TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

PROGRAMS COMMITTEE MEETING

8:35 a.m.
Thursday,
April 8, 2004

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

C. KENT CONINE, Chair
BETH ANDERSON
VIDAL GONZALEZ

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
SARAH ANDERSON
BROOKE BOSTON
HOMER CABELLO
BILL DALLY
DELores GRONECK
SUZANNE PHILLIPS
ERIC PIKE

ON THE RECORD REPORTING
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## INDEX

<table>
<thead>
<tr>
<th>SPEAKER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call to Order, Roll Call and Certification of Quorum:</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Comment:</td>
<td>3</td>
</tr>
<tr>
<td>Donna Chatham, Association of Rural Communities in Texas</td>
<td></td>
</tr>
<tr>
<td>Action Items:</td>
<td></td>
</tr>
<tr>
<td>Item 1: Presentation, Discussion and</td>
<td>108</td>
</tr>
<tr>
<td>Possible Approval of Minutes of Programs Committee Meeting of March 11, 2004</td>
<td></td>
</tr>
<tr>
<td>Item 2: Overview of the HOME Program,</td>
<td>6</td>
</tr>
<tr>
<td>Including Responses to Questions Raised at the March Board Meeting</td>
<td></td>
</tr>
<tr>
<td>Executive Session:</td>
<td>(NONE)</td>
</tr>
<tr>
<td>Open Session:</td>
<td>(NONE)</td>
</tr>
<tr>
<td>Adjournment:</td>
<td>109</td>
</tr>
</tbody>
</table>
MR. CONINE: Good morning. I hope everyone's okay.

I'll call to order the Programs Committee meeting of the Texas Department for Housing and Community Affairs on Thursday, April 8.

I'll call roll right quick. Kent Conine is here.

Beth Anderson?

(No response.)

MR. CONINE: Vidal Gonzalez?

MR. GONZALEZ: Here.

MR. CONINE: We've got two here. That's a quorum.

Okay. Initially, we'll start off with any public comment that may want to come before the committee. I have one witness affirmation form. If you want to sign up and speak, feel free to come forward and sign up a witness affirmation form right quick.

The first one I have and the only one I have is Donna Chatham.

Donna?

MS. CHATHAM: Good morning.

MR. CONINE: Good morning.

MS. CHATHAM: This is -- I'm Donna Chatham, Association of Rural Communities in Texas. And, Mr. Chairman, we're just --

MR. CONINE: You're not on.

MS. CHATHAM: I'm not on? Okay.
MR. CONINE: Here comes the technical crew.

(Pause.)

MR. CONINE: Now.

MS. CHATHAM: There. Is it on now?

(Pause.)

MS. CHATHAM: For the record, I'm Donna Chatham with the Association of Rural Communities in Texas. And we're just here to inquire about the HOME NOFA and the status of that. Okay?

MR. CONINE: Okay. Thank you.

Do you want to respond now, or do you want to wait until later on?

MS. CARRINGTON: It's not on the agenda, so I'd like to respond now.

MR. CONINE: Go right ahead.

MS. CARRINGTON: Thank you, Mr. Chairman.

Yesterday afternoon, the Department posted -- and it was a little bit after five o'clock -- the Department posted two NOFAs for our HOME program. Both NOFAs are in the amount of approximately $9 million, so 9 million for one, and 9 million for the other. One of them is for CHDOs, and the other one is for preservation and acquisition and rehabilitation.

So those NOFAs are on the web site now. The way we are structuring them, as we have told you that we were going to do, is going to be on a first-come/first-served basis. We do have some tax
credit developers who've been interested in HOME funds, and so we do want to get the word out that those NOFAs are up and available for applications to the Department.

MR. CONINE: Okay.

Any other questions from Ms. Chatham?

(No response.)

MR. CONINE: I guess not. And, hopefully, that satisfied her curiosity.

If that's the case, we'll close -- and we don't have any more witness affirmation forms, we'll close public comment and move on to the action items.

I believe Mr. Gonzalez was not here at the last meeting. So as far as approving the minutes, we'll probably postpone that until another time when we have enough committee members here to do so.

MS. CARRINGTON: Okay.

MR. CONINE: Item 2: Overview of the HOME Program, including responses to questions raised at our last meeting.

Ms. Carrington?

MS. CARRINGTON: Thank you, Mr. Chairman.

We have behind your tab for the Programs Committee the responses to the questions that were raised at the March Programs Committee meeting. We believe that these are substantially all of the questions that were raised. We think that the committee may have
some additional information that you want, either as -- probably as a result of the discussion today.

And we have divided our responses into responses that came first from the single-family finance production division. And then the second group of responses are responses from the portfolio management and compliance division.

And then the last document that you all have in your information is something called a Home Fires Memorandum, which comes from HUD and in this particular instance addresses HUD's dictates to participating jurisdictions to repay HOME funds in case of foreclosure. So we thought that was important enough to include that in you-all's information, also.

I would like to take your lead on how you want to go through this. We have presented the question as we saw it at the Programs Committee meeting, and then we have responded to your questions. So I mean we can go through them one at a time or, if you all have some particular questions or there's a response or so that you would like --

MR. CONINE: All right. Well, I'll start, I guess, especially since Vidal didn't have the benefit of being here at the last meeting when a lot of this stuff was talked about.

On the first discussion item, I noticed that under the down-payment assistance program during the '02/'03 funding cycle, we've distributed some $9-1/2 million. And it seems to me that the
Department has received 846,000 and change coming back.

MS. CARRINGTON: Okay.

MR. CONINE: And there's a statement in the paragraph above that says, "This repayment to the Department is considered program income." The question I now have is: Define what "program income" is and the total ramifications of what that means, either to us, as a department, coming from the state legislature or to us, as a department, coming from the federal government or HUD, which is where the money comes from.

MS. CARRINGTON: Yes, sir. As we go through these questions, what I'm going to do is just go ahead and ask Eric Pike, who is our Director of Single-family Finance Production, to come on up. And then Suzanne Phillips will stay close for portfolio management and compliance. So the staff, whose primary responsibility it is to work with these programs, will be walking through these with you all.

So, Mr. Pike?

MR. PIKE: Good morning. I'm Eric Pike, Director of Single-family.

I'm not sure if I understood your question. Can you --

MR. CONINE: Well, there's -- on the response, the last sentence of the first paragraph of the response says, "The repayment to the Department," the money we've gotten back, "is considered program income." What does that mean? Tell me in laymen's terms
what that means.

MR. PIKE: Okay. Basically, those are funds that have come back to the Department because someone either sold their home or refinanced their home within the 10-year deferred forgivable time frame that we have established. And so that money basically comes back in and -- to the Department. And according to HUD, we're not allowed to take those funds and put them in an account and hold them and save them or what have you. They must be distributed immediately on a first-come/first-served basis.

So basically, when a drawdown comes in to the Department from another entity, then those dollars -- those program income dollars are applied to that drawdown to fund that drawdown. And basically, that's the way the process works. So what you're seeing there is -- for Fiscal Year 2003, we received $846,000 back. And that might have been comprised of projects that were funded back in -- you know, two or three years ago that just happened to be refinanced or in selling their homes.

MR. CONINE: But the -- okay. So to be fairly simple about it and assuming we were doing $10,000 down-payment assistance on each one of those, we've now helped 84 more Texans buy a house because the money came back in. Is that -- am I kind of getting the math right there if they're $10,000 a piece --

MR. PIKE: Right.

MR. CONINE: -- in down-payment assistance? Okay.
Now --

MR. PIKE: Well --

MS. CARRINGTON: It doesn't necessarily --

MR. PIKE: It doesn't necessarily work that way.

MS. CARRINGTON: -- go back into --

MR. CONINE: It doesn't necessarily go to --

MS. CARRINGTON: -- down-payment assistance.

MR. CONINE: So it can go anywhere in the HOME program?

MS. CARRINGTON: Into any other HOME-eligible activity

that is waiting for -- we use the term -- draws or waiting for
drawdowns, but -- is waiting for a payment from us under any
contract --

MR. CONINE: Okay.

MS. CARRINGTON: -- that would be HOME eligible.

MR. CONINE: We've expanded the HOME availability of

funds by some $846,000?

MR. PIKE: Right.

MS. CARRINGTON: Yes.

MR. PIKE: And it could result in the additional award

of a project for homebuyer assistance or owner-occupied assistance --

MR. CONINE: Okay.

MR. PIKE: -- sometime on down the road.

MR. CONINE: I got you there. Now, how long a tail does

the federal government keep on what you're defining as program
income? In other words, this came out of the '02/'03 cycle. Okay?
And it went out one time, and now it has come back in as what we're
calling program income, and now it's going to go back out a second
time. How long does the federal government require us to keep tabs
on that money for them?

MS. CARRINGTON: Forever.

MR. PIKE: Forever.

MR. CONINE: Forever?

MR. PIKE: Uh-huh.

MR. CONINE: So in the concept that, as most of you
know, I have in at least my mind -- and I don't know whether the
other board members do or not, but -- if we shipped more of HOME
program dollars to repayment dollars, as opposed to grants, over some
period of time, then what we're faced with is the challenge of
recycling the money that comes back -- any money -- HOME money that
comes back in out first before new money then goes back out.

MR. PIKE: Exactly.

MR. CONINE: How difficult is that for the Department to
do?

MR. PIKE: Well, in the past, it has been a little, I
think, more difficult than it is currently. We have, as you know,
finally caught up basically with our allocation cycles that we're
receiving from HUD; we did so through combining the '02 and '03 cycle
to try to play catch-up, if you will.
The challenge that we face is trying to continue to keep NOFAs out there and applications coming in and, you know, the funding of additional projects.

MR. CONINE: So if this year we give out $45 million in HOME funds and 20 million comes back in from other sources, we're now giving out 65 million, and we always have to keep tabs of that money?

MR. PIKE: Right. As you know, we awarded almost $91 million this past year. And that was a combination of funds for '02 and '03 plus a considerable amount of deobligated funds that we had. So we've put a lot of dollars out into the market, and we have a NOFA out right now. We're going to be accepting our '04 HOME applications April 16. So we're very curious to see how many applications we will receive because, once again, we've sort of flooded the market, if you will.

And that's not to say that there's still unmet need out there. I have no illusions that -- we probably will receive a significant number of applications still. But at some point in time, I think you reach a point where the entities who apply may have to sort of take a breather and step back and go, Okay; we've got all this money we've got to administer. And we may reach that challenge, you know.

We also have the American Dream Down-payment Initiative program that's coming up, which is more homebuyer assistance funds. We have approximately $4 million that we'll be receiving for '03 and
And so in addition to this 9.4 million that you're seeing here in this write-up that we've done for homebuyer assistance, we're also going to be having an additional $4 million available, plus the amount that we make available in our '04 cycle. So there's going to be a considerable amount of funds that go out across the state for homebuyer assistance.

MS. CARRINGTON: And to clarify, the NOFA that Eric is mentioning that's due on April the --

MR. PIKE: Sixteenth.

MS. CARRINGTON: -- 16th, is different and separate from the two NOFAs that I mentioned earlier that are 9 million each that are going to be in open cycles, on a first-come/first-served basis. The one that he's mentioning is going to be a competitive scoring for owner-occupied, tenant-based rental assistance and homebuyer down-payment assistance.

MR. PIKE: The ones Ms. Carrington mentioned earlier are specifically for multifamily activities.

MS. CARRINGTON: Right.

MR. CONINE: Okay. I'm still dealing with the question of the concept of a ramped-up block of dollars that continually builds on itself over several periods of years. It would seem to me like -- and I don't want to phrase this improperly. But it would seem like to me that it may be more of a hassle for the staff of the

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Department to have to deal with that concept as opposed to just
giving it away and being done with it, as opposed to tracking it
coming back in and tracking it going back out and here it comes back
in again. What --

MR. PIKE: Well, I mean --

MR. CONINE: Do we have the computer systems and do we
have the personnel -- do we have what it takes to be able to do that
on an ongoing basis?

MR. PIKE: Well, I can speak to some of that question,
but not all of it. Obviously, for me and my staff, our
responsibility and our job is to continue to put NOFAs out and to
basically try to have NOFAs available at all times during the year.
I have no doubt that we can continue to put these dollars out and
make it work.

It is -- I would suggest that this homebuyer assistance
program is successful -- I mean I don't foresee that -- it being a
problem. The -- there are some additional work load issues as they
relate to our loan-servicing department. All of these loans,
obviously, are required to be booked on the system and kept track of.
And it's not so much of an issue on a deferred -- ten-year deferred
forgivable program as it is if it were like on a 30-year.

And I -- Ms. Carrington may want to speak to that a
little bit more. Or -- Bill Dally is the person in charge.

(Laughter.)
MR. CONINE: Where is he?

MR. PIKE: He's the person in charge of our loan --

MS. CARRINGTON: The first time your name has been
mentioned, Bill.

(Laughter.)

MS. CARRINGTON: Mr. Conine, if I might? Suzanne
Phillips -- portfolio management and compliance is the division that
approves draws and processes and determines how much we have in the
amount of deobligated funds. So maybe between Ms. Phillips and Mr.
Pike --

Come on up, Suzanne.

MS. PHILLIPS: A tag-team match.

MS. CARRINGTON: Yes.

MS. PHILLIPS: Suzanne Phillips, Director of PMC. On a
question that you asked earlier about program income, we've been
averaging about a million dollars a year in program income. The most
recent amount, the 800,000, was from TSAHC and is the result of paid-
off loans that they have been holding. We brought that back in-house
earlier this year.

The advantages -- there are some advantages of bringing
that program income process in house. We get 10 percent of it for
admin. So it increases our ability to pay for staffing and for
outsourcing work.

MR. CONINE: So each time we recycle a dollar, we get
paid to do it?

MS. PHILLIPS: At 10 percent of that.

MR. CONINE: Okay.

MS. PHILLIPS: If we don't bring those loans in house and we leave them in the field, we then have the responsibility of monitoring the entities' handling of that program income. So while it does create a process internally, it's much easier than trying to track program income in the field from 200 to 400 administrators. Each of them run their programs differently.

MR. CONINE: Right.

MS. PHILLIPS: And, you know, that -- it would just -- in the past, we allowed them to keep it. But it was so problematic and we had so many fundings, we brought it back in house. At this point, I think we only have three or four administrators who are actually administering their own loan programs, keeping their loans and servicing them.

As far as the additional money that we brought in to the Department, since -- from 1992 to 2004, the Department has expended about $318 million in HOME funds, and of -- that we awarded to contract administrators. Of that, about $265 million was actually expended. So in that period of time, we brought back to the Department about $52 million.

So we awarded 318 million. They expended about 265 million. And the remaining amounts in their contracts were
deobligated by our shop. We've been doing that over the last year or
year-and-a-half. And we've been able to give production about $50
million to reallocate out into the various activities.

This is an ongoing process. So every year that we close
out contracts, we're able to pull those unexpended funds back from
those entities and program it back out. Right now, we're looking at
about 15 million that we're getting ready to deobligate and
reallocate. And in the next year, we'll probably have another 15
million.

So we've got a constant building entitlement fund or a
fund that we can award based on that program income and those
deobligated dollars. It has been a very difficult process to get to
the point where we can do the accounting, but I feel fairly confident
that we're right on, within a million-or-so dollars, of what our
actual balances are. We've been working with Bill Dally's shop on
this for about a year.

MS. CARRINGTON: A year, yes. One of the reasons that
it has been so difficult and has taken portfolio management and
compliance as long as it has, although they've done an outstanding
job, has been that it was something that the Department was really
not doing a very good job of. We were not tracking to see if
contracts had been fully expended or whether they had maybe even been
executed after the Board had made an award.

So really did not have a good -- we weren't doing a good
job of finding out what had been utilized. And about a year or year-and-a-half ago was when we really started focusing on this. And you all may remember that about six or seven months ago, I think, we've allocated -- you all have awarded about $13 million in deobligated funds that have gone to disaster assistance, which is one of the priorities in the Agency's deobligation policy.

We also put $5 million worth of deobligated funds into the HUD -- into the CHDO NOFA.

Is that right?

It was the CHDO and the -- we put it in the multifamily preservation. But of some -- of that 15 million that Suzanne was mentioning, 5 million of that actually was put into the multifamily NOFA that went up last night. So even though Suzanne thinks that it may be about 15 million or so on an annual basis, I like to say that since we're doing a much, much better job of tracking these contracts and staying on our administrators and knowing whether indeed they're using it all or they're not going to use it all, we'll have some, but we really shouldn't have that much --

MS. PHILLIPS: Right.

MS. CARRINGTON: -- on an annual basis.

MS. PHILLIPS: Right. And there are a lot of administrators whose contracts, you know, for -- in prior years, the contract period is much shorter than what we're allowing now. And often, they just simply ran out of time.
So one of the things that we did over the last year was amend a lot of the contracts to allow people to finish spending the funds that they had left over from their contracts as long as we had a pretty good sense that they had a pipeline of pipeline that they could serve. And by and large, most of the people have been very willing to spend the money that was left over, so we extended the time frames on their contracts. We're doing that very cautiously.

And there have been some people that have asked for additional time that we've not given it to because they just didn't have a good track record. And I felt it would be more likely that a new subrecipient would spend the money faster.

There are some downsides to the process that we're doing, the deobligation process, in that as soon as we deobligate that money, there's a time line associated with it. So Eric and Brooke have to -- we have to coordinate it pretty quickly. And, you know, when I say we've got X amount coming down the pike, they have to be ready -- no pun intended.

(Laughter.)

MS. PHILLIPS: They have to be ready with NOFAs to get that money out so we don't simply run out of time on it --

MS. CARRINGTON: And it's a --

MS. PHILLIPS: -- and lose it back to the feds.

MS. CARRINGTON: It's a federal imposed --

MR. CONINE: And it's a federal statute on the time.
MS. CARRINGTON: -- time line, not Department imposed.

MR. CONINE: Is it 90 days, or 120 days, or what is it?

MS. PHILLIPS: It's in years. In each year, HUD does a calculation. And depending on -- when they do that calculation depends on what our time line is. I hate to be vague on it, but they've been vague. You know, we've worked --

MR. PIKE: It varies.

MS. PHILLIPS: It varies often. This year, we worked with the Fort Worth office in determining, you know, when they were going to do their math and when our time line would begin. But I can't -- I'm sorry that I can't give you a more specific answer, you know. One of my detail folks could --

MR. CONINE: The --

MS. PHILLIPS: -- probably do it.

MR. CONINE: Out of -- the 318 million that you said was the total over the last 12 years, or whatever -- is that all what I'd call new money? That doesn't include any of what I would call recycled money?

MS. PHILLIPS: Generally not. Generally not, because we didn't have a whole lot of recycling going on.

MR. CONINE: Right.

MS. PHILLIPS: It -- I know that prior staff attempted to do it, but I think that we were struggling with audit issues and the processes. So I think it was just not a --
MS. CARRINGTON: A priority?

MS. PHILLIPS: -- priority.

MR. CONINE: Okay. So the $52 million gap funds in '02, you know, that you mentioned -- all that is predominantly deobligated money?

MS. PHILLIPS: Right. It's not program income. You know, the program income is not awarded to people; we can only award the original dollars. We expend the program income. So the -- for instance, when we had the 800,000 that came back from TSAHC, it simply substituted for our 2002 HUD program year funds. So we spend that first, and then we spend our --

MR. CONINE: The new money?

MS. PHILLIPS: -- entitlement allocation.

MR. PIKE: Which results in --

MS. PHILLIPS: Yes. So it just --

MS. CARRINGTON: Mr. Conine, we might -- to give the committee a picture of how we have spent this money over the years -- and this is one of the questions you all asked us -- behind the second blue page in your book --

MR. CONINE: Okay.

MS. CARRINGTON: -- there is a cover memo from portfolio management and compliance.

VOICE: That's his cell phone ringing.

MS. CARRINGTON: Uh-oh.
MR. CONINE: The housing trust fund just got $100 richer.

(Laughter.)

VOICE: And it's our internal auditor.

MR. CONINE: Oh, it is? Is it Mr. Gaines?

Mr. Gaines, thank you for your contribution to the housing trust fund of $100. You can pay it in over time; it doesn't have to be immediately.

(Laughter.)

MS. PHILLIPS: And these charts represent those contracts that we have actually closed out and completed, as opposed to those that are still rolling and expending.

MR. CONINE: All right. This one?

MS. CARRINGTON: Uh-huh.

MR. CONINE: (Perusing documents.)

(Pause.)

MS. CARRINGTON: Okay. There is a cover memo at least in my book. I'm sorry, Mr. Chairman.

MS. PHILLIPS: I have an extra.

MR. CONINE: It happens all the time.

MS. CARRINGTON: Where we're talking about the 317 million, of the 52 million that was not expended and then the 37- of the 52- that has already been reallocated. But I think what's probably most interesting for you all will be a series of charts that
That says "HOME Program." And this covers the years from '92 to 2004. And that's the 317 million that Suzanne has been talking about. And the percentage at the top is the percentage expended. Like -- the first one is "PDL," which is Predevelopment Loan. And of the amount of funds that were available for predevelopment in this 12-year period of time, 96.26 percent were expended, equaling $766,474. So that's how we read those charts.

**Mr. Conine:** So that's a percentage of what we allocated initially in our board meeting allocation.

**Ms. Phillips:** Right.

**Mr. Conine:** So if we were measuring effectiveness, if we thought all of them should be 100 percent, then those that didn't hit there -- we didn't get the demand from whatever the activity was?

**Ms. Phillips:** And it could have been -- it's for many, many reasons, anywhere from the contract periods being too short. It could have been delays on our part in getting contracts out. It could have been simply that they overestimated the amount of money that they could administer. And we see that often, you know. We give blocks of dollars in, you know, $500,000 increments. And they spend 475,000 of it. So, you know, they -- it just depends on the math of how many people they serve. And so that varies.

For instance, the homebuyer, the 71 percent, I think is
a little deceiving, because we definitely had an issue with our
administrators having too short of a period of time to actually go in
and set up a program in their community. So we have remedied a lot
of those problems simply by its -- if we are delayed in getting the
contracts out, we extend the time frame that we allow them to expend
the money. And I think that --

MR. CONINE: Which is --

MS. PHILLIPS: -- another issue has been --

MR. CONINE: Part of the reason the Programs Committee
is going over all of these programs is to see if it -- if they're
user friendly or not user friendly and should we reallocate or make
some of the nuances of each of these programs different so the demand
will increase. I mean that's --

MS. PHILLIPS: Absolutely.

MR. CONINE: The whole goal here is to get the demand
up.

MS. PHILLIPS: And we also acknowledge that capacity has
been a serious problem. And it's --

MR. CONINE: Internal, or external?

MS. PHILLIPS: Both. And internally, this past year,
we've probably given individuals who work with the HOME program
between 80 and 100 classroom hours of training. It has been very
intense. We want to make sure that we know all the ins and outs, the
rules and the regs and -- you know, from beginning to end.
It's -- we've outsourced our implementation workshops for our administrators so that we're doing a much better job now when we provide contracts to folks in telling them exactly what the program is and how to administer it. And this has been extremely successful; we've gotten kudos from the industry continuously on our new training process.

We've focused more on -- we've had the contractor take the federal program defined by HUD and then apply our rules and our activities and program designs and combined that in the training. And generally, there are two or three days' training for our administrators, and it has really helped a whole lot.

MS. CARRINGTON: And the group that we've outsourced it with is a group that HUD has a contract with to do this kind of training. So it provides all of those linkages in that that's someone that HUD has blessed and says does a good job. And then we are hiring them, and we have also been very satisfied with the level of skill and knowledge that they've delivered in the trainings.

MR. CONINE: When you eliminate the PJs and deal with the rest of the state, which is where we're targeting this money to go to, is there an amount of money that's too much? Can it build up to be -- if we embark on this recycling-of-money theory and can do it effectively and can do the internal processes enough, what's the demand out there?

Has -- is Sarah's, you know, housing demand study all
across the state -- does it show that there's enough demand out there
to keep soaking up all the money?

    MS. PHILLIPS: Well, I think that as we go through the
process, I think what we're going to see is that there may be
saturation points in specific activities. It could very well be that
a community has done as much owner-occupied rehab as they can do or
as much down-payment assistance as they want to do. And it could be
that we may have to rethink what activities we focus on, you know.

    TBRA hasn't been a huge focus of the Department. We
know that there's a huge need for tenant-based rental assistance,
that assistance that goes directly to renters. It's a very difficult
program, and I think that we're going to have to evolve the capacity
of our administrators.

    But as we -- I think it's important to recognize when we
reach saturation points in individual areas that we identify whether
there's other products that they could use. Whether it's multifamily
construction or rehab tenant-based rental assistance, I think we're
just going to have to understand from a local level.

    And it may even be where we get to the point where we're
going to have to start working with the local cities and communities
where they actually do housing need studies, where they understand
what type of housing they have, what their stock looks like, whether
it needs to be replaced and whether they've got plenty of stock but
no rental assistance where they actually get into the greater detail
of market analysis of what they need.

MS. CARRINGTON: I might have a little bit different answer for that in that I think that what we're limited by -- I think that there's absolutely no shortage of need. There's no data and there's no information that we have that shows there is a shortage of need for additional quality housing in the state, both single-family and multifamily rental and home ownership.

I think where we are limited -- and Suzanne has really already mentioned this -- is in the capacity of the local administrators to be able to take on more funding and to deliver those funds effectively and accountably. You know, at the local levels, they're strapped like everybody else is in the public sector. And as Suzanne said earlier, I mean at some point, maybe they're not coming back and applying every year, because they're saying, I've got all I can handle right now. So I think that is certainly a limiting factor.

I think the other very important thing that she mentioned is that there needs to be more of a matching from the local level to the funds that we have available and the local entities saying, "Where are our needs," and applying for those funds that particularly address the needs in their area. So I think it's capacity and matching.

MR. CONINE: But aren't -- when we did NOFAs in the last couple of years or three years, since we've, you know, in theory
gotten rid of some of the old staffing and internal problems and have
tweaked the programs over the -- do we get oversubscribed in all
these NOFAs?

MR. PIKE: I was going to mention that. Under the
owner-occupied rehabilitation program, we are -- I don't have the
exact figures, but we get a tremendous demand for those funds. It's
just overwhelming. And I have no doubt that we could continue to
spend millions and millions more dollars in that particular activity.

MR. CONINE: Well, now we're just back to marketing the
money and making the communities that we serve aware of the fact that
we got more money this year than last because we're going to do
something different.

MR. PIKE: Yes. I mean just to give you a little sense
of what we did last year, the owner-occupied program -- I think about
70-some-odd percent of our dollars went to that particular activity.
If you'll remember, you -- in December, you guys approved us the use
of some deobligated funds to fund some additional projects under the
HOME program. A significant majority of those were for owner-
occupied.

So we see an overwhelming demand for that. Where my
concern, I guess, would be that we're going to have to pay close
attention to is on the homebuyer assistance side. We are making a
lot of funds available in that activity and, obviously, have more
coming our way.
And I think that it's something that we can successfully do, but we're going to have to monitor it and see what our demand is on that particular activity and like Suzanne said, TBRA and some of the other activities that we may not see the level of subscription that we'd like to see.

MS. CARRINGTON: As we talk about owner-occupied, though, the committee may remember that last month, we had public testimony from a member of the public that was basically saying that as the Department is putting as much money as we are into owner-occupied, we are deviating from what the primary intent of the HOME program was, and that was for rental production.

You know, my response to that is that even though it may be the primary intent, one of the reasons that HOME is block-granted to the states and block-granted to the PJs is for the states to be able to determine where their greatest needs are and what kind of activities they want to conduct with the HOME program funds. So I just want to remind the group that that was one of the things we heard last year -- I mean last month.

You all do have a chart. It is the -- one, two, three -- fourth chart. We did -- we have spent over this 12 years over 142 million in owner-occupied. And the chart for owner-occupied does show, as Eric has already mentioned, that in 2001, which is the last year that we have good numbers for, that 75.66 percent of the funds that were allocated for or -- that were contracted for in
owner-occupied were actually expended.

So we have had a lot of dollars going to owner-occupied.

I guess it's probably -- no. Homebuyer -- well, it is. It's --
more money has gone into owner-occupied, at 142 million, than any
other single activity for the Department.

MS. PHILLIPS: And to follow up on a remark made by Ms.
Carrington about the focus of the rental program, the regulations are
written for all PJs, cities and states. And a lot of the
communities -- the smaller PJs don't have the access to the rental
funds that we do. I know HUD focuses a lot on the rental program,
but, generally, that -- those rules drive the smaller cities and
smaller PJs, as opposed to the state housing agencies who administer
the programs.

There's another anomaly about the way that we do our
programs and the -- related to capacity. And it is that so many of
our communities don't have staff to actually operate their programs
so they rely on our consultants.

And in Texas, luckily, we have excellent consultants who
are very willing to go into small communities to do housing, where it
typically wouldn't be done. Their specialty is owner-occupied
because that's -- it makes an immediate change to a community and
adds real estate stock.

So as we move out into other activities, if we move and
focus away from spending so much in owner-occupied, we're going to
have to work with our consultant industries and our communities to
build the capacity in those other activities, you know, to make sure
that, you know, we have the excellent capacity and program
administration that we have now.

The -- because -- we do struggle in some of the areas.

TBRA, while it's very popular, is very difficult. And, you know, we
generally are given --

MR. CONINE: Why?

MS. PHILLIPS: Well, it -- because it's beneficiary
driven. People have to -- the administrators are dealing with
individual tenants on a routine basis doing inspections, doing
follow-ups to complaints, doing reinspections every year and
recertifications of income. It's more -- I understand from the
administrators that it's more costly to administer, and they are
saying that they really don't get enough admin to run the programs.

So what I've suggested to some of the administrators is
for them to tell me what -- and tell Eric what their costs really are
so that we can determine how much we could increase and what would be
the appropriate amount to increase for the administration so they
would be more willing. We've made some pretty serious changes to how
we do TBRA, and generally -- and these were generally driven by the
administrators. And it seems to have helped considerably.

And we've also completely revised our implementation
manuals and the forms and the processes that we use with our
administrators to make it a little more user friendly; we've got a
lot further to go, but we have seen a lot of favorable response. And
I think that's even seen in Eric's shop, because more people are
actually applying for it.

MR. CONINE: Have we set up some public hearings or
workshop forums, you know, like we're doing for the QAP stuff where
the users are coming in and expressing, you know, We'd like to see
this tweaked or that tweaked? How -- give me a picture of that.
What's going on over there?

MS. PHILLIPS: Last -- not this year. Last year, right
after reorg, when the production staffs were doing their application
rounds, my staff set up workshops that began as soon as the
application workshop was closed. And we went across the state and
held --

Nine or ten workshops?

MR. PIKE: It should have been seven.

MS. PHILLIPS: Seven?

MR. PIKE: This past year, it was seven. I don't know
if --

MS. PHILLIPS: And then, subsequent to that, Edwina has
sponsored some workshops with PHAs where we've talked about TBRA.
We've trained probably 200 administrators in our implementation
workshops in TBRA. So we've really worked pretty hard to get the
word out. I know we're looking at our TBRA implementation manual now
to make some pretty -- more drastic changes to it.

For instance, we're going to try to change the way we deal with self-sufficiency programs especially since we deal with mostly elderly and disabled. So it's -- the self-sufficiency program that you would provide that group of people is totally different than what you would provide a working family or a house-- -- you know, a working single mother with small children. So we're trying to look at the nuances of that and trying to better address it with Eric's program designs.

MR. CONINE: Have you got any -- I don't want to dominate this thing, but --

MR. GONZALEZ: No.

MR. CONINE: -- I'm afraid I might.

MR. GONZALEZ: Go ahead.

MR. CONINE: What about getting some public input on the master theory of having more recycled money in each of these programs versus grant money?

Would it be possible to get a series of either -- I don't know how you want to do it -- public hearings or workshops -- because I think that's really important to hear, what the public would have to say about that, because it is a departure from what we currently do. Obviously, if we've only -- you know, if we're recycling a million dollars a year over the last couple of years, that's peanuts compared to what it could be.
MR. PIKE: Anybody --

MR. CONINE: I hate to ask a tough question. I really do.

MR. PIKE: Well, I mean, obviously, you know, in the fall -- we have our public hearings that are going to be coming up. I would defer to Sarah Anderson on this question. But I --

(Laughter.)

MR. PIKE: I would think that that would be an appropriate place to perhaps --

MS. CARRINGTON: To have --

MR. PIKE: -- entertain some of these --

MS. CARRINGTON: the discussion?

MR. PIKE: -- discussions.

MS. CARRINGTON: To have the discussion, yes.

MR. PIKE: Exactly.

You know, since owner-occupied is one of our overwhelmingly oversubscribed programs and that's where a tremendous amount of our dollars go, those funds have been granted in the past. And that's one particular reason that I would suggest that we see such few dollars basically recycling back through the program.

Really, the only recycling that to my knowledge is done is through our homebuyer assistance program with the 10-year deferred forgivable loan, and some rental.

MR. CONINE: Well, I think that's my point.
MS. CARRINGTON: Yes.

MR. CONINE: There are probably modifications in the owner-occupied program and maybe a couple of others where it could be a recyclable feature, as opposed to watching it going out the door and never coming back. And that's why I want -- you know, rather than it being just my idea or anybody else's idea, I'd rather have some feedback from those who use the program and administrate the program to see if it's a worthwhile goal.

Because, you know, you're improving real estate out there and you're creating value, the chances of it coming back are probably pretty good -- or, at least, some portion of that. And --

MR. PIKE: I would --

MR. CONINE: I think that if you could -- you know, if you could get 10 million back out of a $45-million cycle a year, then you obviously -- and you get 10 million a year, all of a sudden, that's -- you're building up some real money.

MR. PIKE: I would suggest that we could do some roundtables perhaps prior to the public comment period, this fall, and get some ideas from a group of the industry, you know, leaders who participate in our program. And then maybe take it out on the road, if you will, and provide the public some of the comments and thoughts that we've gotten from --

MR. CONINE: Does that give us enough time to make some changes for the '05 cycle?
MR. PIKE: Yes. It would.

MR. CONINE: I don't want to get --

MR. PIKE: Our '05 dollars typically would arrive in March of next year. And to meet the Legislative Budget Board performance measure requirements, we would need to have those funds out the door by August 31 of '05.

MR. CONINE: Well, what about the rules of the game? When do they have to be done?

MR. PIKE: The rules need to be finalized, I believe, by December --

Is that correct, Sarah, around December?

(Pause.)

MR. CONINE: So we've got time?

MR. PIKE: -- because we have to submit this information in our consolidated plan --

MS. CARRINGTON: Yes.

MR. PIKE: -- that has to go to HUD for their approval and blessing, which, I mean, wouldn't be a problem. But there is a time line there, if you will.

So if we took this -- if we did some roundtables and got some public comment during the fall public hearing sessions, then I would just suggest that based on the comment that we got, we could -- if we wanted to make a change, it could be done so, put into the consolidated plan, get that approval, and then move forward with any
change for our '05 funding cycle.

MR. CONINE: Am I missing anything from a Department standpoint that would be an issue, problem or concern that staff would have relative to pursuing that course of action?

MS. PHILLIPS: The Department staff -- internally, we've been spending a lot of time working out issues associated with servicing the loans, recording program income and sharing information between our shops so that we can move the money and faster deobligate.

Actually, we're trying to move to the point where at the end of the contract, if there's $20,000 left in the contract, we deobligate it then rather than having to try to play the balancing game of, Are you ready to put it out; do we have the process in place to get the NOFAs out so we can just, you know, keep the money rolling through.

I know we've spent quite a bit of time with Bill Dally's staff talking about the -- our new contract system and how it's going to assist us in tracking those balances and the loan-servicing process associated with bringing all those loans -- all those funds into the loans, as opposed to grants. Right now, the majority of our owner-occupied is going out as a grant, but I think it would -- by increasing our loans by --

1,900 a year is about what you think we've done?

MR. PIKE: Uh-huh.
MS. PHILLIPS: I -- you know, I think it's -- it would probably be Bill's response as to whether they could handle another 1,900 loans a year. But, hopefully, we've got our processes defined well enough that we can add volume without imploding too greatly, you know. If -- once we get to the point where we can actually fund those quickly, the loan-servicing part should be pretty automatic.

MS. CARRINGTON: What's the average amount of loan on our owner-occupied?

MR. PIKE: Well, it's just grants. They're --

MS. CARRINGTON: Grant. I'm sorry.

MR. CONINE: Grant.

MS. CARRINGTON: I'm sorry.

MR. PIKE: -- $55,000.

MS. CARRINGTON: Is the --

MR. CONINE: How much?

MS. CARRINGTON: Is the max?

MR. PIKE: Well, the average amount that someone applies for is, I would say, about 500,000, but the amount that's actually made available on a particular home on average is 55,000.

MS. CARRINGTON: Okay. So they basically do go up to the max?

MR. PIKE: Uh-huh.

MS. PHILLIPS: Right.

MS. CARRINGTON: Okay.
MS. PHILLIPS: Because they do reconstruct.

MS. CARRINGTON: Right.

MR. PIKE: Right. We have had some issues -- some discussions about this issue. I'll bring up just a couple of points that we've addressed, and one would be the requirement of homeowners insurance and the cost associated with that for a low-income borrower who's zero to 30. I'm not saying these are things that can't be overcome; it's just issues that I wanted to raise with you that we've identified.

There's also some legal issues that we would work -- would need to work out as to how this would work. If the homebuyer dies and somebody inherits that property, how is all that handled? Obviously, the staff constraints with booking, you know, 1,500 to 1,900 additional loans on a system for over -- I don't know -- a 30-year period of time -- the costs associated with that -- I don't know what those are, but there would obviously be some cost.

And so those are things that we here at the Department would need to explore and figure out as to how we can make it happen.

MR. CONINE: That's -- it strikes me as --

MR. PIKE: There's also a -- I guess one good thing is that -- it would be interesting to see the impact it may have on the demand of that activity. I don't know if it would be significant or not. It may be. It may not be.

MR. CONINE: So that's why I want to hear from some of
the folks out in the hinterlands that use the program, as opposed to
just making the decision up here.  

MR. PIKE: Right.

MR. CONINE: I think we need to -- we need some feedback. And maybe a concept of a proposed new structure before you have the public hearing so that you've given all the thought to the nuances of the program, again, trying to accomplish the end goal here. You've satisfied yourself that you can do it, you know, from an administrative process. Then let's see what kind of feedback you get from them.

I mean I -- it just strikes me as one of the less -- one of the better-kept secrets is that over the last ten years we've created $142 million of family wealth, which is basically an improvement to the HOME that doesn't have to be paid back. I mean that's a nice little story to tell. If the right person has got ahold of that information and used it in the appropriate fashion, I would think a lot of people would be gratified to hear that.

MR. PIKE: Well, one thing we've also wanted to do is try to talk to any other state that may be doing owner-occupied. There are not very many out there actually that do this activity, but we wanted to see if we could maybe perhaps model our program or, at least, get some ideas from a similar -- from a program out there that may be doing, you know, repayable loans, versus grants.

MR. CONINE: Yes. Well, participate in an organization
that should help with that particular effort.

MS. PHILLIPS: Eric and I sat in on several workshops where we talked with other state housing agencies about their activities. And we are an anomaly. Most state housing agencies --

MR. CONINE: You've just -- twice, you've used that word this morning.

MS. PHILLIPS: That's my favorite word.

(Laughter.)

MS. PHILLIPS: I have staff --

MR. CONINE: I'm not sure how --

MR. GONZALEZ: That's the word of the day.

MR. CONINE: I'm not sure how to take it.

MS. CARRINGTON: That's good. It's good that we're an anomaly, Mr. Conine.

(Laughter.)

MR. CONINE: Is that a good word, or a bad word?

MS. PHILLIPS: Oh. My staff does it -- they roll their eyes when I use that word.

(Laughter.)

MS. PHILLIPS: We do all activities: Rental, TBRA, owner-occupied. Most housing agencies select one. For instance, North Carolina only does homebuyer assistance with their bond program. They do rental, but they only do -- take out permanent loans. They don't get involved in the construction side.
Owner-occupied? Most people run from it because it is so difficult because of lead issues and -- you know, there's a lot of hoops that have to be jumped through. We're unusual --

(Laughter.)

MS. PHILLIPS: -- in that most of our owner-occupied recipients are elderly and the disabled population, you know. So we serve a unique population with $142 million. So it's -- you know, it definitely has some unusual aspects in how we administer it.

MR. CONINE: The -- how much money goes -- in HOME funds goes to the PJs annually? We get 44- or 45 million. How much goes to the PJs?

MS. SARAH ANDERSON: We get a third. So --

MR. CONINE: We get a third?

MS. SARAH ANDERSON: Yes.

MR. CONINE: So 80 million goes to them -- that 90 million goes to them?

MS. SARAH ANDERSON: Right.

MR. CONINE: Is there a -- wouldn't there be a commonsense approach to try and bring them in to some of these discussions that we're going to have and see where they spend their money and try to do some what I would call program alignment?

MS. PHILLIPS: We've asked HUD to explain to us how we can pull those reports from the shared system. And if not, HUD has agreed to do some research to tell us what different -- how different
PJs in Texas administer it and what activities they've used. So this is going to be -- that's a process that we've initiated and we'll need HUD's help on.

MS. CARRINGTON: Sarah Anderson may have something --

MS. SARAH ANDERSON: I can --

MS. CARRINGTON: -- may have some light to shed on that.

MS. SARAH ANDERSON: I'm Sarah Anderson. We actually began some research related to this, and we've contacted and gotten the annual performance reports of or are in the process of getting all of them from all of the PJs.

And I actually have a handout for you that outlines what at least 25 of the PJs are doing right now, and it lets you know the activities. So --

MR. CONINE: How may PJs are there out there?

MS. CARRINGTON: Last month, I thought we had 41. And when we added up that number -- because that's when Ms. Anderson went out of the room -- I think we came up with about 78 or 79 million. But I believe the number was 41 --

MS. SARAH ANDERSON: And --

MS. CARRINGTON: -- participating jurisdictions.

MS. SARAH ANDERSON: Yes.

MS. CARRINGTON: And you do have in your notebook, but -- maybe you don't, Mr. Conine --

MR. CONINE: Yes.
MS. CARRINGTON: -- but the rest of us do. There is a chart that lists 20 PJs. And I'm assuming as we look at 20 of 41 that these are the ones that -- we had their consolidated plan --

MS. SARAH ANDERSON: Right.

MS. CARRINGTON: -- and their one-year action plan. So we actually had the information.

MS. SARAH ANDERSON: Well, what you have in your board book is actually specifically -- I'm not sure what you're looking at -- related to disabilities and --

(Pause.)

MS. SARAH ANDERSON: We -- what we have in the board book is related to disabilities and special needs. And what I've just handed out is actually all the activities that the PJs do.

And there's a pie chart on the front which shows that the majority actually of the money that's being spent in the PJs is actually going to rental assistance. That's about 46 percent. The next highest would be single-family owner-occupied, and then it kind of goes down from there.

And I know that it came up at the last board meeting that the primary activity should be multifamily or rehab. And it turns out that the PJs aren't necessarily using their HOME money, either, for multifamily activities. They're -- about 6 percent is going to multifamily development, and about 90 percent to multifamily rehab. So --
MS. CARRINGTON: Sarah, this is not the complete universe of PJs, though; this is --

MS. SARAH ANDERSON: Right.

MS. CARRINGTON: -- 25?

MS. SARAH ANDERSON: Right. What we've been able --

MS. CARRINGTON: This is 25 out of the 40 or 41?

MS. SARAH ANDERSON: Right.

MS. CARRINGTON: Okay.

MS. SARAH ANDERSON: What we've been able to get --

MS. CARRINGTON: So far, today. But we are in the process of attempting to gather information from all of them.

MS. SARAH ANDERSON: Right.

MR. CONINE: What kind of -- let me ask it differently. What -- how would you perceive the PJs being -- would they be receptive to getting together as a concerted effort, a statewide concerted effort, to evaluate how much money goes into which program?

MS. SARAH ANDERSON: Actually, I think so. I've been to -- about a year ago, I was approached by Paul Hilgers of the City of Austin, who asked if we could help spearhead bringing the PJs together and said that even they feel a disconnect a little bit with their -- the other PJs in the state.

They're not sure what the other people are doing and, I think, are interested in -- there doesn't seem -- I don't think there's a conference that brings them all together. They don't sit
down -- their planners don't sit down and talk. So I definitely think there's some desire on the part of the PJs to have that kind of dialogue.

MR. CONINE: Well, I'm sure you're going to get a little bit of both schools. You're going to get a little bit of the ones who are reaching out and trying to find out, you know, what everybody else is doing, and you're going to get those that say, you know, This is my money, and I'll spend it like I want to.

MS. SARAH ANDERSON: Sure.

MS. CARRINGTON: When I mentioned this to Cindy Leon, she told me that from time to time -- I don't know if it's on any kind of regular basis, but HUD does get their participating jurisdictions together.

MR. CONINE: Can we check on that? And let's --

MS. PHILLIPS: We were --

MR. CONINE: -- kind of see --

MS. PHILLIPS: We were there last week with the PJs that were in our district, if you will. I think there were probably 45 to 50 attendees.

MR. PIKE: Exactly. On March 30, Suzanne and I traveled along with Sandy Mauro to Fort Worth. And they had a community development directors meeting. And they bring in representatives from all the participating jurisdictions and talk about HOME issues and CDBG issues.
MS. PHILLIPS: But generally --

MR. PIKE: But that's --

MS. PHILLIPS: -- HOME has been the stepchild in most of these --

MS. CARRINGTON: And it has been --

MS. PHILLIPS: -- conversations.

MS. CARRINGTON: -- mostly CDBG.

MR. PIKE: Right.

MS. CARRINGTON: And there might be some benefit of the Department -- and I know you've mentioned this -- before, Mr. Conine, of the Department actually spearheading this kind of a meeting so that it gets to be our meeting with the PJs, as opposed to being HUD's meeting.

MR. CONINE: Yes. I would invite HUD, but I think that --

MS. CARRINGTON: Well, indeed we would.

MR. CONINE: -- we certainly would be -- I think we'd be well served to initiate the process.

MS. CARRINGTON: Okay.

MR. CONINE: And we can figure out when and how and all that kind of stuff, and you guys can report back on that whenever --

MR. PIKE: Okay.

MR. CONINE: -- it's possible.

Take me through the owner-occupied assistance program
right here. Just give me the -- you know, the high points of what an average $55,000 grant -- who it goes to and how the process works and how they get it and so forth.

MR. PIKE: During the application process, a contract administrator will survey residents of the community who've expressed an interest or desire in having their home rehabilitated. Obviously, they must go through a selection process. That selection process is identified and included in their application as to who they're going to target, basically.

Because our agency focuses most of its scoring criteria on serving the 30-percent-and-below market, most of the applications that come in house in order to be competitive are serving that 30 percent market. Typically, overwhelmingly, it's serving an elderly, oftentimes-special-needs people.

And I think that's what makes our program here in Texas probably different from some other programs, because, in other states where you're serving a population that's 80 percent AMFI, which is allowed under HUD rules, it's very different from the program that we operate that serves an overwhelmingly extremely low-income population.

Once the funds are awarded to the contract administrator, then, typically, most of these organizations that apply for these funds do use the services of a grant consultant because of their expertise. Many of our very rural communities do
not have the capacity to bring in a contractor and inspectors and oversee construction and all that.

They just do not have the capacity, so they use the services of a grant administrator who -- then once the homes are identified, the, you know, contractors move in, basically, and do their rehabilitation. Or they do their evaluation and determine whether the home needs to be rehabbed or reconstructed.

MR. CONINE: And we have maximums on the dollar amounts?

MR. PIKE: The Department has, I guess you could say, unofficially adopted a maximum of approximately $55,000; under the HOME rules, that figure could be much higher. There are some 221(d)(3) limits that can be used, but we've shied away from allowing the use of those figures simply because in some areas of the state, that would boost the housing prices to perhaps 70- or $80,000. So it would certainly have an impact on the number of households that we serve. So right now, we have a cap of approximately $55,000.

Typically, anything -- when you go out and do an inspection, if the home has got to be -- have lead-based paint abatement done, that typically boosts the cost at least about $10,000. That's what our research has found. And that oftentimes warrants a home being reconstructed, versus being rehabilitated.

Generally, there's a rule of thumb. Anything that's 25,000 or below, you rehab. If it's above -- if it's 25- or above,
you reconstruct. That's not always a hard-and-fast rule, but that's
typically what we see in the industry.

MR. CONINE: Okay. So the local contract administrator
finds a house, and we're going to spend $30,000 on it. At some --
who's doing the estimates? Is there some contractor that does the
estimate? Tell me how that process works.

MR. PIKE: Right. Typically, through the services of a
grant consultant that has been hired, they will identify a
construction contractor who does have inspectors and things on board
that basically come in and do, I believe, what's called a feasibility
analysis of that property. And they make that determination at that
time.

That feasibility analysis -- there's guidance provided
as to what that should include in our -- Suzanne's implementation
manual that is provided to the administrators once they receive an
award.

MR. CONINE: Are we displacing people? Is there any --
I mean do they go to a hotel, or do they stay at the house? What do
they do?

MS. PHILLIPS: There are some issues associated with the
homeowner. And the administrator or the consultant has to apply the
Uniform Relocation Act requirements. And if they don't have friends
or family to stay with, then we do have to reimburse for their
relocation.
What we generally see is that, as I said earlier, most of our homes, because of either the housing stock in the community or the presence of lead, have moved most of our awards or the beneficiaries to the reconstructs.

We've been -- Eric and I have been talking about this for several months now and have been talking with our consultant on how to assess this process and to understand whether we are -- whether our administrators are doing enough investigation to make sure that we're not tearing down more than we need and that we're actually looking at all eligible households in the community rather than just those that need to be reconstructed.

We're also concerned that, you know, we're not serving very many households with families and are trying to understand how better to serve that group. The last thing we want to do is think that we have a program that excludes families with children because of -- you know, unintentionally because of the size of the homes, the financial limitations or the eligibility criteria for the financial review process.

So this is something that we are absolutely looking at and talking about. And we've talked with our administrators about this, as well.

MR. CONINE: So is there a role for an appraisal process -- a before-and-after appraisal process once we spend the $30,000 I'm talking about spending on this hypothetical home?
MS. PHILLIPS: The -- as a part of the reporting back to the Department after the completion, HUD requires that we get an after-rehab value. And this is reported as actually the contract is being closed out.

And generally, what we're seeing is that we're within 2 percent of the rehab value or a little less than that, but that's -- you know, it's much closer than I predicted it could be. Staff did a real quick preliminary review based on your question last month, and I think they've reviewed maybe 25 files and found that we were within 2 percent of the award amount.

MR. CONINE: So you get that back in?

MS. PHILLIPS: Yes, as a report from the administrator.

MR. CONINE: You know, I have a hard time even understanding that since they're -- you know, inherently, the land has value and the foundation has value. Even if you rebuild the whole thing, it -- we should be -- and even though, I'm sure, there's a lot of, you know, contract administrator -- administrative fees and hotel bills and all that kind of stuff that get -- that's wrapped up in the 30 grand, but -- we should still be fairly close.

And if you're going to structure some sort of recycling program on the money, as opposed to a grant, then we need to figure out the nuances of that relative to setting the right amount of -- if it's a $30,000 grant and 25- of it comes back, or whatever the case may be, I -- you all need to think through that very detailed.
MR. PIKE: Right. And that -- those are some of the issues that we've found ourselves presented with when we examine going to a loan program. There's just nuances and things like that that we would need to work through in the Department to ensure that, you know, we don't have any problems. But --

MR. CONINE: But if you had an elderly couple and you spent 30,000 bucks on their house and then they move back in, they don't have to pay it back if -- they just have it --

MS. PHILLIPS: Well, I understand that --

MR. CONINE: -- right now?

MS. PHILLIPS: -- we have some administrators who are loaning -- who -- while we give that as a grant, they are actually taking that a step further and providing it as a loan.

MR. CONINE: Really?

MS. PHILLIPS: Yes.

MS. SARAH ANDERSON: That's an interesting point --

MR. CONINE: Isn't that interesting?

MS. PHILLIPS: Yes.

MR. CONINE: See what you find out when you have these kinds of sessions? You just find out about all kinds of these little nuances.

How many do we have doing that?

MS. PHILLIPS: Not very many.

MR. CONINE: And what happens to those dollars when they
get them back?

    MS. PHILLIPS: We're looking at that right now.

    MR. CONINE: We are?

    MS. PHILLIPS: Yes.

    MR. PIKE: Yes.

    MR. CONINE: I would think we would.

    MS. PHILLIPS: Yes. We are.

    MR. CONINE: Hmm. Okay.

    MR. GONZALEZ: Here comes Beth, just in time for a question.

    MR. CONINE: Any other questions on the owner-occupied assistance stuff?

    (Pause.)

    MR. CONINE: Okay. Do the same sort of thing with tenant-based rental assistance. Just take me through a general description of the program.

    MR. PIKE: I'll let you do that one.

    MS. PHILLIPS: That one's painful.

    (Laughter.)

    MS. PHILLIPS: Generally, the administrator applies for an amount that they believe that they -- generally, what we see is that it's PHAs or nonprofits who are getting these funds. And the administrators have an intake process; they define what their most critical need is in their community, and they apply their program to
a specific group: People with disabilities or elderly, as part of their self-sufficiency program. And we do a lot of administration with MHMRs.

So we are working with people who are in transition from institutions or who have been referred by the MHMR to a housing agency. They set up their -- they supply us the names of the clients that they are going to serve, their income, how much the tenant's portion is -- of rent will be and what our subsidy will be.

They also have the ability to determine and to decide whether they're going to supply security deposit and utility deposit funds. On an annual basis, they have to reinspect the units. They have to be habitable under some very specific criteria.

And they recertify the household to make sure that they continue to be eligible, that they have not had additional income, a new job or that they have not lost income so that we can adjust the subsidy. We do that tenant by tenant, which is --

MR. CONINE: We do that?

MS. PHILLIPS: We do that. It is very -- an administrative burden for the Department, but it has a great benefit. The administrators give us individuals' names, and we deal with and we have records relating to the eligibility on those individuals.

MR. CONINE: And how many -- there's no guarantee they get it year after year after year. But how many are we serving right now in the tenant-based rental assistance program?
MS. PHILLIPS: (Perusing documents.)

MS. CARRINGTON: While you're thinking about that, Suzanne, TBRA will last for two years --

MR. CONINE: Okay.

MS. CARRINGTON: -- for a family.

MS. PHILLIPS: Right. It can be extended, but we will
only commit for a two-year period. And we require them to do the
contract with the tenant in increments of two years, we've just --
I'm sorry -- in one year. We've just instituted that, and it was in
response to numerous problems that we saw in doing field work
where -- the units were not being reinspected and the tenants' income
was not being recertified. So we've moved to doing this on an annual
basis.

MR. PIKE: Here.

MS. PHILLIPS: About 300.

MR. PIKE: Right.

MR. CONINE: And --

MS. SARAH ANDERSON: Households?

MS. PHILLIPS: Households.

MR. CONINE: And these are folks that are either renting
a house --

MS. PHILLIPS: Or an apartment.

MR. CONINE: -- or maybe an apartment somewhere or a
townhouse or whatever it may be -- any sort of rental facility?

MS. PHILLIPS: Right, as long as it meets a certain habitability standard.

MR. CONINE: And what is our average of those 300 families? What people -- what is the average award for tenant-based rental assistance for an annual period?

MS. PHILLIPS: I don't have that information right off the top of my head. Generally, the tenants' incomes are zero to 30-.

So --

MR. CONINE: Right.

MS. PHILLIPS: -- I would imagine that we would be paying the majority share of their rent.

We have some administrators who limit how much they're going to pay individual clients, which -- you know, I think that's one of the things that we're going to probably talk to them about during our implementation workshops.

You know, it just seems kind of counterintuitive that they would agree to give somebody a subsidy but then limit the amount of subsidy they're going to give them. So I think there's a lot of just real basic policy concerns that we need to work out with some of our less-experienced providers.

MR. CONINE: It works a lot like Section 8 vouchers.

MS. PHILLIPS: It's -- actually, it's --

MR. CONINE: That's basically all that is.
MS. CARRINGTON: Yes. It's a mirror of --

MS. PHILLIPS: It's so close to Section 8 that it -- we would like to see more of our PHAs administering it. We're trying to eliminate all the differences that we've created in our program, but there are some that come from HUD which are really surprising. You know, they administer both the programs, but they put some limitations on TBRA that's not on their voucher program.

MR. CONINE: That's not surprising. You know --

MS. PHILLIPS: It's not surprising.

(Laughter.)

MR. CONINE: You know better than that.

MS. PHILLIPS: But we've pretty much eliminated as much as we can to where if there's an administrator who's providing Section 8, they can run the programs concurrently. I would imagine the administrators would say that that has not quite happened yet, but that is our goal. But it's --

MR. CONINE: And in theory, you could go back to HUD and say, "Align the two up a little more" --

MS. PHILLIPS: Absolutely. And --

MR. CONINE: -- if we -- you know, if you really wanted to get into it?

MS. PHILLIPS: And we have gotten into it with them --

MR. CONINE: Fix it, I guess?

MS. PHILLIPS: -- about that particular item.
MS. CARRINGTON: And we are going to be participating. That was actually one of the questions that we did respond to you all on the Q&A on, What work are we doing; what kind of outreach; how are we involving housing authorities. And along with having some multiple roundtables with housing authorities, several of us are going to be participating later this month in the TEXNARO meeting, which is in Austin. So --

MR. CONINE: That --

MS. PHILLIPS: Theoretically, the TBRA is -- was designed to take people off waiting lists. And, you know, that theoretically is great, but the waiting lists never opened and have remained closed. So we do have clients that probably stay on longer than two years.

MR. CONINE: Have we explored outsourcing the -- all the administrative part of this to the local, as opposed to us going through the income qualifications and inspections --

MS. PHILLIPS: They --

MR. CONINE: -- and all the garbage we're doing?

MS. PHILLIPS: They do all that. They do the eligibility. They use -- they're required to do the inspections. But because of how HUD's -- their -- the system's called IDIS. How it's set up, individual tenants have to be entered. I know that -- one of the things that I remember from four or five or ten years ago maybe, before I had any role in the
administration. There was a period where HUD talked to different state housing agencies about whether or not the administrator could do direct data entry into these systems.

And I know most state agencies elected not to allow the administrators greater access. But this is definitely something that's on my talking points issues to -- with HUD to understand what other responsibilities that we could provide to the administrators so they're responsible for doing more of the data entry since they have to do it, anyway.

MR. CONINE: Are the PJs set up to do all the same stuff that we're doing?

MS. PHILLIPS: Not --

MR. CONINE: I mean they've got half of their funds going out and -- at least the ones we've got or the ones we're looking at have half their funds going out. Are they keeping the same sort of records and doing all the same stuff?

MS. PHILLIPS: Absolutely. So what you have is a small city. They -- we have to operate exactly the same as a small city does, which is ridiculous. Well, I shouldn't say that. It's difficult.

MR. CONINE: Yes.

MS. PHILLIPS: We have suggested to NCSHA and COSCDA and to HUD that we believe that HUD should create a different set of rules for state housing agencies than what the rest of the PJs have.
CDBG is that way.

And I know both Rich [indiscernible] and Sandy Mauro have been carrying that torch across the country and asking the question, Why is it that a state provider of CDBG has much more latitude for the decision-making process than we do and are allowed in the HOME program. And in CDBG, there's actually state rules, and then the participating or the --

MR. PIKE: Entitlement.

MS. PHILLIPS: -- entitlement rules.

So they have two different sets of rules. With the HOME program, we all operate under the same --

MR. PIKE: Set of rules --

MS. PHILLIPS: -- bureaucracy and set of rules, which is -- you know, that's very difficult, which is why most other state housing agencies have limited their involvement in different activities.

MS. BETH ANDERSON: Yes. That leads me to a question. I'm curious about how this mix of the Texas, both in the PJs and in our use of HOME funds, and the relative proportions of TBRA, versus multifamily, development, versus single-family or, you know, whatever, compares. If we looked across the country, do the other states look like Texas in the distribution of funds, or not?

MS. PHILLIPS: Not. We have -- actually, in headquarters in HUD in Washington, they segregate the reports of
state agencies from the other PJs. So when they do comparisons, they
compare us to other state housing agencies.

MR. CONINE: The word she has used is anomaly. She has
used it twice today. We --

MS. PHILLIPS: I'm trying not to.

MR. CONINE: We are an anomaly.

MS. BETH ANDERSON: In the way we allocate our HOME
funds?

MS. PHILLIPS: Yes.

MS. BETH ANDERSON: And how do -- so then how do other
states -- what -- is there a pattern in the other states where they
give more to single-family financing or something? And --

MS. PHILLIPS: I -- we can certainly provide you those
reports. I've looked at them and circulated them in the Department
about two months ago, but --

MS. CARRINGTON: I think --

MS. PHILLIPS: -- that was two months ago.

MS. CARRINGTON: -- one of the examples that Suzanne
gave a few minutes ago was North Carolina, who, if I remember
correctly, programs all of their HOME funds for homebuyer assistance
for down-payment assistance. And I think what we've heard in this
discussion is that Texas -- we program HOME funds into all eligible
activities --

MS. PHILLIPS: Right.
MS. CARRINGTON: -- and that that's not necessarily the case with other state HFAs, that they choose, like one activity perhaps and focus on that activity.

MS. PHILLIPS: But our activities and how we operate are by and large driven by the public hearings, and the public hearings drive the consolidated plan. So what we hear from the participants is what generally you see in our plans.

I think that one thing that's different between us and other state housing agencies -- using the North Carolina example, they only do -- and this was a couple of years ago, and they may have changed. They do their homebuyer in concert with their bond program. They do some rental, but they only do take out of permanent loans, as opposed to interim and construction lending.

So, you know, different state housing agencies have structured their -- even though they may do the same activity, they have structured their programs differently.

MS. BETH ANDERSON: I'd be very interested, if it's not too much trouble, to get that two-month-old data to see the comparison of how we're programming the funds versus other states.

MR. PIKE: I would suggest, too, that -- many of the other states do not get nearly as large of an allocation of funds that we get. So I would suggest that that probably limits their ability --

MS. BETH ANDERSON: Yes. But --
MR. PIKE: -- to do all of these activities.

MS. BETH ANDERSON: -- I'd be interested in looking at California.

MR. PIKE: Yes.

MS. BETH ANDERSON: And I don't think that would be the case in California --

MR. PIKE: Right.

MS. BETH ANDERSON: -- or Arizona or other border states or Florida or, you know, other large states with large net in migration.

MR. PIKE: Right.

MS. PHILLIPS: We can get to-date information. HUD has a web page where we can actually go and find out our standing in different activities.

MS. BETH ANDERSON: Okay.

MS. PHILLIPS: You know, for instance, one of the things that we've looked at is where we stand with other housing agencies in serving zero to 30-. And we were really happy to see that in the -- between the one and 49, we're actually, I think, Number 22 or 23. So we serve more zero to 30- in our rental program than most other participants, even though that may be their primary activity.

So it's a very interesting report. We'll -- Eric and I will define some parameters --

MR. CONINE: Back on tenant-based rental assistance,
really the only "recyclable" money would be utility deposits or
security deposits because the rest of it's just helping them out with
the rent.

MS. PHILLIPS: Right. And we did look at your
suggestion last month of whether it would be to our advantage to
bring that in. And last year, we only allocated $26,000 in --

MR. CONINE: For deposits?

MS. CARRINGTON: Yes.

MS. PHILLIPS: Yes, in utilities.

MS. CARRINGTON: 260 -- we assisted 260 households in
the eleven months in 2003. And of that, 26,000 in security
deposits -- security and utility deposits was provided.

MS. PHILLIPS: And --

MS. CARRINGTON: So it's a fairly small number.

MS. PHILLIPS: Right.

MR. PIKE: Right.

MS. PHILLIPS: And while we could do it, it would be
administratively huge.

MR. CONINE: Right.

MS. PHILLIPS: I think we'd have people running from the
building and screaming.

(Laughter.)

MR. CONINE: Touch on the predevelopment loan side right
quick. And obviously, percentage-wise, it's well used, but not a lot
of money?

MS. PHILLIPS: And it hasn't been done since --

MR. PIKE: It's --

MS. PHILLIPS: -- '98 or '99.

MR. PIKE: I'll be real honest with you. It's not something I have any experience with, because we've not done that activity in the last number of years.

MS. PHILLIPS: And in fact, the report that we put in here -- I think the last contract we closed out was in --

MS. CARRINGTON: '97?


MS. CARRINGTON: Which -- we show 100 percent expenditure, but we only had $210,000 of funds in that activity.

MS. PHILLIPS: Right.

MS. CARRINGTON: So --

MR. CONINE: Again, that would be -- again, if it's termed a loan, money -- what's the history on the money coming back? Any idea?

MS. PHILLIPS: It didn't come back.

MR. CONINE: Really?

MS. PHILLIPS: Yes. You know, it's generally -- you know, it resulted in a project or something like that, but there were conditions associated with it. Now, we've had other predevelopment programs that -- we've used other funding sources, but this was
specifically to HOME.

And, you know, I think that after this period, we may have moved to housing trust fund for predevelopment.

MS. CARRINGTON: And capacity building.

MS. PHILLIPS: Right.

MS. CARRINGTON: Yes. That's right.

MS. PHILLIPS: But we can certainly give you some information about those specific contracts.

MR. CONINE: Okay. I'm just curious. I mean from my viewpoint, if it's 96 percent used, you know, it's -- that's the highest success rate we've got on at least using the funds.

MS. PHILLIPS: Right.

MR. CONINE: It may be an administrative nightmare, and it may be a pain in the rear, but, you know, that's why we have smart people here doing it -- instead of machines. And --

MS. PHILLIPS: We're not that --

MR. CONINE: -- that's not a -- you know, there's a huge demand to have affordable subdivisions put on the ground. And if these predevelopment loans can help that effort, then I think we need to explore. If the housing trust fund's meeting all the demand we've got, fine. I just want to know, I guess: In the future, is -- "Would there be more demand if the program's restructured, not, "Would there be more demand if we just had more money the way it currently is."
MS. PHILLIPS: I think --

MR. GONZALEZ: Yes.

MS. PHILLIPS: -- a lot of the things that are viewed as predevelopment are eligible costs. So, you know, I think -- you know, I probably should have looked at the records first before I say this. But I think those were for -- those funds were for things like market studies and things like that.

MS. CARRINGTON: And environmental and very --

MS. PHILLIPS: Environmental.

MS. CARRINGTON: -- I mean, you know, looking at a piece of land and making a determination of whether it was suitable for a particular kind of development. And of course, what happened, having been involved years ago with some of those early predevelopment loans from TDHCA -- you know, in a good many of the cases, what happened was a transaction never moved forward because, for a variety of reasons, it wasn't determined feasible.

And, you know, the organization asked for the predevelopment money because they didn't have it themselves to do it. They've spent the money and basically have no ability to pay it back.

MR. CONINE: So you had some of those who didn't pay back? Is that what you're saying?

MS. CARRINGTON: No, sir. When I was at the other organization, we had one of those predevelopment contracts of TDHCA.
And so we looked at multiple applications from small nonprofits around the state who thought they wanted to try to do a housing development, and we did not find very many of them feasible.

MR. CONINE: Okay. Just getting you on the record.

MS. CARRINGTON: Thank you for the opportunity to clarify.

(Laughter.)

MR. CONINE: Rental housing development? Can I touch on that for just a second? Just -- I think I know what it is, but give me the two-minute version.

MS. PHILLIPS: The rental housing developments generally we have focused on historically. But recently, CHDOs -- they're very difficult to do. And because of the --

MR. CONINE: Why?

MS. PHILLIPS: Why?

MR. CONINE: Why.

MR. PIKE: The capacity.

MS. PHILLIPS: The capacity. Most of the CHDOs that we brought in are first-time developers. Some of them have had some history of development but, generally, on a very small scale. They may have done a duplex or some single-family, but, generally, they're fairly new. A lot of their experience is in the form of an employee rather than an organization.

The fact that HUD requires repayment of failed projects
makes it even more important that we're sure that the entity has not
only the capacity to get the project developed but keeps it
operational and in good financial standing throughout the
affordability period.

MR. CONINE: Now, why would HUD require that on that
particular activity and not on some of the others?

MS. PHILLIPS: They do require it on all activities. If
there's a foreclosure or a unit fails to fulfill its affordability
period, we do have to pay it back. In other words, if we foreclose
on a --

MR. CONINE: Put that on the list to go talk to them
about.

MS. PHILLIPS: Oh, it's on the list. And it's --

MS. CARRINGTON: And this is also -- it's the Home
Fires -- the briefing on the Home Fires --

MR. CONINE: Yes. I saw that in there.

MS. CARRINGTON: -- Volume 5, Number 2. What Suzanne is
discussing is this two pages --

MR. CONINE: It's a good way to get nobody to do
anything --

MS. CARRINGTON: Right.

MR. CONINE: -- in those activities.

MS. PHILLIPS: Well, we have had -- when they came out
with this Home Fires, about three weeks later, Eric and I were at a
meeting with other HOME providers, state housing agencies, and there were a couple of them who said, We are no longer going to do down-payment assistance. We've had some who have said that they were booking all of their loans, as to footnotes, into their financial statements as a liability. They're changing how they do business.

NCSHA went into a critical response mode and wrote HUD and wrote a couple of members of Congress and, you know, have really been in almost a continuing running battle with HUD on the issue.

MR. CONINE: How long has it been out there?

MS. PHILLIPS: About a year -- close to a year. It has been bandied about for a while. The headquarters staff mentioned it during a couple of workshops.

And it was not very well received by the attendees at the meeting because -- you know, our basic response was, You're asking us to serve a population that's not being served in the marketplace, and you're asking state agencies and state governments to take a financial risk that the lending institutions won't take. And, you know, they require this repayment for nonfederal dollars --

MS. BETH ANDERSON: Right.

MR. PIKE: Which we don't have.

MS. BETH ANDERSON: It's going to drive all the HOME funds into like TBRA, where --

MS. PHILLIPS: Right.

MS. BETH ANDERSON: -- there's no --
MS. PHILLIPS: Right. And that is more, you know, intense that we actually see beneficiary by beneficiary.

They've recently come out with some pseudo-guidance on how to apply for a waiver. And it's -- we've got a test case going through the Department now under review where we're going to ask for waiver of repayment based on what we believe is a clear path of due diligence that we've followed in making the award and trying to make the deal work. And we've -- we're hopeful that we get, you know, some -- a favorable review back, because it is our worst --

MS. BETH ANDERSON: Nightmare.

MS. PHILLIPS: -- scenario that really we've gotten. And if they're not agreeable on this, then we really do have some problems.

MR. CONINE: But assuming -- assume we got rid of that problem just as a -- you know, a miracle happened. The rental housing development program assists CHDOs in putting the projects on the ground in the form of?

MS. PHILLIPS: Loans. And I understand there have been some occasional grants. We have a limitation of -- within our rule, not federally, of a million-five to each award. So it basically either limits the size of the deal that we do or requires that another lender participate.

MR. CONINE: And we structure that per underwriting, or --
MS. PHILLIPS: Yes.

MR. PIKE: Right.

MS. CARRINGTON: -- whatever?

MS. PHILLIPS: It goes through underwriting. And they generally will also -- they do just like they do with the other awards: Suggest what the interest rates and those --

MR. CONINE: And that's a direct application to us from the applicant? There's no --

MS. PHILLIPS: Yes.

MR. PIKE: Right.

MS. BETH ANDERSON: Was that Houston single-room-only thing --

MR. PIKE: Right.

MS. PHILLIPS: Yes.

MS. CARRINGTON: Yes. It was --

MR. PIKE: That was --

MS. BETH ANDERSON: -- funded out of this activity?

MS. CARRINGTON: It was HOME funds. And I think we have Trust Funds, also --

MS. PHILLIPS: Right.

MS. CARRINGTON: -- in Canal Street.

MS. PHILLIPS: And there may even be a private lender.

MS. CARRINGTON: And that is --

MS. BETH ANDERSON: There is a private lender in it,
too?

MS. PHILLIPS: Oh.

MS. CARRINGTON: Yes.

MS. PHILLIPS: It's 811. There are some federal funds involved.

MS. CARRINGTON: I think it's important to clarify that all rental housing development funds don't go to CHDOs --

MS. PHILLIPS: Right.

MS. CARRINGTON: -- and that, certainly, there is a portion of them that do, but many other kinds of applicants can participate in the rental housing development program.

And if I can go back to the Home Fires for just a minute? I think when you look at the chart that Sarah Anderson provided us on the 20 other -- 25 PJs around the state, I don't know if it's because of the Home Fires or what, but theirs -- they're programming 46 percent at TBRA and then 25 percent at owner-occupied, which is 70-some-odd percent. And who knows if it's because of this foreclosure issue?

But I think we certainly have already seen an interest or a driving to certain activities that would not require a repayment.

MS. PHILLIPS: Generally, with our rental properties, our LURA allows them to serve on a long term, up to 80 percent. There are some complex rules associated with their initial occupancy;
90 percent of all their tenants have to be at 60 percent and below initially.

And so a tenant has to go in and tag a unit as HOME-eligible. We have to keep records on those individual units as they're tagged "HOME." And then, after that, their occupancy can go up to 80 percent.

Sometimes we're in a first-lien position. Sometimes we're in a second-lien position. I know that asset management and Tom's shop have been looking at the group of HOME projects that we've allocated up to this point, assessing their financial health and determining whether we're in a position where we need to do workouts. And we're going through that process right now.

We've had some very, very good experiences with the HOME program. We've got HOME projects that have multiple subsidies.

We have HOME projects that have: HOME and tax credits; HOME and rural housing; HOME, rural housing, tax credits and housing trust fund. So, you know, we've got multiple subsidies. That's usually required to make these deals work especially in the rural areas, because the rent limits are pretty low and the construction costs are the same generally as where they are other places.

I think Brooke can probably talk to the application process. But --

MR. CONINE: Before she does that, I'm -- how often do we review the difficulties in the structure of the program? Have we
done that lately?

(Pause.)

MR. CONINE: Not tweaking. I mean major thinking through of, Is it being done right?

MS. PHILLIPS: A couple of years ago, we had some major rethinking because we realized that we were structuring the deals incorrectly. We were providing HOME funds at zero percent to tax credit projects. That was kind of imploding the tax credit side, so we've had to restructure that process. But I think, by and large, our administration hasn't changed that much.

MR. CONINE: I mean it's the second-largest use of the money over the last ten years or 12 years. And --

MS. PHILLIPS: From the operations side, we've done a lot of scrubbing in how we monitor and in the reporting requirement just in response to some clarifications that HUD has provided on what they expect. And -- but as far as the application process and the underwriting process, I can't remember right off the top of my head any major changes.

MR. CONINE: And the demand side has been what through the years? Oversubscribed? Undersubscribed?

MS. BOSTON: Undersubscribed.

MR. CONINE: Undersubscribed?

MS. BOSTON: Yes. That was --

MS. BETH ANDERSON: Across the board, or just in the
CHDO -- I mean --

MS. BOSTON: Brooke Boston. We've been undersubscribed -- at least since our area took over the activity for rental, we're undersubscribed on preservation, and we're undersubscribed on CHDO rental, which is why both of the NOFAs went out as open NOFAs. So we can, hopefully, just deal with folks as they come in and not have people wait all year to do a fund. We can actually work with them.

Particularly on the CHDOs, the applications themselves last time were oversubscribed, but, once we went through and determined eligibility and that they had met threshold and then financial feasibility, there weren't enough to even use all the funds; we still have 9 million left of the '02/'03 CHDO rental or just CHDO together. And we've decided to have it just go out as rental.

Because a lot of it had to do with eligibility and feasibility, that was why we thought, Well, if we go out as an open cycle and there's no back-and-forth dialogue and they can continue to work with the Agency and we don't basically just say, "Oh, you're ineligible," or, you know, "You're weak here; so that makes you a no-go," now we can say, "Well, you're weak here; let's work together and bone up that component of your application, and we'll keep you in the pipeline."

MR. CONINE: Would you give me some feedback from the
CHDO groups around the state on -- I believe an open cycle will help, you know. I never have thought real estate is a once-a-year deal.

But I want some more feedback from the groups out there that have used the program as to the nuances of the program and what would help it and what would hurt it. I want to hear some -- from some of those folks.

MS. PHILLIPS: That's an excellent suggestion. I know that in the next year-and-a-half, we're going to have to look at our rental portfolio and, specifically, our CHDO rental portfolio very closely. We have been told by HUD to expect that their next step of work will be into the rental and CHDO rental programs. So the -- your suggestion will tie very closely in to that preparation.

MR. PIKE: I wanted to say also that we have implemented a deficiency process, which wasn't in place previously, which allows us the flexibility to work with an applicant. If there's a form missing or a document missing or things like that, in the past, we may have had to have disqualified them. But now we have the ability to work with them to cure some of those issues.

I mean, obviously, if it has got a major underwriting, you know, problem, that may not be able to be worked out, but we're hoping that with that maneuver along with the open funding cycle, we'll see more and more applicants apply -- successfully apply and compete and be funded for those dollars.

MS. CARRINGTON: That deficiency process that we built
into our HOME rules is -- mirrors our tax credit deficiency process. And it certainly made sense to us that you don't just kick them out until next year.

MS. BOSTON: A couple of other changes to the rental program, to follow up on your concern of changes. One change is that they have to meet all of the threshold requirements for tax credits. Basically, we -- in part of going for a uniform application, we said, you know, Whatever we've identified for a credit deal as being important is really what boils down to being important for any rental deal.

So the Housing Trust Fund and HOME have the exact same threshold standards. For the HOME program, there are some additional requirements that they also have to submit -- to satisfy, you know, HUD regs that are not applicable in the tax credit.

Two other changes that just went out in these two NOFAs and that I think we consider substantial and the development community would probably consider substantial as well. There's a minimum requirement that at least 10 percent of every development has to serve 30 percent -- 10 percent of the units have to go to people at 30 percent of the area median income. And it -- that was specifically targeted to try and address kind of the report card that we get from HUD.

One of our measurements is serving units -- families at 30 percent, and we haven't been succeeding at that very well.
according to HUD's measurement of it. And so we added that into the NOFAs.

And then the other one was to actually accommodate what Suzanne was telling you all about, the recapture concerns, and to reduce that time as much as possible. HUD's actual affordability requirements on rental deals are different than our state regulation. For new construction, it's 20 years. And for rehab, it depends on how much you're putting in per unit and may be as low as five years for the affordability.

So in the NOFAs, we actually split it out and did a two-tiered affordability term. We said your first term is your federal affordability requirement, which is just whatever's required by HUD. And then, separately, we're going to hold you to a state term which finishes you up to 30 years, which is what 2306 requires, but it will only be for the state portion of it and will not have the federal recapture associated with it.

So we're trying to minimize our risk at least as much as we can about the Home Fires being -- issue.

MR. CONINE: Okay.

If you don't mind, I -- we've just got one more to talk about. It may go a little longer over time, but let's talk about the contract for deed right quick just to get, again, a thumbnail sketch of that program.

MR. CABELLO: Hi. Homer Cabello. Basically, the way
the contract for deed program worked: We released a NOFA, and we're getting nonprofits to apply that serve the colonias region.

But one of the major challenges that we have is that we have a lot of grassroots nonprofit organizations working in the colonias. So they tend to struggle with the HOME funds. And that's probably why you don't see a high-dollar value volume that has been utilized through the HOME program.

Historically, we have utilized pots of money that were available -- zero percent money and bond refunds -- where the nonprofits will do the application intake for us and then we will process them and then put them in our loan origination and loan-servicing system. And, you know, we will order the title commitments and do surveys and all of the actions that is required to close a real estate transaction.

But since those pots of money have dried up, we are now going back to utilizing the HOME funds. With the HOME funds, not only do we have to convert contracts for deed, but we have to rehabilitate the homes up to, at a minimum, colonias housing standards, but, preferably, housing quality standards. So it's the conversion plus the rehabilitation to be in compliance with the HOME dollars and the rules and regulations governing the HOME program.

So --

MR. CONINE: So let me stop you there. You're combining owner-occupied assistance money --
MR. CABELLO: Correct.

MR. CONINE: -- with conversion money?

MR. CABELLO: Correct.

MR. CONINE: Okay.

MR. CABELLO: Now, the Rider 13 to our appropriations bill requires us to convert 400 contracts for deed and to not -- expend no less than $4 million, which is very difficult to achieve with the HOME funds because if we're using them both for conversion and rehab, we're averaging 20,000- to $30,000 a household, so we'll need 7-, 8- or $9 million just to meet the mandate of Rider 13. The capacity of nonprofits is a major issue. We released a $2 million NOFA last year, of which we only awarded 1.2--

MR. PIKE: 1.3.

MR. CONINE: Wait a minute.

MR. CABELLO: -- $1.3 million.

MR. CONINE: I'm confused. You said we -- under that -- under the example you used, we need 7-, 8-, or $9 million?

MR. CABELLO: Correct.

MR. CONINE: How much are we allocating this time?

MR. CABELLO: Well, we released the $2 million NOFA.

MR. CONINE: Two million? So what you're saying is we need more money in that program to get that volume?

MR. CABELLO: To meet the --
MR. CONINE: If --

MR. CABELLO: -- legislative --

MR. CONINE: If we didn't have the nonprofits having a capacity problem, we would need 7-, 8- or $9 million?

MR. CABELLO: To meet the legislative mandate utilizing the HOME program -- utilizing the HOME dollars to meet that legislative mandate.

MR. CONINE: Okay. All right. And --

MS. BETH ANDERSON: Are there still thousands of homes in the colonias that are held under a contract so that there are that many homes to be converted to -- from -- what do you call it -- contracts for deed?

MR. CABELLO: That's a difficult question to answer because a lot of the contracts for deed are not recorded instruments. We are finding a lot of contracts for deed in the colonias that do not have water. And we cannot utilize the HOME dollars if there is no water services in those areas.

Now, a lot of holders of contracts for deed are doing their own refinance programs because we're having difficulty getting payoffs from the contract for deed holders -- the owners of the contracts for deed, because they're getting 12, 14, 16 or 18 percent interest on their money -- and we're paying them off -- and they can't reinvest that money and get that type of return.

So they're doing their own conversions, and so we're
finding them less and less. Now, we have -- we find the majority of
the contracts for deed from Webb County, Little Laredo to El Paso.
We're not finding very many in the Rio Grande Valley any more.

One of the suggestions that we should probably make at
the next legislative session is if this -- if we are to keep that
rider, we should expand it to also include a refinancing program
because the colonias residents are still experiencing a lot of the
issues that they had under contracts for deed, but they now have
title to the property, but they're still paying 12-, 14- or 16-
percent interest.

And they're still under negative amortization. They're
still being charged a lot of fees. There are still a lot of the same
issues.

MR. CONINE: Right.

MR. CABELLO: But we can't get to those people anymore
because they were given title to the property.

MR. CONINE: They've been converted already.

MR. CABELLO: Correct.

MR. GONZALEZ: Excuse me.

MR. CONINE: Yes, sir.

MR. GONZALEZ: So you're suggesting refinancing --
trying to go to the legislature to offer a refinancing --

MR. CABELLO: I would --

MR. GONZALEZ: -- program?
MR. CABELLO: I would suggest amending the rider to also do contracts for deed conversions in addition to a refinance program for residents in the colonias.

MR. CONINE: Tell me about the capacity of the nonprofits out there to do this. What sort of issues are --

MR. CABELLO: Well, we have a lot of nonprofits that work in the colonias that struggle just to keep their doors open on a daily basis. There are many executive directors that we deal with of these nonprofits that usually are volunteers or do not get paid on a regular basis, which -- you know, we've got to admire those types of people because they're helping very --

MR. CONINE: Yes. I'm very familiar with that.

MR. CABELLO: Okay.

MR. CONINE: I do a lot of that myself.

MR. CABELLO: Okay.

(Laughter.)

MR. CABELLO: The biggest issue -- you know, we do our fill to also provide them technical assistance. And we assist them in trying to build their capacity to apply for these types of programs.

However, as we're out there teaching nonprofit staff how to do application intake and how to put an application package together and submit it to us, we have taught those staff members a new skill, and what we're experiencing is a high turnover rate at
these nonprofits because now they can go somewhere else and get a
real job and make more money, which -- you know, more power to those
people.

It's just very frustrating on our end over here in
trying to implement these programs and get these dollars expended by
having a high turnover rate. And --

MR. CONINE: Why don't we just go out and do it
ourselves? Why are we depending on the nonprofits?

MR. CABELLO: We have been doing it on our -- by --

MR. CONINE: We have?

MR. CABELLO: We have. Through our field office, we
take in the applications. We process them here in Austin.

MR. CONINE: Yes?

MR. CABELLO: We input them in our loan origination/loan
servicing system --

MR. CONINE: Right.

MR. CABELLO: -- and then we close them at the title
companies.

MR. CONINE: Okay.

MR. CABELLO: We have been --

MR. CONINE: So we are doing some of that?

MS. BETH ANDERSON: What percentage of them are done by
nonprofits versus this process you've described where we just do it
ourselves?
MR. CABELLO: Well, we utilize the nonprofits to help us do the application intake, where they get us the W-2s and the check stubs and all that information. But then they give that to our field office, and then they input it into our loan origination system.

I would say -- of the funds that are not HOME funds, I would say that about 25 percent of those loans originated were assisted through nonprofit organizations. On the remaining 75, we went and met with the individual families, either at their homes or at a community center or something, and we did the application intake.

MS. PHILLIPS: But the contract's still with another entity?

MR. CABELLO: No. These were utilizing bond funds where -- we only released the funds upon closing of that real estate transaction at a title company. So those were -- that's what we're calling the individual contract for deed loan program.

MR. CONINE: Have we been to HUD? I mean the colonias are a border-state issue, and they don't write rules in Washington, D. C., for specialty, little problems like this. Have we been to HUD to say, "Look, we need some help on the relaxation of the HOME Fund side of this thing so that we can specifically target these people to take care of an abuse that's going on," basically, at least in my mind? And what has their answer been?

MR. CABELLO: We were able to bring Secretary Martinez
down to El Paso, and we gave him a tour of the colonias. And one of
the -- there were several -- issues that we were trying to convey to
him and his chief of staff at the time was that there are some
colonias that do not have water --

    MR. CONINE: Right.

    MR. CABELLO: -- but the financing and other funds have
been secured, and that the water lines are eventually going to be
coming in because all the funding has been obtained, and, Can we go
in there and start doing the contract for deed conversions and
rehabilitate these houses to be able to handle indoor plumbing; And
within a year or two-year period, the water lines will be coming in,
and all we have to do is just plug them in and let them go. And the
answer is still no.

    The other issue is the capacity, but there's a lot of
federal regulations that govern these funds. And it's very
difficult. It's very difficult.

    MS. BETH ANDERSON: Are these --

    MS. PHILLIPS: Can I add something? One of the -- I'm
sure you remember the problem that we had with our TSAHC monitoring.
It was -- their finding was generally driven by a contract for deed
program, you know. That's what opened the door.

    And while they then -- you know, it's the camel's nose
under the tent. Their concerns were originally rooted in that
contract for deed conversion program. You know, their concept of the
type of housing that's there and the end product just doesn't match what actually happened.

We were able to get HUD to agree to a lower physical standard from housing quality standard to colonias housing standard. But even though they approved it, I don't think that they visually and intellectually understood what it would look like. And then, when they saw the product, they said, Well, this isn't sufficient. But it was sufficient under the terms that they agreed to.

So, you know, there is a major disconnect between, you know, the reality of the situation and what's actually happening. The HUD awards that -- the HOME awards that we have for contract for deed -- they're generally slow to draw because of the capacity issue. So, you know, HOME might not be the best tool to do this program with.

MR. SALINAS: Can --

MS. BETH ANDERSON: I've got a question about whether your concerns about Home Fires and the liability -- potential liability the Department has under Home Fires extend to our use of HOME funds for this purpose. Yes?

MS. PHILLIPS: Yes, because we had to pay back a lot of money on these projects that they were not satisfied with the final structure of. You know, they -- it was just a disconnect in their minds.

MR. SALINAS: Can --
MR. CONINE: Yes, Mayor?

MR. SALINAS: Can I -- I know I'm not a member of this committee. But every time I hear --

MR. CONINE: You're welcome at any time.

MR. SALINAS: -- the conversation about no water in some of these colonias and -- you know, we've got to hold those elected officials accountable, you know. And there is an attorney general that needs to be -- they need to be reported. And, you know, the abuse has to stop from Webb County to El Paso. You know, it -- the only reason you have this problem is because there is no policing of these people that are building these colonias without any water.

It's unheard that you still have that problem over there, you know. The contract for deed has to stop. People have to stop doing that. That's -- I don't think -- that's against the law.

And I think that the attorney general and -- you know, we're not going to stop this until the attorney general files a lawsuit against one developer and fines him a quarter of a million dollars. And I guarantee you that's what's happening in Hidalgo County. They filed a law suit, and that developer paid $131,000 in fines. And I guarantee -- you went to the county clerk, and everybody was filing those contracts through those people.

You will not find one contract in Hidalgo County in the Valley any more simply because they went ahead and used the power of the law. And you still find -- some attorney general people go to
the county clerk and find out that that contract is 90 days old. If it's 90 days old, they go back to the developer and file a law suit against it because it has to do -- they have to file it in 30 days.

Now, if that is being done in the valley, why can't it be done in Webb County and the rest of the area all the way down to El Paso? I'm -- it seems to me that they're about ten or 15 years behind, and the attorney general seems not to want to do anything about it. But the law is there. If -- I mean the mechanism is there. The county judges and the county commissioners need to be held accountable for this.

MR. CONINE: Yes. And I would suggest a couple of things after hearing what I've heard. One: Let's meet with the attorney general's office.

MR. SALINAS: I think so.

MR. CONINE: And because he doesn't have the information -- we've got the -- we've got people out in the field down there. We've got the information. We're probably closer to it than any other --

MR. SALINAS: Yes.

MR. CONINE: -- state agency, to be honest.

MR. CABELLO: Can I interrupt you there --

MR. CONINE: Yes.

MR. CABELLO: -- about the attorney general?

MR. CONINE: Sure, you can.
MR. CABELLO: First of all, we -- former board member Judge Daross -- we've talked to him quite a bit because he heads up the attorney general's office in El Paso.

MR. CONINE: Yes.

MR. CABELLO: And he's part of our meetings at times. But I will tell you that the attorney general just lost their funding for colonias enforcement, and they just let go of those two attorneys that were filing these types of lawsuits. Now, we were -- I attended a meeting Monday because the secretary of state's office, which is like the lead colonias agency for the State of Texas --

MS. CARRINGTON: And has quarterly meetings that we participate in.

MR. CABELLO: And we meet on a quarterly basis --

MS. CARRINGTON: Right.

MR. CABELLO: -- and we talk about colonias issues. It was just brought to our attention that the county judge in Starr County is selling illegal lots in Starr County. It was brought up that --

MR. SALINAS: And he was fined and he paid a fine of $68,000 in the last lawsuit they filed against him.

MR. CABELLO: So, you know, that was something that was brought up at the last meeting. The -- a lot of the colonias individuals that we are working on the Border issues with were talking about, Well, what is the next colonias legislation that needs

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to be worked on. And it's enforcement. That's what everybody agreed on.

MR. SALINAS: It's enforcement.

MR. CABELLO: It's enforcement. Because right now -- what we did in El Paso -- we had to create a matrix. When we find that people are violated, we send them to Texas rural legal aid, the county attorney's office and to Judge Daross' office, and they all say, "It's not in our jurisdiction," and so forth and so on.

So we've created a matrix. So if you're a colonias resident and you're violated for this, we look at the matrix and just say, You fall under the county attorneys, or, You fall under the AG's office. But it's enforcement that's the biggest issue that we're dealing with.

Contracts for deeds -- we're not seeing as many anymore because the developers are giving them title now or the holders of the contracts are giving them title now. But the abuses are still there.

MR. SALINAS: But, you know, the county has to have a permitting system. And they should not give anybody a permit to get water if they do not have a recorded plat. If they don't have what is supposed to -- what the law says they're supposed to have, they're not supposed to give them a permit for a septic tank or for water.

I mean it's very simple. The law is there, but people are just not doing it. And somehow, the attorney general needs to
find out, and the governor's office needs to find out.

MR. CONINE: And there's also another group of -- the Texas Association of Counties has -- you know, they have their own trade association for all those county judges and commissioners. We need to meet with those guys and have a face-to-face with them and say, Look, here is the problem; We're experiencing it firsthand.

And on some of those things that you're talking about, once the right set of ears hears that sort of thing, I think you'll be surprised --

MR. CABELLO: Right.

MR. CONINE: It's my guess that we will be surprised that there might be some --

MR. CABELLO: I would tell you there have been many laws that have been passed since '89. Supposedly the stop of the proliferation of the colonias has taken place.

MR. CONINE: Right.

MR. CABELLO: But I will tell you that the Texas Water Development Board is getting ready to release another colonias report. Where we used to have just under 1,500 colonias along the Border, this new report has identified over 2,200. So there's more colonias being identified. And that report has yet to be released.

But that was discussed at the Monday meeting. So --

MR. CONINE: And the third meeting is with HUD. I think we need to -- even if Secretary Martinez was there, it really -- you
know, we need to get to the right people to get the decision made at a lower level to allow at least Texas and maybe Arizona and California and any other state that has got this sort of issue the ability to come in and provide financing with HOME funds and maybe even a refinance situation.

MR. SALINAS: Yes. Refinancing is the answer to everything you have.

MR. CONINE: Yes. I mean I think the abuse that happens on the contract for deed and/or high-interest-rate loans is separate and apart from whether the house has water or not. The two issues aren't necessarily hooked together. I mean we had farms in this country without water for years, and people turned out okay that came out of those places.

So we need to try to make -- see if we can make HUD understand that and get to the right people. And if, you know, we start with Cindy and move from there, I don't know, but we -- I'd like to at least see us go through that effort and report back to the board on what actually happened in each of those three meetings.

MR. CABELLO: All right. I do -- would like to mention that I believe the HOME program is a good funding source for the contract for deed conversion because not only do we bring them in and convert them, but we're also addressing their housing rehab situation.

MR. CONINE: Yes. I'm with you.
MR. CABELLO: So we're taking care of many, many issues.

MR. CONINE: I'm with you on that.

MR. CABELLO: But I will also tell you that the colonias residents that don't have -- do not have water are very happy themselves. I mean --

MR. CONINE: Well -- and --

MR. CABELLO: -- they're living.

MR. CONINE: And we ought to try to get them water.

That's not -- I'm not saying they shouldn't be without water. My point is that there's two separate abuses going on and we need to make sure that those who have their little fingers in the pie understand that we need to address both. And I don't think they are.

MR. GONZALEZ: I have a question --

MR. CONINE: Vidal?

MR. GONZALEZ: -- for clarification purposes.

When you say no water, does it -- are you referring to that they didn't have the county water lines, or, in some cases, do you consider if they have a well or something? How do you consider that? Or --

MR. CABELLO: Well, let's take our Webb County -- self-help center that we have in Webb County. We're targeting five colonias right now through our CDBG program through the self-help center. They don't have water; they truck in the water. If you drive down there, you'll see the tanks.
And they're -- but the county and the city and NAD Bank and the Texas Water Development Board -- the funding is there for the water to come in. We help to do the right-of-way acquisitions; we move houses and fences and gas lines and all that stuff, and the water's coming in.

But we've got an organization that we're funding that wants to go do the rehabs, but we can't even though the funding has been secured and the pipes are laying out there beside the highway.

MR. SALINAS: Right.

MR. CABELLO: Because -- they're going to be eventually put in. But we can't touch those houses because the HUD rules don't allow us to, and it's very frustrating. It's the chicken-before-the-egg type of thing.

MR. SALINAS: We need to change the rules then.

(Laughter.)

MR. CONINE: Yes. That's --

MR. CABELLO: I've been trying.

MS. BETH ANDERSON: That's a conversation that --

MR. CABELLO: I've been trying.

MR. CONINE: That was my point on meeting with the current HUD administration to see if we could --

MR. GONZALEZ: And I guess the only point I wanted to make sure we understood was -- is that typically it would have some type of facilities to have some water there at the house; it's not
like there's not any water available.

MR. CABELLO: Yes. They truck it in.

MR. GONZALEZ: Yes.

MR. CABELLO: Webb County -- the county put spigots down the road. And they go up and fill up their tanks of water, and then they come back and put it in the houses.

MR. CONINE: Yes. I was in Mexico City recently. And they still don't have enough water pressure in Mexico City to service the 20 million people that live there, so they've got these huge, black pots on top of every house --

MR. CABELLO: Yes.

MR. CONINE: -- that has a water line running up to it. And it fills it up, you know, during the middle of the night. And water pressure goes off during the day because it's being used out of those self-containers. There are ways to get things done and service the pipeline, but I -- you've got to get all three of them kind of sitting at the same table in order to get something accomplished here.

MR. CABELLO: And finally, I believe that we have to have some major capacity building. I mean --

MR. CONINE: Right.

MR. CABELLO: Because once we build that capacity, they can then start using these dollars.

MR. CONINE: Well, I'll tell you. The other -- in
response to that, I'd like to see -- instead of our fate being
determined by nonprofit capacity building, why not let's go out there
and do it ourselves? I mean there's no -- we can pay the people.

We can -- at least give me some sort of analysis that
would take that into consideration because, if we're just talking
from Webb County to El Paso and 2,200 colonias, we're better off with
our fate being determined by our own people, as opposed to those who
are there for nonprofit purposes and doing it on a volunteer basis
and not getting paid to do it. That's a bad horse to ride.

MS. CARRINGTON: That's right.

MR. CABELLO: It's very -- I don't want to use the word
"frustrating," but it's very challenging. And that's why we started
doing it --

MR. CONINE: Right.

MR. CABELLO: -- ourselves.

MR. CONINE: The state legislation needs to understand
that. And if we explain that to them and why we need more FTEs and
all that kind of good stuff, I think maybe we'll get a little hearing
there. But I would like at least to see some feedback on the
administrative cost of just doing it ourselves and not spending the
money for capacity building, because that obviously has not worked
for various reasons.

Anything else?

Yes, Vidal?
MR. GONZALEZ: We may want to approve the minutes now that Beth is here.

MR. CONINE: Oh, yes. Thank you for reminding me.

We need to get the minutes approved from our previous meeting of last month, which would have been what? Let's see.
(Perusing document.)

MR. PIKE: March.

MR. CONINE: March. Could I get a motion to do that?

MS. BETH ANDERSON: So moved.

MR. CONINE: I'll second it.

Any further discussion?
(Pause.)

MR. CONINE: Seeing none, all those in favor signify by saying aye.

MS. BETH ANDERSON: Aye.

MR. CONINE: Aye.

MR. GONZALEZ: One abstention.

MR. CONINE: And one abstention.

That concludes our Programs Committee. I'm sorry I went over, for those of you in the audience. We stand adjourned.
(Whereupon, this meeting was concluded.)
CERTIFICATE

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

I do hereby certify that the foregoing pages, numbers 1 through 100, 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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