it's my recommendation to the Board that you approve the Center for Public Management to provide investment officer training.

MR. GONZALEZ: So move.

MR. CONINE: Second.

MS. ANDERSON: Discussion?

(No response.)

MS. ANDERSON: Hearing none, I assume we're ready to vote. All in favor, say aye.

(A chorus of ayes.)

MS. ANDERSON: Opposed?

(No response.)

MS. ANDERSON: Motion carries.

MR. DALLY: Thank you.
MR. CONINE: Wait a minute.
I've got one more question of Mr. Dally if I might.

MS. ANDERSON: Okay.

MR. CONINE: Would you mind looking into and reporting back to either me or the whole Board, I guess, the products and services offered by the Federal Home Loan Bank in Dallas and how they either could or could not help in this overall investment activity that you have to do? I've for years wondered why we haven't taken advantage of some of their problems, because I think they have some products over there that we could probably utilize. And -- but I'd rather it, you know, come from you and your -- and/or our investment advisor in taking a look at what they have to see if they could positively affect what we do with our money during the in-between times.

MR. DALLY: Okay.

MR. CONINE: Would you do that?

MR. DALLY: I'll do that.

MR. CONINE: I'd appreciate it.

MR. DALLY: I'm aware that they provide -- you know, they're sort of in the lending business, too. And so they would provide funds for us. As far as on the investments, I'll check into that and see.

MR. CONINE: Great.

MS. CARRINGTON: And as I'm sure you know, Mr. Conine,
but, for the Board's information, the Agency is a member -- we're a
nonmember borrower of the Federal Home Loan Bank. So we do have the
eligibility to participate with them.

MS. ANDERSON: That's -- we are at the conclusion of our
agenda for today's Board meeting. I note for the Board's information
that the next meeting is scheduled for May 13. And the -- well, I
don't normally do this, but the reason I'm pointing that out to you
today is it looks like based on what we know now that's a pretty long
agenda on May 13, because there are a lot of things to come before
us.

So I tell you that for advance planning purposes, and
that -- you know, we won't -- we will have a much longer day than
we'll have today and, further, that we might want to consider --
because of the length of the Board meeting itself, we might want to
consider having the committee meetings the prior afternoon.

I'll ask Ms. -- Delores to communicate with you all
individual about, you know, whether or not you could come in on
Wednesday and have the committee meetings then on Wednesday afternoon
in the interest of -- in consideration of the long agenda we
anticipate on Thursday, the 13th.

MR. CONINE: You already know that?

MS. CARRINGTON: Yes, we do. We had a lot of things
deferred from this month's to next month's. We are anticipating
that.
MR. CONINE: That's dangerous.

MS. ANDERSON: And, that said, I would entertain a motion to adjourn.

MR. CONINE: Report items?

MS. ANDERSON: Oh. I'm sorry. Oh. I'm --

MS. CARRINGTON: She's in a hurry.

MS. ANDERSON: I'm very sorry. I apologize.

MS. CARRINGTON: May I?

MS. ANDERSON: Absolutely.

MS. CARRINGTON: Yes. Briefly, four items for the Board's information. The first one is Bethel Senior Housing. The Board may remember that in either November or December of last year, you all did approve the funding of 16 units. That was going to be located in Crockett, Texas.

And they have sent us a letter. Because this was one that appealed to the Board and the Board did grant the appeal, we thought we would come back to you all and let you know that we have received a letter from the representatives of Bethel Senior Housing. And they tell us that they are withdrawing their application and that they as an organization are looking at their future goals and objectives of the corporation and have decided that this is not an appropriate role for them to take right now.

Two weeks ago yesterday, which would have been March 24 or 25 --
VOICE: Twenty-fourth.

MS. CARRINGTON: The 24th? Thank you.

The Agency did have its first hearing. It was a joint hearing in the morning with Urban Affairs and Senate IGR. And then, in the afternoon, it was a hearing with Urban Affairs beginning to look at Interim Charge Number 2, which was a discussion of urban and exurban.

We did get into many other good discussions. Ms. Anderson was at a portion of those meetings.

One of the things that was real clear to me, as an executive director, from the members of the legislature was that they would like to see Board members at those hearings. So as we have future hearings scheduled, as we did this last time, we will let you all know. And you might expect a telephone call from me that says, Wouldn't you like a trip from Austin.

But we would very much like to have you all in some of these hearings with the Agency. So we will keep you informed as we move forward with those.

On Item Number 3, we have prepared to go up on our web site an explanatory document for ex parte. This seems to continually cause some confusion with the public, with developers and others about how the Department views and implements ex parte. So what we have done is develop a summary document that we've been working on for probably a couple of months. It has been floating around for
quite awhile with everybody providing input.

And so within the next few days, on our web site -- we are going to be putting this summary document on the web site to help the public understand what the Department believes is the scope of ex parte: Who it applies to, when it applies, what you can talk about and what you're not supposed to talk about. So we do hope that that will be helpful to the public.

And on the last item, the pricing of our mortgage revenue bonds program, Program 61, we did make the Bond Buyer. We priced these bonds on Monday, March 29, and sold some of the bonds on Monday and sold the remainder of the bonds on Tuesday, by Tuesday morning.

We had an article in the "Bond Buyer," and I have a copy of that for you all. And it's, "Texas Housing Agency's 180 millionth sale features two firsts." One of them, as you all know, is an interest rate swap.

Because -- we've been talking about that for probably about a year-and-a-half -- you know, we did try to do it about a year-and-a-half or two years ago, and we did not move forward with that structure. And then the other part of the structure that was a first for TDHCA is the variable rate demand bonds.

We had some really good interest rates. The interest rate on the unassisted money is going to be 4.99, and the interest rate on the assisted is 5.5 with 4 percent down-payment assistance.
We priced these bonds, I think, at probably the last best time --
because we were there on Monday and Tuesday. And on Friday, the jobs
report came out, and the 10-year Treasury started going up.

And our timing really was very, very good. We were in
the market with Minnesota and Mass Housing and had buyers for our
bonds -- all of our bonds in those two days. So I think that speaks
very well for the Agency and for our credit and for buyers'
willingness to purchase our bonds.

MS. ANDERSON: I thought something very interesting
about being in the market with Massachusetts and Minnesota was that
we got -- we normally don't get quite as good a rate, because of the
lack of -- I'm not complaining about this, but the lack of a state
income tax in Texas. You know, if we have a state income tax, people
want those state muni's.

And we got just as good a rate. And our financial
advisor, Gary Machak, said that was, you know, something to take note
of and that we should be very proud of that.

MS. CARRINGTON: And our bonds also were alternative
minimum tax bonds, whereas Minnesota's bonds --

Was it Minnesota, or Mass Housing that were refunding
bonds which were not subject to AMT?

We did have at least one buyer on our bonds on the
second day who said, I'm not going to buy them; they ought to be
cheaper than. But that's okay. We still sold all of them. So we
are very pleased. UBS did us a fine job, as did Dain Rauscher, as did the bond finance staff.

MS. ANDERSON: Any questions of Ms. Carrington?

MR. CONINE: Have -- well, you know, we had our little workshop on our bond program, and the issue of should the Agency become rated or not presented itself rather late that day. And have we had any more discussion internally about that, Ms. Carrington?

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

MR. CONINE: I'm trying to decide what the correct next move is. I guess I'll visit with you about that between now and the next meeting, and we'll come up with a game plan.

MS. CARRINGTON: Okay.

MS. ANDERSON: This concludes our business for real this time.

MR. CONINE: Move to adjourn.

MR. BOGANY: Second.

MR. GONZALEZ: Second.

MS. ANDERSON: All in favor?

(A chorus of ayes.)

MS. ANDERSON: Opposed?

(No response.)

MS. ANDERSON: We stand adjourned. Thank you all.

(Whereupon, at 12:00 p.m., this meeting was concluded.)
CERTIFICATE

MEETING OF:     TDHCA Board
LOCATION:      Austin, Texas
DATE:      April 8, 2004

I do hereby certify that the foregoing pages, numbers 1
through 43, 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.

04/16/04
(Transcriber)         (Date)

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