TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD OF DIRECTORS MEETING

Room 140
John H. Reagan Building
105 West 15th Street
Austin, Texas

Thursday,
May 8, 2014
9:30 a.m.

MEMBERS:

J. PAUL OXER, Chair
JUAN MUÑOZ, Vice Chair
LESLIE BINGHAM ESCAREÑO, Member
TOM GANN, Member
J. MARK McWATTERS, Member
ROBERT THOMAS, Member

TIMOTHY K. IRVINE, Executive Director


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**RULES**

a) Presentation, Discussion and Possible Action on a proposed new 10 TAC, Chapter 2, Enforcement and proposed repeal of 10 TAC, Chapter 1, §1.14 related to Administrative Penalties, proposed repeal of 10 TAC, Chapter 5, §5.17 related to Sanctions and Contract Close Out and proposed repeal of 10 TAC, Chapter 60 related to Administrative Penalties all to be published in the Texas Register for public comment

**COMMUNITY AFFAIRS**

b) Presentation, Discussion, and Possible Action to release and subsequently award a Request for Applications ("RFA") to administer the Comprehensive Energy Assistance Program ("CEAP") in Bee, Live Oak, McMullen and Refugio counties and the Community Services Block Grant program in Aransas, Bee, Kenedy, Kleberg, Live Oak, McMullen, and Refugio counties

c) Presentation, Discussion, and Possible Action on Award of Unexpended Program Year 2013 Community Services Block Grant ("CSBG") Funds

d) Presentation, Discussion, and Possible Action on Award of Unexpended Emergency Shelter Grants Program ("ESGP") and Emergency Solutions Grant ("ESG") Funds from prior year awards

**MULTIFAMILY FINANCE DIVISION**

e) Presentation, Discussion, and Possible Action regarding an Award of HOME funds from the 2013-1 HOME Multifamily Development Program Notice of Funding Availability

f) Presentation, Discussion, and Possible Action Regarding the Issuance of

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*ON THE RECORD REPORTING*

(512) 450-0342
Multifamily Housing Revenue Bonds with TDHCA as the Issuer, Resolution #14-027 and a Determination Notice of Housing Tax Credits for Northcrest Apartments

g) Presentation, Discussion, and Possible Action Regarding the Issuance of Multifamily Housing Revenue Bonds with TDHCA as the Issuer, Resolution #14-028 and a Determination Notice of Housing Tax Credits for Pine Haven Apartments

ASSET MANAGEMENT:

h) LURA Amendment

I) Tax Credit Application Amendment

LEGAL

j) Presentation, Discussion, and Possible Action on the adoption of an Agreed Final Order concerning Avalon Apartments (HTC 91036)

k) Presentation, Discussion, and Possible Action on the adoption of an Agreed Final Order concerning Alamo Plaza (HOME 530687)

REPORT ITEMS

The Board accepts the following reports:

1. Report on the Department’s 2nd Quarter Investment Report in accordance with the Public Funds Investment Act

2. Report Item on the Department’s 2nd Quarter Investment Report relating to funds held under Bond Trust Indentures

3. TDHCA Outreach Activities, April 2014

ACTION ITEMS

ITEM 2: INTERNAL AUDIT:
Report from the Audit Committee

ITEM 3: BOND FINANCE:
Presentation, Discussion, and Possible Action on Resolution No. 14-029 authorizing the Restructuring of Interest Rate Swap Transaction with Respect to Single Family Variable Rate Mortgage Revenue Bonds, 2004 Series D

ITEM 4: APPEALS AND WAIVERS:
Presentation, Discussion, and Possible Action on Timely Filed Appeals and Waivers under any of the Department’s Program or Underwriting Rules
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.

EXECUTIVE SESSION 93
OPEN SESSION 93
ADJOURN 95
MR. OXER: Good morning. I would like to welcome you to the May 8th meeting of the Texas Department of Housing and Community Affairs Governing Board. We will begin, as we always do, with the roll call. Ms. Bingham?

MS. BINGHAM ESCAREÑO: Here.

MR. OXER: Mr. Gann.

MR. GANN: Here.

MR. OXER: Professor McWatters.

MR. McWATTERS: Here.

MR. OXER: Dr. Muñoz.

DR. MUÑOZ: Present.

MR. OXER: I am here. Mr. Thomas.

MR. THOMAS: Here. We have a full complement today, so we are in business. So Tim, let's salute the flags, and we will begin.

(The Pledge of Allegiance was recited.)

(The Texas Pledge of Allegiance was recited.)

MR. OXER: Okay. Anything special to talk about here, Tim, or just go to consent?

MR. IRVINE: Go straight to the consent. I believe we have someone that wishes to speak on Item 1(a).

MR. OXER: We'll pull 1(a) and have opportunity for Chief Murphy to speak also.

MR. IRVINE: All right. And we also have a
couple of staff clarifications. Brooke Boston has one on
Item 1(b).

MR. OXER: Okay. So we are pulling 1(a). But
Brooke, you are just going to make a clarification on
1(b). Is that correct?

MS. BOSTON: Correct.

MR. OXER: But it is on consent, essentially.

MS. BOSTON: Right.

MR. OXER: Okay.

MS. BOSTON: Brooke Boston, one of our
deputies -- on Item 1(b), we are asking for funds to be --
we have a subrecipient, Bee Community Action is no longer
going to be in the program. And so we are bidding out to
get coverage for their CEAP and CSBG programs. It is not
uncommon that we do this. We go out with an RFA or
request for applications.

One of the statements we made in the write-up,
the last sentence under Background, at the bottom of page
1, it says, "The applicant organizations must apply for
all counties in the service area of the programs."

We would actually like to clarify that we would
like to allow them to apply for one or more of the
counties, and we are going to make sure that there is
sufficient coverage from all counties when we make awards.

So for instance, if among the applicants, we
have coverage of all three countries, then it is okay with us that it is not all one entity who will receive it.

MR. OXER: So we may have multiple entities handling, but you get full coverage, still.

MS. BOSTON: Exactly.

MR. OXER: Okay. Any other changes, then?

MS. BOSTON: No.

MR. OXER: Okay. Good. Thanks.

MS. BOSTON: Thank you.

MR. OXER: All right. With respect to the consent agenda, does any Board member care to pull anything?

(No response.)

MR. OXER: In that case, we will entertain a motion to approve.

MR. THOMAS: So moved.

MR. OXER: Okay. Motion by Mr. Thomas to approve the consent agenda.

MR. GANN: Second.

MR. OXER: Second by Mr. Gann. No discussion?

(No response.)

MR. OXER: All in favor, aye.

(Chorus of ayes.)

MR. OXER: Opposed?

(No response.)
MR. OXER: There are none. We are unanimous.

Okay. Let's go to 1(a), since we have just pulled that one, please. Okay. Good morning, Patricia.

MS. MURPHY: Good morning. Patricia Murphy, Chief of Compliance. Item 1(a) is presentation and discussion of a proposed enforcement rule. And it is also the corresponding repeals of the other areas of the Department's rules that would be repealed.

We had a discussion item about this last month. And I think there has been a few changes to what you saw last month to this month, to incorporate some of the CSBG things to make it crystal clear about the procedures for eligible entities under the CSBG Act.

And staff recommends approval as presented in your Board book. But I believe there is some public comment.

MR. OXER: Okay. Any questions of Patricia from the Board?

(No response.)

MR. OXER: Do I have a motion to consider?

DR. MUÑOZ: So moved.

MR. OXER: Okay. Motion by Dr. Muñoz to approve staff recommendation of Item 1(a) pulled from the consent. Is there a second?

MS. BINGHAM ESCAREÑO: Second.
MR. OXER: Okay. Second by Ms. Bingham. All right. We have public comment.

MR. MANNING: Thank you. My name is Brad Manning, Executive Director of Texas Neighborhood Services, Weatherford, Texas. And I will be very brief.

What I would like to present to the Board today is specifically, the regulations that you are talking about putting out for public comment are specifically pertaining to federal passthrough. Which means that the OMB circulars do apply to this. And I believe that all the Board members are aware that 2 CFR Part 200 has been issued by the Office of Management and Budget, where they are taking all of the circulars, putting them together into one, and creating some new regulations and making some changes.

Those regulations are set to be put into place December of 2014. However, each of the departments, including the Department of Housing and -- or the Department of HHS are required by June 26 of 2014 to make comment and to -- you know, to say, We are going to accept these.

There is specific language in the new supercirculars that does pertain to this. And what I would like to do is be able to present that to you at this time.
The first and foremost is under 2 CFR 200.69, non-federal entity. They have changed the wording up of this, non-federal entity meaning a state, local, an in-tribe, institution or higher education or a nonprofit that carries out the federal awards. In the past, it read, a governmental entity.

Which means that now, the feds have separated themselves from the states and are now operating under a separate rule. They put the states in with us, according to 200.69, but obviously, I will let you -- you know, I really only give these to you so that you can then go back and look at a later point.

Under 200.105, affects on other issuances, it states, for federal awards subject to this part, all administrative requirements, program manuals, handbooks and other non-regulatory material that are inconsistent with the requirements of this part must be superseded upon implementation of this part by the federal agency, except for the extent that they are required by statute, or authorized in accordance with provisions of 200.102. Once again, talking about federal.

Now, it does state in here that it says that if it is exempted by statute. What we do not have knowledge of right now is, is that only federal statute, is that federal or state statute? We don't know. So there is a
real possibility that this could have an impact, much
greater than these administrative penalties that we are
talking about.

You know, the impact could be on every one of
our federal passthrough programs, both for this agency and
for other agencies of the State of Texas. So I want to
make sure that you are aware that this language is out
here. As I mentioned, the effective date of that under
200.110 is December 26, 2014.

I am here just to ask you one thing. Be sure
that when you pass these rules, if that is what your
desire is, that you have made, that you all have made sure
that this is vetted. That you all are knowing exactly
what is coming down the pipe.

Because what I would hate to see happen is I
would hate to see you all pass a set of rules knowing that
this is out there, and in 60 days have to turn around and
just you know, throw them back out. If you are wondering
how to be able -- however, I will tell you though, in the
new supercirculars, there is a way to assess an
administrative fine. If not a fine, they call it
something else.

And so you know, since I brought difficult
news, I thought I would bring you a little good news too.
And you will find that under 2 CFR part 200.410.
Collection of unallowable costs. Payments made for a cost
determined to be unallowable by either the federal
awarding agency, cognizant agency for indirect costs, or a
passthrough entity, either as direct or indirect costs
must be refunded.

Once again, there is the penalty. And then
they have thrown something new in here. It is "(including
interest)". This new supercircular, instead of charging
penalties does give the ability for the Department to
assess interest on disallowed costs, which does become the
penalty, which does give you the opportunity to try to do
what you are trying right now.

It is a different format. It is a different
style. It looks different. But it still gives you the
ability to do that. So with that, I appreciate the
Board's indulgence for taking this item off the consent
agenda. And thank you for allowing me to address you
today.

MR. OXER: Thank you. Hold on a second. Any
members of the Board have a question?

(No response.)

MR. OXER: Okay. So your point is, it is
informative to make sure that we understand this in
anticipation?

MR. MANNING: Yes, sir.
MR. OXER: Okay.

MR. MANNING: Yes, sir.

MR. OXER: All right. I have got a quick question, Patricia. Thanks, Brad.

MR. MANNING: Thanks.

MR. OXER: Nothing to it. Don't worry about it.

MS. MURPHY: Yes.

MR. OXER: This is only a listing, that we are putting these rules out for --

MS. MURPHY: We are putting them out for public comment.

MR. OXER: For public comment, development. So there is nothing final on this. Whatever is developed or generated out of it, will come back to us at some period in the future, 60 to 90 days, once we get through all of that. And we will have a chance to go back through all of it again then. Right?

MS. MURPHY: That is correct.

MR. OXER: And we should anticipate that there will be at least, according to Brad, some indication of where this federal circular gathering -- that didn't come out right. Supercircular gathering, gathering of items into a supercircular, we should have some indication of where that is generally going by then, we think?
MS. MURPHY: Uh-huh.

MR. OXER: Okay. Well, consistent with Texas, we are not waiting for the feds. We are going to do our side and make it work. So does anybody have a question?

(No response.)

MR. OXER: Good. So we have to vote on this on consent, to issue, for you to put these out for consideration.

MS. MURPHY: Uh-huh.

MR. OXER: Okay. So any other public comment? Do you have any thing to read in? Peggy, is this for another one? Okay. Okay. Thank you. That said --

MS. BINGHAM ESCAREÑO: Move to approve.

MR. OXER: Okay. Motion by Ms. Bingham to approve staff recommendation on Item 1(a).

DR. MUÑOZ: Second.

MR. OXER: Second by Dr. Muñoz. There is no further public comment. All in favor, aye.

(Chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. It is unanimous. Thanks, Patricia. Okay. Let's go to Item, let's see, what would be down there.

DR. MUÑOZ: Before we move on, just Patricia,
just you know, keep an eye on this. And if something
changes, I mean, it is has been brought to our attention.

You know, obviously, we want this sequenced properly.

I mean, I appreciate the caution of it being
brought to our attention, to make sure that, you know,
should anything change related to that timetable, that we
are informed in such a way that we can act prudently.

MR. OXER: Brady, we understand your point, and
we appreciate the information. If you wait until all of
it is done at one time, before we start our process, then
we will be finished about this time next year, if then.

MR. MANNING: Not a problem.

MR. OXER: Okay. Let’s see. We have an Audit
report. Sandy?

And while you are coming up, Sandy, I would
like to -- is Jordan Smith here? Jordan, raise your hand.

Jordan. There he is.

Jordan is our analyst from the Legislative
Budget Board. It gets to be a really important time of
the year, we are getting our LAR put together. So welcome
aboard. Glad to have you here today. Sandy.

MS. DONOHO: Good morning, Mr. Chairman, Board
members. For the record, I am Sandy Donoho, Director of
Internal Audit. For those of you in the audience who
slept in this morning, we had a meeting of the Audit
Committee. I really don't think anybody slept during that. But I can't really tell.

MR. OXER: That wasn't early this morning. That was late last night, wasn't it?

MS. DONOHO: No. Again, can't really tell. It all blurs together. We talked about the Internal Audit work plan. We have six audits on the plan this year, plus one contingency audit. So far we have completed four to six.

We are wrapping up our planning on financial administration. We are conducting field work on performance measures. Our final audit, the HOME audit will be starting in late July or early August, with completion later this fall. That gives us time to prepare and present the draft 2015 plan for your consideration in September.

So you will hear more about the 2015 plan later on this year. In January, I talked to you about the fact that we were a little bit behind. But through a lot of hard work we are now caught up.

We have had some staffing issues. The most recent of which we are excited about; the arrival of a new addition to the Internal Audit family, Jacob Francis Klute was born on Sunday. He weighed six pounds, three ounces.

(Applause.)
MS. DONOHO: We are excited about that. Unfortunately, that means Nicole will be out on maternity leave for three months. So I am still short handed.

One of the audits we talked about briefly was, we did an audit of the Manufactured Housing Division's titling process. Since they have a separate Board, we report that to their Board.

We also completed audits of the low income energy assistance program, which is LIHEAP, and the Amy Young barrier removal program. We felt like the Department generally ensures the grant funds from the LIHEAP program are spent as intended by federal, state and program rules.

We had one minor issue. We tested a sample of 48 administrative expenditures, including payroll travel and non-payroll transactions. We felt like there was no problems with the payroll costs.

But we felt like the allocation of administrative expenditures to LIHEAP, we couldn't always determine that from the supporting documentation. So we recommended that they do a better job of documenting the rationale for cost allocations on the purchase requests or vouchers, and that Community Affairs review the expenditure reports on a regular basis, to make sure that nothing is being charged to LIHEAP that shouldn't be.
Management indicated they agree with that. They are working to implement the recommendation.

On Amy Young burial removal, we looked at that program and tested 30 homes, 30 activities, from the setup all of the way through the construction phase. And we didn't find any significant issues.

We have four external audits that have happened or will happen this year, compared to the ten we had last year. The asset -- we completed our annual financial reports. We talked about that in January.

KPMG talked about their statewide audit of federal funds. In a report to us, they looked at LIHEAP. They had one finding, which just was no question costs related to some documentation they needed to maintain.

The SAO is currently working on an audit of the Texas Facilities Commission. And we were selected as one of the agencies that they looked at for data center security, which is our IT data center. We are hoping that report will be out in June.

And HUD has paid us a visit in June as well, to look at the emergency solutions grant program. We cleared and disposed of all but six of our current prior audit issues. We have five that were recently implemented. One is still pending.

And in this fiscal year, as of April 15, we
have received and responded to 67 fraud complaints. This is a slight increase over last year, when we had 54 at this time. Any questions regarding the Audit Committee meeting, or any of these issues?

(No response.)

MR. OXER: Any questions of the Board?

(No response.)

MS. DONOHO: Thank you.

MR. OXER: Ms. Bingham, do you have a comment that you want to make just as an Audit Chair?

MS. BINGHAM ESCAREÑO: Just that the Committee meeting went very well this morning. And I commend Sandy and her team for coaching us. She gave us a heads-up that there were going to be some challenges just relative to workforce. And they have been able to make up ground.

We have got a little bit of homework to think about, the Committee to think about before the next meeting. But overall, everything went very well.

MR. OXER: Good. Thanks. Thanks, Sandy. Good job.

Okay. Item 3. Tim. This is Swap 102, right? We did 101 last time.

MR. NELSON: I think this is Swap 201, actually. You skipped over the 102. My name is Tim Nelson, Director of Bond Finance. And as opposed to what
I said last month, where I said I thought we could dispense with our swap-related items with a minimum of fanfare.

I think this month, I am going to say that maybe we could dispense with them with the maximum of fanfare. And we will see if there is any correlation there. But the item that we have before you is a presentation, discussion and possible action on Resolution 14-029, authorizing the restructuring of interest rate swap transaction with respect to single family variable rate mortgage revenue bonds 2004 Series D.

First of all, I would like to point out to the Board that we have, with our bond counsel, Bracewell and Giuliani, Elizabeth Boze. And with our financial advisor, and swap advisor, George K. Baum. We have got Liz Barber, Barton Withrow and Gary Machek.

We do not have David Adams with us this month. I think you might have scared him last month, and he might not be back.

MR. OXER: He is still healing up after that last one.

MR. NELSON: But let me just give you a little bit of background. I think we did point out to the Board that this item would be coming. The 2004 D bond issue closed in October of 2004. It was a $75 million
transaction.

That was the new money that we made available for mortgage origination. In order to try to subsidize the rate down, we included in that transaction a $10-1/2 million economic refunding of some prior bonds. That still didn't get our mortgage rate down to a level that we felt would be competitive.

And so we recommended to the Board at that point to put a swap in place on a piece of the transaction. And as I pointed out to the Board in the past, I think with us, and really, with other issuers, that is really the thought process.

I think everybody approaches financing from the standpoint of if you can put the bonds away, fixed rate going away, and you can achieve your goals, I think that is what everybody wants to do. When you are not able to do that, you start looking at some of these other transaction alternatives that may present some counterparty risks, and other risks. But ultimately, in weighing those against the gains that you get, in terms of achieving a lower rate, you make that decision accordingly.

In any case, in the end, we were able to offer a 499 rate. Had we not included the swaps in this economic refunding, we might have been at a 599 rate. And
given that market, we view that rate as being higher than what would be acceptable in the marketplace. So we needed to do something to get the rate down.

In the end, we assisted over 800 families in that transaction to get their first mortgage. And I think I pointed out to the Board before, that this is what we do every day. We assist ten to 20 families every day.

Yesterday, we had 2-1/2 million that was committed in our TMP loan program, 2-1/2 million that was committed in our MCC program. That is 32 families that didn't have an opportunity with home ownership that we assisted with our programs.

And as I pointed out last month to the Board, during the deliberations that you are making here today, we will probably assist two families in achieving the American dream of home ownership. So this is a serious matter that we take very seriously in terms of the programs that we offer.

So if we turn to the transaction which I think is outlined in detail in your Board writeup, similar to last month, we are looking at restructuring our swap on this 2004 D. Similar to last month's transaction, we did go through and look at bond refundings. We looked at doing MBS sales.

In each of those instances, not only did it not
reduce our costs, it actually increased our costs. So
again, as a -- I don't know if I would say, a distant
third alternative, we took a look at restructuring the
swap. And I think I can report to the Board that this
transaction is very similar to what you approved last
month in the 2004 D.

We are looking at reducing the fixed rate on
the swap. We are looking at reordering the optionality on
the swap, so that it more closely aligns with what we
think our needs are going to be going forward. I can also
report that the costs of executing this 2004 D transaction
will be lower, both in terms of the counterparty costs
and the costs of the working group -- your professionals,
in getting this done.

And it is about, I would give you an order of
magnitude, it is about half the cost that we incurred to
do the 2004 B transaction last month. This transaction
also meets the Department's swap policy guidelines that,
as adjusted at the last meeting.

I think I can also say that through extensive
deliberations, we think that this addresses concerns about
diversification, concentration and prudence in managing
our financial assets, all of which I know the Board is
concerned about.

A number of items that I would like to point
out, before I open it up for questions, because these
things, there are a myriad of details. But a couple of
items that I would like to point out, I think we talked
about this a little bit last month, with respect to the
transaction that we did there.

That currently, we owe our counterparty, if
there were to be a termination on this swap, over $10
million. So as I pointed out last month, Goldman, in this
case, is more worried about TDHCA today than we are
worried about them. Because if something occurs, we are
going to have to pay them, not the other way around.

Rates would have to move over 200 basis points
for us to get into a situation where they would owe us.
To give you some contrast on that, we have not seen rates
at that level since the summer of 2011. So in order for
this to occur, everybody has got their different view as
to what they think rates are going to do going forward.
Probably going to be a three- to four-year period before
we see rates trend back up into that area.

We have restructured this swap so that we have
a seven-year, 100 percent termination on it. So by the
time we get into that situation, we are going to have a
very short period of time before we can cancel the entire
swap without any cost to us. The current swap requires
collateral posting if Goldman ever does owe the Department
money at the current rating level, and I think that is important to note.

We also on this swap have a guarantee of the Goldman Sachs holding company, not just the bank that we are dealing with, but the holding company, up to which all of the subsidiaries for Goldman report. They are the parent to Goldman Sachs investment bank, which is one of the oldest and most profitable investment banks on Wall Street, which I think again, just to point out that they are not some sort of outfit that was just created yesterday, and doesn't have any track record.

I would also like to point out to the Board another fact that I think is interesting, and that is that Berkshire Hathaway, that little company that Warren Buffet runs, has a substantial investment in Goldman Sachs. And there are a lot of people who have done a lot worse than to not follow what Warren Buffet has done.

So all other things being equal, I think we can say if it is good enough for Warren Buffet, perhaps it is good enough for the Department. So with that, I will close my comments and state that staff recommends approval of this. And of course, I will be glad to address any questions.

MR. OXER: Thanks, Tim.

Any questions from the Board?
Ms. Bingham.

MS. BINGHAM ESCAREÑO: Good morning.

MR. NELSON: Good morning.

MS. BINGHAM ESCAREÑO: So -- and I apologize; I didn't attend the last meeting. So just through the minutes though, with this, this is the 2004 D that we are talking about, you had the first two options, right, which one was the MBSs and the other one was --

MR. NELSON: Bond refunding.

MS. BINGHAM ESCAREÑO: It was refunding. Okay.

And so you listed though, in that priority, because if they would have worked, they would have been less complicated or less risky or --

MR. NELSON: Well, I think I listed them in that order because again, I think our sort of strategic plan if you will, is to try to reduce our reliance on variable rate debt, and on swaps. But I think we have always pointed out that we want to do that in a prudent, well thought out fashion.

And part of the way we define that is that again, you wouldn't want to do a transaction for instance, I don't know if these numbers are exact, but if we would have done a bond refunding, which this Board has approved over the years, many many bond refundings, that would have reduced our variable rate. Would have reduced our swap
exposure. But rather than us saving money, it would have in fact, have increased our costs, but to the tune of a million and a half or $2 million.

Staff looked at that and said, well, it does help us achieve this other goal. But at far, what we believe to be far too great a cost. And so while we looked at that option in the MBS, had similar numbers, we didn't think that -- again, increasing our costs was an appropriate tradeoff to reduce those risks.

MR. OXER: So essentially what you are saying is, you were willing to endure those risks for another period of time that was predictable, with a structured step down in the cost on this, on the swap, knowing that if we keep an eye on things, and watch what is going on, we can get through this without having to spend two or three million dollars, and manage that debt down eventually to zero on the variable rate.

MR. NELSON: And given the various credit mitigants that we have included in the original swap, and we still have available to use today. The collateral posting. And again, I would point out to the Board that -- again, this is not a -- we managed this stuff day to day.

If we were to get nine months from now, things have changed, and we have all of a sudden determined --
notwithstanding the fact that Warren Buffet has a significant investment in these characters, we are not comfortable. At that point in time, we can just terminate the swap. We will probably still be in the situation where we owe the termination fee.

We pay that termination fee. We have the liquidity available to pay that termination fee. We replace the swap with another swap at a lower rate. And that lower rate will be able to compensate us for the fact that we advanced that termination fee.

So again, the fact that we are making this decision today is now not a -- okay. Now we have locked in our position. And we are just going to let this thing --

MR. OXER: It is one more tactical step in the strategic plan to step this down.

MR. NELSON: And we still have further things that we can do in the future, based upon what unfolds between now and then. But based upon what we know today, we feel like this is the best course of action for the Board to take.

MR. OXER: Do you have anything else, Leslie.

MS. BINGHAM ESCAREÑO: I don't think so. And then just in terms of the transaction costs, you said compared to the 2004 B one that we did, there will be
some. But it should be half of what it was when we did it for the 2004 B?

MR. NELSON: These are significantly lower. I think for several reasons. We are doing our second one now --

MS. BINGHAM ESCAREÑO: Yes.

MR. NELSON: -- so we have got a lot of the kinks worked out. We are also restructuring the swap with the same counterparty.

In last months transaction, we were novating to a brand new counterparty. That involves a lot more legal work. A lot more financial work. But we don't have that here. So there are a number of different factors that are driving that. But the fact of the matter is, the costs to do this transaction are much lower.

And again, related, if we were to have made the recommendation to move to another counterparty, our costs would probably be about twice as high as what we are seeing here. And that was one of the factors that we looked at in terms of making this recommendation.

MR. OXER: So one of the things you are doing, is essentially looking at the net benefit, or the net cost, benefit-cost ratio. This gives us the best step at this point, still staying with Goldman Sachs.

It gives us more optionality, reduces the rate
generally. And besides, if Goldman goes upside down, we are going to have more to worry about than this swap.

MR. NELSON: I think a lot of times, people ask me if -- well, what would I do if the federal government was downgraded to nonrated.

MR. OXER: You would be moving to Honduras, probably.

MR. NELSON: I said, I think I would be worried a lot more that what we are talking about right here.

MR. OXER: Mr. Thomas.

MR. THOMAS: I do 50,000-foot levels, since our Chairman just took us back there. And honestly, I think our Executive Director realized how much this whole discussion has concerned me, because quite frankly, this is the essence of why we have been asked to provide governing guidance to this entity, for the benefit of our citizens.

So I appreciate exactly what we are trying to do. But because I think our Executive Director recognized how concerned I am about this concept -- we will chalk it up to me being the newbie -- he has been gracious enough to kind of have some discussions with me. And he -- Tim put it in a really nice question that kind of summarized where my brain was.
If there were another whale on the trading desk, Warren Buffet and his substantial pockets and acumen notwithstanding, because nobody anticipates those guys, and we do take a phenomenal, venerable palace down like Goldman Sachs, what is our backup? What are we thinking, in the context of? Or is the answer, there just is none? And is that an acceptable answer that we can give to the citizens of the State of Texas?

MR. NELSON: No. I think our backup would be, as I just stated, certainly, if that were to happen here in the short run, let's say over the next three years, or at any point where we would owe Goldman a termination fee, we would merely terminate the swap and go to any one of these other counterparties that we have outlined, that meet our swap policy and provide swaps of this type, and we would replace the swap with that counterparty, and it would be at a lower rate than the swap that we have in place now, in all likelihood. And that is an option that we always, you know, have available to us.

MR. THOMAS: And you are saying that the savings from that emergency swap at a lower rate would pay the termination fee?

MR. NELSON: The way swaps are designed, that is pretty much what it is designed to do. Conversely, if they owe us money, that means that the rates have moved to
the point where they are higher. They will have to pay us.

Now I have got to go out and get another swap. But it is going to be at a higher rate than the rate that I have right now. But that is okay, because they have paid me money to help compensate for that.

And again, at their current rating levels, if we ever get to a point where they owe us money, we don't just rely on their promise to pay us that termination fee. We require them to set cash aside in escrow that would then be available for us to access. So these are the various credit mitigants that we have built into the transaction to try to provide safeguards if that were to occur.

MR. THOMAS: And I think -- and I appreciate that. And I understand that as to this specific transaction we are being asked to discuss.

I guess I am asking, maybe I didn't say it. I am at the 50,000-foot level and policy-driven determination, total risk management practice. Do we have -- and I trust that the decision was made that the cost to us of novating this at this point completely was just too -- I appreciate that.

But I would like to understand at some point, if now is not appropriate, as we are going to be continued
to ask to look at these kind of things, to have a much
clearer understanding of that concept I am asking about.
Where the whale surprises us, do we have an appropriate
strategy?

Sometimes taking a hit today is much better
than extending it out seven years. And I am trying to
understand, are we being -- where is our level of caution,
vis-a-vis our level of prudence in management?

And I am sure it equates perfectly and is
balanced. I just would like to make sure I understand
that as I am being asked to vote on it.

MR. NELSON: Well, I think that -- again, first
of all, the -- you try to manage your risk, certainly.
And the policy that we have in place, and the management
that we provide certainly does that. And that gets you to
various things like diversification.

And we, you know, are we diversified as we
could be? We have got, I think, 51 percent of our swaps
with J. P. Morgan. Would I rather that be 25 percent?
Absolutely. But those are our two matched AM swaps.

MR. OXER: When it comes down to the last one,
you will have 100 percent of it with somebody.

MR. NELSON: Right. And so but those are our
two matched AM swaps. I am not sure I could find another
counterparty. Because there is not a lot of people that
do those types of matched AM swaps. So you do go through and -- but that is how you try to manage some of that stuff. And a lot of this is also just -- you want to say, it is subject to your superior management and everything else. Frankly, some of it just comes down to luck. And you hate to say that.

MR. THOMAS: I am so glad to hear you finally say that. Okay, with that clarification. Because that is it. Because nobody has a crystal ball here. To not belabor this, so that I don't bore the rest of my colleagues on the Board or audience, at some point, I would like to have the opportunity to have this answered, Tim. Kind of offline maybe, with the staff. To have a better appreciation. Because I think this is a bigger issue. Not, I think we appreciate exactly what it is. But I think we get moving too quickly sometimes in our desire to do good service. And I don't want to be one of those guys that is holding up the fort because maybe I just don't understand everything.

MR. NELSON: I think I have pointed out to the Board that again, that back in the '07, '08 time period, of course, a lot of people had swaps with Lehman. I think those that had 100 percent of their swaps with Lehman were certainly in much worse shapes than those entities that might have had one.
So I think that is -- again, I have pointed out, Lehman was one of the most highly rated entities prior to that occurring. So that is, I think, where the luck comes in.

Sometimes it is not easy to go through and predict those that were going with Lehman at the time, as opposed to -- I can't even think of who might have been a lower-rated entity. But certainly, there were those. Again, in retrospect, they would have been better off going with that other lower-rated entity, because it didn't go -- but you do want to take a look at diversification and a number of these other points.

And it is -- again, I wish I could say it was a science, where you could go through and say, the optimal mix is to have 27.9 percent or no more than, with each party. But it is half art, half science. And again, we try to take all of that into account.

And again, I don't expect you to gain a lot of comfort from the fact that I am saying, sometimes this is just subject to luck. But I mean, again, within that context, right, trying to do what we can with it.

MR. NELSON: I guess I am kind of at some level questioning the global perspective that you have articulated today, about then I think as Ms. Bingham pointed out, through her line of questioning. I think I
am trying to make sure that I have a comfort level, that
we are not just -- that we have blinders on about the
appropriate course of action for managing these dollars.

I would like to understand better some of the
strategy associated with it. Because I still think the
cost and the risk are too great, since we are a smaller
agency. That is my concern.

MR. NELSON: Well, we could certainly engage in
more of those discussions. And like I said, this is not a
one and done decision by any stretch of the imagination.

And the Board could determine in six months or
a year, that upon further reflection, we would like to
come in and do something different. You have the ability
to terminate these swaps, albeit again, at an appropriate
termination fee --

MR. THOMAS: Right.

MR. NELSON: -- you know, at that point in
time. So it is -- we do definitely have another bite at
the apple, so to speak.

MR. NELSON: Thank you.

MR. OXER: We really -- really, we are getting,
we are buying or acquiring more optionality on this. We
retain the capacity to do what Robert wants to do, to get
completely out of this, as we choose.

But at this point, your professional advice on
this, or staff advice, managerial advice on this, the risk is there. And we are stepping it down, you know.

But the cost we have to look at for doing that. If we came out of it -- excuse me; if we came out of it suddenly, there is a cost to do it. If things go upside down, we still have options. This is not an abandoned, done, out of the way, unreachable, untouchable event.

MR. NELSON: Correct. Again, you could come back in six months or a year, and say look. I have thought about it. And what I would really like to do is, let's move forward with a refunding and recognize that that is going to have a cost to us.

But I have determined through whatever approach I have taken to determine that that is on a present risk weighted, present value basis, that is lower, or unable to sleep at night. And that has a certain value to it. And that is -- there is nothing inappropriate about that. This doesn't forgo any of your future flexibility in taking those kinds of actions.

MR. OXER: Again, it doesn't restrain us from having a different view -- if Putin decides to invade Ukraine.

MR. NELSON: Absolutely facts, and the world changes. That is why we try to maintain flexibility.

MR. OXER: Yes. I mean, flexibility. Your
point is well made, Robert. We need to be able to --

MR. THOMAS: To put it in business terms. It is best to make the tough financial decisions when you are flush, than to wait until there is an emergency, and you don't have opportunities. That is my philosophy, Tim. I guess I should have said that in the beginning.

But I would like to know and understand. Sometimes, it is harder to make those tough decisions for that long term health and that long term strategic vision and plan.

Because right now, these swaps -- and we know why we got there. We know where we had to get our credit from. But they are also a hindrance in my view of some of the strategic plans and directions that I know that the staff would like to take us.

MR. NELSON: Well, and certainly, I think anyone would acknowledge that when Lehman went under in September of '08 -- I am not sure, and I don't think a lot of people could get replacement swaps at that point in time. Because the market was just broken.

So that is certainly, I think, to your point. That it is better to be looking at doing something on these when we are in calmer seas, than when you are not. Certainly.

MR. OXER: And just to the point of context on
this, Tim, what was our variable rate debt total in the middle of 2011, more or less? This time, three years ago?

MR. NELSON: Certainly over $300 million.

MR. OXER: And now we are so --

MR. NELSON: What is that?

MR. OXER: Three and a quarter or something.

MR. NELSON: Probably something in that neighborhood.

MR. OXER: Okay.

MR. NELSON: And now, we are about $100 million less than that, and heading further south.

MR. OXER: Headed in the right direction.

MR. NELSON: Uh-huh.

MR. OXER: Okay. To Robert's point, you know, I completely concur about getting out of the variable rate debt business, just for all of those reasons that he is talking about. And that is one of the things we have started. You know, and you are managing that down.

But we didn't get like this overnight. And we are probably not getting out of it overnight.

MR. NELSON: Like I said, the best you can do is manage it. And that is what we are trying to do. But certainly, making decisions about, hey let's just convert some of this to fixed rate, that is part of your --

MR. OXER: That is part --
MR. NELSON: That continues to be an option, and could be a part of your management plan. But since we have now got a lot of these where we have removed all the fixed rate debt in front of them, I want to remind the Board that even with that now being the case, we have dropped down about $100 million.

We are going to see this accelerate even more, because we have removed all of the other fixed rate debt from these plans. So all of the prepayments that come in are going to be knocking out variable rate debt going forward.

So we are going to see an acceleration of this. But certainly again, we can continue to talk about it. And again, you haven't forgone any opportunity to make that type of decision.

MR. OXER: Do you have anything else, Robert?

MR. THOMAS: No. I just -- thank you, Tim.

Obviously, this is at the 50,000-foot level, when you want us to be at Resolution 14-029.

But I think it is the mechanism for us to be able to have this public discussion with each other and with, fortunately, having our advisors here with us, to hear it firsthand. I think it is important. So thank you.

MR. OXER: It is extraordinarily important that
these guys on the front row up here know that we are concerned about it. Because one of the key obligations that this Agency has being essentially a bank, is to make sure that we shepherd those resources in a way that reflects good sense and long term strategic strength for the State.

MR. THOMAS: Absolutely.

MR. OXER: All right. Given that, Mark, do you have a question?

MR. McWATTERS: Tim, interest rates go against us, okay. And so Goldman develops an obligation under the swap. You said that Goldman is required to post cash collateral. Is that cash collateral equal to 100 percent of their then outstanding obligation under the swap?

MR. NELSON: Yes.

MR. McWATTERS: Okay. So as interest rates rise, does the counterparty obligation to us increase, as Goldman pledges cash collateral? Okay. So Goldman at that point in time fails, we have cash collateral at that point?

MR. NELSON: That is correct.

MR. McWATTERS: Okay. So if Goldman then fails, and interest rates continue to move against us, Goldman says, sorry, can't post any more cash collateral, because we don't have any cash collateral to post, which
is, as I recall, was exactly what happened in ‘08, what do we do then?

Interest rates are going against us. We are now no longer hedged, because our counterparty has failed, and unable to post cash collateral.

MR. NELSON: If they don't -- and Liz, I may ask you to step up and you may address this in more detail. But I believe if they do not post collateral when they are supposed to, that is a default.

We would then have an opportunity to terminate the hedge. Take the collateral that we have at that point in time. But Liz, why don't you -- you are probably better suited to address that.


MR. OXER: Good. Thanks, Liz.

MS. BERBER: I work with George K. Baum and Company, and I manage our short term note and derivatives desk. The swap document that you have with Goldman and with all of your counterparties, first of all, outlines exactly what your rights are, and what happens in the situation of a default. Bankruptcy or insolvency is an event of default. Not posting collateral, not responding to a collateral call would also be an event of default. And then a couple of other points. The way that interest rates move against you, in terms of you having exposure to
Goldman is when interest rates rise. To the extent that interest rates rise, and Goldman has a credit event where -- that gives you -- that triggers an event of default, it gives you the right to terminate the swap, you would be able to realize that cash collateral to cover the mark to market value of the swap. I think, to your point, is what happens if interest rates continue to rise before you can get a replacement swap in place. And that is a risk. That is true. What we saw in 2008 was the opposite direction of interest rates, though. Interest rates fell precipitously, which created, where Goldman would no longer owe you as much money. That value of the swap starts to become negative to you, versus more positive, and interest rates rising and increasing your cost. But if it were to happen that interest rates were to rise very quickly, and you had -- you terminate the swap. And in finding the replacement, which folks did, in 2008. First of all, in the fall of 2008, winter of 2008 and 2009, we helped some clients who had Lehman swaps find replacements, and they did find replacements. But there is some period -- you do have timing risk, if you can't do that at the exact same time.

MR. McWATTERS: Okay. So there is counterparty risk to Goldman Sachs.

MS. BERBER: There is an incremental -- yes.
MR. McWATTERS: And the reason I ask the question, realizing what interest rates did in '08, was they're at historic lows. The Fed is backing down on quantitative easing. I think it is down to I don't know, $45 billion of purchases per month now. Which could very well result in higher interest rates.

So that is my concern. With respect to Goldman and the due diligence, I notice the ratings of Moody's, S&P, and Fitch, have you taken any independent diligence on Goldman to make a determination that they are creditworthy to serve as a counterparty for this Department?

MS. BERBER: We aren't credit analysts. So we do rely on the rating agencies. We rely on the market perception, where their debt is trading. How the stock price is trading. We don't do independent credit research.

MR. OXER: You will recall, this is an add on to this. You will recall that in 2008, Moody's had made some considerable assessments, some financial instruments that showed them to be particularly stellar, and they turned out to be pretty smelly. So I think what Mark is suggesting is, we don't necessarily trust what Moody's and S&P and Fitch say.
MS. BERBER: The rating industries have come under huge amounts of scrutiny because of their actions leading up to the financial crisis. And one thing that you have see from the rating agencies, and first of all, I am not here to defend the rating agencies. I don't work for the rating agencies. But what you have seen from -- especially the ratings of financial institutions is, they have actually brought down on a pretty consistent basis, their ratings of financial institutions. And I think, have attempted to be more conservative in their assessments, and also more transparent in what is going into the assessments. So for some institutions, they were making, especially in the wake of 2008 and 2009, were making explicit assumptions about government support because there was evidence that there was government support. And after the Dodd-Frank Act, and various regulations that have been implemented as a result of that, that are geared towards, anyway, making government support of financial institutions more difficult, they have reflected that in their ratings. I think here, the structure that TDHCA has in the documents, where it is an obligation of Goldman Sachs Bank, which is rating A to A and A on its own, with also a guarantee from the Goldman Sachs group, parent, which is actually rated lower than the bank, that that gives TDHCA the right to call for the
cash collateral to the extent the swap is ever positive. So no additional ratings action is needed at the current ratings level. TDHCA has the right to call for cash collateral if the swap is ever positive to TDHCA, which I think is a good credit mitigant. And then the other, just observation is, in the swap portfolio, we are speaking about diversification. This swap is 16 percent of your swap portfolio. So it is not a big part of it. The J. P. Morgan swaps and your Bank of New York Mellon swaps are the bulk of the portfolio.

DR. MUÑOZ: In our documentation, it doesn't reference the Goldman Sachs Bank. It references the lower ranked, the lower-rated agencies in our summary. But you are saying that we could appeal directly to the Goldman Sachs bank?

MR. OXER: The bank is the subsidiary. The bank is a subsidiary. And the Goldman group is one that backs the holding company.

Is that right, Tim?

MR. NELSON: Yes.

DR. MUÑOZ: And I understand that. But the ratings here are A to stable, A negative, A stable. But you are saying that the bank has a higher rating?

MS. BERBER: No. Those are the ratings of the bank. Those are the ratings of the bank. Yes.
MR. THOMAS: The company has a lower rating.

MS. BERBER: The parent has a lower rating.

MR. OXER: Mark, do you have something else?

MR. McWATTERS: I think the key here is for the Board to consider that swaps are a way to mitigate risk. They are not a guarantee.

People thought, my understanding, what I have experienced, prior to 2008, that swaps were a guarantee, absolute. That there was really no such thing as counterparty risk or counterparty risk was pooh-poohed as not being particularly material.

I know when, as counsel I would raise these issues, I got a few chuckles from people on a small island off the coast of New York. And you know, those are risks. And these are not guarantees.

I guess my last question is -- and this is more legal in nature -- is there anything under Dodd-Frank -- know there is a lot of new swap rules that have been proposed and the like under Dodd-Frank. Is there anything that is lurking there that could be potentially adverse to the way that our swaps are structured?

MS. BERBER: One of the -- it is a good question. I am not -- and I am only a financial expert, not a legal expert. One of the provisions of Dodd-Frank and one of the goals was to try to get swaps traded,
rather than being traded over the counter, what we refer
to as over the counter, to get them onto exchanges, and to
have margining like exchanges, like the futures exchange
or margin rules.

And that would have required any entity who had
a swap to potentially have to post initial margins, or to
follow the rules, like you have on a futures exchange.
And there was a carve-out to that for end users like
TDHCA, or like utility companies, folks who are using
these swaps to hedge risk.

That is one example of where there was a carve-
out of what potentially could have come in and you know,
you all of a sudden have to post margin when that was not
the expectation. There was a carve-out to that. Off the
top of my head, I don't know. Right now, another hot
button that is coming down the pike.

But the regulatory landscape is certainly
evolving. But nothing again, off the top of my head, that
I know of, that is coming down the pike that is
concerning.

MR. McWATTERS: I guess my last question is,
what was the competition for this swap, other than
Goldman?

MS. BERBER: We considered on the 2004 B swap,
as you know, we went out to other participants, since we
were novating the swap from UBS to a new counterparty. And went through a competitive process there, including Bank of New York Mellon, Wells Fargo and RBC.

Using the cost quotes that we actually received on the 2004 B transaction, because it would be similar to the 2004 D. It would have looked similar to what we were trying to accomplish, those costs were anywhere from two times as high to three times as high as what Goldman proposed.

And so we made the decision that it wasn't necessary to go to the other entities to get those cost quotes again. They were still relatively fresh.

MR. McWATTERS: Why do you think the other prices were two X or more of the Goldman price? I mean, the Goldman people have never struck me as being particularly foolish when it comes to making money. And so why would they bid so low relative to the others?

MS. BERBER: They have already -- a couple of reasons. They have already charged for the credit exposure that they are taking to TDHCA back in 2004.

So they have that existing -- they charged when they did that swap. They have that existing swap on the books. This is just incrementally, basically changing incrementally, the swap. And so it is an incremental cost to them.
For a new counterparty to come in and take over the swap, and take over the negative mark on the swap, and take over that level of exposure to TDHCA, they would have to charge funding and credit charges, because it is a new transaction. So those would be like a new transaction.

MR. McWATTERS: Okay. I get that. Thank you.

MR. OXER: So essentially, these swaps, and just back to the 50,000-foot level, the swap that we had essentially a hedged risk mitigated the risk, but doesn't eliminate the risk. And what we are doing on this is to step down that risk. Is that fair? Tim, Liz, either one?

MR. NELSON: That is correct.

MR. OXER: Okay. Robert, are you satisfied at this point?

MR. THOMAS: Yes, sir. Thank you.

MR. OXER: Okay. Mark, anything else?

MR. McWATTERS: No.

MR. OXER: Okay. That said, any other questions from the Board?

(No response.)

MR. OXER: Okay. Motion to consider?

MS. BINGHAM ESCAREÑO: Is this in the form of a resolution? I have just a logistical question. It says that one of these, that attached to the resolution would...
be the swap document. Did I read that wrong?

VOICE: You see, it is under Section 1.4.

Correct.

MS. BINGHAM ESCAREÑO: Because it wasn't in our packet. Is it a chicken and egg thing? Do we so resolve, and then the swap document gets stuck on there?

MS. BOWES: I am Elizabeth Bowes with Bracewell and Giuliani, bond counsel to the Department. And actually, we do have a draft of the confirm. It is on file with the Executive office.

It is available. So it does exist. It doesn't include the actual final rate, because that will occur at pricing. But it has been reviewed and signed off on by your counsel.

MS. BINGHAM ESCAREÑO: Thank you.

MR. OXER: So essentially, what we are saying, Elizabeth, we are approving staff request through this resolution to execute the transaction at what the price is that it -- the final price when you execute it. But we are saying go ahead with the risk management.

MS. BOWES: Correct.

MR. OXER: Okay.

MS. BINGHAM ESCAREÑO: I move to so resolve with staff's recommendation.

MR. OXER: Okay. Motion by Ms. Bingham to
approve staff resolution or how should we say that? Staff recommendation on the resolution. Okay.

DR. MUÑOZ: Second.

MR. OXER: Second by Dr. Muñoz. Is there any other public comment?

(No response.)

MR. OXER: I see only in support here for our financial team. So all in favor?

(Chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. Everyone, it is unanimous. Thank you for that, folks.

MR. NELSON: Thank you.


MR. DORSEY: Hi. Cameron Dorsey, Deputy Executive Director. I am actually not presenting this item, but we had a few handouts. So Barbara, do you want to kind of describe what the situation is, and then I will --

MS. DEANE: Okay. I was going to do that after staff presentation. But that is okay.

MR. OXER: Let's have the staff presentation and then we will have the -- Mike, were you going to read in the letter for the representative? Okay. And you have
got some more things to add to it, Barbara? Do we have more to add to it?

  MS. DEANE: Yes. I thought it was a staff presentation first, and then I can describe what has been offered.

  MR. OXER: Right. Okay. We'll go to Jean, and then to Michael and to Barbara.

  MS. LATSHA: Okay.

  MR. OXER: Good morning.

  MS. LATSHA: Good morning.

  MR. OXER: So far.

  MS. LATSHA: All right. So Item 4 is an appeal of a termination of a 9 percent Housing Tax Credit application. I'm sorry. Jean Latsha Director of Multifamily Finance.

  Again, this is an appeal of a termination of a 9 percent Housing Tax Credit Application. It is Louis Manor, located in Port Arthur. This application was terminated pursuant to 11.9(a)(4) undesirable area features, which states that development sites located within 1,000 feet of a confluence of undesirable features that would typically be found in a high opportunity neighborhood would be found ineligible.

  The site was discussed at the Board meeting. It was brought before the Board in March. You might
recall that the Applicant requested an exemption under another rule in the same subchapter. That rule calls for sites to be deemed ineligible if they are located within 300 feet of a railway or any other typical undesirable site feature unless that development has ongoing assistance from HUD.

This one does. In that case, the Board may grant an exemption. The Board did grant that exemption but also made it clear at the March meeting that the exemption under that rule for that particular reason being the railway did not preclude staff from looking at the site more holistically, which we did. Which is called for by the rule regarding undesirable area features.

More specifically, staff could consider the railway as part of that holistic review of the site. Although the Applicant did not initially submit information regarding undesirable area features; they only submitted the information on the railway, staff did request information after a cursory review, and received that in early March.

And since then, you might recall at that Board meeting, we hadn't had a chance to review all of that information. We have now. And in addition to that, I visited the site on March 18th. The photos that are in your Board book were taken on that site visit.
And I am sure that you can see from those photos that there is an evidence of a significant amount of blight. What is more is that there just wasn't -- there wasn't a feeling of that blight was moving in a direction that you would want it to move in.

I know that we have all been to areas of different cities where you might see a few older homes that need a lot of work. But you might see some tractors too. I mean, I live in a neighborhood that was built in 1954. And my house was built in 1954 and needs a lot of work, but so do a lot of other homes in that neighborhood --

MR. OXER: Just because it has got a tractor in front of it, don't think --

(General laughter.)

MS. LATSHA: But the feeling, driving around that neighborhood, was that there was no movement in a positive direction there. And I don't know if you can really get that from those photos, but you can get that from a site visit, which is why we conducted the site visit.

The Applicant in their appeal points to their own survey, that revealed 23 percent of the structures in the area in physical decline. I still think that is a pretty high percentage. That is walking down the street
and, you know, every fourth home is in pretty bad shape.

And as I understand from the Applicant too, may be scheduled for demolition. But certainly hasn't been demolished. Looks like it has probably been in bad shape for quite some time. But that still seems to me like a significant amount of blight; 23 percent of the structures in the area.

Staff also reviewed the crime statistics first submitted by the Applicant. It indicated a very high level of criminal activity.

You will see in the writeup, there were 38, in one year, 2013, this is just at the property itself, not within 1,000 feet: 38 assaults, 10 persons with a gun or weapon; seven vice-related activities. Four shots fired, three drug overdoses, one sexual assault, and a host of other crimes, all totaling 415 calls in 2013. That is eight in a week. That to me, seems like a significant amount of criminal activity.

The Applicant does point in their appeal to that level of criminal activity being decreasing. But even though the documentation submitted in their appeal indicates just in the first two and a half months of this year, five assaults at the property as well as four incidents of criminal mischief, two thefts, one vice-related activity amongst a host of other crimes. So while
it might have decreased from 415 calls in one year, there is still a significant amount of criminal activity going on at that site right now.

There is no denying the existence of the active railway adjacent to the site. And again, while the application may have been found eligible with respect to this singular issue, when added to the staff's holistic review of the site, this does factor in staff's determination.

There are, and you are going to hear some public comment on both sides of the fence here. There are some environmental issues, flooding issues and things like that. I want to point out that that wasn't necessarily part of staff's determination. With respect to the termination, when we deem the plain language of the rule.

But those general issues are of concern.

Also, you might hear from the Applicant that there is a lot exchange program, and a one block at a time program as mitigating factors to consider. As I said, I did not witness any of that actually going on when I visited the site.

And in addition, if staff were to concede that a community revitalization effort was in place in the area, the rule does not call for consideration of such effort when making this determination. All in all, staff
recommends denial of the appeal. And I will take any questions, unless you would like to make a motion and hear public comment.

MR. OXER: Okay. Any questions from the Board?

(No response.)

MR. OXER: Okay. Hold on a second. All of the other information regarding, including the letter and such -- hold on Michael -- is that all of that going to be in a discussion in the -- okay. So is there any questions for the Board?

(No response.)

MR. OXER: Okay. Just for clarification on the pictures, this site has not been developed. So some of the apartments that are showing are not actually on the property. Is that correct?

MS. LATSHA: The first picture, and I don't remember the exact order, but the picture of the blue apartment building, that is the actual site. Everything else is right around the site. This is a rehabilitation.

MR. OXER: Okay. That is what I wanted to know. Okay. All right. We have to have a motion to consider before we take public comment.

DR. MUÑOZ: So moved.

MR. OXER: Motion by Dr. Muñoz to approve staff recommendation to deny the appeal. Is there a second?
MR. McWATTERS: Second.

MR. OXER: I hear a second by Professor McWatters. Very well. Yes.

MS. DEANE: Mr. Chair.

MR. OXER: Yes.

MS. DEANE: We have some handouts that have been brought to the Board meeting. It is the first time we have seen them. You might recall that due to the mass quantities of documents that were being presented at the Board meetings for the first time, the Board tightened up the public comment rule with regard to bringing handouts to the Board meeting.

And of course, the rule specifically provides they are supposed to be provided ahead of time. And obviously the purpose is to give the Board an opportunity to see those documents, but also the public to have them online. We put them on our website, so that other members of the public that are coming can know what is going to be reviewed at the Board meeting.

There is what is called the exceptional circumstances provision in the rule, that under exceptional circumstances, the Board may allow materials that are brought to the meeting for the first time in hard copy to be accepted. They have to be delivered to staff prior to the start of the meeting so they can be logged.
in, and the Chair can decide, can look at them and decide how to proceed. They can't be so voluminous as to cause inordinate delay.

They must be provided in hard copy for all members of the public in attendance, and they have to be provided in Adobe Acrobat PDF so that afterwards, the staff can incorporate them into the record, and also put them online so that members of the public would have an opportunity to see them. We have several handouts, including -- and there is also a letter that Michael is going to read in just a minute.

We have a letter. It is one, two, a little over -- it is almost four pages. It is from Texas Appleseed. We have a letter from the City of Port Arthur. We have a letter from the South Texas Regional Planning Commission. And we have an email of some kind, that appears to have some black and white photographs attached.

So I asked staff if they could kind of let us know the extent to which these complied with the rules, so the Board could decide if they want to go ahead and let them in. And Cameron said he could probably provide that information real quick.

MR. OXER: Okay. Let's have that, Cameron.

(Pause.)

MR. OXER: There are several.
MR. DORSEY: So the letter from Texas Appleseed was provided to staff prior to the start of the meeting, and we did receive a PDF version of that letter prior to the meeting. The remaining --

MS. DEANE: Are there copies out front?

MR. DORSEY: There are copies out front.

MS. DEANE: Okay.

MR. DORSEY: And those copies were out front prior to the start of the meeting. The remaining handouts, and that letter is from a group that I believe opposes the granting of this appeal. The remaining handouts are from the Applicant.

Those didn't -- we didn't get those in before the start of the meeting. They came in after the start of the meeting. The Applicant has indicated that they would provide us a PDF copy.

I also just briefly talked to Jean. Jean feels like she can discuss the items if you all wanted to let them in, despite the fact that it didn't technically meet the rule. However, because they are not all that voluminous. Although, I am not sure anyone else really had the opportunity to review them, including the other folks that are going to speak.

They are now out front. And they were out front shortly after the start of the meeting. But they
weren't there when kind of folks were sitting down.

MS. DEANE: The other possibility, I suppose too, is that they could be read into the record as well. The Applicant could read them into the record as well. So it is the Board's -- it is complete discretion with the Board.

MR. DORSEY: Again, I think, one kind of followed the rule, the Texas Appleseed letter. The others didn't follow the technical parts of the rule, although I don't think the staff has necessarily a particular issue speaking to the subject matter within those handouts. It is more that it simply wasn't available for the audience or the other folks that may want to speak on the subject.

MS. DEANE: Again, none of them are voluminous. These are them.

MR. DORSEY: That is right.

MR. THOMAS: Or, quite frankly, for the Board to have reviewed this stuff. I mean, I review electronically what is submitted to try to be knowledgeable. So the rule exists for a reason. So I just -- high level, I have some concern about, regardless.

This is an issue that apparently is going to cause a little passion. And anybody, the people I see here that know our rule about that. So I would hope that they would take that -- in regards to what we do with
this, they would remember that in the context of our considerations in the future.

MR. OXER: Yes. We try to keep pretty close to our rules. I can tell this is going to take some discussion. I am going to exercise the discretion of the Chair and call a brief recess. Only because, we have been sitting here for an hour and 15 or 20 minutes.

So we are going to take a short break. And then we will get back into this, as soon as we come back. It is 10:45 right now. Let's be back in our chairs at 11 o'clock straight up.

(Whereupon, a short recess was taken.)

MR. OXER: Okay. We are back in session here. All right. We have had -- all right, Jean. Let's get you back on the front, here. So we have had information that you provided, Jean.

Dr. Muñoz made the motion to approve staff recommendation. Professor McWatters had a second. We have information. The only -- there were three letters. Would you describe those again, please, Barbara?

MS. DEANE: We have --

MR. OXER: That seems quite a lot, didn't it?

MS. DEANE: We have one letter from Texas Appleseed. That is the one that they met all of the requirements of the rule. Even with that, it is still in
your discretion.

We have a letter from the City of Port Arthur. We have a letter from South Texas Regional Planning Commission. And we have what appears to be an email with several photographs attached.

MR. OXER: Of those, Appleseed made their information available under our rule. Is that correct?

MR. IRVINE: They provided it to staff before the meeting, have the PDF and they have the materials out front.

MR. OXER: Okay. For everybody else to take a look at. First of all, we have got to determine whether the Board needs to weigh in on whether we will accept the information as is available. We have the option to take part of it and not all of it. Do you have a comment that you want to make, Robert?

MR. THOMAS: I have a question along those lines, Chair.

MR. OXER: Okay.

MR. THOMAS: Do we have representatives available today who also submitted their letters?

MR. OXER: No. They are not present today. Michael, don't you have a letter from a Representative that wants to --

MR. LYTTLE: Yes, sir.
MR. OXER: Yes.

MR. THOMAS: But other than the Representative, which we always treat public officials a little bit different. Understood why.

MR. OXER: Legislative Appropriations Request season. Yes.

MR. THOMAS: Yes. Exactly. Are the rest, other than the email -- the point is, are the other letters, do we have people here who could speak to them, so it wouldn't be an issue whether we -- so we are going to hear the information regardless.

It becomes a matter of the record that has been submitted to the record, regardless. So we will hear the information. Is that the case?

MS. DEANE: It looks like it. And the individuals providing the letters could read them into the record, if they want to use their time to do so.

MR. THOMAS: Okay. With that, unless you want to continue, I have a motion on that issue.

MR. OXER: I will hear the motion, please.

MR. THOMAS: I would like to move that we not adopt the materials that were submitted later, so that as a matter of record, if the persons who submitted that information wanted to use their time to read it or to state it, that is fine. But follow our existing rules.
MR. OXER: Okay. Motion by Mr. Thomas to restrict new information, have that available through public comment.

MS. DEANE: Mr. Chair, actually the rule, it is strictly discretion of the Chair, after hearing the objections.

MR. THOMAS: So it is not necessarily a motion.

MS. DEANE: So it is really not a vote. It is really not a motion and vote.

MR. OXER: So it is my choice on this one.

MS. DEANE: But after receiving the input of the members, then the Chair makes the determination.

MR. OXER: Okay. Is there any other decision or any other contribution? Dr. Muñoz?

DR. MUÑOZ: I would agree with Mr. Robert.

MR. OXER: Okay.

MR. GANN: I would also concur with Mr. Robert.

MR. OXER: Mr. Gann. Ms. Bingham, do you have a thought?

MS. BINGHAM ESCAREÑO: Concur.

MR. OXER: Okay. Well, it looks like there is a concurrence on all of this. So the information that you present will have to be made during public comment. We will allow the letter from the Representative to be read into the record, simply as a courtesy to the Legislature.
Let's hear that one right now, Michael.

MR. McWATTERS: A quick question.

MR. OXER: Okay.

MR. McWATTERS: What about the Texas Appleseed letter? They complied with the rules, correct?

MR. OXER: They complied with the capacity for an exception, at the discretion of the Chair.

MS. DEANE: It is still at the discretion of the Chair. They do have to meet the requirements just to be eligible for the Chair's discretion.

MR. McWATTERS: Okay.

MS. DEANE: But it is all up to the Chair as to whether or not, even if they meet those requirements of the rule.

MR. McWATTERS: Okay.

MR. OXER: Does that clarify, Mark? You don't see that. Okay.

Michael, let's hear this letter.

MR. LYTTLE: It is addressed, "Dear Board members, Please accept this letter as my further endorsement of TDHCA application 14-031 Louis Manor Apartments, located at 1300 Joe Louis Avenue, Port Arthur, Texas. The City of Port Arthur has a growing population in need of safe, clean, affordable housing. This 132-unit property proposed for rehabilitation is critical in our..."
efforts to meet these housing demands.

"As you are aware, the City of Port Arthur has sustained damage from a number of recent hurricanes. The west side of Port Arthur, the area in which Louis Manor is located was one of the areas that suffered damage, and as a result, a number of residents were displaced and have homes or businesses that are in need of repair.

"To date, the City of Port Arthur has instituted a number of programs, and completed new construction to address the needs of the city and the west-side community. The City of Port Arthur and the South East Texas Regional Planning Commission have been working closely with post-Hurricane Ike to address the housing needs of the citizens of Port Arthur and has specifically targeted the west-side community.

"As you are aware, the General Land Office has provided in excess of 400 million for this regional area, to address housing and infrastructure. These are all HUD dollars for the benefit of the Golden Triangle.

"The City of Port Arthur and the South East Texas Regional Planning Commission are fully committed to the revitalization and preservation of the west side. Restoration of this existing property will further their efforts toward revitalization, help sustain housing demands and ultimately serve the constituents in my
district well.

"I fully support the rehabilitation of Louis Manor, and ask that you strongly consider funding this application. Thank you in advance for your consideration. Sincerely, Joseph D. Deshotel, State Representative, 22nd legislative district."

MR. OXER: Okay. Thanks. All right. Now we have a motion, have a current motion by Dr. Muñoz and a second by Professor McWatters to approve staff recommendation to deny the appeal.

There is apparent public comment. So yes, I am going to run a hard clock on it. So Jean, let them have it.

And don't forget to sign in, Toni.

MS. JACKSON: I am already signed in.

MR. OXER: That is probably a good thing to be doing while we were waiting out there, to sign in.

MS. JACKSON: I did. Good morning, Board members. My name is Antoinette Jackson from Jones Walker. And I represent the Applicant for this appeal.

As you have heard from the staff about their recommendation, we are asking for an appeal of that, and for you to use your discretion as it relates to this development. One of the things that is really fundamentally at hand here is the question of how the high
opportunities policy has impacted the preservation developments.

And this is a prime example of it being something that with preservation developments are going to be adversely impacted by the policy for high opportunity.

If the high opportunity policy is utilized for rehabilitation, basically what it means is that these areas that are in need of rehabilitation will never have that opportunity, because oftentimes, there are going to be a number of what we have identified as undesirable features located around these properties.

In the situation of Louis Manor Apartments, this is, as has been indicated, a development that was built in 1969. It was actually refinanced a few years ago by HUD, but it is still in need of significant rehabilitation. And this is rehab that is going to be taken down to the studs.

But the residents will be -- will actually be moved in place during this rehabilitation. So they won't be displaced. And this is something that is very important to the City.

One of the letters that did not come in today was a letter from the City of Port Arthur and signed by the Mayor of Port Arthur. And she makes the comment in her letter that the west-side community which Louis Manor
Apartments is located has been the target of revitalization and was hit very hard during the hurricanes.

In fact, Port Arthur sustained damage from back to back storms. And this has created a lot more damage than ordinary.

But one of the things that you also know from hearing it from this podium and in other ways, is that we are still having getting money out through the disaster program from the General Land Office and the other local entities that are administering these funds. And so some of the funds that have been designated for this area still are just getting into the area.

The email that Ms. Deane mentioned that we had also put in front of you was a listing of some addresses that have already been identified to be torn down. But there are a number of other areas and a number of other blighted properties that have been slated for tear down and will be done so, as soon as that money has come into this area.

As it relates to those crime statistics that was put in front of you, what is in your Board book that I put in my appeal is the fact that the crime was -- we have given you a listing of the crime on site as well as offsite. And a lot of the crime, a good portion of that
crime is because of offsite activity, specifically Carver Court. Yes, Carver Court. It was demolished.

It was a former development that was demolished because of obsolescence, because of a number of other things. It was not demolished because the neighborhood was just not going to be revitalized. But there was a number of other circumstances that caused that. And as the Police Department has already indicated, crime has already begun to drop in this area.

The thing that is really important about preservation, particularly in minority communities is, it is about people having the opportunity and the choice to be able to remain in the neighborhoods that they have grown up in, that they have been a part of. And that where they go to church, where they have always lived, where their family exists.

Those things are there. What concerns me about our high opportunity policy is that if we drive everything to high opportunity areas, including preservation, because our policy does allow for developments to be located offsite for existing developments, but if we drive everything there, we have the backhanded approach of doing what we saw in old downtowns, when malls became the big thing. We don't want to gut these neighborhoods. We want to revitalize them, and we want to support them.
And so in these situations, when we do have preservation, it is not about, as the Texas Appleseed says, perpetuating segregation. It is about allowing the choice for minority neighborhoods to be able to continue to thrive.

MR. OXER: You need to wrap it up, Toni.

Thirty seconds.

MS. JACKSON: Board member Thomas, do you want me to finish before the Board has questions?

MR. THOMAS: Yes. I would like you to finish so we can ask you questions.

MS. JACKSON: Okay.

MR. THOMAS: Then we'll talk as opposed to running over other people's time.

MS. JACKSON: No problem. So as I have indicated, this in my mind, this appeal really is about making certain that although we are supportive of the high opportunity policy, that in those situations of rehabilitation and preservation, we have a situation where HUD has supported this, has made a commitment for this development through 2025.

They have also, just for your information, HUD, environmental and multifamily and fair housing on this past week had a meeting about this particular development and continues to support its redevelopment. And so this
is about the ability to preserve those existing
developments and then to initiate and be the catalyst for
revitalization in those neighborhoods.

MR. OXER: All right. Thanks. You understand, this is not the first time we have run up against this question between revitalization and HOA.

MS. JACKSON: I fully understand. And it is --

MR. OXER: We are all hostage to our experience.

MS. JACKSON: But this is a rule also that was created before this particular rule in the QAP, in terms of how we worded it was also created before we got some more information from the courts as well. So I think I would like for you to consider that.

MR. OXER: Okay. Any of the Board have any questions?

MR. THOMAS: I do.

MR. OXER: Mr. Thomas.

MR. THOMAS: Thank you. What is the occupancy of this property now? I know it is in there. I know I think I saw it.

MS. JACKSON: It is in the low 90s right now.

MR. THOMAS: It is in the low 90s?

MS. JACKSON: Yes, sir.

MR. THOMAS: So, and I am looking at these
units. Beautiful old units. How, if they have got that much occupancy, how are they going to be able to revitalize, remodel in place?

MS. JACKSON: Because we will go through our screening, so to make sure that everybody is income eligible, criminal background, all of the screening to make certain that they are eligible to remain in tax credit units. And the plan as it currently exists allows for it, based on our numbers and what they show.

MR. THOMAS: We have to do that anyway, right?

MS. JACKSON: Yes.

MR. THOMAS: That is an ongoing thing. So we should know that anyway, right?

MS. JACKSON: Well, but that is what will allow us to be able to renovate in place.

MR. THOMAS: Okay. And so assuming the 90-something percent are all eligible to stay, how are you going to have room to revitalize in place, given -- I am looking at the units, and I see some separation. But how are you going to allow them to be able to stay?

MS. JACKSON: Well, because we will have a few people that will actually have to be displaced or moved from, because of again, not meeting eligibility requirements. And so again --

MR. THOMAS: And have you anticipated what
number that would be?

MS. JACKSON: I don't have an exact number. Do you have an exact number of that right now? Okay. We don't have the exact number, but based on the initial screening that the management company has done, we know that we are able to actually renovate in place.

MR. THOMAS: And have you had a chance to look at the pictures that staff have posted online?

MS. JACKSON: I have, as well, as we have done our own assessment. And the developer has gone through the property.

MR. THOMAS: But the question is, if you have seen those, do you believe that these pictures of these homes reported to be near and around the property as described here --

MS. JACKSON: Uh-huh.

MR. THOMAS: Do these accurately represent the current condition of the community surrounding this project?

MS. JACKSON: Not the entire community, but some of it, yes. And some of the --

MR. THOMAS: As purported. So I mean, if it says, Railroad Avenue property just behind these buildings, white buildings with paint, is that accurate?

MS. JACKSON: Yes, sir.
MR. THOMAS: You --

MS. JACKSON: Yes, it is accurate. And we actually have more pictures, if you would like to see them. We have a big board, if you would like to see them. But yes, it is accurate, and I am not disputing that. But there is also some of those that fall outside of the 1000 square foot.

MR. THOMAS: Thank you. And given the current condition, I don't dispute that the property needs to be renovated. But given the current condition of the property, is there any reason why deferring this rehabilitation at this time would be problematic or troublesome, subject to allowing the City to do some of the work that it is saying it is going to do in the community?

MS. JACKSON: I think the residents deserve it. And I don't know -- I think it is important for this Board to consider that sometimes there are going to be times when we come in to a neighborhood first.

There have been a number of developments that I have worked on across the state, in neighborhoods that looked very similar to this. And because TDHCA was supportive of an applicant going into that neighborhood first, we have seen the changes of that neighborhood.

This neighborhood has been, again, as I
indicated, slowly revitalizing, in part because of the money that was slated, and has been slowly coming out of the hands of GLO. But I think that --

   MR. THOMAS: But my specific question, Toni, is --

   MS. JACKSON: No. I don't think that there is major harm, other than the fact that the tenants have -- they have been working with this. They know that this is anticipated. And they like any other developments that we are looking at, they deserve it.

   MR. THOMAS: They do deserve it. No question.

   MR. OXER: Did you show a -- or did the Applicant use it, the team, the Applicant team, did you show this as a revitalization program, with a former revitalization and redevelopment plan in the application?

   MS. JACKSON: Did we show it as having a -- the City of Port Arthur doesn't have an actual revitalization plan. But this is one of the areas that they have slated. But in terms of a revitalization plan that meets the TDHCA guidelines, they don't have one.

   MR. THOMAS: Okay.

   MS. JACKSON: Yes.

   MR. OXER: Are you satisfied, Robert?

   MR. THOMAS: For now. I don't want to monopolize, if there is any other people who have
questions?

MR. OXER: Has anybody else got a question?

MR. GANN: I have one question.

MR. OXER: Tom.

MS. JACKSON: Yes, sir.

MR. GANN: What efforts has the project that we are talking about made in the last 18 months to reduce the crime?

MS. JACKSON: Again, they have been working with the City of Port Arthur and again, the biggest efforts, in terms of the crime was because there was offsite. The management company is also beginning doing more screening and removing of those tenants that have been creating problems there.

MR. GANN: How many have been removed in the last 18 months?

MS. JACKSON: I don't have an exact number.

MR. OXER: Does anybody here have a number? Do you have any data to add to that?

VOICE: No, sir. We don't have a number.

MR. OXER: That is all right.

MS. JACKSON: Yes. I asked the property manager the question more broadly, but not in terms of asking for an exact number.

Additionally, there has been a new community
center that has been built in the last 18 months, and that
has given the kids and people a place to go. And you
know, and directed activity that they did not have in the
past.

MR. OXER: Okay. Anything else to add, Toni?
Great, thanks.

MS. JACKSON: No, sir. Thank you.

MR. THOMAS: Toni, real quick, I do have a
question. That community center, there is a picture that
says, taken from Joe Louis Avenue, facing southwest. It
has a playground. There is a black metal fence. There is
a playground. It doesn't define what it is. Is that a
school or is that the community center?

MS. JACKSON: There actually is a new school
that was built. There is a new school that has been
built, that Port Arthur Independent School District built
that cost $18 million.

That was a 5,000-square-foot West-side Health
Clinic built by Valero. And then there is also Motiva
built a 5,000-square-foot West-side development center,
but we didn't --

MR. THOMAS: But do you know if this picture is
referring to is --

MS. JACKSON: I was trying to open and read at
the same time.
MR. THOMAS: It is the school? Okay.

MS. JACKSON: It is the school team.

MR. OXER: Okay. Thanks.

MR. McWATTERS: I have a question for Toni.

Toni, you make, I think, a valid point. I think you are saying that this is a work in progress here.

MS. JACKSON: Yes, sir.

MR. McWATTERS: And that we take a snapshot of the work in process, we get one view.

MS. JACKSON: Right.

MR. McWATTERS: But we need to take more of a motion picture kind of perspective --

MS. JACKSON: Right.

MR. McWATTERS: -- about how the neighborhood may very well change. And so I mean, that raises the question for us, I think, from a policy perspective is, that should taxpayer money be the first money into these projects? Or should private sector money show a commitment to an area followed by taxpayer money.

And along those lines, what commitments do you see from the private sector, as far as redeveloping this area? So we can move it from snapshot views, which are not particularly complimentary to more of a motion picture view, showing the future, and showing a developed neighborhood.
MS. JACKSON: Well, I actually just spoke to a couple of examples where private money has begun with some development in terms of investing in the neighborhood. The city -- this is a city that does not have the money that some larger cities have.

So they are, no question, reliant upon not just tax credit, taxpayer money, but also, monies like the disaster funds to assist with helping with the revitalization. But they are -- companies like Motiva and Valero have already shown a commitment to that neighborhood, and have indicated a continued commitment to building homes. And that is the purpose of the lot program that the City has established.

MR. McWATTERS: Okay. I mean, my concern Obviously, is that taxpayer money may go in. This project may be revitalized. It may be a really nice project in an area that is not so great.

And that nothing changes, and we look back on this in five or ten years, and say, that is a really nice project in an area that is not a high opportunity area. I am looking at these pictures. This is almost a no opportunity area. I don't see much going on here.

MS. JACKSON: But let me speak to that also in a different way. And I was speaking with, you know, a couple of investors regarding this.
And you know, the investors and the lenders who work on these deals, they also, even after approval of our tax credits, they have to review them and make a determination that they believe that this is a location worthy of their investment dollars. And so, you know, what we are saying to you is, we ask that you give us the opportunity, because investors have looked at this, and they believe in this.

They are also the ones who ultimately are making that investment as well, along with you. And they take a look at the properties. It is not just TDHCA that is sitting out there. But whatever investor, whatever lender that we have.

MR. McWATTERS: Sure.

MS. JACKSON: They take a strong look, and they make a determination about the viability of the neighborhoods as well.

MR. McWATTERS: But you know, we were supposed to be stewards, and we are stewards of public money. So I have to ask myself, not necessarily ask you, do I think in the City of Port Arthur, and this area, is this the best that we can do with taxpayer money?

Is this the best location? Is this the only location? Are all of the other locations much the same? Or, given that we have this limited resource of taxpayer
money, should it be invested somewhere else? That is my question.

MS. JACKSON: And I just, on my last comment would ask that you consider as well, when you are making these decisions, do you only take a look at high opportunity areas of new construction, and turn your back on these communities that do need revitalization and support that, and give those opportunities a chance?

MR. McWATTERS: Well, I understand your point about options. That options are important. I understand the people may want to stay in a neighborhood because of church, family, friends, schools and the like.

I get that. And I think people should certainly be afforded options. But is this really the best option that we can afford people? And that is the question I have to deal with.

MS. JACKSON: And sometimes, from our eyes, it may not look like a good option. But for those people that have been their community and their neighborhood, it is the option that they choose and want.

MR. OXER: I was going to say -- and that is a very good point about that. The other thing that we have to consider is this is a very competitive process.

MS. JACKSON: I fully understand.

MR. OXER: And you know, there were a set of
rules that were put in place. And while it is not a high
opportunity area, and yes, we have, because of some --
pressures that we are under, there are certain things we
are. But we did make sure that the opportunity for
revitalization was made available.

But there were specific requirements within the
QAP, identify those areas that were being under a
revitalization plan, or a redevelopment plan. So that is
why the question about does the area have that formal
plan.

And if it doesn't, it would sure be a good
thing in terms of future requests for things like this,
resources like this, it would make a lot of sense to do
that. So is there any other questions from the Board?
(No response.)

MR. OXER: Okay. Thanks, Toni.

MS. JACKSON: Thank you.

MR. OXER: Okay. I understand, would you like
to speak, gentlemen?
(No response.)

MR. OXER: Okay. You are welcome to. We
appreciate your being here. I understand you -- Toni
covered you pretty well. You know, we respect her
contribution. But if you have anything to add that is new
to this, we will be perfectly happy to listen to it.
Okay.

MR. THOMAS: Clarification, Toni, you are representing the Port Arthur LMLP?

MS. JACKSON: Yes.

MR. THOMAS: And are these gentlemen --

MS. JACKSON: That is the developer. Yes.

MR. THOMAS: The developer.

MS. JACKSON: Uh-huh.

MR. THOMAS: Then, since they don't want to speak, I have got some questions that I would direct to you.

MS. JACKSON: Okay.

MR. THOMAS: Is that okay, Chair?

MR. OXER: Absolutely.

MR. THOMAS: Is there any reason why your client couldn't work with the city to craft those redevelopment plans and those kind of things to be able to make this Applicant to be able to overcome these kinds of potential deficits going forward? Is there any reason that might not be --

MS. JACKSON: Sometimes that is easier said than done.

MR. THOMAS: Agreed.

MS. JACKSON: The City has been very supportive. And again, like I said, this is a targeted
area for the City. But in terms of sometimes putting
together those more formal documents, and again, the
bigger cities have more people, more staff, more
resources.

It is sometimes harder in the smaller places.
And you know, we have worked with them. The Mayor has
been very supportive. The -- Southeast Texas has been
very supportive. But putting that together is again -- we
have tried.

MR. THOMAS: And I know sometimes the
developers will actually, in the smaller cities, create
the plan and submit it to the city. So I am just trying
to think of a way --

MS. JACKSON: Well, but that is running on a
fine line for TDHCA.

MR. THOMAS: I understand. I am not going to
tell them how to do their business. But it --

MS. JACKSON: Well, but it is about what we can
and are allowed to do in this process as well.

MR. THOMAS: But about their community, Toni, I
guess what I am asking, if they are concerned about their
community -- I am very sensitive to all of the arguments
you made for many reasons. But I am also very hesitant to
go against, without some clear indication the staff's
unequivocal representations, given the work that they have
done to make sure that we follow a certain set of guidelines.

    MR. OXER: Particularly, since those guidelines, the ones that we gave them. And we had to make some extraordinarily painful -- I don't know if you recall, but I certainly do. I still patch the hole in my heart here two years ago, some of the decisions we had to make.

    MS. JACKSON: I understand.

    MR. OXER: This is hard. But in the long run, we have got a set of rules that we are going to have to live by.

    MS. JACKSON: But we also, again, ask that the factors that I have put in front of you are considered. Because again, even with those rules, there was also a certain place we were, before we got another decision from the courts.

    And so preservation again, has had an unintended consequence of this decision. And that is the concern.

    MR. THOMAS: And you are clearly without -- you know, you are a steward of people. I have only been on this Board a year. But I have seen the respect that every time you step to that podium to start speaking, I see the respect my colleagues give you.
MS. JACKSON: Thank you.

MR. THOMAS: That is earned. It is not given.
So any time you step up, you have also earned my respect.
It was given to start with, because of my colleagues.
But I have taken into deep consideration everything you said.

MS. JACKSON: Thank you. And I appreciate that. And that is all we can ever ask.

MR. OXER: Okay. Any other public comment?

Good morning.

MS. SLOAN: Good morning. I am Maddie Sloan with Texas Appleseed. And I am also speaking on behalf of Texas Low Income Housing Information Service. This morning, we are asking you to support the staff's action and deny this appeal. And I am going to hit the high points of the letter we submitted to you late.

MR. OXER: Just a reminder, you have got three minutes.

MS. SLOAN: Okay. To talk a little bit about the community revitalization issue, John and I have spent a lot of time in Port Arthur and a lot of time in the west side, going around with some community activists. There is in no way the kind of revitalization going on in the west side of Port Arthur that would affirmatively further Fair Housing, and I think, that would justify this kind of
investment on the part of TDHCA.

I would also -- you know, there is a strong movement towards urban revitalize this community. There is also a strong movement to move people out of the west side, because of pollution and crime issues.

So in addition to issues the staff has laid before you, you know, this development would also perpetuate segregation in a way that violates the Fair Housing Act. The Applicant has pointed out that the city is 38 percent African American and 30 percent Hispanic. The census block group where this development is, is 95.2 percent African American. It has got a median income of $7,500 less than the area median income.

All but two of the HUD-assisted developments in Port Arthur are in census block groups with a greater-than-average concentration of African Americans, and a median income less than the area median income, or the city median income. The majority are in areas where the median income is over $15,000 less than the City's median income. So we are really concentrating racially and economically people into low opportunity areas.

I would also add that it is not a choice if people don't have a choice to live in high opportunity areas. If people have no alternatives, they are not making a choice.
You know, briefly, on the environmental issues, you know, HUD and the public housing authority just relocated two public housing developments that are five blocks away from this development because of health and safety issues related to the environmentally compromised nature of the area. I know that the current air emissions are within the current standards for TCEQ and EPA.

But I do want to note that EPA just settled a lawsuit because they have not updated those standards in 20 years. And they will be updating those standards by the end of 2014.

And given that they did a 2010 study showing that refineries emit three times the hazardous air pollution that they report to the toxic release inventory, I think it is a fairly safe bet that certainly, this area of Port Arthur is no longer going to be within the standards by the end of this year.

I also really wanted to emphasize that there are alternatives including, giving the tenants housing choice vouchers. And HUD can actually move the HAP contract to another Section 8, project based Section 8 contract to another development.

So there are some alternatives here. And we think the developer and HUD should really pursue those and give people options to live in a safer and higher
opportunity area. Thank you.

MR. OXER: Great. Thanks. Any questions from the Board for Maddie?

(No response.)

MR. OXER: Okay. Is there any other public comment?

(No response.)

MR. OXER: All right. We have a motion by Dr. Muñoz. Second by Professor McWatters to approve staff recommendation to deny the appeal. All in favor?

(Chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. It is unanimous. The appeal is denied. All right. We have a short -- I think that comes to the end of the action items on our agenda.

We have a brief Executive Session we will have to take for some legal advice. We will come back and finish it up, and have new information. Everybody sit still. It is going to be here. I want this to be on the record clearly.

The Governing Board of the Texas Department of Housing and Community Affairs will go into closed session at this time, pursuant to the Texas Open Meetings Act, to
discuss pending litigation with its attorney under Section 551.071 of the Act, to receive legal advice from its attorney under Section 551.071 of the Act, to discuss certain personnel matters under Section 551.074 of the Act and to discuss real estate matters under Section 551.072 of the Act, and to discuss issues related to Fraud, Waste and Abuse under Section 2306.039(c) of the Texas Government Code.

Session will be held in the anteroom, right here behind this. The date is May 8th. And the time is 11:34. We expect this to be relatively short; 20 minutes or so. Twenty minutes or so. We will be back in here, certainly by noon. We will take comment for the next session and then we will close it down after that. So see you at 12 o'clock.

(Whereupon, the Board recessed into Executive Session at 11:35 a.m.)

MR. OXER: Okay. The Board is now reconvening in open session at 12:03. Pretty close. We got it pretty close to being right that time.

We received counsel and guidance from our General Counsel and from the Attorney General's office. And no decisions were made. It was only informative. So we have reached the point in the agenda, we have addressed each of the items.
We are to the point now where I will ask for public comment. Are any items -- get up here. Hold on a second. Any items that anybody would like to speak on, in terms of generating information for future agendas, other than for the items that we had posted?

(No response.)

MR. OXER: Is there any public comment?

(No response.)

MR. OXER: Any of the staff care to offer any comments?

(No response.)

MR. OXER: You could cheer us on. You know, you could just keep going.

(Applause.)

MR. OXER: That is a good crew you have got out there, Tim. Okay. Any members of the Board feel like a comment?

MR. THOMAS: Yes.

MR. OXER: Okay. Mr. Thomas.

MR. THOMAS: I would like to have us work with our Executive Director and our Chair, that being you, to come up with a concept or a development, whether it be an ad hoc committee or some other process that you working with our Executive staff as were appropriate to look at our high level review of our policy directions, including
those associated with the financial directions that we have discussed to make sure that we are all understanding, appreciating and still in concurrence with those policy initiatives that we are responsible for as a Board.

MR. OXER: I think that is a good idea. It is worthy of periodic maintenance and directional course modifications as needed. So we will work on that. We will put that in for the next one.

So that said, it is a good thing that we do here, folks. It is an important thing to make available the resources that we have to those that need them in this state.

So given that -- and you are in the way of my tuna fish sandwich. So I will entertain a motion to adjourn.

MS. BINGHAM ESCAREÑO: So moved.

MR. OXER: Motion by Ms. Bingham to adjourn.

MR. THOMAS: Second.

MR. OXER: Second by Mr. Thomas. No discussion required. All in favor?

(Chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. See you in a month, folks.
(Whereupon, at 12:06 p.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board
LOCATION: Austin, Texas
DATE: May 8, 2014

I do hereby certify that the foregoing pages, numbers 1 through 97, 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.

/s/ Carol Bourgeois 05/13/2014
(Transcriber) (Date)

On the Record Reporting
3636 Executive Ctr Dr., G-22
Austin, Texas 78731