

06/06/05



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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD MEETING OF JUNE 13, 2002

Michael Jones, Chair  
C. Kent Conine, Vice-Chair

Beth Anderson, Member  
Vidal Gonzalez, Member

Shadrick Bogany, Member  
Norberto Salinas, Member

**BOARD MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Capitol Extension, Room E1.012, 1400 North Congress, Austin, Texas 78701**  
**June 13, 2002                      9:45 a.m.**

**AGENDA**

**CALL TO ORDER, ROLL CALL  
CERTIFICATION OF QUORUM**

Michael Jones  
Chair of Board

**PUBLIC COMMENT**

The Board will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Board.

The Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

- |        |   |                |
|--------|---|----------------|
| Item 1 | Presentation, Discussion and Possible Approval of Minutes of Board Meeting of May 9, 2002   | Michael Jones  |
| Item 2 | Presentation and Discussion on Disability Advisory Council Report   | Michael Jones  |
| Item 3 | Presentation and Discussion on Report from Association of Rural Communities In Texas  | Michael Jones  |
| Item 4 | Presentation, Discussion and Possible Approval of Proposed Reorganization of the Texas Department of Housing and Community Affairs and its Divisions                                      | Michael Jones  |
| Item 5 | Presentation, Discussion and Possible Approval of Request for Proposals for Trustee Services for the Departments Single Family Mortgage Revenue Bond Indentures and Other Related Matters | C. Kent Conine |
| Item 6 | Presentation, Discussion and Possible Approval of Proposed Rules Relating to the Housing Sponsor Tenant and Management Selection  | Michael Jones  |
| Item 7 | Presentation, Discussion and Possible Approval of Report from Audit Committee:<br>Approval of Amended Fiscal Year 2002 Audit Plan   | Vidal Gonzalez |

External Audit Reports:

Deloitte & Touche: Report to Management Year Ended 08-31-01;  
KPMG / State Auditors Office: Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program And on Internal Control over Compliance in Accordance with OMB Circular A-133;

Internal Audit Reports:

Status of Prior Audit Issues  
Summary Status of Internal/External Audits

- |        |   |  |
|--------|---|--|
| Item 8 | Presentation and Discussion on Central Database Project Status Report |  |
|--------|---|--|

Item 9 Presentation, Discussion and Possible Approval of Low Income Housing Tax Credit Items: Michael Jones

- a) Requests for extensions of the June 14 Deadline for Closing of Construction Loans for:
  - 01007 The Grand Texan McKinney, Texas
  - 01027 The Springdale Estates Austin, Texas
  - 01042 Fountains at Tidwell Houston, Texas
  - 01069 North Star Apartments Raymondville, Texas
  - 01076 Laurel Point Sr. Apartments Houston, Texas
  - 01077 Bell Oaks Village 11 The Woodlands, Texas
  - 01108 Logan’s Pointe Mt. Vernon, Texas
  - 01111 Village at Meadowbend Temple, Texas
  - 01144 Autumn Oaks of Corinth Corinth, Texas
  - 01149 Clark’s Crossing Apartments Laredo, Texas
  - 01152 Parkway Sr. Apartments Pasadena, Texas
- b) Approval of Restructuring and Reduction of Units of Grand Texan Seniors Community, McKinney, Texas

Item 10 Presentation, Discussion and Possible Approval of Proposed Rules Relating To the Process for Certifying Community Housing Development Organizations Michael Jones

Item 11 Presentation, Discussion and Possible Approval of Adoption of Multifamily Bond Program Property Tax Exemption Policy Michael Jones

Item 12 Presentation, Discussion and Possible Approval of Methodology for Single Family Sub-Prime Lending Market Study Michael Jones

**REPORT ITEMS**

Executive Directors Report Edwina Carrington

Collateralized Home Mortgage Revenue Bonds, Series 1991A,  
 GNMA Sale, Closing and Bond Redemption  
 Taxable Junior Lien Mortgage Revenue Bonds,  
 Series 2002A Pricing and Closing  
 Single Family Mortgage Revenue Bond Indenture Economics  
 Testimony: Urban Affairs Meeting of 05-08-02;  
 Financial Institutions of 06-12-02;  
 Urban Affairs of 06-12-02;  
 Border Affairs of 06-21-02

**EXECUTIVE SESSION**

Litigation and Anticipated Litigation (Potential or Threatened under Sec. 551.071 and 551.103, Texas Government Code Litigation Exception) Michael Jones

Consultation with Attorney Pursuant to Sec. 551.071(2), Texas Government Code

The Board may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session Michael Jones

**ADJOURN**

Michael Jones  
Chair of Board

*To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin, Texas 78701, 512-475-3934 and request the information.*

*Individuals who require auxiliary aids, services or translators for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can **be made**.*

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**BOARD MEETING**

**JUNE 13, 2002**

**ROLL CALL**

	Present	Absent
Michael Jones, Chair	_____	_____
Anderson, Beth, Member	_____	_____
Bogany, Shadrick, Member	_____	_____
Conine, C. Kent, Vice-Chair	_____	_____
Gonzalez, Vidal, Member	_____	_____
Salinas, Norberto, Member	_____	_____
Number Present	_____	
Number Absent		_____

\_\_\_\_\_, Presiding Officer

Item 1  
Presentation, Discussion and Possible Approval of Minutes of Board Meeting of May 9, 2002

**ACTION ITEM**

Approval of the Minutes of the Board Meeting of May 9, 2002.

**BACKGROUND**

The Board shall approve minutes of each meeting. These minutes shall be approved as written or with revisions, changes, etc.

**RECOMMENDATIONS**

The Board Secretary is requesting approval of the minutes of the meeting of May 9, 2002.

**BOARD MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Hilton North Hotel, 6000 Middle Fiskville Road, Austin, Texas 78752**  
**May 9, 2002                      9:30 a.m.**

**Summary of Minutes**

**CALL TO ORDER, ROLL CALL**

**CERTIFICATION OF QUORUM**

The Board Meeting of the Texas Department of Housing and Community Affairs of May 9, 2002 was called to order by Board Chair Michael Jones at 9:43 a.m. It was held at the Hilton North Hotel, 6000 Middle Fiskville Road, Austin, Texas. Roll call certified a quorum was present. Vidal Gonzalez and C. Kent Conine were absent.

Members present:

Michael Jones -- Chair

Shadrick Bogany -- Member

Norberto Salinas -- Member

Beth Anderson -- Member

Staff of the Texas Department of Housing and Community Affairs was also present.

**ACTION ITEMS**

**(1) Presentation, Discussion and Possible Approval of Minutes of the Board Meeting of April 11, 2002**

Motion made by Beth Anderson and seconded by Shadrick Bogany to approve the minutes of the Board Meeting of April 11, 2002.

Passed Unanimously

**PUBLIC COMMENT**

The Board will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Board.

Mr. Jones called for public comment on the Stonebrook Villas project which is planned for McKinney, Texas and the following gave comments concerning this project which is listed under Agenda Items 2a and 5a.

Don Dozier, Mayor of McKinney, Texas

Mayor Dozier was in attendance to address the wishes of the City Council of McKinney. He stated McKinney has a unique history of endorsing and promoting affordable housing. They have eight affordable housing projects with 512 units. The City Council desires to communicate a clear message that McKinney is supportive of housing initiatives of TDHCA. The City Council examined the effects of new multifamily housing would have on the community, especially on their ability to fund city services and schools through ad valorem taxes. They feel that the criteria for examining the concentration and densities of available housing in the state's approval process for proposed developments does not account for inequities that are created in rapidly growing communities. The City of McKinney asked that the TDHCA examine the effects of its guidelines for qualifying projects as it reviews its rules. He also asked that the board take these serious issues into consideration in deliberations in the review of the standards and rules that are used in the future.

Steve Bell, City Council Member, McKinney, Texas

Mr. Bell stated that their city is unique in that it is 150 years old and they have the second largest historic district in Texas. They are one of the heaviest taxed cities in Texas. The school district is growing and hitting their cap so new schools will need to be built. He asked the Board to look at the criteria used in selecting sites for multifamily housing.

They have 62% of multifamily housing and need relief as it takes money to provide the services to people and being able to provide tax monies for education. He asked if the Board does approve the Stonebrook Villas project that full taxes are paid by the developer to the city and school district.

Thad Helsley, Mayor Pro-Tem, McKinney, Texas

Mr. Helsley stated the City Council of McKinney has been working with the school district to address the problems they have with the tax base of their citizens. They want to continue to provide excellent services and excellent schools but it is difficult as they are growing at 13% to 15% annually. He stated he is a strong advocate of the programs that the TDHCA board provides. They need help in funding single family affordable housing projects. He asked the Board to consider the effect of the concentration criteria on the multifamily properties and consider this prior to the approval of the Stonebrook Villas project.

Brian Loughmiller, City Council Elect, Place 4, McKinney, Texas

Mr. Loughmiller stated that determining whether the criteria has been met on Stonebrook Villas is essential and he asked the Board to make sure the data is reliable and accurate. He stated there are no employment centers in the area of Stonebrook Villas and there is no demand for new employment in this area. He asked the Board to scrutinize the data they have been provided and to follow their guidelines on the multifamily program. He also asked that full taxes be paid on this project if the Board approves it.

Roger Davis, McKinney Citizens for Balanced Growth, McKinney, Texas

Mr. Davis stated he represented more than 2000 petitioners who have asked that the TDHCA board not approve the application for the Stonebrook Villas project. He stated this is a concentration issue that is important to McKinney as supports 62% of the LIHTC projects in Collin County. He felt the population used by the market analyst was not consistent and in some areas the population included senior citizens and in another calculation, the senior citizens were not included. He also felt the number of existing LIHTC units was not taken into consideration when staff reviewed this project.

Jerry Bushnell, Citizen, McKinney, Texas

Mr. Bushnell stated he and thirteen of his neighbors are against the project known as Stonebrook Villas. He stated their taxes are too high and the project will increase the city's expenses without bringing in additional revenue to support the city. Their schools are overcrowded and the school can not handle any additional students at this time and asked that the Board not approve Stonebrook Villas.

Jackie Brumley, Vice-President, McKinney Housing Finance Corp., McKinney, Texas

Ms. Brumley read a letter into the record from Sarah Thomas, Secretary of the Housing Finance Corporation and Chairman of the Board of McKinney Chamber of Commerce which stated:

"I regret not being there with you today at the hearing for the approval of Stonebrook Villas complex in west McKinney. As you know, the McKinney Housing Finance Corporation is hoping for a partnership opportunity with Southwest Housing in the event that the TDHCA elects to approve the project. Please be aware that at least four members of the HFC board had originally intended to attend today's meeting. As of last week we were given the impression that our city council would prefer it if we did not attend in a speaking capacity, and at that point we changed direction. Late yesterday we found out that we had perhaps misinterpreted our council's directive. At this point it was too late for most of us to change our plans. I do not want our absence in any way to send the message that the HFC no longer wishes to pursue a business relationship with Southwest Housing on this project, if indeed it is approved.

I also want to state that our city has always been very much in favor of affordable housing, as evidenced by our strong Habitat affiliate, our Rebuilding Neighborhoods Program, our Homes Down Payment Grant programs, and the recent Affordable Housing Task Force which was implemented by our city council. The funds that could be generated for the HFC from this project will be used primarily for the purchase and development of land for single-family homes. We also hope to hire a paid administrator in the near future to further enhance our mission to increase the number of affordable homes in McKinney. I hope that the TDHCA does opt to allow our non-profit to claim an ownership percentage in this project so that the tax savings will be passed on as rental savings to potential tenants. By forcing Southwest Housing to pay full taxes we may be increasing the tax benefit to our school district but we would also be increasing the cost to Stonebrook Villas residents. Thank you very much for the opportunity to explain my absence today. As both an HFC board and chairman of the board of the McKinney Chamber of Commerce, I plan to continue

taking an active role in the development of affordable housing in the city and I appreciate the opportunity to submit this letter. Regards, Sarah Thomas."

Brian Potashnik, President, Southwest Housing, Dallas, Texas

Mr. Potashnik thanked the Board for their time and endurance on this project. He also complimented TDHCA for their hard work and efforts on working on this project. He stated Southwest Housing has been developing projects in Texas for over ten years and have 22 projects in Texas, representing over 10,000 residents who are well served by the high quality of housing they produce. He stated the McKinney Chamber of Commerce supports this project and the development meets all of the standards that the state has in the Qualified Allocation Plan. He asked the Board to approve the project.

Rob Karl, Citizen, McKinney, Texas

Mr. Karl thanked the Board for the opportunity to voice his opinions and concerns. He stated he supports affordable housing and by McKinney having 62% of affordable housing in Collin County, it should be evident that they all support affordable housing. He stated at the TEFRA hearings there was no one there who supported the project except for the developer and members of the Housing Finance Corporation. He stated when this project was first called to his attention, he called Mr. Potashnik and Mr. Potashnik advised him that if the people did not want the project, that Mr. Potashnik would not build it. They gathered information and asked Mr. Potashnik to not build the project and to live by the code he gave them. He also asked the Board to not approve the project.

Cindy Evans, McKinney, Texas

Ms. Evans stated people who signed a petition against this project are citizens from all over McKinney and not just one area. She stated their fears are that the 300 people on the Section 8 housing waiting list will not get housing and their schools will become very overcrowded and asked the Board to not approve Stonebrook Villas.

Ken Vowell

Mr. Vowell asked to speak when agenda item 2b was presented.

James Beery

Mr. Beery asked to speak when agenda item 2b was presented.

Candice Pritzell, Southwest Housing Management, Dallas, Texas

Ms. Pritzell stated her employer covered the issues and she would not give comments.

Kasey Sutphen, Property Manager, Allen, Texas

Ms. Sutphen presented the board with rent rolls and a waiting list for a project, Grand Texan. She was under the impression that Grand Texan would be an agenda item at the meeting in April and May but it is still not being presented to the Board by TDHCA staff. She requested that the project be included on the Board's agenda for June. She stated their project of Country Lane, is a seniors community and they offer a restaurant style dining room, coffee shop, beauty shop, fitness center, inside mail room and daily social events. This apartment complex is 100% leased and they have 214 people on a waiting list. She asked that the Board include the Grand Texan in June and for the Board to give its approval to the project.

Elizabeth Julian, Lawyer & Fair Housing Specialist, Dallas, Texas

Ms. Julian did not speak.

Andy Siegel, Southwest Housing Management, Dallas, Texas

Mr. Siegel did not speak.

Cheryl Potashnik, Southwest Housing, Dallas, Texas

Ms. Potashnik did not speak.

Kenneth H. Mitchell, Developer, Benbrook, Texas

Mr. Mitchell stated his request is to reduce the market rate units in the Grand Texas but advised the Board that he will still be at 46% market rate units which is greater than the 40% required. He also asked the Board to have this project on their agenda next month for approval.

David Marquis, President of Southwest Dallas Neighborhood Association, Dallas, Texas

Mr. Marquis stated the relationship that their neighborhood has with Southwest Housing Management is great. He said Mr. Potashnik wrote his promises on paper and he kept them. He builds a beautiful project, is well maintained and has been an asset to their neighborhood.

Glenn Silva, Plano, Texas

Mr. Silva did not speak.

Diane Butler, Butler Burgher, Dallas, Texas

Ms. Butler did not speak.

Mary Ann Barnett, Butler Burgher, Dallas, Texas

Ms. Barnett did not speak.

Roger Davis, Dallas, Texas

Mr. Davis did not speak.

At this time, Mr. Jones closed public comment on agenda item 2a and part of 5a which concerned Stonebrook Villas.

- (2) **Presentation, Discussion and Possible Approval of Financial Items:**
- (a) **Approval of Proposed Issuance of Multifamily Mortgage Revenue Bonds For Stonebrook Villas, McKinney, Texas in an Amount not to Exceed \$12,200,000 and Other Related Matters**
- (5) **Presentation, Discussion and Possible Approval of Four Percent (4%) Low Income Housing Tax Credit Items:**
- (a) **Approval and Possible Issuance of Determination Notices to Tax-Exempt Bond Projects with TDHCA as Issuer: 01465 Stonebrook Villas McKinney, Texas**

Mr. Robert Onion, Director of Multifamily Bond Finance, stated the Department's concentration policy considers the existing proposed development and other affordable housing developments sponsored by the department that has not been stabilized for a twelve-month period. A calculation is made based upon affordable demand in the area. The amount of units that are stabilized plus the proposed units are then divided into that calculated demand for the designated market area. That capture rate cannot exceed 25%. He further stated that the McKinney area has seen a population explosion from 21,283 in 1990 to 54,369 in 2000. It is anticipated to be 66,000 people by year end 2002. There are also the towns of Frisco and Talon that are just as close to the proposed site as McKinney.

Mayor Salinas asked if the zoning had been approved by the City Council and was advised that the council vote was 7 for and 0 against Stonebrook Villas. Mayor Salinas also asked about a comprehensive plan for zoning throughout the city. He felt it is not up to TDHCA to decide where a project is going to be located, but to vote on the bonds and credits. He felt the Board's job is to do what is right for housing and staff's job is to recommend or not recommend the project. He stated this is a local issue for the City Council to approve or not approve the zoning.

Mayor Dozier stated that some of Mr. Onion's information was in error. They do have 33,000 units zoned for multifamily but the zoning for this project was done in the 1980s and they have no legal remedy but than to support affordable housing. He asked that the City of McKinney not be allocated a number of affordable housing units just because of the ten-mile radius. They have carried the burden for Collin County.

Mr. Tom Gouris, Director of Credit Underwriting, stated that TDHCA is trying to remedy a potential problem with putting too many units in one place at one time (with its concentration policy). He also stated they looked at the tax assessment and TDHCA's database of other projects that are the same size in large metro areas and used an average to determine the rate on the underwriting report.

Motion made by Beth Anderson and seconded by Shadrick Bogany to approve Stonebrook Villas with a condition that a LURA would be put on this site for 30 years and that assures all the local taxing authorities that all of the appropriate taxes will be paid by this developer and to approve the issuance of a determination notice on this project. The amounts of private activity mortgage revenue bonds is \$12,200,000 and the amount of tax credits is \$631,583.

Passed Unanimously

Ms. Anderson stated she took a special interest in this project as she lives in Dallas and because of the community interest. She read all the packets and the transcripts of both hearings. She asked staff follow-up questions and she has given this approval a lot of thought and believes affordable housing is key to successful economic development.

At this time Mr. Jones took additional public comments on other items.

Dario Chapa, Bexar County Housing Authority, San Antonio, Texas

Mr. Chapa stated he did not get to attend hearings on tax projects as he was ill but wants the board to know that San Antonio is very supportive of the Heatherwilde project proposed for San Antonio.

Henry Flores, Real Estate Development, Austin, Texas

Mr. Flores thanked the Board for the project previously approved and advised them that they have closed the transaction.

Manuel Macias, Jr., Exec. Dir., San Antonio Development Agency, San Antonio, Texas

Mr. Macias stated he wanted to keep the board informed on the El Capitan tax credit application. This project is located in an empowerment zone and qualified census tract.

- 2(b) **Approval of Proposed Issuance of Multifamily Mortgage Revenue Bonds for Veteran's Memorial (a.k.a. Parkway Pointe), Houston, Texas in an Amount not to Exceed \$14,700,000 and Other Related Matters**
- (5) **Presentation, Discussion and Possible Approval of Four Percent (4%) Low Income Housing Tax Credit Items:**
- (a) **Approval and Possible Issuance of Determination Notices to Tax-Exempt Bond Projects with TDHCA as Issuer:**

**02404 Veterans Memorial Houston, Texas**

Mr. Robert Onion stated it is staff's recommendation to decline this transaction. Staff considered four issues to be part of that decline. These are: (1) project did not meet TDHCA's concentration policy; (2) staff was unable to come to a bond amount which they felt comfortable recommending; (3) property is in the flood plain; and (4) underwriting was unable to approve the costs that were submitted by the applicant.

Mr. Gouris stated there was an alternative for consideration if there was any thought given to go with an alternative proposal and this was in the report.

The following then gave comments.

Kim Vowell, Wheat Ridge, Colorado

Mr. Vowell stated this project is a proposed 250 unit townhome and garden style apartment complex that will provide rents to families at or below 50% AMFI. It has an excellent amenity package and is extremely well located next to an elementary school, has public transportation and freeway systems immediately available for residents. The architect is Kaufman Meeks. The Brisben Companies have been active in the State of Texas and around the country doing multifamily projects. He stated the TDHCA underwriter determined four areas that led to a recommendation to deny their application. On the flood plain, he stated they are engineering this development to deal with these issues in a most accepted engineering method that protects citizens and property.

On development costs being lower than is reasonable acceptable, he stated their costs are in line with the engineer's estimate and establish the mark they believe should be underwritten. He stated there was an issue on expenses and staff saw their numbers on operational expenses as questionable. They have experience in this area and their appraiser is here to support their operational expenses.

Jerry C. Fletcher, Appraiser, Cincinnati, Ohio

Mr. Fletcher stated they prepared a complete appraisal analysis of the proposed property. In that analysis, they did an income approach which included an operating expense analyses. The problem seems to be the variance in the operating expense where they show an expense of \$2,850 per unit and TDHCA shows \$3,215 per unit. The developer has an estimate of \$2,680. He stated TDHCA's expenses are too high.

James Beery, The Danter Company, Columbus, Ohio

Mr. Beery conducted the market study on this project. On the concentration issue, they checked the inventory of properties completed by TDHCA as well as projects that were in the pipeline. Since that time there have been two other projects and another on the boundaries of the market area. He stated that all these projects are competing within the larger area and this is the market area to look at in the concentration of potential units.

Andrew Kane, Brisben Developments, Denver, Colorado

Mr. Kane reviewed the financing aspects of this project and stated the bond program provides for the downward adjustment to bond size upon stabilization to reconcile projected versus actual operating income. He asked that the Board approve \$14,200,000 for this project.

Kelly Elizondo, HIC, Austin, Texas

Mr. Elizondo did not speak.

Cynthia Bast, Attorney, Austin, Texas

Ms. Bast did not speak.

Don Paxton, Brisben Developments, Cincinnati, Ohio

Mr. Paxton asked to provide information as needed by the Board.

Donald R. Phillips, Engineer, Houston, Texas

Mr. Phillips stated he was in attendance to answer any questions regarding the flood plain problems with the development.

Mr. Bogany asked if the Board could move on with the agenda and have the Veterans Memorial Group and TDHCA staff review the conditions to see if a solution can be reached on the differences that have been noted.

TDHCA staff and representatives of Veterans Memorial then met to discuss the differences, etc.

- (6) **Presentation, Discussion and Possible Approval of Proposed Rules Relating To the Process for Certifying Community Housing Development Organizations**
- (7) **Presentation, Discussion and Possible Approval of Adoption of Multifamily Bond Program Property Tax Exemption Policy**

At this time Mr. Jones stated that Agenda Items No. 6 and 7 were going to be tabled until the next meeting.

Alicia Gallegos Gomez, Corpus Christi, Texas

Ms. Gomez stated she was recommending that the staff take an even stronger position concerning the CHDOs being certified. She asked that TDHCA be clear in saying what a CHDO is entitled to do and one item concerns the ad valorem tax exemption. She felt the Board needs to determine if this should be included in the CHDO certification.

Trey Yelverton, Director, City of Arlington, Arlington, Texas

Mr. Yelverton stated he supported staff's recommendation relative to the CHDO certification process. He was in support of CHDO items 6 and 7 of 5b which was determination notices for tax credit projects.

Reymundo Ocanas, Austin, Texas

Mr. Ocanas did not speak.

John Henneberger, Austin, Texas

Mr. Henneberger did not speak.

Jean Langdendorff, Interim Executive Director, Home of Your Own, Austin, Texas

Ms. Langdendorff asked the Board to make a commitment to obtain the data on the number of families with disabilities in need of housing or who are on the waiting list for Section 8 tenant based rental. She requested a preference for admittance to Section 8 tenant based assistance for people with disabilities and for TDHCA to submit an application to HUD for the Mainstream Voucher Program. She also asked that HOYO be included in efforts for home ownership.

**(3) Presentation, Discussion and Possible Approval of Programmatic Items:**

**(a) Approval of Section 8 Program Public Housing Authority Plan for the Year 2002 and Other Related Matters**

Mr. David Burrell, Director of Housing Programs, stated staff was recommending that the PHA Plan be approved as presented.

Motion made by Shadrick Bogany and seconded by Beth Anderson to approve the PHA Plan as presented.  
Passed Unanimously

**(3)(b) Approval of the Proposed Rules Relating to the Housing Sponsor Tenant and Management Selection**

By unanimous consent of the Board, Item 3b will be presented at the next months meeting.

**(3)(c) Approval of the HOME Program Awards for Disaster Relief:**

<b>Applicant</b>	<b>Act.</b>	<b>Score</b>	<b>Region</b>	<b>Units</b>	<b>Rec. Amount</b>
City of Kenedy	OCC	251	8A	6	\$312,000
City of Stockdale	OCC	241	8A	7	\$364,000
Jim Wells County	OCC	267	8B	9	\$520,000
Rural Eco. Asst. League	OCC	257	8B	9	\$520,000
Inst. For Rural Dev.	OCC	257	8B	9	\$520,000
City of Freer	OCC	246	8B	9	\$520,000
City of Alice	OCC	256	8B	10	\$520,000
City of Paducah	OCC	226	8B	25	\$520,000
Paducah Friends of Lib.	OCC	220	02	9	\$520,000
Cottle County	OCC	220	02	9	\$520,000
City of Hondo	OCC	247	02	10	\$520,000
Medina County	OCC	257	02	9	\$520,000

Motion made by Beth Anderson and seconded by Norberto Salinas to approve the HOME Program Awards for Disaster Relief of: City of Kenedy for \$312,000; City of Stockdale for \$364,000; Jim Wells County for \$520,000; Rural Eco. Asst. League for \$520,000; Inst. For Rural Dev. for \$520,000; City of Freer for \$520,000; City of Alice for \$520,000; City of Paducah for \$520,000; Paducah Friends of Lib. \$520,000; Cottle County \$520,000; City of Hondo \$520,000; Medina County \$520,000.  
Passed Unanimously

**(2)(c) Approval of Request for Proposals for Trustee Services for the Departments Single Family Mortgage Revenue Bond Indentures and Other Related Matters**

By unanimous consent of the Board, Item 2c will be presented at the next months meeting.

**(2)(d) Approval of Resolution Approving Documents Relating to the Issuance of Single Family Mortgage Revenue Bonds, 2002 Series A, 2002 Series B, 2002 Series C, and 2002 Series D and Other Related Matters**

Mr. Byron Johnson, Director of Bond Finance, stated this item pertains to bond transactions for TDHCA.

Motion made by Shadrick Bogany and seconded by Norberto Salinas to approve the documents relating to the issuance of single family mortgage revenue bonds, 2002 Series A, B, C, and D.  
Passed Unanimously

**(2)(e) Approval of Underwriting Team for the Issuance of Single Family Mortgage Revenue Bonds, 2002 Series A, 2002 Series B, 2002 Series C, 2002 Series D and Other Related Matters**

Mr. Johnson stated this is the recommendation for the investment banking team for the single family mortgage revenue bonds, Series 2002 A, B, C, and D and the team will consist of:

Sr. Manager	Solomon Smith Barney
Co Sr. Manager	M. R. Beal & Company
Co Manager	Goldman Sachs
Co Manager	First Southwest
Co Manager	Siebert Brandford

Motion made by Norberto Salinas and seconded by Beth Anderson to approve the staff's recommendation of the above firms of Solomon Smith Barney; M.R. Beal & Company, Goldman Sachs, First Southwest and Siebert Brandford.

Passed Unanimously

**(4) Presentation, Discussion and Possible Approval of Report from Audit Committee:**

**(a) Approval of Amended Fiscal Year 2002 Audit Plan**

**External Audit Reports:**

**Deloitte & Touche: Report to Management Year Ended 08-31-01;  
KPMG / State Auditors Office: Independent Auditors' Report on  
Compliance with Requirements Applicable to Each Major Program  
And on Internal Control over Compliance in Accordance with OMB  
Circular A-133;**

**Internal Audit Reports:**

**Status of Prior Audit Issues  
Summary Status of Internal/External Audits  
Central Database Project Status Report**

By unanimous consent of the Board, item 4 will be presented at the next months meeting.

**(5)(b) Approval and Possible Issuance of Determination Notices to Tax-Exempt Bond Projects with Local Bond Issuers: for 01482, North Arlington Srs., Arlington, Texas; and 02403, Matthew Ridge Apts., Houston, Texas**

Mr. Gouris stated staff is recommending \$574,331 for North Arlington Seniors Apartment in Arlington, Texas and \$562,190 for Matthew Ridge Apartments in Houston, Texas.

Motion made by Beth Anderson and seconded by Shadrick Bogany to approve staff's recommendation and to issue determination notices in the amount of \$574,331 for North Arlington Seniors Apartment in Arlington and \$562,190 for Matthew Ridge Apartments in Houston both being subject to the conditions listed in the underwriting analysis.

Passed Unanimously

The Board then returned to agenda 2(b) and 5(a) concerning Veterans Memorial in Houston, Texas

Don Paxton, Brisben Companies, Cincinnati, Ohio

Mr. Paxton stated the Brisben Companies still felt the original market study that was submitted showed that they were under the 25% capture ratio.

Mr. Gouris stated if one looks at the whole market area, the concentration would be fine but this was not submitted originally and it was only at the last hour that additional information was submitted and this did not give staff time to look at the information.

Mr. Onion stated if they could work out the concentration issues the bond amount would only be \$13,500,000 and there still is a difference from what was originally requested by Veterans Memorial. On the flood plain issue, the engineer would work closely with the Harris County Flood Control District and get the necessary support so staff would feel comfortable with the issue.

Mr. Bogany asked why the developer waited so late to redo and submit the information on the concentration issue.

Mr. Paxton stated they only found out about this issue two weeks ago and they did not know that the EARAC was meeting to review the item and Brisben was under the impression that they had time to submit everything.

Ms. Anderson asked staff to come up with a better process than what the board has seen on these two transactions and asked for ideas in the future to address this problem.

Motion made by Norberto Salinas and seconded by Beth Anderson to deny the issuance of multifamily bonds

and tax credits on Veterans Memorial.  
Passed Unanimously

**REPORT ITEMS**

Executive Directors Report

Taxable Junior Lien Mortgage Revenue Bonds, Series 2002A Pricing and Closing;  
Single Family Mortgage Revenue Bond Indenture Economics;  
Collateralized Home Mortgage Revenue Bonds, Series 1991A, GNMA Sale,  
Closing and Bond Redemption  
Urban Affairs Meeting of 05-08-02

The Executive Directors Report was not presented.

**EXECUTIVE SESSION**

Litigation and Anticipated Litigation (Potential or Threatened  
under Sec. 551.071 and 551.103, Texas Government Code  
Litigation Exception)  
Consultation with Attorney Pursuant to Sec. 551.071(2), Texas  
Government Code  
The Board may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Action in Open Session on Items Discussed in Executive Session

Mr. Jones announced that there an Executive Session would not be held.

**ADJOURN**

Motion made by Beth Anderson and seconded by Norberto Salinas to adjourn the meeting.  
Passed Unanimously

The meeting adjourned at 12:55 p.m.

Respectfully submitted,

Delores Groneck  
Board Secretary

Bdminmay9/dg

Item 2

**Presentation by the Disability Advisory Committee  
To the Board of the Texas Department of Housing and Community Affairs**

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***Background***

In August of 2000, the Board of Directors for TDHCA authorized the Disability Advisory Committee (“DAC” or “the Committee”). The purpose of this Advisory Committee is to provide information and recommendations to the Board on the housing needs of people with disabilities. The Board appointed the members of this Committee in October 2001. The Committee held its first meeting in January and has met monthly since that time.

***Requested Action***

Present the Committee’s first set of recommendations to improve the housing needs of people with disabilities (see attached document).

The report will be given by Jonas Schwartz, who is currently serving as Chair.

# Disability Advisory Group

DRAFT

## Recommendations

### ***General Recommendations for the Agency***

1. Improved commitment to people with disabilities, including significant participation in the State of Texas Olmstead Plan Implementation.
2. Continued commitment of a minimum of \$30 million dollars from Housing/Housing Finance programs, including activities beneficial to people with disabilities such as barrier removal, rental assistance, down payment assistance, etc.
3. Review of agency planning documents by the Disability Advisory Committee needs to occur prior to the public comment period.
4. The Department's workload has steadily increased over the years without additional staff. We recommend that additional FTEs be added to the agency "cap" to accommodate specific additional activities to benefit people with disabilities and implementation of the Olmstead Supreme Court Decision.
5. The agency needs to seek and commit resources to conduct an in-depth study of the housing needs and preferences of people with disabilities (using the TDOA activity as a model). Funding must be appropriated to support the effort.
6. Commit to Board training regarding people with disabilities, per the Sunset Legislation requirement.

### **Overall Program Recommendations (across programs)**

1. Integration of people with disabilities must be evident in every program's rules and description. After receiving public input, the Disability Advisory Committee will present a comprehensive definition of integration for Board consideration.
2. Compliance with Section 504, ADA and FHA must be evident in every program. This includes implementation of a mandatory Self Assessment as part of the application process.

## ***Specific Program Recommendations***

### HOME

1. Tenant based rental assistance is the fastest, easiest way for extremely low income households – such as the households of people with disabilities - to access existing housing. The 20% target for TBRA in this program needs to be exempt from the regional allocation formula.
2. Assess the effect of the 95% rural requirement on people with disabilities.

### Trust Fund

1. Capacity Building money needs to target organizations that need to build capacity (not organizations that already have capacity).

### PHA/Section 8

1. Apply for Mainstream Housing Vouchers. If necessary, contract out the administration of these vouchers.
2. Implement the 35 Project ACCESS vouchers and apply for more!

# Association of Rural Communities in Texas

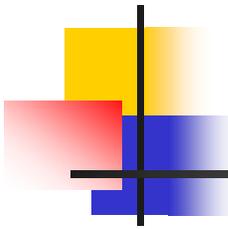
A **STRONG** Voice for Rural Texas

# Why ARCIT?

ARCIT was founded by leaders from rural Texas just before the 77<sup>th</sup> Legislative Session in order to provide a new resource for preserving and improving the quality of life in rural Texas.

ARCIT members have a voice that speaks not only as a representative of local governments or other development organizations but also as a representative of rural Texas, with our own issues and perspectives.

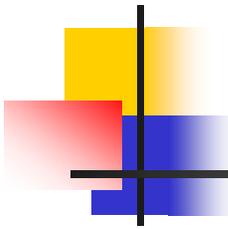
The ARCIT board decided to hire their first Executive Director in March, 2002 in order to broaden its membership and to strengthen its voice.



# Who is ARCIT?

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ARCIT is organized as a 501(c)(4) non-profit organization with a ten-member board of directors representing local governments and development organizations.



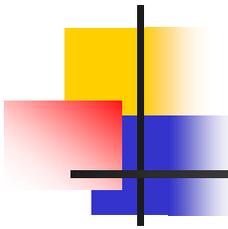
# Who makes up our membership?

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Voting members include:

- Incorporated cities with a population of 50,000 or less
- Counties with the population of 200,000 and less
- Economic Development Corporations formed and controlled by a qualified city or county
- A district or other entity formed under state law to provide water or sewer utility services in a qualified city or county

Associate, non-voting members includes those who service rural Texas such as engineers, architects, Council of Governments, community developers, grant writers, statewide associations and other rural stakeholders.



# Who is on the ARCIT Board?

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- Jim Dunaway, City Manager of Elgin, President
- Danny Fryar, City Manager of Stanton, Secretary
- Lori Berger, Mayor of Flatonia
- Mike Brown, County Judge of Tom Green County
- Mike Mauldin, Mayor of Idalou
- Richard Evans, County Judge of Bandera
- Sunny Philip, City Manager of La Feria
- Emett Alvarez, Executive Director of Bay City Community Development Corporation
- Chuy Garcia, City Manager of Fort Stockton
- Arnoldo Saenz, County Judge of Jim Wells County

The board meets monthly in a rural city.

# ARCIT'S Mission Statement

- By being a strong voice and resource to government, we promote the policy of best practices in the delivery of public services to enhance the quality of life for all rural Texans.

# How do we plan to accomplish our mission?

After hiring their first Executive Director in March, 2002, the board went on a retreat in April, 2002 in order to establish a strategic plan to accomplish their mission. Some of the goals included:

*Membership Goals:* Develop a membership base that will represent a broad cross-section of rural Teas in order to be a reliable resource and rural voice for the State legislature and State agencies.

*Legislative Goals:* Build a reputation of being a policy facilitator for rural Texas by building a broad based membership and partnership with rural stakeholders, state agencies and state legislators through educational tools.

# What kind of services can ARCIT provide to TDHCA?

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- *ARCIT will conduct quarterly surveys* to its membership addressing concerns, issues and legislative mandates of rural Texas. ARCIT will communicate with TDHCA staff each quarter to get their input/desires of questions to put on the quarterly survey to help clarify rural concerns, define program challenges, assist in developing new programs for rural Texas, etc. ARCIT will share the results of the quarterly survey with the appropriate state agencies and state legislators. *Example: Average age of water/sewer lines in rural Texas*
- *Roundtables will be developed* to partner with TDHCA and other state agencies in assisting in program/policy development/redirection from a *proactive planning stance*. Participants can include selected ARCIT board members, appropriate agency staff, agency board members, Governor's, Lt. Governor's and Speaker's office, Rural Caucus member/staff, and other interested parties. Research on the roundtable discussion will be provided to the participants before the meeting by ARCIT. Topics will be selected based on forecasting of program needs, concerns, etc. *Example: How do you build up local capacity?*

# Why Surveys & Roundtables?

American Planning Association (APA) did a study which determined that the most effective means of gaining true public involvement included questionnaires, surveys and advisory groups/ad hoc committees (roundtables). The study found these tools were:

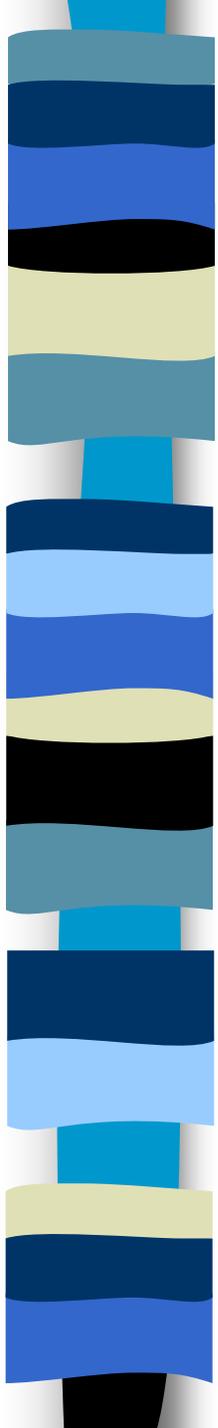
- Excellent in obtaining accurate/relevant information
- Excellent in obtaining genuine interaction (ad hoc/advisory groups)
- Excellent in assuring the quality of the information
- Excellent in the representation of the constituency

**ARCIT is here to walk beside TDHCA as  
its partner as we journey down the road  
on how to best serve rural Texas---  
together.**

# TDHCA Organizational Restructuring Plan

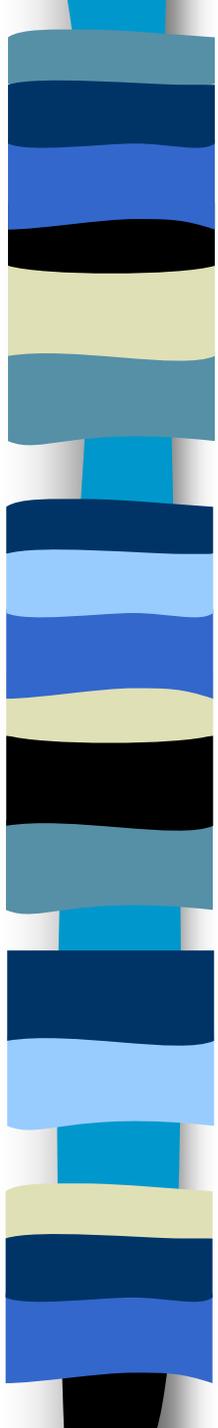


June 13, 2002



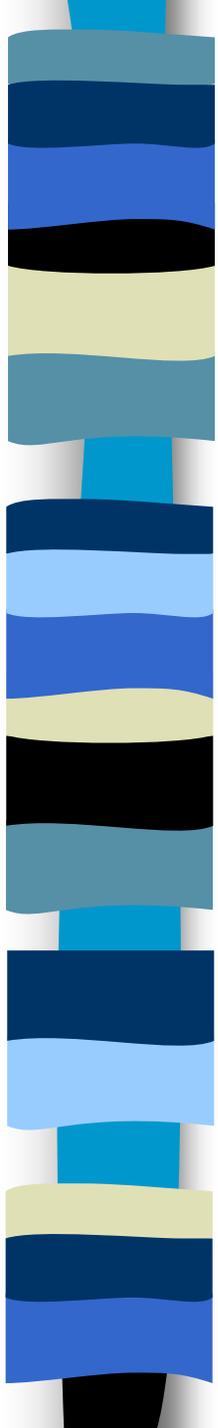
# Agenda

- The Big Picture
- Why Reorganize?
- Restructuring Change Plan
- Reorganization Timeline
- Phase I Steering Committee
- Presentation of New Organizational Structure
- What Does this Mean to Me?
- Next Steps
- Open Discussion



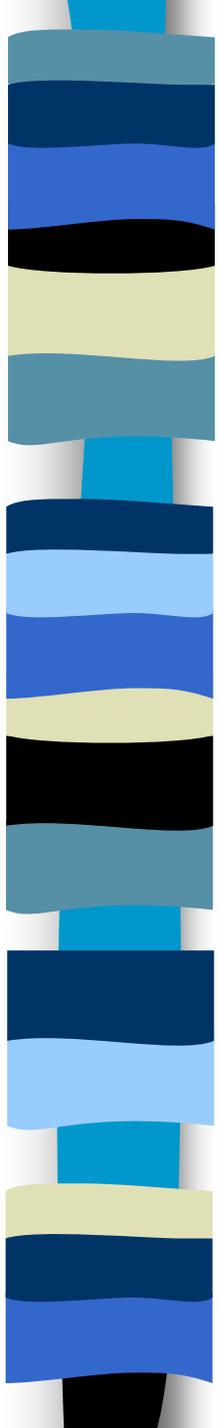
# TDHCA Vision

- My vision for TDHCA is to re-establish our credibility by utilizing the skills and abilities of our talented staff, and the dedication and commitment of our Board of Directors, to create a state housing finance and community affairs agency that is responsive to the needs of our state's lower income citizens and accountable to the Legislature.
- We will design and implement our programs in a manner that is consistent with agency goals and strategic priorities through processes that are logical, transparent, and focus on production.
- My vision is to create a state housing finance and community affairs agency that will be a model of professionalism and integrity.



# TDHCA Mission

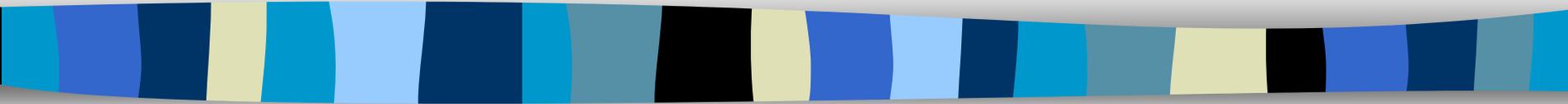
- **To help Texans achieve an improved quality of life through the development of better communities**

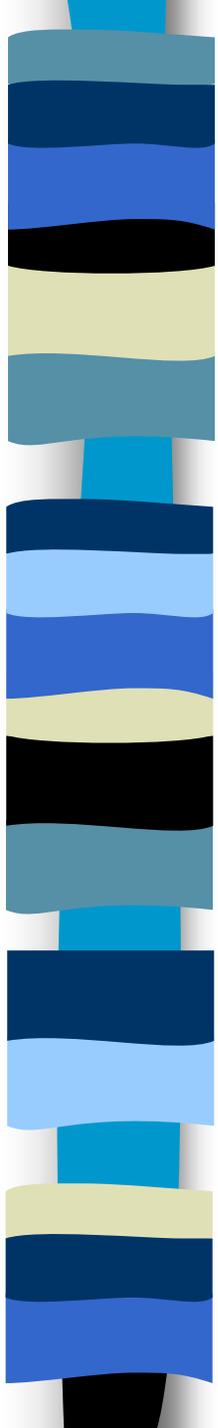


# TDHCA's Direction

- Create momentum to move forward in productive, innovative ways
- Earn the reputation of a “turnaround agency”
- Tackle more creative and innovative initiatives such as the \$10 million Taxable Junior Lien Program
- Be proactive rather than reactive – especially with the Legislature – take the initiative
- Become a leader for housing policy in the state
- Be a partner with advocates, housing providers, and trade associations

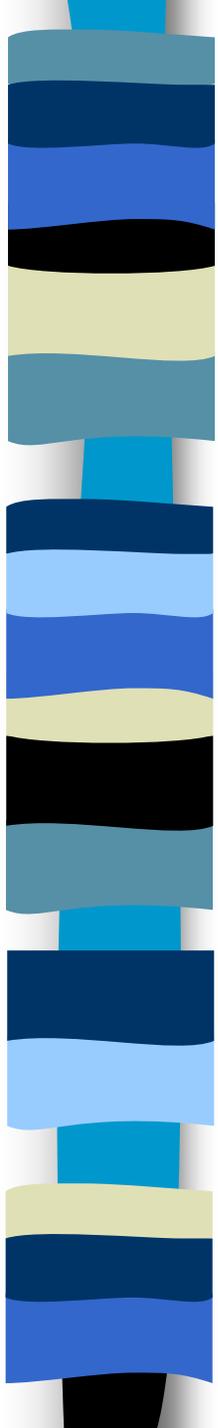
# Intentionally Left Blank





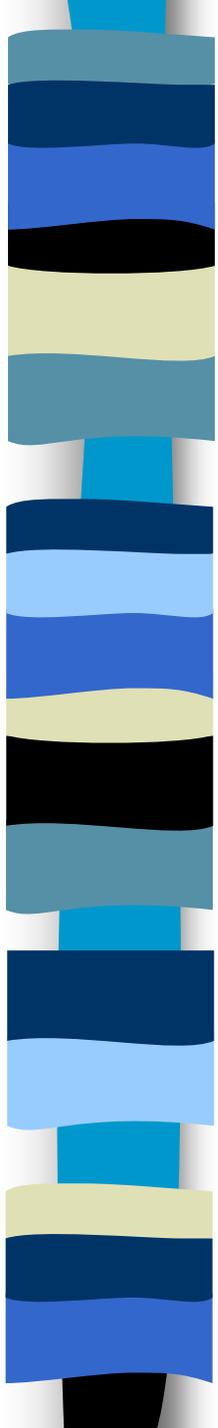
# Why Reorganize?

- Senate Bill 322 (Sunset Legislation)
  - Establish a functional organizational structure
  - Ensure the state's objectives regarding housing and community support services are fulfilled
  - Ensure the state's most critical needs regarding housing and community support services are identified and met
  - Achieve the best use of state resources
  - Establish project compliance procedures to ensure that programs of the department provide fair access to housing
- We want TDHCA to *continue* to exist



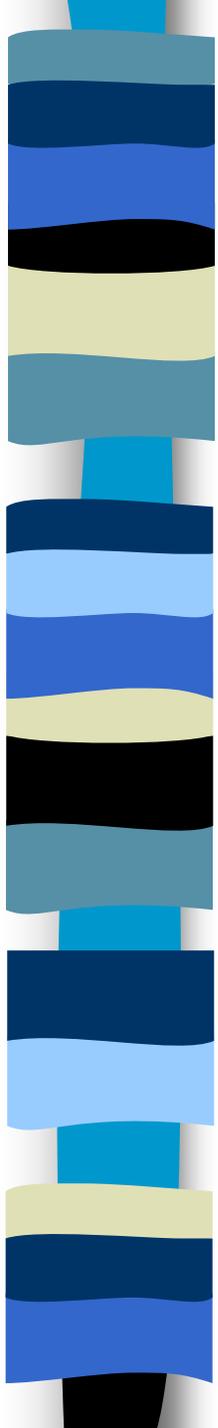
# Why Reorganize?

- Organization based on sound business principles
- Rationale
  - Desire to move forward
  - TDHCA wants to be more efficient, effective, and accountable – compassionate, too!
  - Programmatic structure has evolved and is not appropriate
  - Most state housing finance and community affairs agencies are not organized this way
  - *Horizontal* communication can be improved
  - Facilitate the creation of positive changes for staff, agency, clients, and stakeholders
  - Create better organizational checks and balances to divide responsibility so that no one area has all the authority



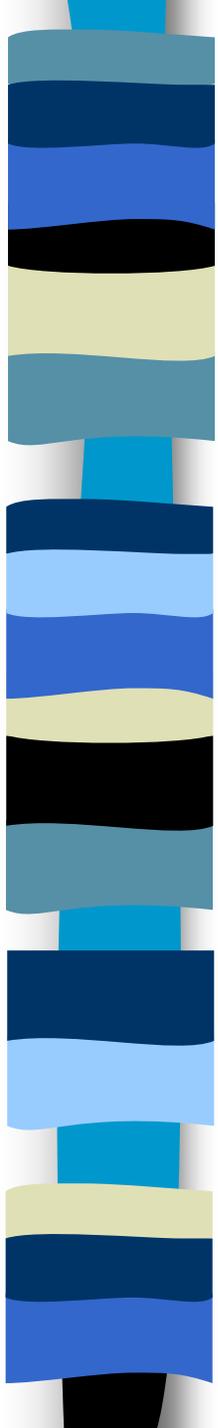
# Benefits of Reorganizing

- Comply with Sunset Legislation
- Better utilize staff resources
- Increase efficiency and effectiveness
- Increase service delivery and scope
- Create a focus on production with accountability
- Improve controls to better monitor performance
- Increase effectiveness of follow-up systems
- Be more responsive to our internal and external customers



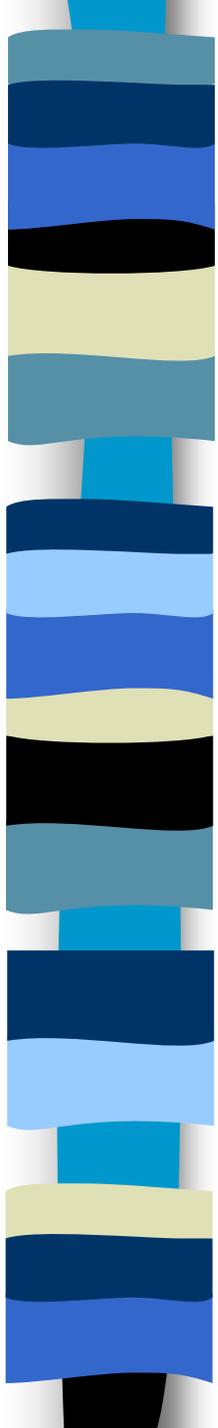
# 3 Phases of Restructuring Change Plan

- Phase 1: Deliver message to organization
- Phase 2: Design implementation of new structure
- Phase 3: Implement new structure



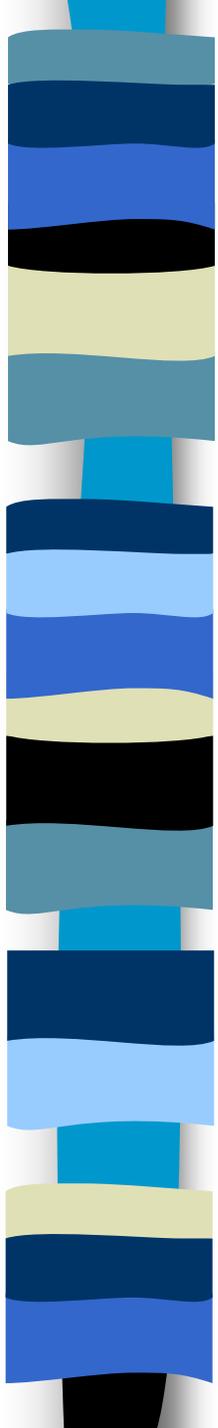
# Phase 1: Deliver Message to Organization

- May 17 to June 14, 2002
- Steering committee will:
  - Develop communication means and message
  - Collect data on implementing new structure and possible barriers



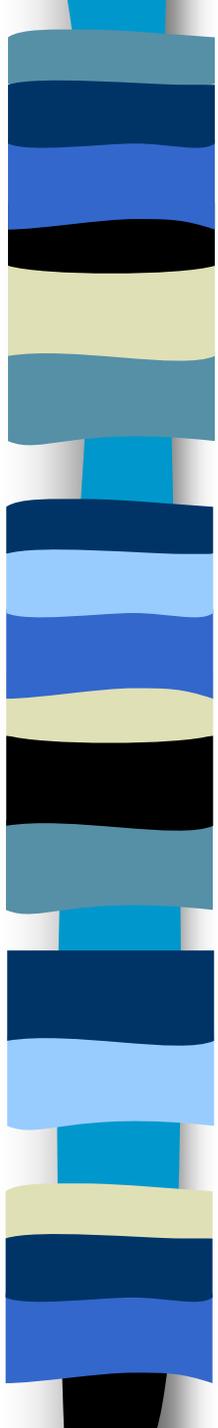
# Phase 2: Design Implementation of New Structure

- June 17 to August 1, 2002
- Steering committee will:
  - Develop a plan to roll-out the new structure
  - Develop strategies to enhance “horizontal” communication
  - Develop activities for individuals and divisions to deal with change
  - Develop approaches to ease the transition to new structure
  - Review impacts and changes on current and new divisions
  - Ensure Federal and State funding and reporting requirements are met



# Phase 3: Implement New Structure

- August 1, 2002 to Oct./Nov. 2002
- Steering committee (and others) will assist each Division as it implements the new structure by:
  - Teambuilding
  - Clarifying roles, duties, responsibilities, tasks, and performance expectations for individuals and divisions



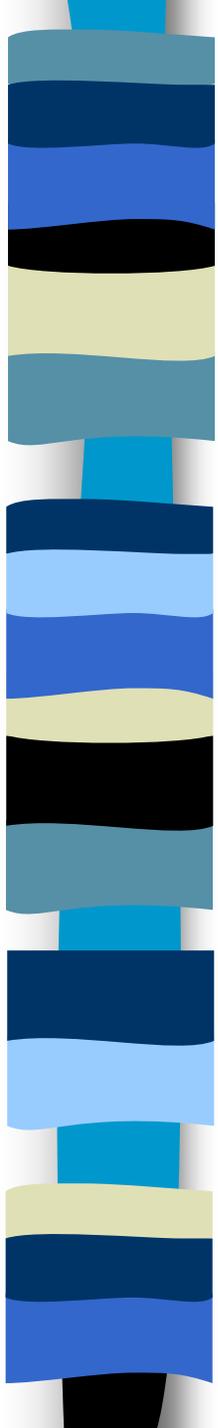
# Why is the Reorganization Timeframe so...

## ■ SHORT

- There are Sunset Commission deadlines
- Need to implement in order to coordinate with other activities (Legislative Appropriation Request, Strategic Plan, etc.)

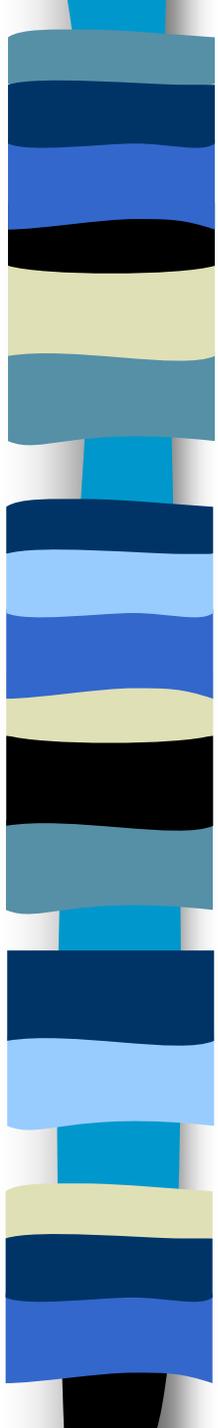
## ■ LONG

- We want **YOUR** input
- TDHCA wants to do it *right*
- Change takes time – normally reorganizations take 12 to 18 months – minimum, more like 18 to 24 months
- This is actually very quick - we have scheduled 6 months (May to October) to implement this change



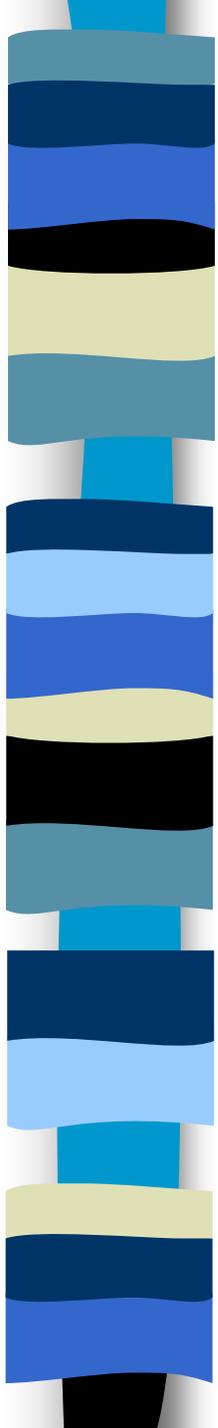
# Reorganization Timeline

Date	Activity
March 11	Started as Executive Director
March 25 - April 8	Meetings with Senior staff and others on reorganization concept
April 8 - May 3	Formulate organizational chart
May 15	Meeting with MAS division of SAO
May 16 – June 10	One on one meetings with Division Directors
May 16	Signed contract with SAO
May 17	Implementation plan introduced to Senior staff



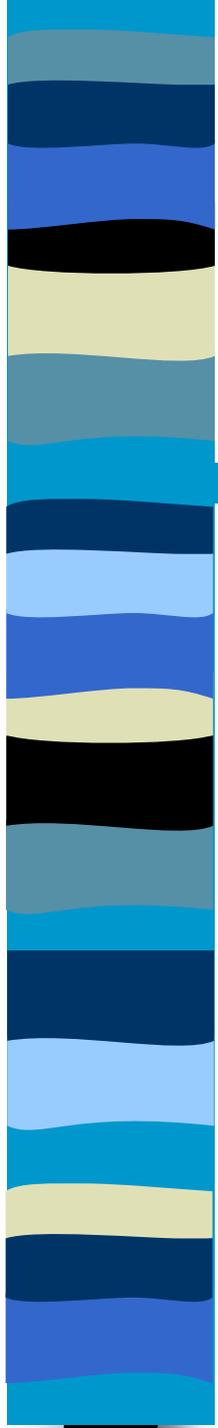
# Reorganization Timeline

Date	Activity
May 23	First Phase I Steering Committee meeting
May 24	Implementation Plan introduced to Division Directors and Managers
May 31	Reorganization Plan presented at Senior staff meeting
June 3	Reorganization Plan presented at all agency staff meeting
June 5	Presentation to representatives from Governor's Office, Lieutenant Governor's Office, Governor's Budget Office, SAO, LBB, Urban Affairs, and Speaker's Office
June 5 – June 12	Ongoing division meetings
June 13	Presentation to TDHCA Board



# Phase I Steering Committee Members

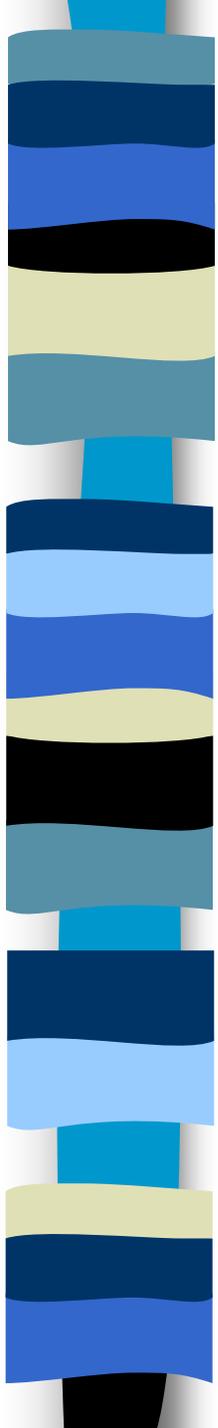
- Edwina Carrington, Executive Director
- Delores Groneck, Exec. Asst., Executive
- Ruth Cedillo, Deputy Executive Director, Executive
- Nidia Gaston, Exec. Asst., Executive
- Michael Lyttle, Director, Communications/GPI
- Rebecca Peterson, Asst. to the Director, HRC/St. Planning
- Eric Pike, Manager, Single Family Housing Finance Programs
- Becky Pavia, Loan Spec., Loan Administration
- Terry Newman, Senior Prg. Coordinator, HOME
- Brooke Boston, Acting Co-Manager, LIHTC Program
- Byron Johnson, Director, Bond Finance
- Homer Cabello, Director, Office of Colonia Initiatives
- Denise Sockwell, Assistant Program Manager, Community Affairs
- John Gonzales, Director, Administration
- Tom Shindell, Management Advisor, Management Advisory Services



# Phase I Steering Committee

## Mission:

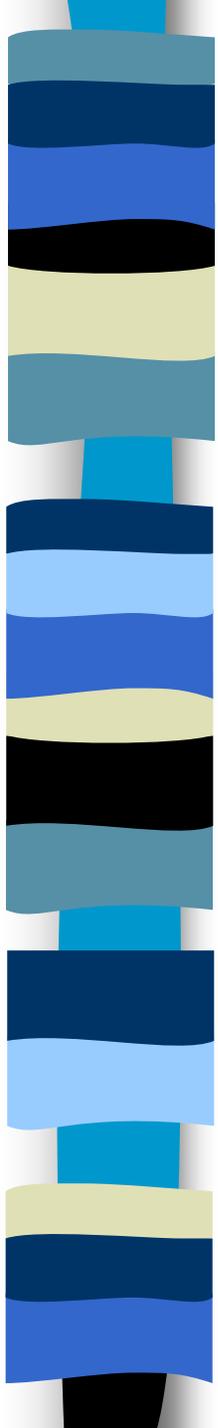
*“Ensure that everyone at TDHCA has multiple opportunities to learn about the reorganization and to share their ideas and concerns about the reorganization.”*



# Phase I Steering Committee

## ■ Deliverables

- Presentation and communication materials
- List of employees who have participated in reorganization communication sessions
- Written summary of employee feedback and ideas for use by Phase II Steering Committee



# Phase I Steering Committee

- Timeframe: All of this completed by June 14, 2002
- Boundaries: Help implement the new structure - don't *re-design* the reorganization!
- Communication: Steering Committee will present to Division Directors weekly to update on progress
- Member Behavior: *Integrity* and *Confidentiality*
- Member Roles: Information provider and data collector
- Co-Sponsors: Edwina Carrington, Executive Director and Ruth Cedillo, Deputy Executive Director

**Texas Department of Housing & Community Affairs**  
 Manufactured Housing Division  
**Board of Directors**  
*Don Stouder, Presiding Officer*

*Robert "Pete" Moreno*      *Joan Tavarez*  
*Mary Yates*                      *Jack Davis*

  
**GOVERNOR**  
*Rick Perry*

**Texas Department of Housing & Community Affairs**  
**Board of Directors**  
*Michael E. Jones, Chair*

*Elizabeth Anderson*      *Vidal Gonzalez*  
*Shadrick Bogany*          *Norberto Salinas*  
*C. Kent Conine*              *(Vacant)*

Executive Office  
*Delores Graneck*

**Executive Director**  
*Edwina P. Carrington*  
 (236.5)

Director of Internal Audit  
*David Gaines*  
 (3)

Director of Communications  
*Michael Lytle*  
 (5)

**Deputy Executive Director**  
*Ruth Cedillo*  
 (175.5)

Director of Administration  
*John Gonzalez*  
 (13)

Chief Financial Officer  
*Bill Daly*  
 (30)

General Counsel  
 Vacant  
 (8)

Director of Manufactured Housing  
*Bobbie Hill*  
 (87.5)

Budget & Planning  
 (7)

Administration  
 (25)

Engineering  
 (1)

Enforcement  
 (53.5)

Acting General Counsel  
*Anne Padback*  
 (3)

CFD/Budget  
 (3)

Accounting Operations  
 (15)

Financial Services  
 (7)

Purchasing  
 (4)

Human Resources  
 (8)

Facilities & Space Management  
 (8)

Executive Assistant  
 (1)

Governmental Relations  
 (2)

Communications Manager  
 (1)

Office of State and Federal Relations  
 (1)

Director of Community Affairs  
*Eddie Fariss*  
 (35)

Director of Housing Finance Programs  
*Pam Morris*  
 (37)

Director of Housing Programs  
*David Burrell*  
 (25)

Director of Multifamily Finance  
*Robert Orfan*  
 (4)

Director of Bond Finance  
*Byron Johnson*  
 (4)

Acting Director of Information Systems  
*Cur's Howe*  
 (18)

Director of Strategic Planning & Housing Resources  
*Sarah Dale*  
 (8)

Director of Compliance  
*Suzanne Phillips*  
 (29)

Director of Office of Colonial Initiatives  
*Homer Cabe*  
 (9.5)

Community Services  
 (15)

Energy Assistance  
 (17)

C.A. Admin  
 (2)

Single Family Programs  
 (5)

Loan Administration  
 (9)

Home/Hope  
 (21)

Admin  
 (1)

Low-Income Housing Tax Credit  
 (18)

Section 8  
 (9)

Housing Trust Fund  
 (5)

Technical Support  
 (4)

Network  
 (4)

Software Development  
 (9)

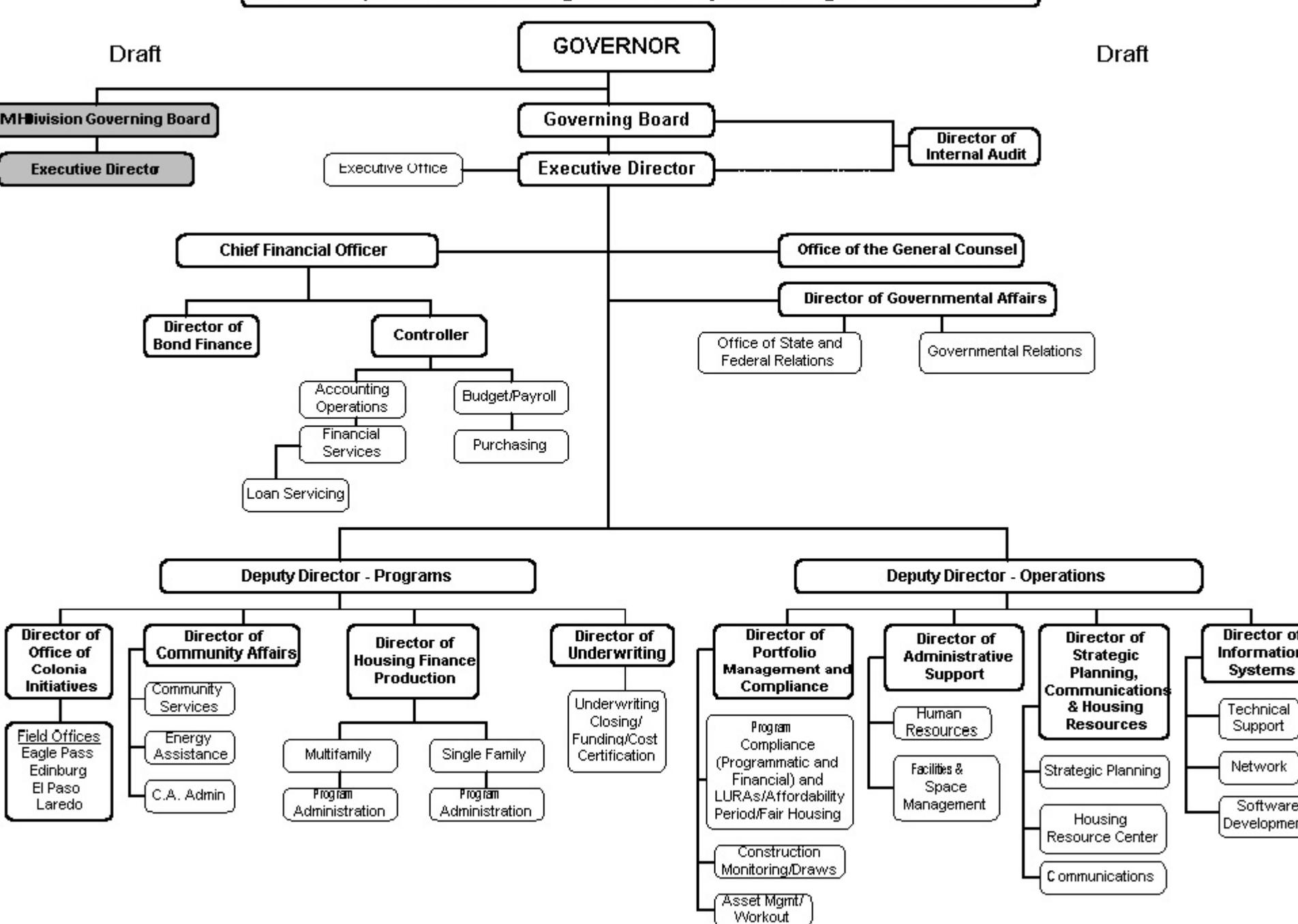
Director of Credit Underwriting  
*Tom Bouris*  
 (8)

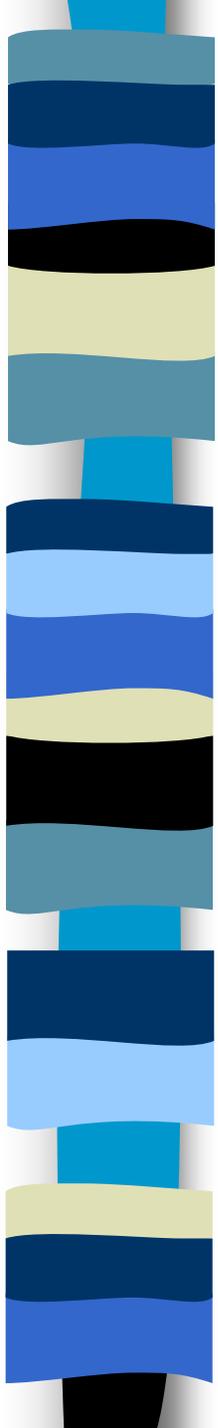
Housing Programs  
 (17)

Financial Monitoring  
 (5)

Program Monitoring  
 (3)

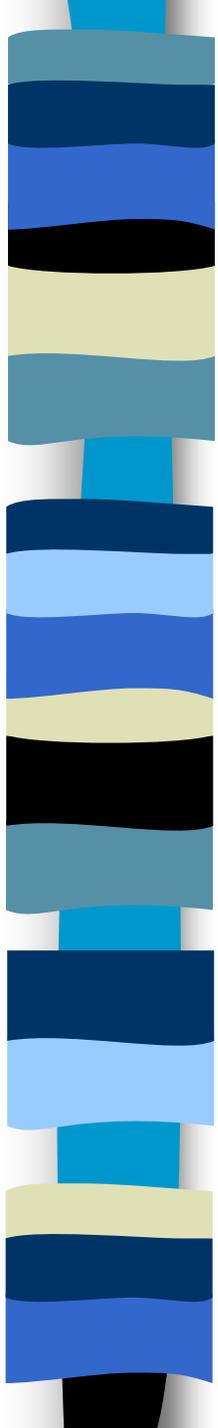
Compliance Admin  
 (3)





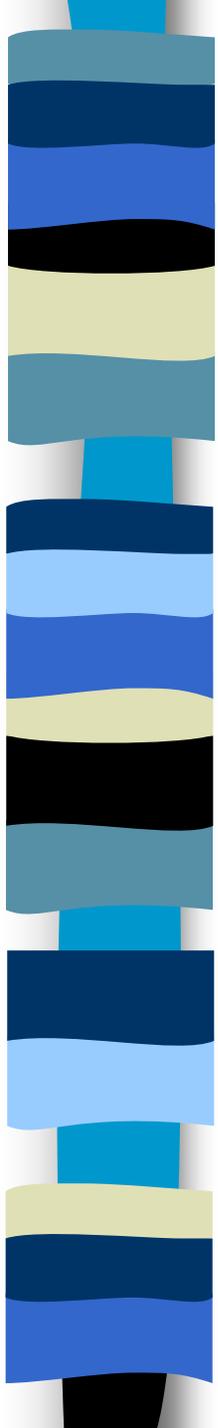
# What Does This Mean to Me?

- I will have a variety of emotions and concerns – I should expect them and be patient with myself and others
- I won't know everything all at once – I need to “trust the people and the process” – even when this is uncomfortable
- I can continue to perform my job duties and help ensure that nothing “falls through the cracks”
- I can provide information and feedback to the Steering Committees
- My organization is changing and I have to cope with change – and help others cope with change too
- I can communicate with the Steering Committees as needed and appropriate
- I can prepare myself should I need to accept additional or new responsibilities, to be transferred, or to apply for another position within TDHCA



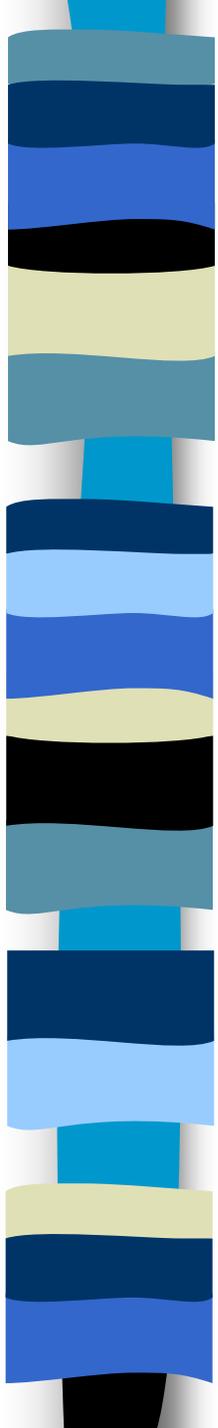
# How to Communicate with Steering Committees

- Division Meetings
- Reorganization Web Page
  - Access through TDHCA Intranet
  - Anonymous comments
  - Questions requesting a response
- E-mail to the Reorganization Steering Committees



# Next Steps

- **Division Meetings (based on current structure)**
  - Beginning June 5<sup>th</sup> and ending June 12<sup>th</sup>
- **June 5<sup>th</sup>**
  - OCI
  - Communications/Gov. Relations
  - Community Affairs
- **June 6<sup>th</sup>**
  - Housing Programs
  - Internal Audit
  - Legal
- **June 7<sup>th</sup>**
  - Housing Finance
  - Administration
  - Bond Finance



# Next Steps

- **Division Meetings Schedule (continued):**

- **June 10<sup>th</sup>**

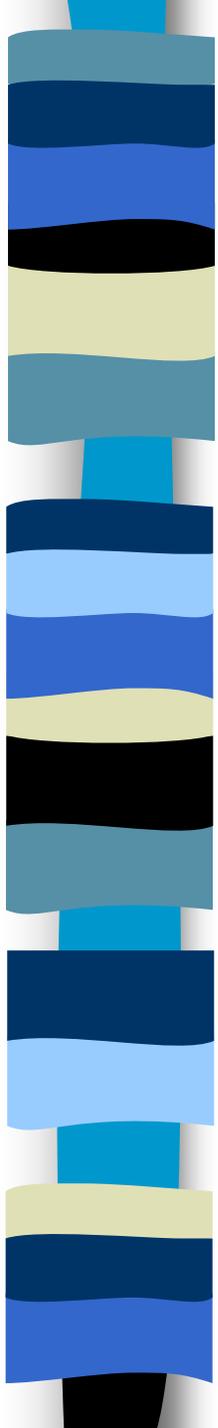
- Compliance
- Underwriting

- **June 11<sup>th</sup>**

- Multi Family Finance
- Strategic Planning

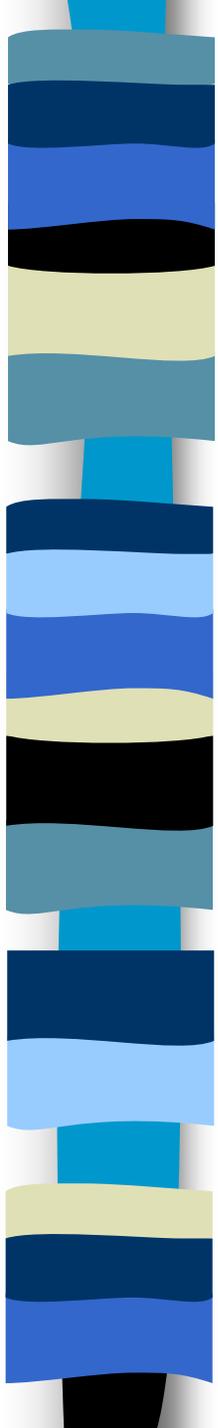
- **June 12<sup>th</sup>**

- Financial Services/Accounting
- Information Systems



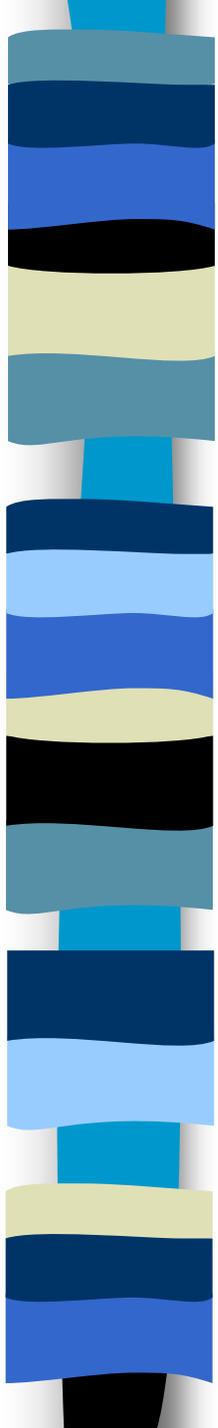
# Next Steps

- We need **you** to review the *Input for Agency Reorganization* questions **prior** to your division meeting.



# Next Steps

- Prepare Phase I Report
  - TDHCA staff concerns and ideas for the reorganization based on data collected in Division meetings
- Charter Phase II
  - Volunteers *encouraged* to apply
  - HFA benchmarking visits to other states organized functionally



# Open Discussion

- Questions?
- Comments?
- Concerns?
- Ideas?

Item 5

**PRESENTATION, DISCUSSION AND POSSIBLE APPROVAL OF REQUEST FOR PROPOSALS FOR TRUSTEE SERVICES FOR THE DEPARTMENT'S SINGLE FAMILY MORTGAGE REVENUE BOND ISSUES AND OTHER RELATED MATTERS**

TDHCA last issued a request for proposals for trustee services in 1996. Since that time, TDHCA's single family bond indentures and programs, and the single family mortgage revenue bond markets in general, have undergone significant changes. Staff recommends that TDHCA issue a request for proposals ("RFP") from qualified institutions to serve as trustee for TDHCA's single family bond issues and/or refundings. The respondents are expected to provide trustee services as necessary to complete new money financings and refundings, and to assign experienced professionals employed by the company who are best suited to appropriately respond to TDHCA requests in a timely manner.

Responses to the RFP are due Friday, July 26, 2002. Staff will present its recommendations at the August 2002 Board meeting.

**RECOMMENDATION**

The Board approve issuing a RFP for trustee services for TDHCA's single family mortgage revenue bond issues and/or refundings.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Request for Proposals**  
**For Trustee Services**  
**June 28, 2002**

**I. Purpose of Request**

The Texas Department of Housing and Community Affairs ("TDHCA") requests proposals from qualified institutions to serve as Trustee for TDHCA's single family bond issues and/or refundings.

**II. Nature of Services Required**

The respondents are expected to provide trustee services as necessary to complete new money financings and refundings, and to assign experienced professionals employed by the company who are best suited to appropriately respond to each request in a timely manner.

The scope of services to be provided to TDHCA by the Trustee in connection with the financings will include, but not be limited to, the following:

1. Developing standard procedures to be used by bond counsel in structuring bond financing and preparing bond documents.
2. Reviewing all documents prepared by bond counsel and by other counsel.
3. Investing and transferring funds in accordance with TDHCA's instructions and indentures.
4. Providing recommendations on the investment of funds in compliance with TDHCA's Investment Policy and the timing of expenditures and receipts such that it serves the best interest of TDHCA.
5. Providing reports on bond issues and fund balances to TDHCA on a regular basis and upon request.
6. Tracking and reporting on investments of TDHCA for such things as arbitrage rebate compliance and compliance with the Public Funds Investment Act.
7. Working with TDHCA, its financial advisor, bond counsel and other State personnel in fulfilling responsibilities as trustee to TDHCA.
8. Advising TDHCA's officers and directors in the regular conduct of TDHCA's business, by telephone and in office conferences, both at the State and at other offices, and in writing.
9. Assisting in the development of policy guidelines and program criteria pertaining to bond issues.
10. Examination of all documents and procedures related to bond issues.
11. Assisting in disclosure requirements under SEC 15(c)(2)12.
12. Participating in activities associated with rating agency review of documentation and Department activity.

13. Assisting TDHCA, its financial advisor and underwriters in other matters as necessary to ensure the successful marketing, sale, and closing of bonds and subsequent matters which may affect bond transactions.
14. Providing on-going documentation and information to TDHCA and its financial advisor regarding cashflow reporting requirements.

### III. Response Timeframe and Other Information

**Response Due:            Friday, July 26, 2002            4:00 PM C.S.T.**

Faxed or emailed responses will not be considered a valid response. No response received after the time and date above will be accepted for any reason. ***It is the expressed policy of TDHCA that responding firms refrain from initiating any direct contact or communication with members of the Board of Directors or TDHCA staff not listed below in regard to the selection of firms relative to this Request for Proposals ("RFP") while the selection process is open. Any violation of this policy will be considered a basis for disqualification.***

Also, in releasing this RFP, TDHCA shall not be obligated to proceed with any action on the RFP and may decide it is in TDHCA's best interest to refrain from pursuing any selection process. TDHCA reserves the right to negotiate individual elements of any Trustee proposal.

Questions arising from the RFP may be directed to TDHCA or its Financial Advisor, RBC Dain Rauscher, Inc., as follows:

Mr. Byron V. Johnson  
Director of Bond Finance  
Texas Department of Housing  
and Community Affairs  
507 Sabine Street  
8th Floor  
Austin, Texas 78701  
(512) 475-3856

Mr. Gary P. Machak  
Managing Director  
RBC Dain Rauscher Inc.  
Cityplace  
2711 N. Haskell Avenue, Suite 2400  
Dallas, Texas 75204-2936  
(214) 989-1659

### IV. Oral Presentations

TDHCA reserves the option to request oral presentations from any number of respondents.

**V. Delivery of Responses**

Responses should be delivered as follows:

10 Copies to:

Texas Department of Housing and Community Affairs  
507 Sabine Street  
5th Floor  
Austin, Texas 78701

Attn: Mr. Byron V. Johnson  
Director of Bond Finance  
(512) 475-3856

1 copy each to:

RBC Dain Rauscher, Inc.  
Cityplace  
2711 N. Haskell Ave., Suite 2400  
Dallas, Texas 75204-2936

Attn: Mr. Gary P. Machak  
Managing Director  
(214) 989-1659

RBC Dain Rauscher, Inc  
First City Tower  
1001 Fannin, Suite 400  
Houston, TX 77002-0220

Attn: Mr. J.C. Howell  
Vice President  
(713) 651-3345

**VI. Response Format**

1. Each question in Section VII of this Request for Proposals should be specifically addressed. Otherwise, indicate why no response is given.
2. **Responses should be submitted by individual firms only; no responses should be submitted on a joint basis.**
3. Please limit your response to relevant material and your proposal to 25 pages in length; additional information must be submitted in the form of an attachment or appendix.
4. Identify the question being answered in the introduction to each response.

## **VII. Proposal Content**

### **A. Organizational and Personnel Background**

1. Provide an overview of your company, emphasizing its qualifications and major organizational strengths and achievements that would serve TDHCA. Why do you believe you should be selected as TDHCA's trustee?
2. Provide the names, office location, and brief resumes (including State of Texas, TDHCA and other state housing finance agency experience) for the professionals who will be assigned to TDHCA's account. Include their level of responsibility and availability. Describe the professional background of these individuals, in particular their relevant state housing finance experience. Please designate the percentage of work for which each team member will be responsible.
3. How many employees (full-time) do you have in Texas and what are their duties? Over the past year, has your firm relocated employees into or out of the State? Does your firm have any plans for relocation of employees into or out of the State over the next three years? Please provide any additional information that demonstrates your firm's commitment to Texas.
4. Does your firm maintain a specialty group focused solely on serving single family mortgage revenue bonds? If yes, please list how long this group has been operating, the group's size (full-time employees) and the group's location? Please specify which individuals from this group would work directly with TDHCA.

### **B. Financial**

5. Provide your firm's most recent audited financial statement, along with a brief description of your firm's ownership and capital structure.
6. Provide a description of liability, error and omissions insurance policies your company may carry and the dollar limits of these policies.
7. Provide a statement discussing any imminent merger or acquisition activities affecting the trust services of your firm.

### **C. Experience**

8. Provide a list of state housing agencies for which your which your company served as trustee during 2001 for single-family mortgage revenue bond issues, and indicate what the current relationship is to each agency as well as the name of the Account Representative assigned to the agency. Provide a list of three references from the agencies listed above, including names, addresses, and telephone numbers.
9. Provide a list of single family mortgage revenue bonds sold by state housing agencies for which your company acted as trustee during 1999, 2000 and 2001. Indicate the sale date, size, issuer, description and structure of the issue (senior/subordinate bonds, external credit enhancement, rated/unrated, etc.). Provide annual and aggregate totals.

10. Provide a list of Texas local housing bond issuers for which your company served as trustee during 2001 for single-family bond issues, and indicate what the current relationship is to each issuer as well as the name of the Account Representative assigned to the issuer.
11. Provide a list of single family mortgage revenue bonds sold by Texas local housing issuers for whom your company acted as trustee during 1999, 2000 and 2001. Indicate the sale date, size, issuer, description and structure of the issues (senior/subordinate bonds, external credit enhancement, rated/unrated, etc.) Provide annual and aggregate totals.
12. Describe your direct experience with the Texas Treasury Safekeeping Trust Company.
13. Describe your experience and capabilities with Commercial Paper Notes, Variable Rate Demand Notes, and other short term instruments.
14. Describe how your firm manages general accounting for single family bond issues and redemptions, etc. How do you keep track of and inform your clients of bonds outstanding, fund investments, mortgage repayments and prepayments? Describe your computer capabilities. Is your system PC-based? Do you provide internet/dial-in capabilities to your clients? Include a sample report that would be provided as part of your administration of a single family transaction.

**D. Miscellaneous Discussion Questions**

15. List your firm's publications and other information and resources that will be available to TDHCA.
16. What is your policy with regards to advance notice requirements for withdrawals or other transactions?
17. What is your firm's Community Reinvestment Act ("CRA") rating? Please provide an explanation of your CRA rating derivation and include a copy of your CRA Statement.
18. What has been your experience with Guaranteed Investment Contracts ("GICs") and Repurchase Investment Agreements on housing issues?

**E. Disclosure**

19. Describe any litigation, arbitration, or other actions current, pending, or past against the firm arising from the firm's involvement in municipal or public purpose debt. Please indicate your willingness to provide additional information on any litigation pending against your firm should TDHCA request it.
20. Discuss how your firm deals with professional ethics in connection with public finance engagements. What process do you maintain so as to provide a consistently high standard of professional ethics?

**F. Compensation**

21. Please prepare and submit a table, as illustrated below, detailing your proposed fees.

Trustee Fee Proposal												
Issue Size:	\$5,000,000		\$10,000,000		\$25,000,000		\$50,000,000		\$100,000,000		\$150,000,000	
	Actual	\$/Bond	Actual	\$/Bond	Actual	\$/Bond	Actual	\$/Bond	Actual	\$/Bond	Actual	\$/Bond
<b>Fees:</b>												
Acceptance												
Semi-annual Administration	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Legal												
Other (Specify)												
Other (Specify)												
<b>Total Fees</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

If the company proposes that TDHCA bear the costs of incidental expenses associated with its representation of TDHCA, the proposal should clearly state the nature of such incidental expenses and their estimated costs to TDHCA. Please indicate minimum charges on any of the fees. Invoices presented for payment must be itemized and contain details of specific expenses. Reimbursement for time spent traveling will be negotiated with TDHCA. All proposals must include a statement that fee rates are valid for the duration of the contract. Any fees not disclosed will not be considered.

Although TDHCA seeks to minimize transaction costs, submission of the lowest bid may not result in an appointment.

22. Express your willingness to defer any fees you have proposed in the above table. State which fees would be deferred.

**G. Affirmative Action**

23. It is the policy of TDHCA to encourage the participation of historically underutilized businesses (“HUB’s”), including minorities and women in all facets of TDHCA’s activities. To this end, the extent to which minorities and women participate in the ownership, management and professional work force of a firm will be a primary consideration by the Board in the selection of a trustee. Applicants are therefore requested to submit a historical profile of their firm in terms of ownership and management, as well as by professional, administrative, clerical and support personnel. Please use year-end numbers for year by year profiles. **Do not submit the Employer Information Report Form EE01. Use the matrix provided to present your data.**

24. Provide a copy of your firm’s equal employment opportunity and affirmative action policy.

**VIII. Program Information**

Additional information regarding TDHCA may be obtained from Byron Johnson at the aforementioned address. All requests must be in writing and faxed to (512) 475-3362 no later than June 20, 2002. All questions and responses will be made available to all applicants and will be subject to disclosure under the Open Records Act.

**IX. Open Record**

Information submitted to TDHCA is public information and is available upon request in accordance with the Texas Public Information Act, Chapter 552 of the Government Code (the "Act") after the Board has approved Staff's recommendations. A firm submitting any information it considers confidential as to trade secrets or commercial or financial information which it desires not to be disclosed must clearly identify all such information in its proposal. If information so identified by a firm is requested from TDHCA, the firm will be notified and given an opportunity to present its position to the Texas Attorney General, who shall make the final determination as to whether such information is excepted from disclosure under the Act. Information not clearly identified as confidential will be deemed to be non-confidential and will be made available by TDHCA upon request.

**X. Cost Incurred In Responding**

All costs directly or indirectly related to preparation of a response to this RFP or any oral presentation required to supplement and/or clarify the RFP which may be required by TDHCA shall be the sole responsibility of and shall be borne by your firm.

# EEO MATRIX

## REQUEST FOR PROPOSALS FOR TRUSTEE SERVICES

<u>Job Category</u>	--TOTALS--		NUMBER of EMPLOYEES as of December 31, 2001									
			-----MALES-----					-----FEMALES-----				
	<u>Employees</u>	<u>% Total</u>	WHITE (NOT OF HISPANIC ORIGIN)	BLACK (NOT OF HISPANIC ORIGIN)	HISPANIC	ASIAN OR PACIFIC ISLANDER	AMERICAN INDIAN OR ALASKAN NATIVE	WHITE (NOT OF HISPANIC ORIGIN)	BLACK (NOT OF HISPANIC ORIGIN)	HISPANIC	ASIAN OR PACIFIC ISLANDER	AMERICAN INDIAN OR ALASKAN NATIVE
Officials & Managers												
Professionals												
Technicians												
Sales Workers												
Office & Clerical												
Craft Workers (Skilled)												
Operatives (Semi-Skilled)												
Laborers (Unskilled)												
Service Workers												
Total												

## Item 6

### TITLE 10. COMMUNITY DEVELOPMENT PART 1. TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS CHAPTER 1. ADMINISTRATION SUBCHAPTER A. GENERAL POLICIES AND PROCEDURES 10 TAC 1.14. HOUSING SPONSOR: TENANT AND MANAGEMENT SELECTION

The Texas Department of Housing and Community Affairs (the Department) proposes new <\*>1.14, concerning Housing Sponsor: Tenant Management Selection. The purpose of this section is to set standards and restrictions concerning tenant and management selection by a housing sponsor in accordance with Section 2306.269 of the Government Code as added by SB 322, 77<sup>th</sup> Session of the Texas Legislature.

Ms. Edwina P. Carrington, Executive Director, has determined that for the first five-year period the proposed section is in effect, there will be no fiscal implications for state or local government as a result of enforcing or administering the rule.

Ms. Carrington also has determined that for each year of the first five years the proposed section is in effect, the public benefit anticipated as a result of enforcing the section will be will be more efficient disposition of complaints. There will be no effect on persons, small businesses or micro-businesses. There are no anticipated economic costs to persons, small businesses or micro-businesses who are required to comply with the section as proposed. The proposed new rule will not have an impact on any local economy.

Comments may be submitted to Anne O. Paddock, Deputy General Counsel, Texas Department of Housing and Community Affairs, P.O. Box 13941, Austin, Texas, 78711-3941 or by email at the following address: apaddock@tdhca.state.tx.us.

The new section is proposed pursuant to the authority of the Texas Government Code, Chapter 2306; and in accordance with the Texas Government Code <\*>2001.039.

The new section affects no other code, article or statute.

#### 1.14. Housing Sponsor: Tenant and Management Selection

(a) Purpose. The purpose of this section is to set standards for tenant and management selection by a housing sponsor and to prohibit a housing development funded or administered by the Department, including a development supported with a housing tax credit allocation, from:

(1) excluding an individual or family from admission to the development because the individual or family participates in the housing choice voucher program under Section 8, United States Housing Act of 1937(42U.S.C.§1437f); and

(2) using a financial or minimum income standard for an individual or family participating in the voucher program that requires the individual or family to have a monthly income of more that 2.5 times the individual or family's share of the total monthly rent payable to the owner of the development.

(b) Definitions. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.

(1) "Department" means the Texas Department of Housing and Community Affairs.

(2) "Housing development" means property or work or a project, building, structure, facility, or undertaking, whether existing, new construction, remodeling, improvement, or rehabilitation, that meets or is designed to meet minimum property standards required by the Department and that is financed under the

provisions of Chapter 2306 of the Government Code for the primary purpose of providing sanitary, decent, and safe dwelling accommodations for rent, lease, use, or purchase by individuals and families of low and very low income and families of moderate income in need of housing. The term:

(A) buildings, structures, land, equipment, facilities, or other real or personal properties that are necessary, convenient, or desirable appurtenances, including streets, water, sewers, utilities, parks, site preparation, landscaping, stores, offices, and other nonhousing facilities, such as administrative, community, and recreational facilities the Department determines to be necessary, convenient, or desirable appurtenances; and

(B) multifamily dwellings in rural and urban areas.

(3) "Housing sponsor" means:

(A) an individual, including an individual or family of low and very low income or family of moderate income, joint venture, partnership, limited partnership, trust, firm, corporation, or cooperative that is approved by the department as qualified to own, construct, acquire, rehabilitate, operate, manage, or maintain a housing development, subject to the regulatory powers of the department and other laws; or

(B) in an economically depressed or blighted area, or in a federally assisted new community located within a home-rule municipality, the term may include an individual or family whose income exceeds the moderate income level if at least 90 percent of the total mortgage amount available under a mortgage revenue bond issue is designed for individuals and families of low income or families of moderate income.

(4) "Management plan" means a written plan clearly stating the following objectives:

(A) prospective applicants who hold Section 8 vouchers or certificates are welcome to apply and will be provided the same consideration for occupancy as any other program;

(B) any minimum income requirements for Section 8 voucher and certificate holders will only be applied to the portion of the rent the prospective tenant would pay, provided, however, that if Section 8 pays 100% of the rent for the unit, the housing sponsor may establish other reasonable minimum income requirements to establish other reasonable minimum income requirements to ensure that the tenant has the financial resources to meet daily living expenses. Minimum income requirements for Section 8 voucher and certificate holders will not be more than 2.5 times the portion of rent the tenant pays; and

(C) all other screening criteria, including employment policies or procedures and other leasing criteria (such as rental history, credit history, criminal history, etc.) must be applied to prospective tenants uniformly and in a manner consistent with the Texas and federal fair housing acts and with Department requirements.

(5) "Non-compliance score": means the scoring and methodology used to determine the compliance status of applicants applying for Departmental funding.

(c) Applicability. The policies, standards, and sanctions established by these rules apply only to:

(1) multifamily housing developments that receive the following assistance from the Department on or after January 1, 2002:

(A) a loan or grant in an amount greater than 33 percent of the market value of the development on the date the recipient took legal possession of the development; or

(B) a loan guarantee for a loan in an amount greater than 33 percent of the market value of the development on the date the recipient took legal title to the development; or

(2) multifamily rental housing developments funded or administered by the Department as low income tax credit property whose application for an allocation of low income housing tax credits for that housing development is received by the Department on or after August 10, 1993.

(3) A housing development that benefits from the incentive program under Section 2306.805 of the Texas Government Code is subject to the policies, standards, and sanctions established by these rules.

(d) Procedures. The following procedures apply to the selection of tenants and management by all housing sponsors.

(1) Tenants must be income eligible under the rules and regulations of the program or activity funded.

(2) Housing Sponsors must apply all other screening criteria, including employment policies or procedures and other leasing criteria (such as rental history, credit history, criminal history, etc.) uniformly and in a manner consistent with the Texas and Federal Fair Housing Acts, program guidelines, and the Department rules.

(3) Income determination must be made in a manner consistent with Section 8, of the United States Housing Act of 1937 (42 U.S.C. §1437f) and the guidelines established in Handbook 4350.3 provided by the U. S. Department of Housing and Urban Development (HUD).

(4) The Housing Sponsor shall not exclude an individual or family from admission to the development because the individual or family participates in the housing choice voucher program under Section 8, United States Housing Act of 1937 (42 U.S.C. Section 1437f).

(5) The Housing Sponsor shall not use a financial or minimum income standard for an individual or family participating in the voucher program that requires the individual or family to have a monthly income of more than 2.5 times the individual or family's share of the total monthly rent payable to the owner of the development.

(6) The Housing Sponsor must maintain a written management plan that is available for review upon request and states the intention of the development owner to comply with state and federal fair housing and antidiscrimination laws;

(7) The Housing Sponsor must ensure that management post Fair Housing logos and a Fair Housing poster in the leasing office

(8) The Housing Sponsor must approve and distribute a written affirmative marketing plan to the property management and on-site staff; and

(9) The department shall require a land use restriction agreement providing for enforcement of the restrictions by the department, tenants of the development, or by a private party that includes the right to recover reasonable attorney's fees if the party seeking enforcements of the restrictions is successful.

(10) The Housing Sponsor must communicate annually during the first quarter of each year with the administrator of each Section 8 program, which has jurisdiction within the geographic area where the development is located. Such communication will include information on the unit characteristics and rents, will advise the administrating agency that the property accepts Section 8 vouchers and certificates, and will treat referrals in a fair and equal manner. Copies of such correspondence must be available during on-site reviews conducted by the Department.

(11) A prospective tenant participating in the voucher program shall report to the administrator of the Section 8 program that provided the certificate or voucher an exclusion from admission to a housing development based on a financial or minimum income standard requiring the tenant to have a monthly income of more than 2.5 times the tenant or tenant's family share of the total monthly rent payable to the owner of the development. The administrator shall promptly report such exclusion to the Department.

(e) Sanctions. A Housing Sponsor of a multifamily rental housing development that fails to comply with the procedures pursuant to item (d) is subject to the following sanctions.

(1) Failure to lease to a prospective tenant due to the applicant's status as a recipient of a federal rental assistance voucher or certificate will result in a material non-compliance score.

(2) A complaint of exclusion from admission as described in subsection (d)(11) that has been verified by the Department shall result in a non-compliance score for a period of one year from the date of the Department's verification of the complaint.

(f) These rules, policies, standards, and sanctions are enforceable by the Department, tenants of the development, or by private parties against the initial owner or any subsequent owners.



**AUDIT COMMITTEE MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**State Capitol Extension, 1400 North Congress, Room E1.016, Austin, Texas 78701**  
**January 17, 2002**                      **9:00 a.m.**

**Summary of Minutes**

**CALL TO ORDER, ROLL CALL**

**CERTIFICATION OF QUORUM**

The Audit Committee Meeting of the Texas Department of Housing and Community Affairs of January 17, 2002 was called to order by Chair Vidal Gonzalez at 9:05 a.m. It was held at the State Capitol Extension, Room E1.016, Austin, Texas. Roll call certified a quorum was present.

Members present:

Vidal Gonzalez – Chair

Shadrick Bogony – Member

Beth Anderson – Member

**PUBLIC COMMENT**

The Committee will solicit Public Comment at the beginning of the meeting and will also provide for Public Comment on each agenda item after the presentation made by department staff and motions made by the Committee.

Chair Vidal Gonzalez called for public comments and no one wished to give any comments.

**ACTION ITEMS**

**(1) Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of August 21, 2001**

Motion made by Shad Bogony and seconded by Beth Anderson to approve the minutes of the Audit Committee Meeting of August 21, 2001.

Passed Unanimously

**REPORTS**

**External Audit Reports: Deloitte & Touche, Report to the Governing Board, General Purpose Financial Statements for the Year Ended August 31, 2001; Revenue Bond Enterprise Fund Financial Statements August 31, 2001 and 2000**

Mr. George Scott, Partner, Deloitte & Touche stated the Department received clean opinions on the General Purpose Financial Statements and the Revenue Bond Enterprise Fund Statements. He further stated during the course of the audit, there were no disagreements with management as to the proper application of accounting policies and procedures. All documents they requested were provided and they had complete access to individuals throughout the organization. He stated they identified NO area that they believe is a material weakness in the control environment.

He advised the Committee that there is a new requirement for presentation and reporting of governmental activities that will take effect next year, which will substantially change how the financial statements look.

**Internal Audit Report, Controls Over Single Family Loans**

Mr. Sam Ramsey stated the primary reason for this review was to make a determination regarding the adequacy of controls over single-family loans serviced by the department to ensure that the financial

interests of the State were protected. The loans reviewed included single family lending divisions downpayment assistance program and HOME's homebuyers assistance program loans that provided downpayment and closing costs assistance to qualified homebuyers, OCI's home construction and acquisition loan program that provided interest-free loans for low and very low income families to build their own homes and also included the contract for deed conversion program whereby contracts for deeds were converted into a traditional note and a deed of trust was created. He stated overall they found controls in place over single-family loans serviced by the department were generally adequate with the exception of the HOME Program. For a great majority of these loans the department lacks sufficient accounting of the loans to protect the State's financial interest. The department is having trouble attaining the necessary loan documents and does not have a full accounting of all the loans made under that program.

#### **Status of Prior Audit Issues**

Mr. David Gaines stated that the internal auditing division maintains a database of the departments prior audit issues for tracking and reporting purposes. He presented a summary report on these prior audit issues and stated that there are 30 issues identified in this report. Nineteen of those have been reported as corrected or implemented; nine issues are in the process of being implemented; one issue has been delayed; and one issue has been classified as no action intended. The issue that has been delayed relates to the department not having documentation to support the implementation of a family self-sufficiency program. The department has requested an exception from this program, which is available under certain circumstances, but HUD has not responded to that exemption request. On the issue that has no action intended, this relates to the need to report the results of a required bi-annual software audit in the information systems bi-annual operating plan which was a requirement at the time of the audit but since that time these requirements have changed and this is no longer a reporting requirement.

He stated one significant issue relates to the need for the department to reassesses how it conducts its construction inspections.

Staff is working on how to conduct these inspections and more will be presented to this Committee at a later date when plans are finalized on how to handle.

#### **Summary Status of Internal/External Audits**

Mr. Gaines stated that the issues concerning the Section 8 program have been implemented. He stated the statewide single audit is still in progress and the committee will be furnished this report as soon as KPMG finishes the audit. HUD also has released a monitoring report of the HOME Program and this report will be furnished to the committee as soon as Mr. Gaines has reviewed it.

## **ADJOURN**

The meeting adjourned at 9:42 a.m.

Respectfully submitted,

\_\_\_\_\_, Board Secretary

audminjan/dg



**AUDIT COMMITTEE MEETING**  
**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**State Capitol Extension, 1400 North Congress, Room E1.016, Austin, Texas 78701**  
**January 17, 2002                      9:00 a.m.**

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Shadrick Bogony – Member  
Beth Anderson – Member

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**REPORTS**

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## **Revenue Bond Enterprise Fund Financial Statements August 31, 2001 and 2000**

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He advised the Committee that there is a new requirement for presentation and reporting of governmental activities that will take effect next year, which will substantially change how the financial statements look.

### **Internal Audit Report, *Controls Over Single Family Loans***

Mr. Sam Ramsey stated the primary reason for this review was to make a determination regarding the adequacy of controls over single-family loans serviced by the department to ensure that the financial interests of the State were protected. The loans reviewed included single family lending divisions downpayment assistance program and HOME's homebuyers assistance program loans that provided downpayment and closing costs assistance to qualified homebuyers, OCI's home construction and acquisition loan program that provided interest-free loans for low and very low income families to build their own homes and also included the contract for deed conversion program whereby contracts for deeds were converted into a traditional note and a deed of trust was created. He stated overall they found controls in place over single-family loans serviced by the department were generally adequate with the exception of the HOME Program. For a great majority of these loans the department lacks sufficient accounting of the loans to protect the State's financial interest. The department is having trouble attaining the necessary loan documents and does not have a full accounting of all the loans made under that program.

### **Status of Prior Audit Issues**

Mr. David Gaines stated that the internal auditing division maintains a database of the departments prior audit issues for tracking and reporting purposes. He presented a summary report on these prior audit issues and stated that there are 30 issues identified in this report. Nineteen of those have been reported as corrected or implemented; nine issues are in the process of being implemented; one issue has been delayed; and one issue has been classified as no action intended. The issue that has been delayed relates to the department not having documentation to support the implementation of a family self-sufficiency program. The department has requested an exception from this program, which is available under certain circumstances, but HUD has not responded to that exemption request. On the issue that has no action intended, this relates to the need to report the results of a required bi-annual software audit in the information systems bi-annual operating plan which was a requirement at the time of the audit but since that time these requirements have changed and this is no longer a reporting requirement.

He stated one significant issue relates to the need for the department to reassesses how it conducts its construction inspections.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**PROPOSED AMENDMENTS (*See Bold Italics*) TO APPROVED INTERNAL AUDIT PLAN**  
**FISCAL YEAR 2002**

PROJECT	GENERAL OBJECTIVES	ANTICIPATED REPORT DATE
<b>Performance Audits/Other Audit Functions</b>		
Review of Board Policy (direction to the Department) and Policies and Procedures (responsibilities of the Board)	<ul style="list-style-type: none"> <li>• To identify Policy established by the Board and to assess whether such policy has been incorporated into the Department's formal policies and procedures to ensure compliance by Department staff.</li> <li>• To identify responsibilities of the Board and to assess whether such responsibilities have been reduced to formal policies and procedures to ensure that Board members are made aware of their responsibilities and to facilitate the members in fulfilling their responsibilities.</li> </ul> <p style="text-align: center;"><b><i>PROPOSED TO BE DELETED - SEE NOTE A.</i></b></p>	January 2002
Information Systems - Review of Central Database Project Management Tools	<p>To review the project management framework being utilized by management to determine that the methodology is adequate to ensure the success of the project providing for the following:</p> <ul style="list-style-type: none"> <li>• Participation by affected user department management in defining the project.</li> <li>• A clear written statement defining the nature and scope of the project.</li> <li>• A formal risk management program for identifying and eliminating or minimizing risks associated with the project.</li> <li>• The allocation of responsibilities and authorities, task breakdown schedules, time and resource budgets, milestones, checkpoints and approvals.</li> <li>• Methods of monitoring the time and costs incurred throughout the life of the project.</li> <li>• Approval of the work accomplished in each phase of the cycle before work on the next phase begins by the managers of the user and information services functions.</li> <li>• A quality plan, which is integrated with the project master plan, and formally reviewed and agreed to by appropriate parties.</li> <li>• Identification of assurance tasks during the planning phase of the project to assure that internal controls and security features meet the related requirements.</li> <li>• The creation of an appropriate test plan.</li> <li>• The creation of an appropriate training plan.</li> <li>• A plan for a post-implementation review to ascertain whether the project has delivered the planned benefits.</li> </ul> <p>The audit objectives also include compliance with the Texas Government Code, Chapter G, Sections 2054.151-2054.157, <i>Information Resources Management Act (IRMA)</i>, as it relates to project planning, monitoring and control. The criterion to be used on the audit includes IRMA and <i>Control Objectives for Information and Related Technology (Cobit)</i>, published by the Information Systems Audit and Control Foundation.</p> <p>The audit project plan incorporates the use of an independent third-party consultant to provide quality assurance over the audit plan, procedures, results and conclusions. The third-party consultant and the Director of Internal Auditing will jointly sign the audit report.</p> <p style="text-align: center;"><b><i>PROJECT RECLASSIFIED TO ADVISORY SERVICES - SEE NOTE B.</i></b></p>	February 2002

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
PROPOSED AMENDMENTS (See *Bold Italics*) TO APPROVED INTERNAL AUDIT PLAN  
FISCAL YEAR 2002**

PROJECT	GENERAL OBJECTIVES	ANTICIPATED REPORT DATE
<b>Performance Audits/Other Audit Functions</b>		
LIHTC - Review of Controls over LIHTC Project Deliverables	To compare LIHTC project deliverables associated with tax credits awarded by the Department's Governing Board to projects actually delivered and Land Use Restriction Agreements actually filed identifying differences. Unfavorable differences between planned and actual project deliverables and LURAs will be investigated to identify controls that are lacking or not operating that allowed the unfavorable condition to materialize.  <i>PROJECT IN PROGRESS</i>	April 2002
LIHTC - Review of Implementation of SB 322	To review management controls established by the Department, including management plans, structural relationships and assignment of responsibilities and authorities, methods, policies, procedures, control systems, and program rules, to assess whether the Department has established appropriate controls to ensure successful implementation of SB 322 relating to the LIHTC program.  <i>PROPOSED TO BE DELETED - SEE NOTE A.</i>	May 2002
Payroll Audit	To determine whether adequate policies, procedures and controls are in place to provide reasonable assurance that: <ul style="list-style-type: none"> <li>• access to the payroll system is properly restricted to those employees who need access to perform their job duties,</li> <li>• payrolls are properly authorized and that payroll amounts are properly supported and calculated,</li> <li>• the Department complies with any applicable State and Federal reporting requirements, and</li> <li>• that terminated/resigned employees are properly removed from the payroll system.</li> </ul> <i>PROJECT IN PROGRESS</i>	August 2002
Follow-up on Prior Audit Issues	To track the status of prior audit issues for management/board report purposes and to ascertain that appropriate action is taken on reported audit findings.  <i>ONGOING</i>	On-going
<b>Other Projects</b>		
	Prepare for and have conducted an external Quality Assurance Peer Review of the Department's internal audit function in accordance with professional standards.  <i>PROJECT PENDING (Initial Planning Initiated)</i>	August 2002
	Prepare the Annual Internal Auditing Plan – FY 2003  <i>PROJECT PENDING</i>	Fall 2002

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
 PROPOSED AMENDMENTS (See *Bold Italics*) TO APPROVED INTERNAL AUDIT PLAN  
 FISCAL YEAR 2002**

PROJECT	GENERAL OBJECTIVES	ANTICIPATED REPORT DATE
	Prepare the Annual Internal Auditing Report – FY 2002  <i>PROJECT PENDING</i>	Fall 2002
	Coordinate and assist external auditors  <i>ONGOING</i>	On-going
	Facilitate a Control Self Assessment (CSA) Program by developing a methodology and providing guidance and direction.  <b>Discussion:</b> A CSA is a proactive review to ensure processes, systems and activities are controlled and executed in a manner that supports and/or achieves TDHCA's business objectives. More specifically, a control self assessment is owned by management and: <ul style="list-style-type: none"> <li>• Provides the business with a checklist of critical steps necessary to achieve effective processes and controls.</li> <li>• Contains a management developed action plan to fix identified gaps (between what is and what should be).</li> <li>• Requires management prioritization.</li> <li>• Allows management to measure and therefore proactively manage controls over operations.</li> <li>• Allows management to periodically measure progress.</li> <li>• Drives operational ownership, involvement and understanding of controls.</li> </ul> <i>PROPOSED NEW PROJECT</i>	On-going, periodic reports, multi-year

See Notes on following page.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**PROPOSED AMENDMENTS (See *Bold Italics*) TO APPROVED INTERNAL AUDIT PLAN**  
**FISCAL YEAR 2002**

**Note A - Projects Proposed for Deletion from Audit Plan**

These projects are being proposed for deletion from the fiscal year 2002 audit plan due to not having as many hours available as originally anticipated and a budget overage on one of the audit projects as discussed below.

- The hours originally considered in the development of the original audit plan for the year have not materialized. The original audit plan anticipated the hiring of another professional position into the Internal Auditing Division at the first of the current calendar year. That position was lost in the Department's allocation of full-time equivalent employees to the Office of Rural Community Affairs. Additionally, one of the two remaining professional staff terminated her employment with the Department effective April 30, 2002.
- The project, *LIHTC - Review of Controls over LIHTC Project Deliverables*, has expended more hours than originally anticipated. Primary reasons for the excess hours include more hours than anticipated for:
  - identifying different deliverable information relating to each LIHTC application cycle,
  - determining population of LIHTC projects to be considered and reasons for differences in populations between databases, and
  - considering data content of multiple information systems and reporting possibilities considering the information available.

Additionally, there may have been insufficient monitoring of audit staff to ensure efforts remained focused on accomplishing audit objectives.

**Note B - Reclassification of the project, *Information Systems - Review of Central Database Project Management Tools*, to Advisory Services:**

The Director of Internal Auditing (Director) concluded that he was not able to serve **both** as Chair of the Central Database Steering Committee (Steering Committee), a role he had served in since October 2001 at the request of management, and as auditor of the Central Database Project, as a result of the Comptroller General of the United States and head of the General Accounting Office announcing in January 2002 significant changes to the auditor independence requirements under Government Auditing Standards.

The issue was discussed at a Steering Committee meeting in March 2002 and management requested that the Director continue in his role as Chair of the Committee. Management believed that they would be receiving greater value from the Director providing real time advice and direction in a proactive manner as opposed to periodic audit reports. The Director agrees with Management and is proposing serving in that capacity.

Board of Directors  
Texas Department of Housing & Community Affairs

In planning and performing our audit of the general purpose financial statements of the Texas Department of Housing & Community Affairs ("TDHCA") for the year ended August 31, 2001 (on which we have issued our report dated November 30, 2001), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on TDHCA's internal control. Our consideration of the internal control would not necessarily disclose all matters in TDHCA's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A description of the responsibility of management for establishing and maintaining the internal control, and the objectives of and inherent limitations in such a structure, is set forth in the attached Appendix and should be read in conjunction with this report. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving TDHCA's internal control and its operations that we consider to be material weaknesses as defined above.

The recommendations included in the Exhibit concern administrative and operating matters that resulted from our observations during our audit and are not based on a special study.

This report is intended for the information and use of the Board of Directors and is not intended to be and should not be used by anyone other than those specified parties. We would be pleased to discuss these observations with you and to assist you in implementing them.

*Deloitte + Touche LLP*

November 30, 2001

**ADMINISTRATIVE AND OPERATING MATTERS**

**TEXAS HOUSING TRUST FUND**

Observation

The accounting for the Texas Housing Trust Fund is split between the governmental and proprietary funds of TDHCA. It has evolved in this manner because the funding for this program comes from the legislature in the form of appropriations, which are recorded in the general fund. Expenditures are recorded in the general fund when loans are made from this funding source. The loans made with these funds are long-term mortgage loans; therefore, the related receivable is recorded in an enterprise fund. No transaction is recorded to reflect the funds moving from the general fund to the enterprise fund.

Recommendation

Consider alternatives for accounting for the Texas Housing Trust Fund so that all transactions could be accounted for in one fund. Alternatively, consider recording an operating transfer from the general fund to the enterprise fund to reflect the movement of the funding for the loans so that an accounting trail exists.

Management Response

TDHCA agrees that reporting the activity in one fund is preferred, and it is currently evaluating which fund type is most appropriate. The evaluation and implementation will be complete this fiscal year for reporting purposes in the audited financial statements for fiscal year ending August 31, 2002.

**DOWN PAYMENT ASSISTANCE PROGRAM LOANS**

Observation

TDHCA provides down payment assistance to potential homeowners utilizing federal HOME Program funds. The HOME Program grant directs TDHCA to provide down payment assistance but does not specify the method of administering the funds.

Generally, the Down Payment Assistance Program ("DPAP") is administered as follows:

- TDHCA enters into subrecipient agreements with administrators (subrecipients). The administrators work with lenders or builders to identify individuals in need of the DPAP. Information on potential homeowners and properties they wish to purchase is forwarded to TDHCA's HOME Program by the administrators. Based on the HOME Program staff validating the sufficiency of the documentation, the draw request is approved. The HOME Program staff routes relevant information to the Accounting staff to process the payment of HOME funds to finance the DPAP. HOME Program expenditures are recorded by the Accounting staff as payment occurs.

The agreements with administrators dictate whether the DPAP should be considered a loan by the administrators and, by agreement, assigned to TDHCA. In instances of loans, the administrators are responsible for ensuring the signed loan notes are obtained at loan closing and forwarding the relevant loan documentation (loan note, title transfer, etc.) to TDHCA for processing by Loan Administration. However, the administrators do not consistently provide the relevant loan documentation to TDHCA.

As loan documentation is received by TDHCA, it is routed to Loan Administration, whereby staff ensures all documents are complete; if documents are completed, the loans are recorded in their loan servicing system, which serves as the basis of support for posting loan receivables to the financial records. However, if the administrators do not route the relevant loan documentation or if specific loan documents are missing information, a loan is not recorded by Loan Administration staff, thus creating a discrepancy between the draws approved by HOME and the loan servicing system. Additionally, loans receivable in the financial records will be understated by the amount of the loans not posted to the loan servicing system.

#### Recommendation

Implement policies to ensure that DPAP transactions are processed in their entirety. Procedures should be developed to ensure that relevant loan documentation is received from the administrators and that the HOME Program's, Loan Administration's, and Accounting's records are in agreement and reconciled on a regular basis.

#### Management Response

TDHCA recognizes that comprehensive procedures are necessary to ensure that DPAP transactions are processed in their entirety. To address this concern, TDHCA will develop procedures between HOME, Loan Administration, and Accounting to ensure that all systems are accurate, complete, and reconciled. These procedures will take effect by August 31, 2002.

### **RECORDING OF ACCOUNTS PAYABLE**

#### Observation

TDHCA does not accrue for invoices received subsequent to one month after year-end that relate to the preceding fiscal year. The ledgers are closed one month after year-end. For goods received or services rendered during the preceding fiscal year, invoices received after the one month cutoff may be improperly recorded as subsequent-year expenditures. As a result, accounts payable and the related expenditures may be understated at year-end.

#### Recommendation

Consider alternatives for cutoff procedures for invoices received subsequent to year-end. In order to efficiently manage this process, a threshold of \$100,000 could be set so that only large-dollar invoices received after September 30 would be reviewed for consideration of recording as accruals.

## Management Response

TDHCA agrees with Deloitte & Touche's recommendation. Effective fiscal year 2002, TDHCA will apply a \$100,000 threshold to review invoices subsequent to September 30. These invoices will be reviewed on a case-by-case basis to determine whether the transactions materially impact the financial statements.

## **INFORMATION SYSTEMS STRUCTURE**

### Observation

TDHCA's existing financial information systems structure currently lacks an enterprisewide, integrated scope to support TDHCA's financial management needs. The structure includes the utilization of two separate databases for managing programmatic financial data: the Client Server Accounting System ("CSAS") for general ledger, accounts payable, and purchasing management, and the Uniform Statewide Accounting System ("USAS") for statewide financial management and financial reporting.

TDHCA's financial information systems structure consists of the following systems:

Programmatic financial data is maintained primarily within separate databases. These databases include a range of information; most important from a financial perspective is loan and grant status data. Data entry within these databases is primarily performed by programmatic personnel. This source data is compiled through multiple reports (including spreadsheets) and utilized by Finance personnel to populate CSAS for general accounting and financial reporting for loans. These databases are currently being standardized and centralized in a common database to provide increased integration of programmatic data. TDHCA has also developed programs to facilitate uploading of entries into CSAS within project/grant management areas.

In 1997, TDHCA began implementation of five modules (general ledger, purchasing, budget, asset management, and accounts payable) of the PeopleSoft financial suite as part of the State's ISAS software project. This project was initiated by the State Comptroller in order to provide state agencies and universities with a common internal financial and administrative management system, according to an audit report on ISAS implementation prepared by the State Auditor's Office in January 2001. CSAS is the name used by TDHCA to refer to its PeopleSoft financial suite.

Full implementation of all five modules has not been completed by TDHCA. Rather, TDHCA uses the general ledger and accounts payable modules of CSAS, with partial use of the purchasing module. TDHCA's experience with this implementation has been described in the above-referenced State Auditor's Office report.

Ultimately, financial data from TDHCA is interfaced into the State's USAS system for statewide financial reporting. In addition to interfacing data from CSAS to USAS, Finance personnel access USAS directly to enter accounting transactions, in some cases. TDHCA personnel also receive downloaded reports from USAS for financial reporting purposes. TDHCA has stated that it plans to generate financial statements directly from CSAS beginning in 2002, at which time implementation of CSAS will be considered complete.

The utilization of these multiple financial systems has contributed to significant manual processing, reporting, and data interface by TDHCA personnel. This can result in both inefficient use of personnel resources and compromised data integrity due to the multiple data entry points required for financial processing. In addition, TDHCA continues to pay support and licensing fees for CSAS modules that are not currently being utilized.

#### Recommendation

TDHCA has undertaken a number of steps to enhance the use of CSAS for financial management, and we recommend continued action to develop a fully integrated financial management system. The goal of this effort should be to provide a financial management systems structure that minimizes manual entry requirements, strengthens integration of data and processes, and improves financial reporting capabilities. It appears that TDHCA's use of CSAS, while not as complete as originally envisioned at the beginning of implementation, can provide such an integrated tool if the system is used and financial management activities are conducted strategically.

In addition, as part of the ongoing centralized database project, TDHCA should ensure that financial reporting requirements are sufficiently identified and addressed. This will help to reduce the amount of manual reporting and data entry by Finance personnel, thereby increasing the efficiency and effectiveness of financial reporting processes.

#### Management Response

TDHCA agrees with the goal of creating a system that "minimizes manual entry requirements, strengthens integration of data and processes, and improves financial reporting capabilities." As Deloitte & Touche has noted, TDHCA has already taken a number of steps to ensure that this occurs. The first step is the completion of its CSAS. To date, the Department has completed the installation of general ledger, accounts payable and financial reporting components. The Department is prepared to issue its 2002 Annual Financial Report through CSAS. In addition, TDHCA administers a modified version of the purchasing module. TDHCA has plans to expand automated purchasing capabilities by the end of the fiscal year. Another step in this process is the development of a central database. This project is underway and is intended to provide Program areas with an interface to financial accounting data for their reporting purposes. The Department is confident that with these efforts the agency will have comprehensive, efficient, financial information systems.

### **NEW ACCOUNTING STANDARD**

#### Observation

In June 1999, the Governmental Accounting Standards Board ("GASB") issued its Statement No. 34 ("GASB 34"), "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement will require significant changes to the way that TDHCA collects information about transactions, records certain transactions in its ledgers, and reports its financial information in accordance with accounting principles generally accepted in the United States of America.

GASB 34 changes the framework of financial reporting for state and local governments and represents an important change in the history of accounting and financial reporting for state and local governments. A partial list of the requirements of this new standard follows:

Management's Discussion and Analysis ("MD&A") - similar to what is required by public companies when reporting to the Securities and Exchange Commission

Government-wide financial statements on a full accrual basis

Statement of activities on a "cost-of-service" basis

Separately reporting only major funds (as defined in the statement)

New definitions of fund types

Depreciating all fixed assets

Budget comparisons, including original and amended budgets, as required supplemental information

Several of these changes may require significant research and preparation on the part of TDHCA prior to implementation.

#### Recommendation

Obtain an understanding of the provisions of GASB 34. Management should determine a plan of action with regard to implementation of this statement. The plan might include such things as redefining the funds used by the organization, the availability of data (for example, the cost of fixed assets), the ability of the organization to collect and summarize the necessary data (for example, direct and indirect costs of activities for reporting on the statement of activities), the expected timeline for gathering this information, and the resources available or to be procured to achieve that timeline. Should additional resources be determined to be necessary, appropriate funding and budget adjustments should be pursued.

#### Management Response

TDHCA has taken the initiative to assign key staff to address the implementation of GASB 34. It has participated in a variety of technical training sessions specifically on GASB 34 and has begun its modification of systems and reporting mechanisms necessary for implementation. TDHCA is currently analyzing and reformatting the prior year's financial statements into a GASB 34 format. This new format will be ready for an initial review by our auditors in May. TDHCA will make adjustments based on their comments, and this will provide the template for fiscal year 2002 reporting. In addition to the challenge of GASB 34 implementation, TDHCA's resources have had to perform the tasks necessary to set up appropriations and transfer funds, assets, and personnel to the new agency, Office of Rural Community Affairs. This event will also have a significant impact on this year's financial statements. TDHCA will continue its coordination with and will take guidance from the State Comptroller's Office, the State Auditor's Office, and Deloitte & Touche to ensure full compliance with GASB 34.

**MANAGEMENT'S RESPONSIBILITY FOR AND THE OBJECTIVES AND  
LIMITATIONS OF THE INTERNAL CONTROL**

The following comments concerning management's responsibility for internal control and the objectives of and the inherent limitations in the internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control, policies, and procedures.

Objectives

The objectives of internal control are to provide management with reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

Limitations

Because of inherent limitations in any internal control, errors or fraud nevertheless may occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



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**Independent Auditors' Report  
 on Compliance With Requirements Applicable to  
 Each Major Program and on Internal Control Over Compliance  
 In Accordance With OMB Circular A-133**

The Honorable Rick Perry, Governor  
 and Members of the Texas State Legislature  
 State of Texas:

**Compliance**

We have audited the compliance of the State of Texas (the State) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended August 31, 2001, except those requirements discussed in the sixth following paragraph. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The Schedule of Expenditures of Federal Awards and our audit described below does not include expenditures of Federal awards for three component units of the State of Texas for financial statement purposes. Each of those agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State for the program compliance requirements listed below nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. These programs compliance requirements were:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Health	CFDA 93.917 HIV Care Formula Grant	Earmarking	
Department of Human Services	CFDA 93.667 Social Services Block Grant	Earmarking	02-14
University of Houston	Student Financial Aid Cluster	Special Tests and Provisions	
University of Texas at Austin	Research and Development Cluster	Cash Management	



As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with certain compliance requirements that are applicable to certain of its major Federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major Federal programs. The results of our auditing procedures are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Criminal Justice	CFDA 16.606 – State Criminal Alien Assistance Program	Reporting	02-47
Department of Health	CFDA 93.994 – Maternal and Child Health Services Block Grant to the States	Subrecipient Monitoring	
Department of Health	CFDA 93.268 Immunization Grants	Subrecipient Monitoring	
Department of Health	CFDA 93.917 - HIV Care Formula Grant	Subrecipient Monitoring	
Department of Health	Medicaid Cluster	Special Tests and Provisions	02-53
Department of Housing and Community Affairs	CFDA 14.239 – HOME Investment Partnerships Program	Subrecipient Monitoring	02-05
Department of Human Services	CFDA 83.543 – Individual Family Grants (FEMA)	Eligibility	02-23
University of Texas at Austin	Research and Development Cluster	Allowable Costs	02-38
University of Texas Health Science Center at Houston			02-32
			02-39
			02-30
University of Texas Health Science Center at San Antonio			
University of Texas M.D. Anderson Cancer Center			



In our opinion, except for the noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements described in the second preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended August 31, 2001, other than those requirements discussed in the following paragraph. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Education Agency	CFDA 84.010 – Title I. CFDA 84.048 – Vocational Education CFDA 84.186 – Safe and Drug-Free CFDA 84.318 – Technology Literacy CFDA 84.340 – Class Size Reduction	Cash Management	02-03
Education Agency	CFDA 84.048 – Vocational Education	Cash Management	
<del>Department of Health</del>	<del>Medicaid Cluster</del>	<del>Special Tests and Provisions</del>	<del>02-12</del>
Department of Health	CFDA 10.557 – Special Supplemental Nutrition Program for WIC	Eligibility	02-20
Higher Education Coordinating Board	CFDA 84.032 – Loan Servicing of Federal Family Education Loans (FFELP)	Special Tests and Provisions	02-44 02-46
Department of Housing and Community Affairs	CFDA 93.568 – Low Income Home Energy Assistance CFDA 81.042 – Weatherization Assistance for Low Income Persons	Allowable Costs	02-08
Protective and Regulatory Services	CFDA 93.558 – Temporary Assistance for Needy Families	Allowable Costs Eligibility	02-35 02-50
Department of Public Safety	CFDA 83.544 – Public Assistance Grant	Cash Management	02-34
Department of Public Safety	CFDA 83.544 – Public Assistance Grant CFDA 83.552 – Emergency Management Performance Grant	Subrecipient Monitoring	



<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Texas A&M University	Student Financial Aid Cluster	Special Tests and Provisions	02-26
Texas Tech University			02-27
University of Houston			02-37
University of Texas at Arlington			02-52
University of Texas at El Paso			02-28
Department of Transportation	Highway Planning and Construction Cluster	Cash Management	
University of Texas Health Science Center at San Antonio	Research and Development Cluster	Period of Availability	
Water Development Board	CFDA 66.458 – Capitalization Grants for State Revolving Funds Contract/Award	Cash Management	02-25

We did not audit compliance with requirements governing billing and collection of Perkins loans for certain portions of the State. Those requirements govern functions that are performed EFG Technologies and AFSA Data Corporation. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

The service organizations' compliance with the requirements governing the functions that they perform was examined by other accountants whose reports have been furnished to us. The reports of the other accountants indicate that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization accountants' reports, we have determined that all of the compliance requirements included in the *Compliance Supplement* that are applicable to the Student Financial Aid Cluster major program are addressed in either our report or the report of the respective service organization's accountants. Further, based on our review of the service organization accountants' reports, we have determined that they do not contain any findings of noncompliance that would have a direct and material effect on the Student Financial Aid Cluster major program.

#### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Requirements governing billing and collection of Perkins loans are performed by the service organizations noted above. Internal control over compliance relating to such functions was reported on by other accountants in accordance with the Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Copies of the service organizations accountants' reports have been furnished to us. However, the scope of our work did not extend to internal control maintained at the respective service organizations noted above.



We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, and are listed below:

<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Commission on Alcohol and Drug Abuse	CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse	Level of Effort	02-01
Department of Criminal Justice	CFDA 16.606 – State Criminal Alien Assistance Program	Reporting	02-47
Education Agency	CFDA 84.010 – Title I CFDA 84.048 – Vocational Education CFDA 84.186 – Safe and Drug-Free CFDA 84.318 – Technology Literacy CFDA 84.340 – Class Size Reduction	Cash Management	
Department of Health	CFDA 93.994 – Maternal and Child Health Services Block Grant to the States	Subrecipient Monitoring	02-19
		Procurement, Suspension and Debarment	02-18
Department of Health	CFDA 93.268 – Immunization Grants	Subrecipient Monitoring	
Department of Health	CFDA 93.917 - HIV Care Formula Grant	Subrecipient Monitoring	02-15
		Procurement, Suspension, and Debarment	
Department of Health	Medicaid Cluster	Special Tests and Provisions	02-53 02-13
Department of Health	CFDA 10.557 – Special Supplemental Nutrition Program for WIC	Eligibility Procurement, Suspension and Debarment	02-21 02-22
Higher Education Coordinating Board	CFDA 84.032 – Loan Servicing of Federal Family Education Loans (FFELP)	Special Tests and Provisions	02-43 02-44 02-45 02-46



<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
Department of Housing and Community Affairs	CFDA 14.239 - HOME Investment Partnerships Program	Subrecipient	02-05
		Monitoring	02-06
			02-07
Department of Human Services	CFDA 83.543 - Individual Family Grants (FEMA)	Eligibility	02-09
Department of Human Services	Medicaid Cluster	Special Tests and Provisions	
Protective and Regulatory Services	CFDA 93.558 Temporary Assistance for Needy Families	Cash Management	02-02
	CFDA 93.568 Foster Care - Title IV-E		
	CFDA 93.569 Adoption Assistance		
	CFDA 93.667 Social Services Block Grant		
Department of Public Safety	CFDA 83.544 - Public Assistance Grant	Cash Management	
<del>Texas A&amp;M University</del>	<del>Student Financial Aid Cluster</del>	<del>Special Tests and Provisions</del>	02-26
<del>Texas Tech University</del>			02-27
University of Houston			02-37
University of Texas at Arlington			02-52
			02-51
University of Texas at Austin			02-28
University of Texas at El Paso			
Department of Transportation	Highway Planning and Construction Cluster	Cash Management	
University of Texas at Austin	Research and Development Cluster	Allowable Costs	02-38
			02-32
			02-39
University of Texas Health Science Center at Houston			
University of Texas Health Science Center at San Antonio			
University of Texas at Austin	Research and Development Cluster	Matching and Program Income	02-48
University of Texas at Austin	Research and Development Cluster	Procurement, Suspension, and Debarment	02-49
			02-41
University of Texas Health Science Center at San Antonio			



<u>Agency/University</u>	<u>Program</u>	<u>Compliance Requirement</u>	<u>Finding Number</u>
University of Texas Health Science Center at Houston	Research and Development Cluster	Cash Management	02-31 02-29
University of Texas M.D. Anderson Cancer Center			

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Governor, the Members of the Texas State Legislature, Legislative Audit Committee, management of State agencies and universities, and all Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



February 12, 2002

**Department of Housing and Community Affairs**

Reference No. 02-05

**Subrecipient Monitoring – Allowable Costs/Activities**

(Prior Audit Issue – 01-555-24, 00-555-42, 99-555-22)

**CFDA 14.239 – HOME Investment Partnerships Program****Type of Finding – Compliance and Control**

The HOME Investment Partnerships Program (24 CFR Part 92) specifies eligible project costs in section 92.206 through 92.209. Included in section 92.206(d) are "related soft costs" for expenses such as professional services, financing costs, audit fees and environmental reviews. The Department of Housing and Community Affairs' (TDHCA) properly allows its subrecipients to incur such costs as part of their HOME program.

Questioned Cost: \$ 29,408.00

U.S. Department of Housing  
and Urban Development

Office of Management and Budget (OMB) Circular A-87 is the Federal government document that specifies the criteria for allowability and documentation of costs charges to Federal award programs. OMB Circular A-87 requires that costs claimed against Federally supported programs be supported by documentation validating both the service or material and the amount charged.

The audit procedures performed indicate that there is a lack of documentation to support soft costs incurred by subrecipients. For five of the 40 items tested there were inadequately documented soft costs, and the costs claimed for reimbursement totaled exactly 12% of the project budget. The related known questioned costs total \$29,400. In one other item tested, the supporting documentation amount was less than the requested amount by \$8. As a result of our testwork, the total known questioned costs is \$29,408. Interviews with the Department's HOME program management indicated that the Department did not require supporting documentation for "related soft costs" during fiscal year 2001. Since no documentation was maintained, the estimated questioned cost is \$2,314,574. This amount is 12% of total owner occupied expenditures for FY 2001 ( $\$15,874,974 \times 12\% = \$1,904,997$ ) plus 10% of total homebuyer assistance expenditures for FY 2001 ( $\$4,095,769 \times 10\% = \$409,577$ ).

Recommendation:

HOME program management must ensure that the documentation required by OMB Circular A-87 is received and reviewed in support of "related soft costs" before drawdown is allowed as part of the ongoing subrecipient monitoring.

Management's Response and Corrective Action Plan:

HOME program management agrees with the finding that soft costs were not adequately documented. The new HOME Program Manual, to be implemented with the 2001 HOME awards in the Spring of 2002, will impose line item maximums for each type of eligible soft cost. The Administrators will be required to submit support documentation as well as the source document, if applicable, before the HOME staff approves the draw request. The procedures are being implemented as ongoing subrecipient monitoring efforts.

Implementation Date: Spring 2002

Responsible Person: David Gaines

Reference No. 02-06  
Subrecipient Monitoring  
(Prior Audit Issue – 01-555-24, 00-555-42, 99-555-22)

CFDA 14.239 – HOME Investment Partnerships Program  
Type of Finding – Control

TDHCA does not have adequate internal controls in place over monitoring the subrecipients of the *HOME Investment Partnership Program* (HOME). Under HOME program regulations, each participating State is responsible for distributing HOME funds throughout the State according to the State's assessment of the geographical distribution of housing need within the State. A State may carry out its own HOME Program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME Programs in which both the State and all or some of the units of general local government perform specified program functions. A State that uses subrecipients to perform program functions shall ensure that the subrecipients use HOME funds in accordance with applicable laws and requirements. The State is to conduct reviews and audits of its subrecipients as may be necessary or appropriate to determine whether the subrecipient has committed and expended the HOME funds, as required by 24 CFR section 92.500, and has met HOME Program requirements particularly as they relate to eligible activities, income targeting, affordability, and matching contribution requirement (24 CFR section 92.201(b)).

Questioned Cost: \$ 0.00  
U.S. Department of Housing  
and Urban Development

Several weaknesses in the subrecipient monitoring process were noted during the audit:

- TDHCA's policy for Davis Bacon documentation to be on file before a construction drawdown can be processed has not been fully implemented and documentation is provided prior to the construction drawdown on an inconsistent basis.
- Subsequent to the monitoring process being transferred to the Compliance Division, the program coordinators discontinued the use of the monitoring checklists for their on-site visits. The program staff now uses inconsistent forms of documentation.
- Contractor Suspension and Debarment verification is not consistently documented and draws are granted before documentation is in place.
- Technical Assistance visits are not consistently documented and documentation used is not formally designed to ensure that all compliance requirements are reviewed when applicable.
- Technical Assistance visits are not part of a formal risk assessment plan but are left at the discretion of the program coordinator.
- When the Compliance Division started monitoring activities during the end of FY'00 and the beginning of FY'01, the division initially closed 185 contracts by performing a desk review if adequate documentation of previous monitoring visits by program staff was on file. If adequate documentation was not available, an on-site visit was scheduled. The focus of the Compliance Division during FY'01 was to close out contracts from previous years to assure that subrecipients were in compliance. This created a substantial workload for the Compliance Division. In general, the Compliance Division monitoring occurs when the contract drawdown exceed 75%. We noted that a total of approximately 49 contracts were monitored during FY'01 from the open contracts during FY'01. The total expenditures of those contracts amounted to approximately \$4.6 million which represents only 12% of total pass through expenditures and the total number of contracts monitored represents only 20% of contracts with expenditures during 2001.
- TDHCA does not have a fully operational risk assessment process for its subrecipient monitoring program.

Recommendation:

We recommend that TDHCA strengthen its controls over subrecipient monitoring during the contract period by developing and documenting a Department-wide monitoring program accounting for each grant from inception through close-out. Contracts need to be monitored before 75% of the contract dollars are spent. Management has to strengthen controls over monitoring all compliance requirements during a contract's period. Any findings identified during the Technical Assistance on-site visit should be tracked in a database and used as input for the risk assessment plan put in place by the Compliance Division.

Management's Response and Corrective Action Plan:

*The new HOME Program Manual, to be implemented with the 2001 HOME awards in the spring of 2002, will strengthen the controls over subrecipient monitoring during the contract period. A variety of policy and procedural changes will be made effective with the issuance of the new manual and will incorporate a variety of documentation requirements that will serve the subrecipient monitoring functions. These requirements will include submission of support documentation for Davis Bacon Labor Standards before draw requests are processed and submission and approval of Contractor Suspension and Debarment Verification Forms before draw requests are processed. Upon implementation of the new HOME Program Manual, internal standard operating procedures will be developed and implemented to ensure all applicable requirements are properly tested which will incorporate proper and uniform documentation of technical assistance visits and issue resolution, risk assessment procedures and tracking of technical assistance visits.*

*In connection with conducting the Compliance Division's risk assessment to best allocate limited resources, it was noted that approximately 184 HOME contract files monitored by HOME Program prior to January 2001 did not have a Certificate of Completion approval date entered into the Genesis database. Without proper processing of the Certificate of Completion, contracts with unused Federal funds that could be available for award for other HOME Program activities can not be used and are at risk of being deobligated by HUD. Additionally, these contracts needed to be programmatically closed to resolve Single Audit review questions and to provide a more comprehensive written compliance history of the contractors to serve as a basis for scoring risk factors used in the Risk Assessment model.*

*Accordingly, and based on the associated risks, it was conscientiously decided to allocate resources to conduct contract file assessments of these unclosed contracts. Such assessments and associated tasks incorporate monitoring procedures including the following:*

- 1. Resolving all monitoring findings;*
- 2. Determining that all projects have been completed and that relevant information is entered into the tracking system; and*
- 3. Receipting and approving of the Certification of Contract Approval by the HOME administrative staff.*

*Upon the satisfaction of these criteria and the issuance of a programmatic close-out letter to the contractor and subject to the right to recover funds or questioned costs based upon the findings of the Single Audit and final review by the U.S. Department of Housing and Urban Development, the contract is closed. Any funds not drawn can then be de-obligated and used for other HOME purposes and Compliance Audit can close out the Single Audit. If these procedures are not followed and the contract is not programmatically closed, a balance of unused funds begins to accumulate and is at risk of being deobligated by HUD.*

*In addition to the contract file assessments, the Program Monitors established a goal for the maximum number of contracts that could be monitored during the 2001 fiscal year. Based on available resources, the 100 contracts that could be monitored were drawn equally from both current contracts and the 184 contracts with outstanding balances mentioned above.*

*Management, based on circumstances that it inherited, believes that it has made a proper allocation of resources based on its assessment of risks and accomplished the goals it established for the year.*

**Implementation Date:**     *Spring 2002*

**Responsible Person:**     *David Gaines*

**DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

Reference No. 02-07

**Subrecipient Monitoring - Monitoring Visits**  
(Prior Audit Issue - 01-555-24, 00-555-42, 99-555-22)

**CFDA 14.239 - HOME Investment Partnerships Program**  
**Type of Finding - Control**

The Compliance Division does not have a management control in place that tracks visits undertaken and reports still outstanding. It went unnoticed that a report had not been issued for a May visit until October 2001 because an employee retired. Monitoring visits dates are inconsistently updated in the Genesis database.

Questioned Cost:	\$ 0.00
U.S. Department of Housing and Urban Development	

Since the database is used to track when on-site visits occurred and when they are due, inconsistencies in data input or lack of data input could result in non-compliance with the monitoring requirement for housing quality standards, eligibility and maximum rent limits. Also, since there is no management control over issuing reports related to monitoring visits, there is an increased risk that findings may go unreported.

The Compliance Division uses the Genesis database as tracking device for its monitoring visits which have to be conducted every year, every other year or every three years depending upon the circumstances of each project. Our audit procedures included comparing the information per monitoring file to the information entered into Genesis database for a sample of 30 items and resulted in one instance where the date of monitoring visit was incorrectly entered and one instance where the monitoring dates had not been entered at all.

**Recommendation:**

TDHCA should institute management controls over the Genesis database to ensure that the necessary database information is properly entered and updated and that findings from on-site monitoring visits are reported and resolved on a timely basis.

**Management's Response and Corrective Action Plan:**

*The Compliance Division has been using the Genesis database as a tracking device for the purpose of monitoring on-site visits. There have been many problems that the Division has encountered with the Genesis database.*

*Once information is entered into Genesis, it is impossible for the monitor to modify or delete that information without contacting the Information Systems department for assistance. For example, if a monitor has scheduled an on-site in Genesis and subsequently cancelled it, the monitor can not update the system to reflect the cancellation. Due to this system "glitch", the system does not always reflect accurate information.*

*The Compliance Division is in the testing phase for multifamily compliance tracking system that will track all rental programs monitored by the Division, including HOME. Staff is now inputting "real project" information to test the compliance functions built into the systems. Not only will the system allow for electronic reporting of project occupancy data from the project owners, it will also perform compliance checks on income, rent and other occupancy related matters and provide monitors a listing of identified violations. The system also has built in features that will be date driven and will provide management a tracking tool for assuring that desk review and field work due dates are adhered to, including the due dates of corrective action from the project owners.*

## DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

The Division is confident that once the new system is in place, that appropriate management controls will have been instituted and project reporting and monitoring visits will be reported and conducted in a timely manner. However, it should be noted that management has devised an interim process to overcome the Genesis shortcomings. The Division utilizes an excel spreadsheet, property "inventory", that schedules on-site reviews under the HOME Program over the next five years. This method was utilized for the scheduling 656-onsite reviews during FY2001 and has been proven to be sufficient.

Implementation Date: Spring 2002

Responsible Person: David Gaines

Reference No. 02-08

**Allowable Costs**

CFDA 93.568 - Low Income Home Energy Assistance

CFDA 81.042 - Weatherization Assistance for Low Income Persons

Type of Finding - Compliance

An employee of one of Low Income Home Energy Assistance's (LIHEAP) subgrantees, Sheltering Arms, embezzled funds over a period of five years. This fact came to the attention of Sheltering Arm's management. As a result of a review by Sheltering Arms' independent auditors, questioned costs totaling \$183,400 for LIHEAP and \$28,259 for the Weatherization Assistance for Low Income Persons Program were identified, a total of \$211,659. TDHCA has not recouped those funds from a subrecipient and has not adjusted its records for questioned costs originating in prior years. TDHCA reported questioned costs totaling \$171,284 to the

Questioned Cost: \$199,543.00

U.S. Department of Health  
and Human Services

U.S. Department of Energy

Department of Housing and Urban Development and \$28,259 to the Department of Energy. This total questioned cost of \$199,543 is \$12,116 less than the total amount identified by the independent auditors. The difference is still being investigated.

The embezzlement was not discovered through TDHCA's monitoring procedures because all subgrantees were monitored on a cyclical schedule TDHCA staff. The monitoring visits take place before the contract ends. The embezzlement of funds through falsified invoices occurred after the regular monitoring visit. Since then, the monitoring procedures have been adjusted to include the period of the prior year contract since the last monitoring visit.

Section 2605(g) of the LIHEAP statute states that the State shall repay to the United States amounts found not to have been expended in accordance with this title.

Recommendation:

We recommend TDHCA review Sheltering Arms' records to formally establish to TDHCA's satisfaction the amounts owed to TDHCA and issue a management decision and demand for repayment. Then, TDHCA should record the adjustment of those costs in its records.

Management's Response and Corrective Action Plan:

TDHCA will conduct a team-monitoring visit within the next 45 days to determine the amount of disallowed cost and proceed with action to collect these funds. The team monitoring will include staff from the Energy Assistance Section and Compliance Division staff.

Implementation Date: Spring 2002

Responsible Person: David Gaines

# Texas Department of Housing and Community Affairs - Summary Report of Prior Audit Issues

*(except those prior audit issues previously reported as implemented or otherwise resolved)*

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Ref. #	Auditors	Report Date	Division	Issue/Recommendation	Status		Target Date
	Report Name	Audit Scope			Codes*	Date	
136	IA	06/04/99	Multiple	<u>Planned Target Date - 12/31/1999</u>	Px	09/30/99	04/30/00
	Identification and Tracking of Subrecipients - Rpt. No. 9.09-1	To assess the adequacy of the Department's subrecipient monitoring systems and related policies and procedures.		The Department does not have formalized processes in place to identify and capture monitoring-related information that should be used to monitor and evaluate the performance of subrecipients, to plan and track the results of monitoring reviews and to share between the Department's program areas for planning and monitoring purposes to effectively and efficiently carry out monitoring responsibilities.	Px	03/15/00	04/30/00
					Pxx	08/29/00	NR
					Px	01/16/01	07/31/01
					Px	07/25/01	Not Provided
					Px	01/08/02	Not Provided
					Px	04/26/02	Unknown

**Summary Status:**  
4/26/02 - All program areas have previously reported that this issue has been corrected except as noted below.

Community Services continues to work with ISD to incorporate an electronic process to gather monitoring related information. Section 8 will meet with Compliance and other programs to determine monitoring related information to be gathered and continue to work with ISD to establish a tracking system to gather this information electronically.

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
118	IA Selection of Subrecipients for Monitoring Reviews - Rpt. No. 9.09-2	06/04/99 To assess the Department's management controls (systems, policies, procedures) used to select subrecipients for monitoring reviews.	Multiple	<u>Planned Target Date - 03/31/2000</u> A formal risk assessment is not used by any of the Department's programs to select subrecipients for monitoring reviews or on-site monitoring visits.	Px	09/30/99	12/31/99
					Px	03/15/00	04/30/00
					Pxx	08/29/00	NR
					Px	01/16/01	07/31/01
					Px	06/12/01	NR
					Px	07/25/01	08/31/01
					Px	04/06/02	06/02/02
					<b>Summary Status:</b>		
					9/28/01 - All programs have previously reported that corrective actions have been taken except for HOME, Community Services and Energy Assistance programs that have not formalized their draft SOPs. CS and EA anticipate approval of their SOP's within the next 30 days. HOME has not provided an anticipated completion date.		
119	IA Selection of Subrecipients for Monitoring Reviews - Rpt. No. 9.09-2	06/04/99 To assess the Department's management controls (systems, policies, procedures) used to select subrecipients for monitoring reviews.	Multiple	<u>Planned Target Date -</u> The Department does not have formal policies and procedures regarding "joint" monitoring visits to review multiple programs, if applicable, simultaneously, rather than monitoring individual programs separately.	Px	09/30/99	12/31/99
					Px	03/15/00	05/31/00
					Px	08/29/00	12/31/00
					Px	01/18/01	04/30/01
					Px	07/27/01	NR
					Px	04/25/02	05/31/02
					04/25/02 - A draft Team Monitoring SOP has been developed and is being subject to review. Once comments have been received and incorporated, it will be submitted for final approval.		

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Ref. #	Auditors	Report Date	Division	Issue/Recommendation	Status		Target
	Report Name	Audit Scope			Codes*	Date	Date
252	IA	07/24/00	Department-wide	<u>Planned Target Date - 12/31/2000</u> We recommend that Department management explore alternatives regarding the inspection of its construction projects, including (1.) establishing an agency-wide construction inspection section, (2.) formally evaluating the costs and benefits associated with contracting with third parties, (3.) formally evaluating the degree of overlap between HTF's construction inspection objectives and procedures and those of third parties and (4.) considering obtaining additional inspection resources.			
	Housing Trust Fund - Subrecipient Monitoring, Rpt. No. 0.04	The HTF program's subrecipient monitoring function.			Px	08/24/00	12/31/00
					Px	04/18/01	05/31/01
					Px	07/25/01	08/31/01
					Px	09/28/01	Not Provided
					Pxx	01/7/02	----
		Px	04/25/02	05/31/02			
					<b>Summary Status:</b> 04/25/02 - The Compliance Division is leading a group to develop a SOP that encompasses the construction monitoring process for the Department. A first level draft of the SOP will be completed May 15, 2002.		
187	HUD	09/19/00	Section 8	<u>Planned Target Date -</u> Finding No. 17: Contract of Participation and Establishment of Escrow Account, Documentation could not Be Provided to Support Implementation of a Family Self-Sufficiency (FSS) Program (Repeat Finding).			
	Section 8 Management Review	Review conducted week of August 7, 2000 - To ensure compliance with statutory and regulatory requirements.			Dx	01/03/01	
					Dx	03/04/01	
					Dx	04/18/01	----
					Dx	11/28/01	----
					Pxx	04/25/02	08/31/02
					<b>Summary Status:</b> 4/25/02 - HUD denied initial exception request & Management is presently reviewing information on client services available in Local Operator areas to assess feasibility of implementation. If such services are not attainable, another request for an exception will be submitted to HUD.		
196	SAO	12/01/00	LIHTC & Accounting	<u>Planned Target Date - 09/30/2001</u> Develop procedures to ensure compliance with Government Code that states, "a fee charged by the department to an applicant for a low income housing tax credit may not be excessive and must reflect the department's actual costs in processing the applications and providing copies of documents in connection with the application process."			
	An Audit Report on the Texas Department of Housing and Community Affairs, Report No. 01-009	Applications submitted and Contracts awarded by the Department of the LIHTC HOME and HTF Programs from FY 1995 - 1999. Tests of financial information, needs assessment procedures & related data, review of performance measures & Dept.-wide needs assessment.			Px	01/05/01	09/30/01
					Px	11/29/01	03/31/02
					Px	04/25/02	06/30/02
					<b>Summary Status:</b> 04/25/02 - Procedures have been developed to track & compile staff time. The Dept. is in the process of obtaining cost information relating to time spent on the 2001 application process which will be used to determine whether fees charged are appropriate.		

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
219	KPMG / Mendoza Letter on Internal Control and Accounting Procedures - August 31, 2000	12/06/00 Annual independent audit of Department's general purpose financial statements for FY 1999.	Accounting and Finance	<u>Planned Target Date -</u> Repeat Finding - Begin planning for the implementation of GASB Statement No. 34 and be ready for full implementation by September 1, 2001 (the start of the fiscal year).	Px	08/01/01	08/31/01
					Pxx	01/07/02	08/31/02
					<b>Summary Status:</b> 01/07/02 - Management indicates that it is working with the Comptroller's Office and its external auditor's to ensure that GASB 34 is fully implemented, as required by professional standards, for the FY ending August 31, 2002.		
220	KPMG / Mendoza Letter on Internal Control and Accounting Procedures - August 31, 2000	12/06/00 Annual independent audit of Department's general purpose financial statements for FY 1999.	Community Affairs	<u>Planned Target Date -</u> Establish procedures to monitor the timely submission of LIHEAP subrecipient final reports. These procedures should include provision for collecting final reports within sixty to ninety days after the contract period has closed and test transactions that were charged on the final report to verify that the obligations occurred within the period of availability and that the liquidation was made within the allowed time period.	Px	06/12/01	
					Px	08/08/01	
					Px	01/08/02	01/31/02
					Px	04/26/02	05/31/02
					<b>Summary Status:</b> 04/26/02 -Draft SOP's have been developed that outlines LIHEAP, CEAP and WAP closeout procedures. Approval of the SOP's will occur within the next 30 days.		
233	IA Internal Auditing Report on Community Services Programs - Subrecipient Monitoring Function; Rpt. No. 1.04	08/15/01 The Community Services programs' subrecipient monitoring function for the 1999-2000 program years.	Community Affairs	<u>Planned Target Date - 01/01/2002</u> Community Services management is not recognizing other monitoring related activities being performed within the Department and the results of those activities as procedures and results that could be relied upon to assist in accomplishing its monitoring responsibilities and for use in its risk assessment processes.	Pxx	01/04/02	
					Pxx	04/26/02	06/30/02
					<b>Summary Status:</b> 4/26/02 - Monitoring SOPs have been revised to recognize monitoring activities by other areas of the Department; however, CS reports that it continues to work with the ISD to gain access to the results of other in-house monitoring activities for its risk assessment processes.		

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
237	IA Internal Auditing Report on Community Services Programs - Subrecipient Monitoring Function; Rpt. No. 1.04	08/15/01 The Community Services programs' subrecipient monitoring function for the 1999-2000 program years.	Community Affairs	<u>Planned Target Date - 01/01/2002</u> Develop and implement a system to track the status of reported deficiencies supported by formal standard operating procedures.	Pxx Px	01/04/02 04/26/02	06/30/02
					<b>Summary Status:</b> 4/26/02 - A draft SOP has been developed to track the status of reported deficiencies.		
253	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> The state is not providing adequate monitoring and oversight of the processing and construction activities of its recipients, subrecipients, CHDOs, contractors and/or developers in accordance with the HOME regulations and applicable OMB circulars, to ensure that they are performing as required in the state's various affordable housing programs. Additionally, the properties assisted by the state's down payment and closing cost assistance program (HBA), the owner-occupied rehabilitation/reconstruction program (OCC) and the contract-for-deed conversion program (CFD) have insufficient or no documentation that they are in compliance with the state's housing rehabilitation (property) standards and code requirements and, as applicable, local code requirements.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		
254	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> One of the Department's subrecipient's third-party lenders, (A) disbursed both HOME and FHA Title 1 Home Improvement Loan funds to pay a contractor, in full, to reconstruct a house that was never completed and, (B) issued checks against the FHA Title 1 Home Improvement Loan which subsequently were returned due to insufficient funds, as well as disbursing HOME funds to pay the same contractor for rehabilitation work on a second project, which was never completed.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		

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Ref. #	Auditors	Report Date	Division	Issue/Recommendation	Status		Target
	Report Name	Audit Scope			Codes*	Date	Date
255	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> Data previously entered into IDIS that was incomplete and/or inaccurate have still not been corrected.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		
256	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> Under the contract-for-deed conversion program (CFD), vacant lots were purchased for which the construction of housing units was not started within 12 months of the purchase of the land, contrary to HOME rules.. Additionally, based on the state's monitoring checklist for one of the recipients of the CFD assistance, it could not be determined if the applicant was income eligible.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		
257	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> It could not be determined based on a review of the information contained a subrecipient's files that all required lower-tier subcontracts were executed between the applicable parties. Additionally, there was no documentation in a subrecipient's files that it had executed a subcontract with another third party for provider fees of \$500 per case. It could not be determined what specifically was covered by the fees or whether the fees were cost-reasonable based on the service(s) provided.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		

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Ref. #	Auditors	Report Date	Division	Issue/Recommendation	Status		Target
	Report Name	Audit Scope			Codes*	Date	Date
258	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> There is a prohibited clause in the Land Use Restriction Agreement (LURA) executed between one of the Department's subrecipients and a Texas limited partnership ("Owner") whereby occupancy requirements could be waived contrary to program regulations unless an exception is granted by HUD for specified reasons.	Pxx	04/26/02	06/30/02
					<b>Summary Status:</b> 4/26/02 - The Department has provided direction and timeframes to TSAHC to file an amended LURA.		
259	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> HOME funds were disbursed to a contractor in advance of need as an "initial draw, " contrary to program rules that require that no Federal funds be drawn and disbursed until such time as funds are needed for payment of eligible costs.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		
260	HUD Monitoring Visit - HOME Program - M-00/01-SG-48- 0100	11/16/01 On-site monitoring of the State of Texas' affordable housing programs on August 20-24, and September 6-7, 2001.	HOME	<u>Planned Target Date -</u> Instances were noted where there was no documentation that newly-constructed units (single-family and multi- family) are in compliance with the current edition of the Model Energy Code (MEC) published by the Council of American Building Officials. Additionally, it was noted that a HOME funded apartment complex is not in compliance with Section 504 (handicapped accessibility) relative to units that are accessible for persons with visual and/or hearing impairments.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 4/22/02 - All projects referenced in the report and a sampling of TSAHC HOME contracts are being reviewed. A report is anticipated by 6/1/02 for the ED's consideration prior to submission to HUD. If HUD requires additional inspection of over 1400 projects funded by TSAHC, anticipated completion date is 8/1/02.		

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
261	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	HOME	<u>Planned Target Date - 06/30/2002</u> The Department does not have adequate control or proper accounting over HOME Homebuyer Assistance Program (HAP) loans to ensure that its financial interests in the loans are protected. HBA program loans need to be identified as they posted to Genesis and as loan proceeds are disbursed and the number and amount of loans posted to the Genesis system should be reconciled to the loan servicing system on a regular basis.	Px	04/22/02	08/01/02
					<b>Summary Status:</b> 04/22/02 - The HOME staff will be providing a weekly report to Loan Servicing for HBA draws, starting May 1, 2002, so that each loan and trailing documents can be properly tracked in Mitas. Additionally, old contracts will be reviewed for proper closeout. Related documentation will be routed to Loan Administration.		
262	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	Office of Colonia Initiatives	<u>Planned Target Date - 06/30/2002</u> Procedures to ensure that loan originations recorded on The Mortgage Origination System (TMO) are transferred to the LSAM can be improved to ensure the completeness and accuracy of both systems by conducting periodic reconciliations between the systems to ensure program loans recorded on TMO are properly transferred to LSAM for loan servicing and formalizing procedures for the weekly transfer of funded loans from TMO to LSAM.			
					<b>Summary Status:</b> Management responded that loan origination data will automatically be transferred to the loan servicing system with the new Mitas System negating the problems noted.		
263	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	Financial Services Division	<u>Planned Target Date - 12/31/2001</u> The reconciliation process between the LSAM and the accounting records can be improved to ensure the completeness and accuracy of both systems by completing a full and complete reconciliation of all loan balances and differences between the two systems be investigated and adjustments made, when warranted, to correct the appropriate system(s).	lx	04/26/02	
					<b>Summary Status:</b>		

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Ref. #	Auditors	Report Date	Division	Issue/Recommendation	Status		Target Date
	Report Name	Audit Scope			Codes*	Date	
264	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	HOME	<u>Planned Target Date - 05/30/2002</u> HOME program management should develop and implement processes to ensure that all required/necessary loan documentation is acquired to adequately support and protect the Department's interests in HAP loans.	Px	04/22/02	05/01/02
					<b>Summary Status:</b> 04/22/02 - The HOME staff will be providing Loan Servicing with a weekly report of all HBA draws, starting May 1, 2002, so that each loan and trailing documents can be properly tracked in Mitas.		
265	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	Loan Administration	<u>Planned Target Date - 05/30/2002</u> To improve quality control processes over the collection of loan documentation and to ensure that documentation is in place to protect the Department's financial interests, management should develop and implement written formal standard operating procedures regarding required loan documentation including the use of the checklist, as intended by management, and the supervisory review process to ensure compliance with prescribed procedures.	Px	04/22/02	05/01/02
					<b>Summary Status:</b> 04/22/02 - The HOME staff will be providing Loan Servicing with a weekly report of all HBA draws, starting May 1, 2002, so that each loan and trailing documents can be properly tracked in Mitas. These procedures should be reduced to formal policies and procedures.		
266	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	Executive Division	<u>Planned Target Date - 06/30/2002</u> The Department should develop and implement formal policies and procedures for the periodic review of delinquent program loans, related collection efforts and specific criterion to be met for writing-off loan balances.	Px	04/22/02	07/01/02
					<b>Summary Status:</b> Management responded that it will work on developing formal procedures to address this issue.		
267	IA Controls Over Single Family Loans; Report No. 1.05	01/07/02 Controls over single family loans serviced by the Department.	Loan Administration	<u>Planned Target Date - 02/28/2002</u> Management should development, implement and enforce formal policies and procedures relating to access and storage of the Department's critical loan documentation.	Px	04/22/02	06/01/02
					<b>Summary Status:</b> 04/22/02 - Loan Administration will formalize SOPs outlining access and storage of documents in the Collateral File Room.		

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
268	KPMG Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.	02/12/02 Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	HOME	<u>Planned Target Date - 05/30/2002</u> There is a lack of documentation to support soft costs incurred by subrecipients. Known questioned costs - \$29,400. Estimated questioned costs - \$2,314,574.	Px	04/22/02	08/01/02
							<i>Summary Status:</i> 04/22/02 - Back up to all costs (soft costs and hard costs) associated with the construction or rehabilitation of homes is now required. While this may address future soft costs, strategies need to be developed to resolve the questioned costs identified.
269	KPMG Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.	02/12/02 Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	HOME	<u>Planned Target Date - 05/30/2002</u> TDHCA does not have adequate internal controls in place over monitoring the subrecipients of the HOME Program.	Ix	04/22/02	
							<i>Summary Status:</i> The new HOME Program Manual, to be implemented with the 2001 HOME awards in the Spring of 2002, will address the issue noted going forward.
270	KPMG Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.	02/12/02 Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	Compliance	<u>Planned Target Date - 05/30/2002</u> The Compliance Division does not have a management control in place that tracks visits undertaken and reports still outstanding.	Ix	04/26/02	
							<i>Summary Status:</i>

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Ref. #	Auditors Report Name	Report Date Audit Scope	Division	Issue/Recommendation	Status		Target Date
					Codes*	Date	
271	KPMG Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.	02/12/02 Statewide Federal Single Audit for FYE August 31, 2001 (SAO contract with KPMG).	LIHEAP	<u>Planned Target Date - 05/30/2002</u>  The results an independent audit of one of Low Income Home Energy Assistance's (LIHEAP) subgrantees identified embezzled funds over a period of five years. TDHCA has reported the embezzlement to the appropriate funding Federal funding agencies.  TDHCA should review the subgrantees records to formally establish to TDHCA's satisfaction the amounts owed to TDHCA, issue a management decision, demand repayment and then record the adjustment of those costs in its records.	Pxx	04/26/02	08/31/02
					<i>Summary Status:</i> 04/26/02 - A review of the records at Sheltering Arms Senior Services is scheduled for May 21-23, 2002. Management continues to meet to determine the best course of action.		

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**STATUS OF AUDITS / REVIEWS**  
**May 31, 2002**

<b>External Audits/Reviews</b>	<b>Scope</b>	<b>Stage of Completion</b>	<b>Anticipated/Actual Report Release Date</b>
State Auditor's Office / KPMG	Statewide Single Audit 8/31/01	Complete	<ul style="list-style-type: none"> <li>• Financial Opinions - February 2002</li> <li>• Single Audit Opinions &amp; related schedules/reports - March 2002</li> </ul>
State Auditor's Office / KPMG	Statewide Single Audit 8/31/02	Planning	<ul style="list-style-type: none"> <li>• Financial Opinions - February 2003</li> <li>• Single Audit Opinions &amp; related schedules/reports - March 2003</li> </ul>
State Auditor's Office	Review of Implementation of Sunset Recommendations	Planning	Unknown
State Auditor's Office	<p>Review the funding and expenditure transactions of the Community Services Block Grant (Poverty Assistance) and Energy Assistance programs (including Weatherization) to ensure that:</p> <ul style="list-style-type: none"> <li>• Funds are disbursed in alignment with state outcome measures.</li> <li>• Available funds are maximized to support service delivery.</li> </ul> <p>Review the service delivery methods and procedures for the Section 8 program to determine if the Department has a feasible action plan to address increasing demands for Section 8 services and to resolve federal non-compliance issues.</p>	Planning	Unknown
State Auditor's Office	Special Investigation of former Department employee of allegations that employee with the intent to defraud, knowingly and intentionally make, presented and used a Low Income Housing Tax Credit rental application with the knowledge of its falsity and with the intent that it be taken as a genuine governmental record.	Complete	March 25, 2002
State Auditor's Office	A performance measures certification audit to assess the accuracy of fiscal year 2001 performance measure data reported to the LBB and the adequacy of the related control systems.	Preliminary	Fall 2002

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**STATUS OF AUDITS / REVIEWS**  
**May 31, 2002**

External Audits/Reviews	Scope	Stage of Completion	Anticipated/Actual Report Release Date
Internal Audits/Reviews			
Central Data Base	To review and determine that the project management tools and procedures (methodology) being utilized by Texas Department of Housing and Community Affairs' (Department) Project Development Team (Development Team) for the development of the Department's Centralized Database (Database) are adequate to ensure the success of the project	Project redefined as advisory services	Not applicable
LIHTC - Review of Controls over LIHTC Project Deliverables	To review Department controls to determine whether they are adequate to provide reasonable assurance that LIHTC project deliverables associated with tax credits awarded by the Department's Governing Board are actually delivered.	Reporting	June 2002
Payroll Audit	To determine whether adequate policies, procedures and controls are in place to provide reasonable assurance that: <ul style="list-style-type: none"> <li>• access to the payroll system is properly restricted to those employees who need access to perform their job duties,</li> <li>• payrolls are properly authorized and that payroll amounts are properly supported and calculated,</li> <li>• the Department complies with any applicable State and Federal reporting requirements, and</li> <li>• that terminated/resigned employees are properly removed from the payroll system.</li> </ul>	Fieldwork / reporting	June 2002
Other Projects	Prepare for and have conducted an external Quality Assurance Peer Review of the Department's internal audit function in accordance with professional standards.	Preliminary	August 2002
Annual Internal Audit Plan – FY 2003	Prepare the Annual Internal Auditing Report – FY 2002	Pending	Fall 2002

# THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

## Central Database Project Project Scope (as specified in Project Charter) As of May 31, 2002

### Project Scope

Due to the size and magnitude of the Central Database Project (CDP), it is important that a well defined scope be developed. The CDP is a multi-year project. With this in mind the project will be done in multiple phases. Phase I was the design and the development of the Compliance Monitoring and Tracking System, which was controlled by its own project charter. Phase II is anticipated to be completed by December 31, 2003. Phase III will begin immediately upon completion of phase II and will continue through the fiscal year 2004-2005 biennium.

Phases II and III of the project is the design, development and implementation of an integrated central database to support TDHCA's various divisions:

- Housing Trust Fund
- Low Income Housing Tax Credit
- Credit Underwriting
- Multi-Family Bond
- Single Family Bond
- Multi-Family Finance/Office of Preservation
- Home
- Energy Assistance
- Community Affairs (Community Services Block Grant, Emergency Shelter Block Grant, Emergency Nutrition, Enterp)
- Office of Colonia Initiatives (OCI)
- Section 8
- Compliance
- Housing Resource Center (HRC)
- Government Relations
- Affordable Housing Disposition Program

The scope of work includes the following:

- Developing system requirements including process models and data models for each of the divisions identified above. This may also include interfaces to legacy or other systems such as accounting and finance.
- Developing system design specifications to address the functional requirements.
- Producing a prototype of the system for the review and approval of department.
- Delivering a working web-based software application that utilizes the central database schema.
- Coordinating acceptance testing of system modules and full integration testing across all modules.
- Developing and providing user manuals for department users.

**TDHCA - Central Database Project**  
**Project Scope (as specified in Project Charter)**  
**As of May 31, 2002**

- Where necessary, develop interfaces to existing/legacy systems, including accounting, budget, loan administration, performance measurement accounting and applicable state and federal systems that require data exchange(s) with the central database.
- Conversion of historical data.
- SB 322 considerations.

**Phase II - Phase II Will Consist of the Following Functionality for All Program Areas:**

- Program Setup
  - Targeting
  - Allocation
- Development Notice Of Funds Availability
- Develop Application
- Application Cycle
- Application Processing
  - Intake
  - Scoring
  - Ranking
- Contract Award (Fund Obligation)
  - Contract Allocation
- Loan Closing
- Loan Draws
- Construction/Program/Contract Monitoring
  - Cost Certification
- Compliance Monitoring (Affordability Period)

In Phase II the Technical Team will focus on the following:

- Common Data Between Program Areas:
  - Organization
  - Person
  - Address
  - Contact Information
  - Property, Other Deliverable, Or Related Information Such As:
    - Buildings
    - Units
    - Property Document Tracking
    - Property Profile
    - Onsite Audit/Inspection Information
    - Affordability Period
    - Other Assistance, i.e. Rental Assistance, Energy Assistance, Poverty Related Assistance
- Program
  - Program Requirements

**TDHCA - Central Database Project**  
**Project Scope (as specified in Project Charter)**  
**As of May 31, 2002**

- Key Activities
- Targeting
- Notice of Funds Availability
- Application
  - Receipt
  - Scoring
  - Ranking
  - Tracking
  - Threshold Definitions
- Allocation
  - Program
  - Regions
  - Activities
  - Set Aside
- Underwriting & Cost Certification
- Contract
  - Tracking
  - Allocation (Funding)
  - Performance Statements
  - Targeting
  - Special Conditions
  - Amendments/Expiration
- Loans
  - Tracking/Closing
  - Maintain Monthly Balances
- Construction Monitoring/Compliance Monitoring/Contact
- Monitoring/Administration
- Draws
  - Track Receipt
  - Balances (Track & Monitor)
  - Track Document Receipt
  - Close Out Process
- Long-Term Compliance Monitoring
  - Risk Assessment
  - Testing & Non-Compliance Reporting
  - Review & Findings Tracking
  - Owner Reporting
  - Disability Unit Database
  - Asset Management
- Communications Logging
- Interfaces with Existing Internal Systems, When Necessary

**Phase III - In Phase Three The Following Work Is To Be Included:**

- Continuation and Refinement of Phase I with Added Functionality
- Data Warehouse

**TDHCA - Central Database Project**  
**Project Scope (as specified in Project Charter)**  
**As of May 31, 2002**

- Interface with Agency-Wide Imaging System
- Integrate With Mapping/GIS System
- Open Interfaces As Needed

Project plans and appropriation budget requests are being currently being developed in conjunction with the Department's Biennial Operating Plan (Information systems/services support for appropriations request) and Legislative Appropriations Request that will be submitted to oversight agencies during the Summer 2002.

# Central Database Initiative

## External Drivers

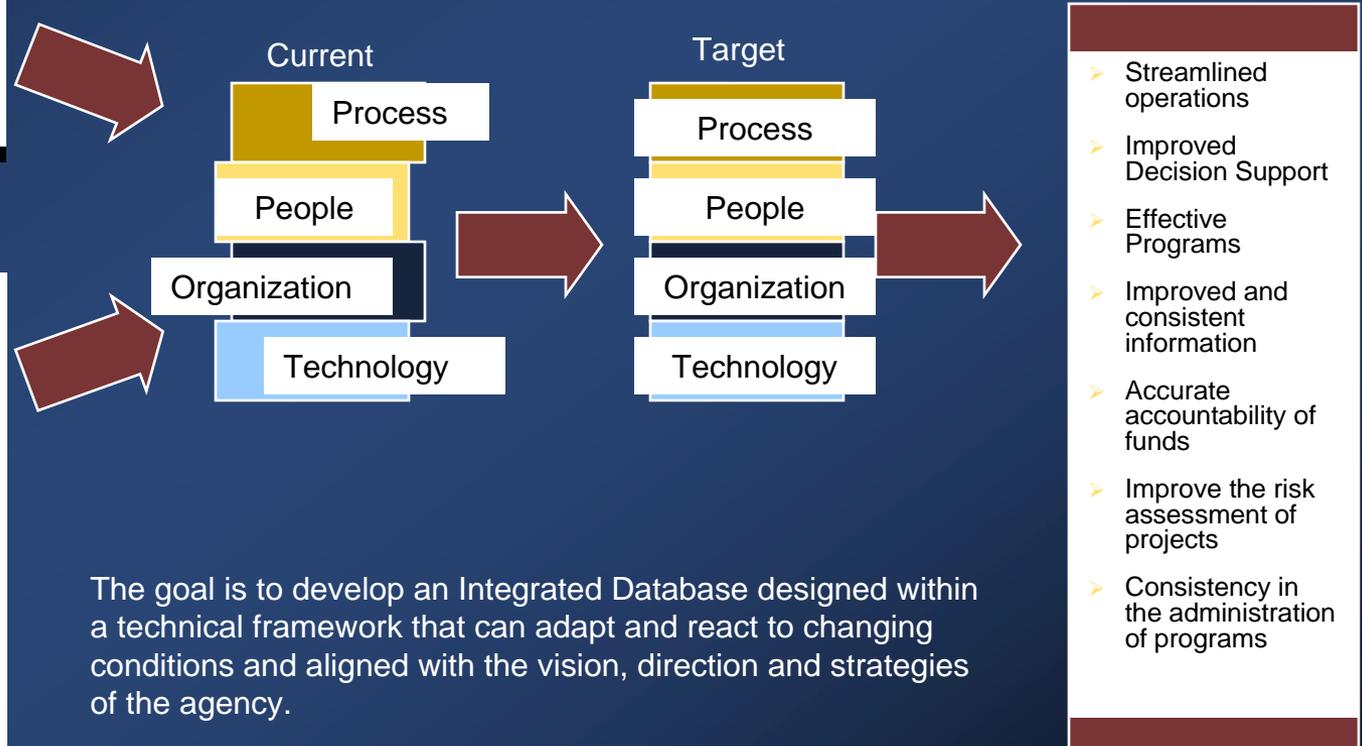
- Increased requests from legislators for information on the effectiveness of programs within their districts
- Pressure to reduce staff - do more with less
- Increased compliance monitoring and reporting requirements for state and federal programs

## Internal Drivers

- Changing programs & complexities of administration
- The need to accurately track funds from source to final disbursement
- The need to quickly and accurately assess the effectiveness of the programs
- Concerns regarding data integrity, data redundancy and multiple versions of the truth
- Many "islands of Information"

TDHCA has taken proactive steps to address factors affecting the way it conducts business and has embarked on a mission to develop an integrated centralized database.

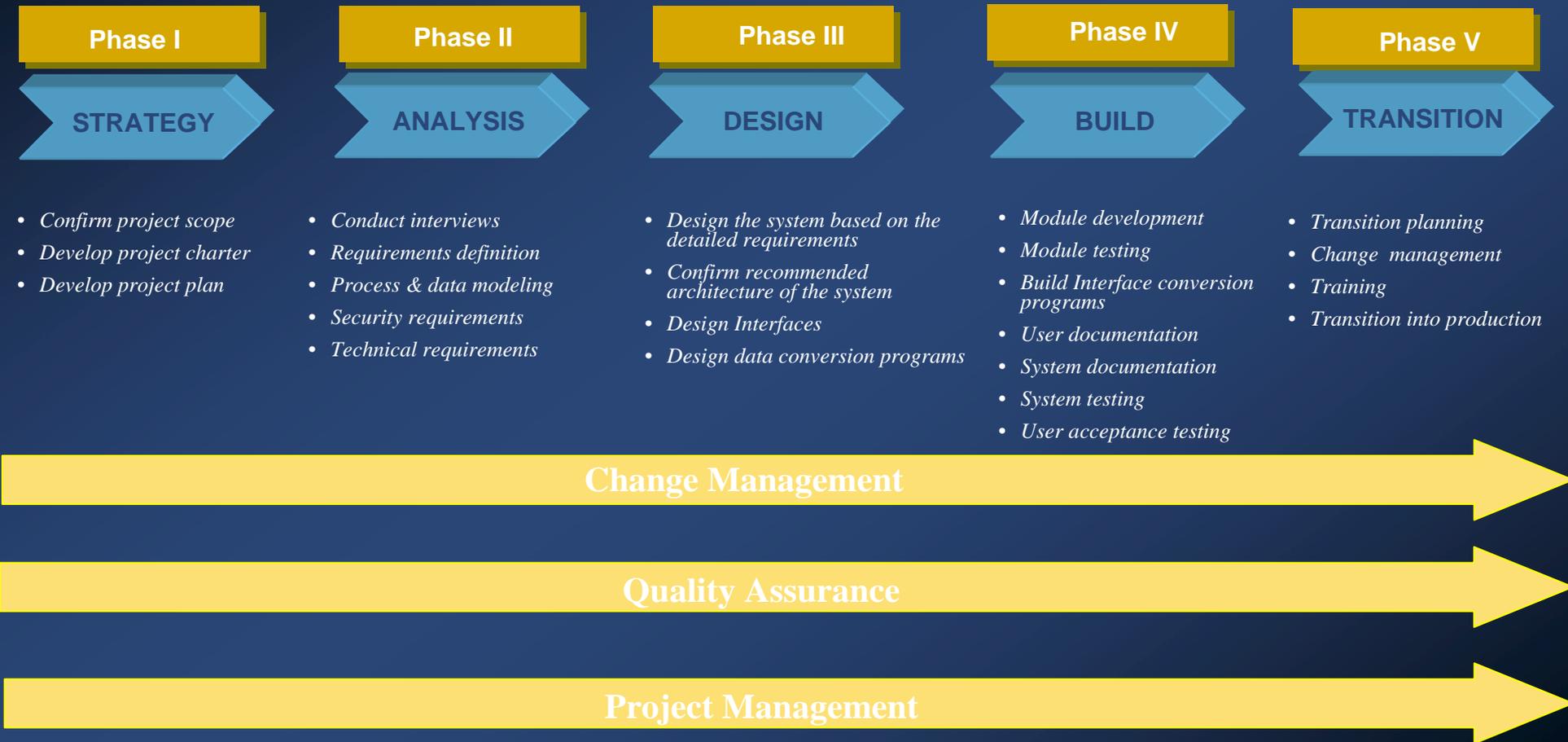
Integral to this initiative is the desire to devise, plan and deliver integrated technology architecture and business solutions that are fully aligned to business requirements, and that provide flexibility, reliability, and effective support of a dynamic business operation



The goal is to develop an Integrated Database designed within a technical framework that can adapt and react to changing conditions and aligned with the vision, direction and strategies of the agency.

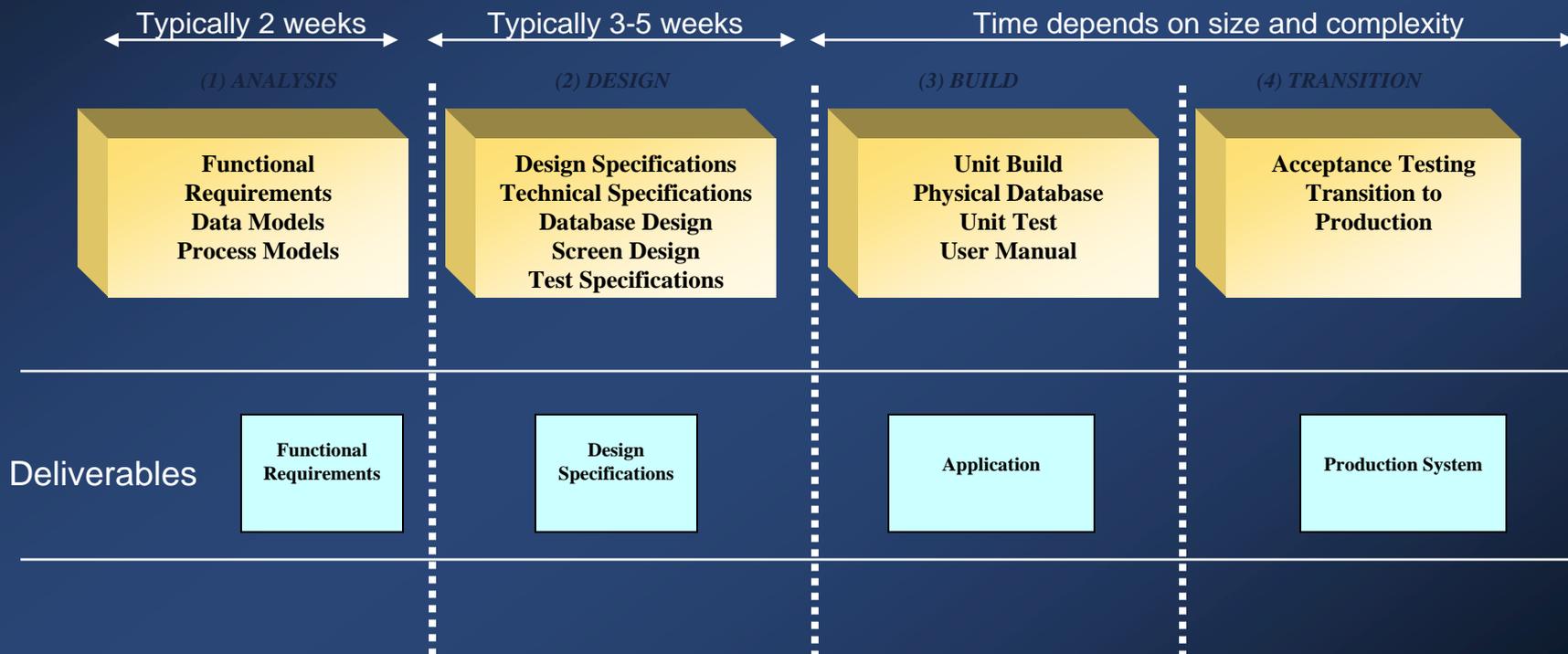
# Methodology

*We're using a Five-Phase approach using CASE Method methodology for custom application development. Our approach is designed to be flexible to be adapted to the specific needs of this project.*



# Our Approach

We have selected an approach that will allow us to accomplish two goals: 1) breadth of coverage and 2) depth of analysis.



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Central Database Project**  
**Status of Funds as of May 31, 2002**

Date / Period	Description	Compliance Monitoring System	Compliance Monitoring / Central Database	Total
<b>Available Funds:</b>				
	Appropriated Funds:			
FY 2000 - 2001	<ul style="list-style-type: none"> <li>• FY 2000/2001 - Phase I: To develop and implement a fully integrated compliance monitoring system to address the compliance monitoring needs for all multifamily housing programs. This new system will provide for full integration and reporting, provide automated compliance functions for the HOME, Housing Trust fund, and tax Exempt bond programs that do not currently exist, allow remote property managers to access and update tenant information through the Internet, and improve productivity through the use of sound business process design, a graphical user interface, and improved access to data. Original Expected Completion Date - August 31, 2001. (\$200,000)</li> <li>• FY 2001 Appropriation adjustment - To continue design and development of Compliance Monitoring System. (\$62,955)</li> </ul>	\$200,000  62,955		\$200,000  62,955
FY 2000 - 2003	<ul style="list-style-type: none"> <li>• FY 2002 (\$99,000)/FY 2003 (\$399,000) - Phase II: To consolidate over 50 different Department databases from over 28 different program areas into one central database to provide for communications between program areas, allow for retention of historical data (currently written over in some of the Department's databases as fields of information are updated), to allow for a single hardware and software platform. The project is to provide for reporting across housing programs, automated compliance functions for the HOME, Housing Trust fund, and Tax Exempt Bond programs that do not currently exist, remote managers access and ability to update tenant information through the use of an industry-standard web browser and improved productivity through the use of sound business process design and improved access to data. Original Expected Completion Date - December 31, 2002. (\$798,000 requested; \$498,000 appropriated and, therefore, project plan and scope reduced accordingly - See Project Scope of Project Charter.)</li> </ul>		498,000	498,000
	Subtotal Available for the FYs 2000 thru 2003	262,955	498,000	760,955
Jan 2002	Funds Transfer between Projects	46,083	(46,083)	0
	<b>Adjusted Available for the FYs 2000 thru 2003</b>	<b>309,038</b>	<b>451,917</b>	<b>760,955</b>

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Central Database Project**  
**Status of Funds as of May 31, 2002**

Date / Period	Description	Compliance Monitoring System	Compliance Monitoring / Central Database	Total
<b>Less Expenditures thru 5/31/02:</b>				
Expenditures (including accrued expenditures of \$36,910 as of 5/31/02):				
FY 2000 - 2001	• Computer Programming Services - Design and development of Compliance Monitoring and Tracking System. (\$262,677)	262,677		262,677
FY 2002 - 5/31/02	• Employee Training - Advanced Java Programming training and Graphical User Interface and Presentation. (\$7,640)		7,640	7,640
	• Computer Programmer Services - Finalization of Compliance Monitoring System. (\$46,083)	46,083		46,083
	• Computer Programming Services - One Systems Analyst for gathering program information needs, functional and system requirements and specifications. Two Programmers for software development. (\$129,787)		129,787	129,787
	• Computer Equipment – Sun Server Hardware, Disk Drives, Processors, Memory (RAM) and required upgrades. (\$42,987)		42,987	42,987
	• Computer Software - Software database tools. (\$4,005)		4,005	4,005
	• Miscellaneous - US Postal Service FIPS Database Annual Subscription. (\$350)		350	350
<b>Total Expenditures as of 5/31/02</b>		<b>308,760</b>	<b>184,769</b>	<b>493,529</b>
<b>Less Lapsed Funds</b>		<b>278</b>		<b>278</b>
<b>Unexpended Balances as of 5/31/02</b>		<b>0</b>	<b>267,148</b>	<b>267,148</b>
<b>Less Obligations as of 5/31/02:</b>				
Obligations as of 5/31/02 (See Note 1. on following page):				
	• Systems Analyst – Business Data Architect for 789 hours remaining through 9/30/02 (\$51,285)		51,285	51,285
	• Computer Programming Services – 2 Contract Java Software Developers:			
	• 24 hours remaining (\$1,128)		1,128	1,128
	• 246 hours remaining (\$12,300)		12,300	12,300
<b>Obligated Balances as of 5/31/02</b>			<b>64,713</b>	<b>64,713</b>
<b>Unexpended / Unobligated Balances as of 5/31/02</b>		<b>\$ 0</b>	<b>\$202,435</b>	<b>\$202,435</b>

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Central Database Project**  
**Status of Funds as of May 31, 2002**

**Planned Use of Funds Unexpended / Unobligated Balances as of 5/31/02:**

Date / Period	Description	Compliance Monitoring System	Compliance Monitoring / Central Database	Total
<b>Unexpended / Unobligated Balances as of 5/31/02 (as above)</b>		\$ 0	\$202,435	\$202,435
Less:				
FY 02/03	<ul style="list-style-type: none"> <li>• Two additional Java software development programmers plus extension of contract agreement with one Java programmer. Estimated 3,000 hours @ "minimum" \$50 / hr. (\$150,000)</li> <li>• Computer Software – Software Quality Assurance and database tools. (\$5,000-\$10,000)</li> <li>• Computer Equipment – Additional disk capacity. This is difficult to estimate at this time, but additional disk capacity will be required.</li> </ul>		150,000	150,000
			10,000	10,000
<b>Subtotal</b>		0	160,000	160,000
<b>Balance of Unexpended / Unobligated Balances as of 5/31/02 - Usage not currently planned</b>		\$ 0	\$ 42,435	\$ 42,435

**Note 1. - Deliverables expected from amounts Obligated as of 5/31/02:**

The obligated funds as of May 31, 2002, are for the following purposes:

- Continuing development of system requirements including process models and data models. This may also include interfaces to legacy or other systems such as accounting and finance.
- Continuing development of system design specifications to address the functional requirements.
- Producing a working system for the review and approval of department.
- Delivering a working web-based software application that utilizes the Central Database schema.
- Coordinating acceptance testing of system modules and full integration testing across all modules.
- Developing and provide user manuals for Department users.
- Developing interfaces, where necessary, to existing/legacy systems that require data exchange(s) with the Central Database.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**Central Database Project**  
**Accomplishments as of May 31, 2002**

**Accomplishments thru May 31, 2002 (for amounts expended):**

**Applications:**

- Compliance Monitoring & Tracking System in production.
- Main Menu and Object Oriented Hierarchy and Architecture in place
- AOD (LIHTC legacy system) Conversion. Data migration completed 5/02 to populate the new Central Database. Data cleanup in progress by customer.
- Housing Sponsor Report (SB322 Requirement)
- Housing Sponsor Report (Historical Information) – In Quality Assurance. (SB322 Requirement)
- Housing Resource Center Information Clearinghouse – In Quality Assurance. This included data migration of existing information from Microsoft Access to Oracle. Final requirements signed off by customer in 5/02. Should be deployed in 6/02. (SB322 Requirement)
- Low-Income Housing Tax Credit Contact Log – Work around instituted 2/02. This included data migration of existing information from Microsoft Access to Oracle. In progress. Will be used by other programs within the Department. (SB322 Requirement)
- Housing Trust Fund Functional Requirements – Work completed and reviewed. Final functional requirements signed off by customer. Design document currently in progress.
- Agency-wide Fund Allocation Functional Requirements – Work completed and currently in the review process.
- Login and security mechanisms - In progress
- Program Setup user meetings – In progress
- Contract Draw user meetings – In progress
- Reviewing legacy HOME system and data – In progress

**Software Standards and Controls:**

- Software Development Environment Infrastructure
- Web and Graphical User Interface Standards
- Software Development Java Coding Standards
- Software Quality Assurance Process
- Software Source Code Control System
- Software Development Life-Cycle Definition
- Database Naming Convention Standards
- Java Software Development Platform Standard
- Software Deployment Procedures – Quality Assurance of process is in progress.

**Hardware Infrastructure:**

- Reliable Network, Hardware, Operating System Infrastructure and Increased Security in place.
- Cutover from old APPX/Genesis IBM AIX system to Sun Solaris platform as of April 2002.

Item 9(a)

**LOW INCOME HOUSING TAX CREDIT PROGRAM**

**BOARD ACTION REQUEST**

**June 4, 2002**

**Action Item**

Request extension of deadline to close construction loans.

**Required Action**

Approve eleven requests for extension associated with the 2001 commitments.

**Background**

Pertinent facts about the developments requesting extension of the deadline to close the construction loan are summarized below. If applicable, the requests were accompanied by a mandatory \$2,500 extension request fee. Staff has reviewed the information and recommends granting the extensions pursuant to Section 50.11(h) of the 2001 QAP.

**LIHTC Development No. 01007, The Grand Texan Seniors Community**

**Summary:** The 2001 application was terminated because of a compliance finding. The application was later reinstated and received an allocation from the waiting list. Prior to the reinstatement, allocations were made to other developments in the subject area. Because of the other allocations, the owner reduced the number of units proposed for development. Due to the amount of time taken to evaluate the reduced proposal, staff requests a waiver of the \$2,500 extension fee on the applicant's behalf.

City/County:	McKinney / Collin
Set-Aside:	Elderly
Type of Project:	New Construction
Units:	54 LIHTC and 46 market rate units
Allocation:	\$357,087 (Recommended)
Allocation Cost per LIHTC Unit:	\$6,613
Extension Request Fee Paid:	Recommend waiver per Summary above
Type of Extension Request:	Extension of deadline to close the construction loan
Current Deadline:	June 14, 2002
New Deadline Requested:	July 15, 2002

Prior Extensions on Project:	None
Reason for Extension Request, etc.:	Loan could not be closed until the Department finished evaluation of the amended application.
Staff Recommendation:	Grant extension as requested and waive extension request fee

**LIHTC Development No. 01027, Springdale Estates**

City/County:	Austin / Travis
Set-Aside:	General
Type of Project:	New Construction
Units:	25 LIHTC and 18 market rate units
Allocation:	\$236,453
Allocation Cost per LIHTC Unit:	\$9,458
Extension Request Fee Paid:	\$2,500
Type of Extension Request:	Extension of deadline to close the construction loan
Current Deadline:	June 14, 2002
New Deadline Requested:	November 26, 2002
Prior Extensions on Project:	None
Reason for Extension Request, etc.:	HUD 221 d 4 loan will take 4 to 6 months to close
Staff Recommendation:	Grant extension as requested.

**LIHTC Development No. 01042, Fountains at Tidwell**

City/County:	Houston / Harris
Set-Aside:	General
Type of Project:	New Construction
Units:	141 LIHTC and 47 market rate units
Allocation:	\$830,255
Allocation Cost per LIHTC Unit:	\$5,888
Extension Request Fee Paid:	\$2,500
Type of Extension Request:	Extension of deadline to close the construction loan
Current Deadline:	June 14, 2002
New Deadline Requested:	July 15, 2002
Prior Extensions on Project:	None
Reason for Extension Request, etc.:	Uncertainty about time that will be necessary to obtain permits and resolve issues among the partners.
Staff Recommendation:	Grant extension as requested.

**LIHTC Development No. 01069, North Star Apartments**

City/County: Raymondville / Willacy  
Set-Aside: Rural  
Type of Project: New Construction  
Units: 61 LIHTC and 11 market rate units  
Allocation: \$437,266  
Allocation Cost per LIHTC Unit: \$7,168  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: October 1, 2002  
Prior Extensions on Project: Extended carryover from Oct. 13 to Nov. 12  
Reason for Extension Request, etc.: HUD 221 d 4 loan will take 4 to 6 months to close  
Staff Recommendation: Grant extension as requested.

**LIHTC Development No. 01076, Laurel Point Senior Apartments**

City/County: Houston / Harris  
Set-Aside: Elderly  
Type of Project: New Construction  
Units: 110 LIHTC and 38 market rate units  
Allocation: \$454,460  
Allocation Cost per LIHTC Unit: \$4,131  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: August 16, 2002  
Prior Extensions on Project: None  
Reason for Extension Request, etc.: Replatting, and plat approval and recording were unusual  
Staff Recommendation: Grant extension as requested.

**LIHTC Development No. 01077, Bell Oaks Village II**

City/County:	Bellville / Austin
Set-Aside:	Nonprofit
Type of Project:	New Construction
Units:	32 LIHTC
Allocation:	\$169,103
Allocation Cost per LIHTC Unit:	\$5,284
Extension Request Fee Paid:	\$2,500
Type of Extension Request:	Extension of deadline to close the construction loan
Current Deadline:	June 14, 2002
New Deadline Requested:	July 31, 2002
Prior Extensions on Project:	Carryover was extended from Oct. 13 to Nov. 30
Reason for Extension Request, etc.:	Lender's issues about the ground lease must be resolved
Staff Recommendation:	Grant extension as requested.

**LIHTC Development No. 01108, Logan's Pointe**

City/County:	Mount Vernon / Franklin
Set-Aside:	General
Type of Project:	New Construction
Units:	100 LIHTC
Allocation:	\$614,176
Allocation Cost per LIHTC Unit:	\$6,147
Extension Request Fee Paid:	\$2,500
Type of Extension Request:	Extension of deadline to close the construction loan
Current Deadline:	June 14, 2002
New Deadline Requested:	July 15, 2002
Prior Extensions on Project:	None
Reason for Extension Request, etc.:	Carryover was extended from Oct. 13 to Nov. 9
Other:	Applicant changed ownership structure after carryover.
Staff Recommendation:	Grant extension as requested.

**LIHTC Development No. 01111, Village at Meadowbend**

City/County: Temple / Bell  
Set-Aside: General  
Type of Project: New Construction  
Units: 103 LIHTC and 35 market rate units  
Allocation: \$810,185  
Allocation Cost per LIHTC Unit: \$7,866  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: August 15, 2002  
Prior Extensions on Project: None  
Reason for Extension Request, etc.: Relocation of a gas line by a third party has taken longer than expected  
Staff Recommendation: Grant extension as requested.

**LIHTC Development No. 01144, Autumn Oaks of Corinth**

City/County: Corinth / Denton  
Set-Aside: General  
Type of Project: New Construction  
Units: 76 LIHTC and 52 market rate units  
Allocation: \$330,428  
Allocation Cost per LIHTC Unit: \$4,348  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: August 13, 2002  
Prior Extensions on Project: None  
Reason for Extension Request, etc.: The development is part of a masterplan for the new "Corinth Town Center". The Corinth City Council has not finalized some of the architectural details of the master plan.  
Other: General partner, LaSalle Equity Group, Inc. was replaced by LaSalle of Corinth, LLC. LaSalle Equity Group, Inc. is the sole member of LaSalle of Corinth, LLC.  
Staff Recommendation: Grant extension as requested.

**LIHTC Development No. 01149, Clark's Crossings Apartments**

City/County: Laredo / Webb  
Set-Aside: Nonprofit  
Type of Project: New Construction  
Units: 120 LIHTC and 40 market rate units  
Allocation: \$777,874  
Allocation Cost per LIHTC Unit: \$6,482  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: September 12, 2002  
Prior Extensions on Project: None  
Reason for Extension Request, etc.: Construction lender changed material terms of the loan, at a late date requiring renegotiation.  
Other: Applicant requested approval to eliminate one of the two general partners. The request was denied.  
Staff Recommendation: Grant extension as requested.

**LIHTC Development No. 01152, Parkway Senior Apartments**

City/County: Pasadena / Harris  
Set-Aside: Elderly  
Type of Project: New Construction  
Units: 91 LIHTC and 31 market rate units  
Allocation: \$493,226  
Allocation Cost per LIHTC Unit: \$5,420  
Extension Request Fee Paid: \$2,500  
Type of Extension Request: Extension of deadline to close the construction loan  
Current Deadline: June 14, 2002  
New Deadline Requested: September 12, 2002  
Prior Extensions on Project: Carryover was extended from Oct. 13 to Nov. 12  
Reason for Extension Request, etc.: Large increases in the utility allowances in Pasadena, which have since been reduced, caused a decrease in the amount of the loan that could be obtained.  
Staff Recommendation: Grant extension as requested.



**LOW INCOME HOUSING TAX CREDIT PROGRAM  
2002 LIHTC/TAX EXEMPT BOND DEVELOPMENT PROFILE AND BOARD  
SUMMARY**

Texas Department of Housing and Community Affairs

Development Name: **The Grand Texas Seniors Community (Amended/Restructured)**

TDHCA#: 01007

**DEVELOPMENT AND OWNER INFORMATION**

Development Location: McKinney QCT: Y DDA: N TTC: N  
 Development Owner: The Grand Texan, Ltd.  
 General Partner(s): McKinney Grand Texan, Inc., 100%, Contact: Kenneth H. Mitchell  
 Construction Category: New  
 Set-Aside Category: Elderly  
 Development Type: Elderly

**Annual Tax Credit Allocation Calculation**

Applicant Request: \$357,087 Eligible Basis Amt: \$375,591 Equity/Gap Amt.: \$455,063

**Annual Tax Credit Allocation Recommendation: \$357,087**

Total Tax Credit Allocation Over Ten Years: \$ 3,570,870

**PROPERTY INFORMATION**

**Unit and Building Information**

Total Units: 100 LIHTC Units: 54 % of LIHTC Units: 54  
 Gross Square Footage: 101,406  
 Average Square Footage/Unit: 924  
 Number of Buildings: 1  
 Currently Occupied: N

**Development Cost**

Total Cost: \$8,331,513 Total Cost/Net Rentable Sq. Ft.: \$90.16

**Income and Expenses**

Effective Gross Income:<sup>1</sup> \$ 789,787 Ttl. Expenses: \$351,001 Net Operating Inc.: \$438,786  
 Estimated 1st Year DCR: 1.11

**DEVELOPMENT TEAM**

Consultant:	Not Utilized	Manager:	Capstone Real Estate Services, Inc.
Attorney:	Cantey and Hanger, L.L.P.	Architect:	Gailer, Tolson and French
Accountant:	KPMG Peat Marwick	Engineer:	Hannon Engineering, Inc.
Market Analyst:	Ipsen & Associates, Inc.	Lender:	Sun America
Contractor:	ICI Construction	Syndicator:	Sun America Affordable Housing Partners, Inc.

**PUBLIC COMMENT<sup>2</sup>**

From Citizens:	From Legislators or Local Officials:
# in Support: 60	Sen. Florence Shapiro, District 8 - S
# in Opposition: 0	Rep. Jerry Maden, District 67 - S

	Mayor Don Dozier - S
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**CONDITION(S) TO COMMITMENT**

1. All tax credit units should be restricted to rents at or below the 50% AMI tax credit limit to maintain the affordability level as proposed in the original application.
2. Receipt, review and acceptance of documentation confirming the successful rezoning of the site to a permitted use consistent with the proposed development.

**DEVELOPMENT'S SELECTION BY PROGRAM MANAGER & DIVISION DIRECTOR IS BASED ON:**

Score    Utilization of Set-Aside    Geographic Distrib.    Tax Exempt Bond.    Housing Type

Other Comments including discretionary factors (if applicable).

\_\_\_\_\_  
Charles E. Nwaneri, Acting Program Manager  
Date

\_\_\_\_\_

\_\_\_\_\_  
David Burrell, Director of Housing Programs

**DEVELOPMENT'S SELECTION BY EXECUTIVE DIRECTOR IS BASED ON:**

Score    Utilization of Set-Aside    Geographic Distrib.    Tax Exempt Bond    Housing Type

Other Comments including discretionary factors (if applicable).

\_\_\_\_\_  
Edwina P. Carrington, Executive Director

\_\_\_\_\_

**TDHCA Board of Director's Approval and description of discretionary factors (if applicable).**

Chairperson Signature: \_\_\_\_\_

Michael E. Jones, Chairman

Date

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
MULTI FAMILY CREDIT UNDERWRITING ADDENDUM**

**DATE:** May 29, 2002

**PROGRAM:** 9% LIHTC

**FILE NUMBER:** 01007

**DEVELOPMENT NAME**

The Grand Texas Seniors Community

**APPLICANT**

**Name:** The Grand Texan, Ltd. **Type:**  For Profit  Non-Profit  Municipal  Other  
**Address:** 1005 Shady River Court North **City:** Benbrook **State:** Texas  
**Zip:** 76126 **Contact:** Kenneth H. Mitchell **Phone:** (817) 249-6886 **Fax:** (817) 249-1010

**PRINCIPALS of the APPLICANT**

**Name:** McKinney Grand Texan, Inc. **(%):** 0.01 **Title:** Managing General Partner  
**Name:** SunAmerica Affordable Housing Partner, Inc. **(%):** 99.99 **Title:** Limited Partner  
**Name:** Kenneth H Mitchell **(%):** n/a **Title:** President & 100% owner of GP  
**Name:** Deborah T Mitchell **(%):** n/a **Title:** Secretary/Treasurer of GP

**GENERAL PARTNER**

**Name:** McKinney Grand Texan, Inc. **Type:**  For Profit  Non-Profit  Municipal  Other  
**Address:** 1005 Shady River Court North **City:** Benbrook **State:** TX  
**Zip:** 76126 **Contact:** Kenneth H. Mitchell **Phone:** (817) 249-6886 **Fax:** (817) 248-1010

**PROPERTY LOCATION**

**Location:** East of Hwy 5, end of Enterprise Dr.  QCT  DDA  
**City:** McKinney **County:** Collin **Zip:** 75069

**REQUEST**

<u>Amount</u>	<u>Interest Rate</u>	<u>Amortization</u>	<u>Term</u>
\$357,087	n/a	n/a	n/a
<b>Other Requested Terms:</b> <u>Annual ten-year allocation of low-income housing tax credits</u>			
<b>Proposed Use of Funds:</b> <u>New construction</u> <b>Set-Aside:</b> <input checked="" type="checkbox"/> Elderly <input type="checkbox"/> Rural <input type="checkbox"/> Non-Profit			

**SITE DESCRIPTION**

**Size:** 8.751 acres 381,193 square feet **Zoning/ Permitted Uses:** PD/multifamily permitted\*  
**Flood Zone Designation:** Zone X **Status of Off-Sites:** Partially Improved

\* 12.161 acres zoned "PD"; Applicant requesting rezoning of additional 3.615 acres to "O" – office and "MF2" - multifamily

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS ADDENDUM**

**DESCRIPTION of IMPROVEMENTS**

**Total Units:** 100    **# Rental Buildings:** 1    **# Common Area Bldgs:** 1    **# of Floors:** 3    **Age:** n/a yrs    **Vacant:** n/a at / /

Number	Bedrooms	Bathroom	Size in SF
36	1	1	765
22	1	1	789
6	2	2	1,100
12	2	2	1,105
24	2	2	1,152

**Net Rentable SF:** 92,406    **Av Un SF:** 924    **Common Area SF:** 9,000    **Gross Bldg SF** 101,406

**Property Type:**     Multifamily     SFR Rental     Elderly     Mixed Income     Special Use

**Uncovered Parking:** 170 spaces    **Carports:** n/a spaces    **Garages:** n/a spaces

**OTHER SOURCES of FUNDS**

**INTERIM to PERMANENT FINANCING**

**Source:** SunAmerica, Inc.    **Contact:** Dana Mayo

**Principal Amount:** \$4,600,000    **Interest Rate:** Fixed rate estimated by bank at 7.75%

**Additional Information:** \_\_\_\_\_

**Amortization:** 30 yrs    **Term:** 18 yrs    **Commitment:**     None     Firm     Conditional

**Annual Payment:** \$32,955    **Lien Priority:** 1st    **Commitment Date**    02/ 28/ 2002

**LIHTC SYNDICATION**

**Source:** SunAmerica Affordable Housing Partners, Inc.    **Contact:** Dana Mayo

**Address:** 1 SunAmerica Center, Century City    **City:** Los Angeles

**State:** California    **Zip:** 90067    **Phone:** (310) 772-6831    **Fax:** (310) 772-6179

**Net Proceeds:** \$2,927,821    **Net Syndication Rate** (per \$1.00 of 10-yr LIHTC) 82¢

**Commitment**     None     Firm     Conditional    **Date:**    03/ 08/ 2001

**Additional Information:** Bridge loan of \$2,430,774 during construction period with no interest on up to \$1,756,693

**APPLICANT EQUITY**

**Amount:** \$733,692    **Source:** Deferred developer fee

**Amount:** \$70,000    **Source:** Construction cash flow from rental income

**VALUATION INFORMATION**

**ASSESSED VALUE**

**Land: 32.9614 acres and 3.353 acres**    \$35,000 per acre    **Assessment for the Year of:** 2000

**Land: 8.751 acres prorated**    \$306,285 total    **Valuation by:** Collin County Appraisal District

**Tax Rate:** 2.582049

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS ADDENDUM**

**EVIDENCE of SITE or PROPERTY CONTROL**

**Type of Site Control:** Warranty Deed recorded December 3, 2001, effective December 4, 2001 reflects the entire original 15.776 acres of land and a purchase price of \$953,520

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**Acquisition Cost:** \$ 450,000    **Other**    It is not known how the reduced land cost was derived a prorated of  
**Terms/Conditions:**    the identity of interest purchase would reflect \$528,920

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**Seller:** McKinney Hospital Land, Ltd.    **Related to Development Team Member:** Yes

**ADDENDUM**

**Description:** The Grand Texas Seniors Community was originally proposed as a new construction project of 230 units of mixed income, independent living elderly housing to be located in McKinney. This report supplements the original report based on additional information provided. This report focuses on the new information that has been provided and some conditions still remain from the original underwriting remain as conditions at the end of this addendum since no new information has been provided regarding them.

The Applicant has reduced the number of proposed units to 100 by reducing the number of market rate units from 176 to 46, while keeping the number of LIHTC units at 54. The three story congregate building is to be developed immediately adjacent to the 230-unit Country Lane Seniors development. Country Lane was a 1999 tax-exempt bond/tax credit financed project developed by the same principal of the proposed development, Ken Mitchell. The recently completed Country Lane has been stabilized with +90% occupancy since June 2001, and as of March 2002, has a waiting list of over 150 prospective residents. The original underwriting report for the Grand Texan included the following passage:

It would appear that the proximity of the previously funded tax credit project and its lack of stabilized status as determined by the market analyst would violate the 2001 QAP limitations on the size of projects making the proposed project ineligible in the current allocation cycle. Section 50.7(g)(2) of the QAP states that "...Projects involving new construction will be limited to 250 units. For those developments which are a second phase or are otherwise adjacent to an existing tax credit development unless such proposed development is being constructed to replace previously existing affordable multifamily units on its site, the combined Unit total for the developments may not exceed the maximum allowable project size, unless the first phase has been completed and stabilized for at least six months." Any allocation of credits for this project should be subject to the Board's acceptance and or waiver of this conflict with the 2001 QAP.

An appeal of staff's recommendation was made and the Applicant was awarded the credits requested. The Applicant has subsequently indicated in a letter, dated March 13, 2002, "I have been unable to find an investor for the tax credit allocation due to the large number of market rate units in this project. On March 11, 2002 I filed a revised tax credit application with the TDHCA requesting for the market rate units to be reduced to 46 units...At this time I am no longer pursuing the development of The Grand Texan as a 230 unit project with 176 market rate units, because such efforts would be futile in the current economic climate." Moreover the Applicant has indicated that he will not move forward with construction of The Grand Texan should the Board decide not to approve the request for resizing of The Grand Texan Seniors Community, as described above. In addition, another related applicant controlled by the principals of the General Partner has received a 2002 bond reservation and has applied for and been approved for 4% tax credits. The Grand Reserve Seniors Community is a proposed new construction development of 180 units of affordable seniors' housing located adjacent to the original 15.776 acres that were to be acquired for the original Grand Texan development. The 7.025 acre portion of the site that is no longer going to be utilized for the Grand Texan is now proposed to separate this development from the Grand Reserve. While the same QAP language quoted above is in the 2002 QAP, the Country Lane has now been stabilized for more than six months and is not immediately adjacent to the Grand Reserve and therefore that QAP limitation was not a factor in the approval of the Grand Reserve. Moreover, with the proposed reduction in the Grand Texan, the combined Grand Reserve and Grand Texas will not exceed 280 units. The Grand Reserve was approved subject to either a reduction of the Grand Texan as proposed or a return of the entire allocation of tax credits for the Grand

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS ADDENDUM**

Texan.

**Income Set-Aside:** The Applicant originally elected to set aside 20% of the units at 50% or less of the area median income. While this is considered an irrevocable election according to the Internal Revenue Code, the Applicant has requested to revise the project election to reflect a set-aside of 40% at 60% or less of area median income. Although this set-aside allows for tenants to be qualified at 60% of AMGI, and regardless of the result of the Applicant's request to change the election, the Underwriter will condition this report on the project's tax credit unit rents maintaining affordability at 50% of AMI in order to maintain the level of affordability that was originally approved. One hundred of the units (100% of the total) will be reserved for elderly tenants. Forty-six (46) units (46%) will be offered at market rents.

**Special Needs Set-Asides:** Five units (5.0%) will be handicapped-accessible and none of the units will be equipped for tenants with hearing or visual impairments.

**Market Study Update:** A market study was performed by Ipser & Associates, Inc. in February, 2001. The study concluded that there was a demand of 430 elderly renters and 557 market rate renters. "The proposed elderly project of 54 LIHTC units and 176 market rate units amounts to a capture of 12.6% for LIHTC and 31.6% for market rate units". (p 3-4) This earlier demand number was based on three years of new demand and two years of turnover demand. This is not an acceptable method of calculating demand however, because the application was not going to be recommended by the underwriting division clarification was not requested.

In conjunction with the request for a restructuring of this development the Applicant engaged the market analyst to provide an updated market study. In April 2002, Ipser & Associates performed an update on the subject assuming there would be 46-market rate units. Using one year of demand and turnover for all of Collin County, the analyst concluded demand for the tax credit units to be 339 units and the market rate units to be 359 units. In addition, the analyst also included an additional unsubstantiated 40% demand from outside Collin County for the tax credit units and an additional 105 from other sources for the market rate units. This results in a total demand of 475 units for the tax credit units and 395 for the market rate units. The demand calculations provided however both overlapped with each other and did not appear to include all of the affordable potential as estimated by the Underwriter due to the analyst's use of a very conservative income band. The market analyst was asked by the underwriter to clarify the issues of overlapping demand, rationale for the income band selection, derivation of the 40% other sources of demand, and clearly indicate a capture rate including all unstabilized comparable developments.

In May 2002, Ipser & Associates performed an update on the subject. In this revised updated analysis the analyst widened the income range to also include individuals from zero in income to the previous minimum income of \$17,100. This allows the inclusion of potential section 8 eligible households to be included in the gross demand calculation. In addition, the analyst updated his population figures to include U.S. Census numbers for 2000, instead of extrapolating from 1990 data. The result added 98 tenants for overall growth within the county for individuals 55 and older. Also, because of the more current increased population figures, the household income also increased, resulting in an additional demand of 526 from turnover. The analyst also changed his number of additional demand, this time lowering it from 40% to 10%, reducing the tenant demand by 40. The Department has typically accepted this level of other demand in the analysts' calculation but it is typically not included in the Underwriter's demand recalculation.

The results of the analyst's most recent (May 2002) demand calculation and the Underwriter's recalculated demand are reflected in the table below.

<b>ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY</b>				
<b>Type of Demand</b>	<b>Market Analyst</b>		<b>Underwriter</b>	
	<b>Demand Afrd./Mtk.</b>	<b>% of Total Demand</b>	<b>Units of Demand</b>	<b>% of Total Demand</b>
Household Growth	134/31	13%	70	6%
Resident Turnover	829/190	78%	1,164	94%
Other Sources: Outside Collin County	96/22	9%		
<b>TOTAL ANNUAL DEMAND</b>	<b>1,060/243</b>	<b>100%</b>	<b>1,235</b>	<b>100%</b>

The market analyst's demand for affordable units is 1,060. With a supply of 180 (Grand Reserve) plus 54 from this development the analysts capture rate for affordable units is 22.1%. Similarly, the 46 market units propose and 243 units of demand calculated the analyst concluded a capture rate of 22.1% for the market units. Since the income bands in this final version of the market analyst's information did not overlap, the demand could be combined as 1,303 which compares favorably with the Underwriter's re-calculation of 1,235. Both the analysts combined demand and the Underwriter's total calculated demand result in a capture rate below 25% (22% and 23% respectively). It should be noted however that the demand calculation does not include any unstabilized units from the nearby Country Lane Seniors. When this development was originally underwritten these units would have been taken into consideration as well because that development had just reached stabilized occupancy. However by the time this addendum is reviewed for approval by the TDHCA Board, Country Lane will have been stabilized for 12 months.

The Grand Reserve was approved conditioned upon a re-review of the Grand Texan and a determination if an approval of the requested reduction in units could be made. Ironically when the Grand Reserve was approved, the market analysts demand figure was 1,057 units, which would have resulted in a capture rate of 22% for the tax credit units when considering the affordable units in both the Grand Reserve and the Grand Texan. The Underwriter's concluded demand at that time was also slightly lower at 790 units but was based more directly on the analyst's demand less the significant demand from other sources outside Collin County. The Underwriter also concluded at that time that the capture rate for both developments, if the Grand Texan proceeds, could be over 25%. Using more current data and a wider income band results in an acceptable capture rate under 25%

**Income:** The Applicant's calculated net rent, based on the 2002 LIHTC rent limits, is projecting a net rent of \$535 for the one-bedroom units at 50% of AMGI, and a net rent of \$630-\$660 for the one-bedroom units at 60% of AMGI. The 2002 LIHTC rent limits and utility allowances for the City of McKinney result in a net rent of \$538 for the one-bedroom units set-aside to be affordable to households with incomes at 50% of AMGI, and \$663 for the one-bedroom units set-aside to be affordable to households with incomes at 60% of AMGI. However, as discussed above, the original application set aside all of the units at the 50% rent level and therefore the Underwriter has continued to underwrite the project in this way. According to the submitted market analysis, this rental rate is achievable in the market area. The market analysis also indicates that the Applicant's proposed market rents fall within the respective rent ranges when compared to conventional family units in the region. The Underwriter has concern about the achievability of the proposed market rents given that rents for the market units in the adjacent elderly project are 13% to 17% lower than the subjects proposed two-bedroom market rents. Forty-Six percent of the units in this project are proposed as market rate units. If current market rents for the adjacent senior's project were utilized instead of the proposed market rents, monthly potential gross rent would decline by as much as \$17K. The Underwriter agreed with the Applicants' projected net rent of \$700 for the one-bedroom market rents, as they are in the same per foot range as the neighboring property. The Underwriter disagrees with the rents for the two-bedroom units and reduced them to \$880-\$925 to be more in line with the comparable per foot rents in the area. Even so, the Underwriter's proposed rents are \$40 to \$85 higher than the actual rents being collected for the slightly smaller new elderly units at Country Lane across the street. The Applicant has included secondary income of \$12 per unit per month which is within the Department's 2002 guideline of \$5 to \$15 per unit per month and used an acceptable 7.5 % vacancy rate. The net result is an Applicant's effective gross income estimate that is \$76K or 10% higher than the Underwriter's.

**Expenses:** The Applicant's total operating expense figure is \$41K, or 12%, more than the Underwriter's estimate. The Underwriter utilized information provided by the Applicant on Country Lane as well as the TDHCA database and IREM to derive expenses. Several of the Applicant's line items varied significantly including general & administrative which is \$8K lower, water, sewer & trash which is \$10.5K lower, payroll and payroll taxes which is \$10K higher, property insurance which was \$19K higher, and property taxes which were \$32K higher than the Underwriter's.

**Conclusion:** Overall, the Applicant's net operating income estimate was \$35K or 8% higher than the Underwriter's estimate and thus falls outside of the 5% tolerance range. As a result, the Underwriter's net operating income was used to calculate the amount of debt the project could support. In both the Underwriter's estimate and the Applicant's estimate, however, there is sufficient income to service the proposed debt at an acceptable rate of between 1.10 to 1.25 debt coverage ratio

**Land Value:** The submitted earnest money contract and amendments for the original application indicated a revised sale price of \$953,520, lowered from an original price of \$1,191,899. The amendments also increase the overall acreage of the site from 12.161 acres to 15.776 acres by adding a 2.975-acre tract and a 0.640-acre tract. Kenneth H Mitchell, 100% owner of the General Partner, is also a principal of the seller, McKinney Hospital Land, Ltd. The property was purchased by the Applicant on December 3, 2001. Subsequent to the downsizing of this development the Applicant has proposed purchasing only 8.751 acres for \$450,000. Because the land sale is not an arm's length transaction, the Applicant originally provided a third party appraisal for the entire 15.771-acre site. Joe J Bond, III of Real Estate Appraisers, Inc. had concluded a market value of the fee simple interest of the 15.776 acre site, as of February 10, 2001, of \$1,030,000. The conclusion was based on eight land sales in the McKinney Area dating back to March 1997 and individually adjusted for location, zoning, availability of utilities at time of sale, density, anticipated use, size and date of sale. The comparables did not include the original acquisition of the subject property or the resale of the adjacent property for an identical use as the subject. Both of those transactions were \$35K to \$36K per acre. In support of the Grand Reserve application, the Applicant provided documentation of holding costs associated with the entire 26.92-acre and 38-acre tracts of land originally purchased by McKinney Hospital Land, Ltd., which include cost of infrastructure and interest expense. It appears that the infrastructure costs relate to the construction of off-site water, sewer and street improvements that will benefit this site as well. The Underwriter added acquisition, infrastructure and interest expense for a total of \$4.8M. Acreage for wetlands and street improvements were subtracted from the 64.92 original acres acquired for a net of 59.06 acres. This indicated a per acre acquisition and holding cost of \$81K, or a total cost of \$709K for the subject 8.751 acres. This is more than the amount used by the Applicant of \$450K, therefore the Applicant's lower amount was accepted.

**Off-Site Costs:** The Applicant did not include off-site costs in their total development cost budget. However, holding costs submitted as support for the proposed acquisition costs include off-site costs, as described above.

**Site Work Cost:** The Applicant's revised proposed site work costs are slightly below the \$4,500 per unit low side of the typical range but are acceptable.

**Direct Construction Cost:** The Applicant's direct construction cost estimate is \$134K, or 3%, lower than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate. While cost certification information was not provided to the Underwriter for the adjacent Country Lane it would appear that the Applicant's direct construction costs per square foot for the proposed project is a reasonable amount.

**Fees:** The Applicant's revised contingency amount is over the 5% TDHCA guideline by \$56,322 and therefore the Applicant's eligible basis should be reduced by that amount. This reduction in eligible basis leads to a slight \$8,467 excess in eligible developer fees which also must be removed to ineligible expenses.

**Reserves:** The Applicant's reserve estimate is \$63K lower than the Underwriter's minimum, however this does not directly affect eligible basis.

**Conclusion:** Overall, the Applicant's total development cost estimate is \$148K or 2% lower than the Underwriter's estimate. This difference is within the 5% tolerance, therefore, the Applicant's total development cost estimate of \$8,331,513 will be used to calculate the project's adjusted eligible basis of \$7,578,092 and determine an annual tax credit allocation of \$375,591. This amount is higher than the previously requested and allocated amount of \$357,087 therefore the previously allocated amount will be used to estimate syndication proceeds and be compared to the gap method.

**Financing:** The Applicant intends to finance the development with four types of financing from four sources: a conventional interim to permanent loan, syndicated LIHTC equity, deferred developer's fees, and rental income received during the construction phase.

**Interim to Permanent Loan:** There is a revised commitment for interim to permanent financing through SunAmerica in the amount of \$4,600,000 during both the interim construction period and at conversion to permanent. The commitment letter indicated a term of 18 years and an amortization period of 30 years for the permanent loan. The interest rate will be fixed at the time of rate lock and is estimated by the lender to be 7.75%.

**LIHTC Syndication:** SunAmerica Affordable Housing Partners, Inc. has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be \$2,927,821 based on credits of \$357,087 and an acquisition of 99.99% at a syndication factor of 82%. The funds would be disbursed in a

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS ADDENDUM**

five-phased pay-in schedule:

1. Upon execution of the partnership agreement, SunAmerica's initial contribution of \$60,705 will be used to pay Sun America's legal fees and bridge loan fees.
2. A second contribution will take the form of a bridge loan of \$2,430,774. No interest is to be charged on the principal balance up to \$1,756,693. Interest shall accrue on the portion above \$1,756,693 at an interest rate equal to the Prime Rate plus 1%.
3. Upon receipt of the last certificate of occupancy and evidence of lien-free completion, SunAmerica make the first additional contribution in the amount of \$2,430,774 (83%) of LIHTC equity, which will be used to pay off the bridge loan.
4. Upon payment of the first additional contribution and achievement of 70% physical occupancy at rents equal to or greater than proforma, Sun America will invest \$100,000 (3.5%) in equity.
5. Upon payment of the second additional contribution \$336,342 (11.5%) will be invested upon receipt of an audited cost certification of final eligible basis, IRS Forms 8609, and achievement of 90% physical occupancy and a DCR of 1.15 for three consecutive months.

**Deferred Developer's Fees:** The Applicant's proposed deferred developer's fees of \$733,692 amount to 74% of the total proposed fees. In addition, the Applicant also plans to utilize estimated construction cash flow of \$70,000 during both the interim and permanent periods increasing the true deferred developer fee by an equal amount.

**Financing Conclusions:** As stated above, the Applicant's total development cost estimate was used to calculate the project eligible basis and calculate an annual tax credit allocation of \$375,591. This figure is \$18,504 more than previously allocated and the allocated amount can not be increased. The Applicant's total development cost estimate results in the need for a total of \$803,692 in deferred developer fees. This recommended deferred developer fee appear to be repayable from project cash flow in less than 10 years of stabilized operation.

**SUMMARY OF SALIENT RISKS AND ISSUES**

- Items identified in previous reports/ or analysis have not been satisfactorily addressed.
- The Applicant's estimated income and expenses operating proforma are more than 5% outside of the Underwriter's verifiable range(s).

**RECOMMENDATION**

- RECOMMEND APPROVAL OF AN LIHTC ALLOCATION NOT TO EXCEED \$357,087 ANNULY FOR TEN YEARS, SUBJECT TO CONDITIONS.

**CONDITIONS**

1. All tax credit units should be restricted to rents at or below the 50% AMI tax credit limit to maintain the affordability level as proposed in the original application.
2. Receipt review and acceptance of documentation confirming the successful rezoning of the site to a permitted use consistent with the proposed development.

Underwriter:

\_\_\_\_\_  
*Mark Fugina*

Date: May 29, 2002

Director of Credit Underwriting:

\_\_\_\_\_  
*Tom Gouris*

Date: May 29, 2002

**MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis**

**The Grand Texan Seniors Community, McKinney, LIHTC #01007 ADDENDUM**

Type of Unit	Number	Bedrooms	Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsl
TC 50%	27	1	1	765	\$623	\$538	\$14,526	\$0.70	\$85.00	\$36.00
TC 50%*	9	1	1	765	623	\$538	4,842	0.70	85.00	36.00
TC 50%*	18	1	1	789	623	\$538	9,684	0.68	85.00	36.00
MR	4	1	1	789	700	\$700	2,800	0.89	85.00	36.00
MR	6	2	2	1,100	970	\$880	5,280	0.80	101.00	41.00
MR	12	2	2	1,105	975	\$885	10,620	0.80	101.00	41.00
MR	24	2	2	1,152	1,020	\$925	22,200	0.80	101.00	41.00
<b>TOTAL:</b>	<b>100</b>		<b>AVERAGE:</b>	<b>924</b>	<b>\$784</b>	<b>\$700</b>	<b>\$69,952</b>	<b>\$0.76</b>	<b>\$91.72</b>	<b>\$38.10</b>

\*The Applicant requested that these units be increased from 50% units to 60% units

				TDHCA	APPLICANT					
<b>INCOME</b>										
Total Net Rentable Sq Ft: <b>92,406</b>										
<b>POTENTIAL GROSS RENT</b>				<b>\$839,424</b>	<b>\$921,540</b>					
Secondary Income	Per Unit Per Month:	\$12.00		14,400	14,400	\$12.00		Per Unit Per Month		
Other Support Income: (describe)				0	0					
<b>POTENTIAL GROSS INCOME</b>				<b>\$853,824</b>	<b>\$935,940</b>					
Vacancy & Collection Loss	% of Potential Gross Income:	-7.50%		(64,037)	(70,200)	-7.50%		of Potential Gross Rent		
Employee or Other Non-Rental Units or Concessions				0						
<b>EFFECTIVE GROSS INCOME</b>				<b>\$789,787</b>	<b>\$865,740</b>					
<b>EXPENSES</b>	<b>% OF EGI</b>	<b>PER UNIT</b>	<b>PER SQ FT</b>			<b>PER SQ FT</b>	<b>PER UNIT</b>	<b>% OF EGI</b>		
General & Administrative	4.01%	\$316	\$0.34	\$31,647	\$23,360	\$0.25	\$234	2.70%		
Management	5.00%	395	0.43	39,489	43,287	0.47	433	5.00%		
Payroll & Payroll Tax	8.66%	684	0.74	68,380	78,631	0.85	786	9.08%		
Repairs & Maintenance	4.64%	366	0.40	36,613	30,078	0.33	301	3.47%		
Utilities	3.55%	281	0.30	28,066	30,766	0.33	308	3.55%		
Water, Sewer, & Trash	4.70%	371	0.40	37,100	26,600	0.29	266	3.07%		
Property Insurance	1.99%	157	0.17	15,709	35,000	0.38	350	4.04%		
Property Tax	2.725843	681	0.74	68,146	100,000	1.08	1,000	11.55%		
Reserve for Replacements	2.53%	200	0.22	20,000	20,000	0.22	200	2.31%		
Other Expenses: Copliance & Sup	0.74%	59	0.06	5,850	4,500	0.05	45	0.52%		
<b>TOTAL EXPENSES</b>	<b>44.44%</b>	<b>\$3,510</b>	<b>\$3.80</b>	<b>\$351,001</b>	<b>\$392,222</b>	<b>\$4.24</b>	<b>\$3,922</b>	<b>45.30%</b>		
<b>NET OPERATING INC</b>	<b>55.56%</b>	<b>\$4,388</b>	<b>\$4.75</b>	<b>\$438,786</b>	<b>\$473,518</b>	<b>\$5.12</b>	<b>\$4,735</b>	<b>54.70%</b>		
<b>DEBT SERVICE</b>										
Sun America	50.07%	\$3,955	\$4.28	\$395,460	\$395,460	\$4.28	\$3,955	45.68%		
LIHTC Syndication Proceeds	0.00%	\$0	\$0.00	0	0	\$0.00	\$0	0.00%		
Cash Flow Construction	0.00%	\$0	\$0.00	0	0	\$0.00	\$0	0.00%		
<b>NET CASH FLOW</b>	<b>5.49%</b>	<b>\$433</b>	<b>\$0.47</b>	<b>\$43,326</b>	<b>\$78,058</b>	<b>\$0.84</b>	<b>\$781</b>	<b>9.02%</b>		
<b>AGGREGATE DEBT COVERAGE RATIO</b>				<b>1.11</b>	<b>1.20</b>					
<b>ALTERNATIVE DEBT COVERAGE RATIO</b>				<b>1.11</b>						

<b>CONSTRUCTION COST</b>				TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL	
Description	Factor	% of TOTAL	PER UNIT	PER SQ FT					
Acquisition Cost (site or bldg)		5.31%	\$4,500	\$4.87	\$450,000	\$450,000	\$4.87	\$4,500	5.40%
Off-Sites		0.00%	0	0.00	0	0	0.00	0	0.00%
Sitework		4.92%	4,174	4.52	417,358	417,358	4.52	4,174	5.01%
Direct Construction		54.14%	45,906	49.68	4,590,627	4,456,207	48.22	44,562	53.49%
Contingency	5.00%	2.95%	2,504	2.71	250,399	300,000	3.25	3,000	3.60%
General Requireme	5.84%	3.45%	2,924	3.16	292,414	292,414	3.16	2,924	3.51%
Contractor's G & A	1.95%	1.15%	975	1.05	97,471	97,471	1.05	975	1.17%
Contractor's Prof	5.84%	3.45%	2,924	3.16	292,414	292,414	3.16	2,924	3.51%
Indirect Construction		3.88%	3,290	3.56	329,034	329,034	3.56	3,290	3.95%
Ineligible Expenses		2.22%	1,886	2.04	188,632	188,632	2.04	1,886	2.26%
Developer's G & A	2.96%	2.35%	1,994	2.16	199,397	199,397	2.16	1,994	2.39%
Developer's Profit	11.85%	9.41%	7,975	8.63	797,517	797,517	8.63	7,975	9.57%
Interim Financing		5.44%	4,611	4.99	461,069	461,069	4.99	4,611	5.53%
Reserves		1.33%	1,131	1.22	113,066	50,000	0.54	500	0.60%
<b>TOTAL COST</b>		<b>100.00%</b>	<b>\$84,794</b>	<b>\$91.76</b>	<b>\$8,479,398</b>	<b>\$8,331,513</b>	<b>\$90.16</b>	<b>\$83,315</b>	<b>100.00%</b>
<b>Recap-Hard Construction Costs</b>		<b>70.06%</b>	<b>\$59,407</b>	<b>\$64.29</b>	<b>\$5,940,683</b>	<b>\$5,855,864</b>	<b>\$63.37</b>	<b>\$58,559</b>	<b>70.29%</b>
<b>SOURCES OF FUNDS</b>						<b>RECOMMENDED</b>			
Sun America		54.25%	\$46,000	\$49.78	\$4,600,000	\$4,600,000	\$4,600,000		
LIHTC Syndication Proceeds		34.53%	\$29,278	\$31.68	2,927,821	2,927,821	2,927,821		
Cash Flow Construction		0.83%	\$700	\$0.76	70,000	70,000			
Deferred Developer Fees		8.65%	\$7,337	\$7.94	733,692	733,692	803,692		
Additional (excess) Funds Require		1.74%	\$1,479	\$1.60	147,885	0	0		
<b>TOTAL SOURCES</b>					<b>\$8,479,398</b>	<b>\$8,331,513</b>	<b>\$8,331,513</b>		

**MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)**  
**The Grand Texan Seniors Community, McKinney, LIHC #01007 ADDENDUM**

**DIRECT CONSTRUCTION COST ESTIMATE**  
 Residential Cost Handbook  
 Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			\$40.62	\$3,753,965
<b>Adjustments</b>				
Exterior Wall Finish	3.10%		\$1.26	\$116,373
Elderly	5.00%		2.03	187,698
Roofing			0.00	0
Subfloor			(0.65)	(60,372)
Floor Cover			1.82	168,179
Porches/Balconies	\$24.86	35,951	9.67	893,627
Plumbing	\$585	126	0.80	73,710
Built-In Appliances	\$1,550	100	1.68	155,000
Stairs/Fireplaces	\$1,550	12	0.20	18,600
Floor Insulation			0.00	0
Heating/Cooling			1.41	130,292
Garages/Carports		0	0.00	0
Comm &/or Aux Bldgs	\$50.02	9,000	4.87	450,158
Other:			0.00	0
<b>SUBTOTAL</b>			<b>63.71</b>	<b>5,887,230</b>
Current Cost Multiplier	1.04		2.55	235,489
Local Multiplier	0.92		(5.10)	(470,978)
<b>TOTAL DIRECT CONSTRUCTION COSTS</b>			<b>\$61.16</b>	<b>\$5,651,741</b>
Plans, specs, survy, bld	3.90%		(\$2.39)	(\$220,418)
Interim Construction Inte	3.38%		(2.06)	(190,746)
Contractor's OH & Profit	11.50%		(7.03)	(649,950)
<b>NET DIRECT CONSTRUCTION COSTS</b>			<b>\$49.68</b>	<b>\$4,590,627</b>

**PAYMENT COMPUTATION**

<b>Primary</b>	\$4,600,000	Term	360
Int Rate	7.75%	DCR	1.11
<b>Secondary</b>	\$2,927,821	Term	
Int Rate	0.00%	Subtotal DCR	1.11
<b>Additional</b>	\$70,000	Term	
Int Rate		Aggregate DCR	1.11

**ALTERNATIVE FINANCING STRUCTURE:**

Primary Debt Service	\$395,460
Secondary Debt Service	0
Additional Debt Service	0
<b>NET CASH FLOW</b>	<b>\$43,326</b>

<b>Primary</b>	\$4,600,000	Term	360
Int Rate	7.75%	DCR	1.11
<b>Secondary</b>	\$2,927,821	Term	0
Int Rate	0.00%	Subtotal DCR	1.11
<b>Additional</b>	\$70,000	Term	0
Int Rate	0.00%	Aggregate DCR	1.11

**OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE**

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	\$839,424	\$864,607	\$890,545	\$917,261	\$944,779	\$1,095,258	\$1,269,704	\$1,471,935	\$1,978,158
Secondary Income	14,400	14,832	15,277	15,735	16,207	18,789	21,781	25,250	33,935
Other Support Income: (desc	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	853,824	879,439	905,822	932,997	960,986	1,114,047	1,291,485	1,497,186	2,012,092
Vacancy & Collection Loss	(64,037)	(65,958)	(67,937)	(69,975)	(72,074)	(83,553)	(96,861)	(112,289)	(150,907)
Employee or Other Non-Renta	0	0	0	0	0	0	0	0	0
EFFECTIVE GROSS INCOME	\$789,787	\$813,481	\$837,885	\$863,022	\$888,912	\$1,030,493	\$1,194,624	\$1,384,897	\$1,861,185
EXPENSES at 4.00%									
General & Administrative	\$31,647	\$32,913	\$34,229	\$35,599	\$37,023	\$45,044	\$54,802	\$66,675	\$98,696
Management	39,489	40,674	41,894	43,151	44,446	51,525	59,731	69,245	93,059
Payroll & Payroll Tax	68,380	71,116	73,960	76,919	79,995	97,327	118,413	144,067	213,255
Repairs & Maintenance	36,613	38,078	39,601	41,185	42,832	52,112	63,402	77,138	114,183
Utilities	28,066	29,189	30,357	31,571	32,834	39,947	48,602	59,132	87,529
Water, Sewer & Trash	37,100	38,584	40,127	41,732	43,402	52,805	64,245	78,164	115,702
Insurance	15,709	16,337	16,991	17,671	18,377	22,359	27,203	33,097	48,991
Property Tax	68,146	70,872	73,707	76,655	79,721	96,993	118,007	143,574	212,524
Reserve for Replacements	20,000	20,800	21,632	22,497	23,397	28,466	34,634	42,137	62,373
Other	5,850	6,084	6,327	6,580	6,844	8,326	10,130	12,325	18,244
TOTAL EXPENSES	\$351,001	\$364,646	\$378,825	\$393,560	\$408,870	\$494,903	\$599,169	\$725,553	\$1,064,556
NET OPERATING INCOME	\$438,786	\$448,834	\$459,060	\$469,462	\$480,042	\$535,590	\$595,455	\$659,343	\$796,629
DEBT SERVICE									
First Lien Financing	\$395,460	\$395,460	\$395,460	\$395,460	\$395,460	\$395,460	\$395,460	\$395,460	\$395,460
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	\$43,326	\$53,375	\$63,600	\$74,003	\$84,582	\$140,130	\$199,996	\$263,884	\$401,170
DEBT COVERAGE RATIO	1.11	1.13	1.16	1.19	1.21	1.35	1.51	1.67	2.01

LIHTC Allocation Calculation - The Grand Texan Seniors Community, McKinney, LIHTC #01007 ADDENDUM

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
<b>(1) Acquisition Cost</b>				
Purchase of land	\$450,000	\$450,000		
Purchase of buildings				
<b>(2) Rehabilitation/New Construction Cost</b>				
On-site work	\$417,358	\$417,358	\$417,358	\$417,358
Off-site improvements				
<b>(3) Construction Hard Costs</b>				
New structures/rehabilitation ha	\$4,456,207	\$4,590,627	\$4,456,207	\$4,590,627
<b>(4) Contractor Fees &amp; General Requirements</b>				
Contractor overhead	\$97,471	\$97,471	\$97,471	\$97,471
Contractor profit	\$292,414	\$292,414	\$292,414	\$292,414
General requirements	\$292,414	\$292,414	\$292,414	\$292,414
<b>(5) Contingencies</b>	\$300,000	\$250,399	\$243,678	\$250,399
<b>(6) Eligible Indirect Fees</b>	\$329,034	\$329,034	\$329,034	\$329,034
<b>(7) Eligible Financing Fees</b>	\$461,069	\$461,069	\$461,069	\$461,069
<b>(8) All Ineligible Costs</b>	\$188,632	\$188,632		
<b>(9) Developer Fees</b>			\$988,447	
Developer overhead	\$199,397	\$199,397		\$199,397
Developer fee	\$797,517	\$797,517		\$797,517
<b>(10) Development Reserves</b>	\$50,000	\$113,066		
<b>TOTAL DEVELOPMENT COSTS</b>	<b>\$8,331,513</b>	<b>\$8,479,398</b>	<b>\$7,578,092</b>	<b>\$7,727,700</b>

<b>Deduct from Basis:</b>			
All grant proceeds used to finance costs in eligible basis			
B.M.R. loans used to finance cost in eligible basis			
Non-qualified non-recourse financing			
Non-qualified portion of higher quality units [42(d)(3)]			
Historic Credits (on residential portion only)			
<b>TOTAL ELIGIBLE BASIS</b>		\$7,578,092	\$7,727,700
High Cost Area Adjustment		130%	130%
<b>TOTAL ADJUSTED BASIS</b>		\$9,851,519	\$10,046,010
Applicable Fraction		45%	45%
<b>TOTAL QUALIFIED BASIS</b>		\$4,450,128	\$4,537,983
Applicable Percentage		8.44%	8.44%
<b>TOTAL AMOUNT OF TAX CREDITS</b>		\$375,591	\$383,006

Syndication Proceeds	0.8199	\$3,079,537	\$3,140,334
Previous Allocation of Tax Credits		\$357,087	
Syndication Proceeds		\$2,927,821	

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
MULTI FAMILY CREDIT UNDERWRITING ANALYSIS**

**DATE:** October 31, 2001

**PROGRAM:** 9% LIHTC

**FILE NUMBER:** 01007

**DEVELOPMENT NAME**

The Grand Texan Seniors Community

**APPLICANT**

**Name:** The Grand Texan, Ltd. **Type:**  For Profit  Non-Profit  Municipal  Other  
**Address:** 1005 Shady River Court North **City:** Benbrook **State:** Texas  
**Zip:** 76126 **Contact:** Kenneth H. Mitchell **Phone:** (817) 249-6886 **Fax:** (817) 249-1010

**PRINCIPALS of the APPLICANT**

**Name:** McKinney Grand Texan, Inc. **(%):** 0.01 **Title:** Managing General Partner  
**Name:** SunAmerica Affordable Housing Partner, Inc. **(%):** 99.99 **Title:** Limited Partner  
**Name:** Kenneth H Mitchell **(%):** n/a **Title:** President & 100% owner of GP  
**Name:** Deborah T Mitchell **(%):** n/a **Title:** Secretary/Treasurer of GP

**GENERAL PARTNER**

**Name:** McKinney Grand Texan, Inc. **Type:**  For Profit  Non-Profit  Municipal  Other  
**Address:** 1005 Shady River Court North **City:** Benbrook **State:** TX  
**Zip:** 76126 **Contact:** Kenneth H. Mitchell **Phone:** (817) 249-6886 **Fax:** (817) 248-1010

**PROPERTY LOCATION**

**Location:** East of Hwy 5, end of Enterprise Dr.  QCT  DDA  
**City:** McKinney **County:** Collin **Zip:** 75069

**REQUEST**

<u>Amount</u>	<u>Interest Rate</u>	<u>Amortization</u>	<u>Term</u>
\$357,087	n/a	n/a	n/a
<b>Other Requested Terms:</b> <u>Annual ten-year allocation of low-income housing tax credits</u>			
<b>Proposed Use of Funds:</b> <u>New construction</u> <b>Set-Aside:</b> <input checked="" type="checkbox"/> Elderly <input type="checkbox"/> Rural <input type="checkbox"/> Non-Profit			

**SITE DESCRIPTION**

**Size:** 15.776 acres 687,203 square feet **Zoning/ Permitted Uses:** PD/multifamily permitted\*  
**Flood Zone Designation:** Zone X **Status of Off-Sites:** Partially Improved

\* 12.161 acres zoned "PD"; Applicant requesting rezoning of additional 3.615 acres to "O" – office and "MF2" - multifamily

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS**

**DESCRIPTION of IMPROVEMENTS**

**Total Units:** 230    **# Rental Buildings:** 1    **# Common Area Bldgs:**         **# of Floors:** 3    **Age:** n/a yrs    **Vacant:** n/a at / /

Number	Bedrooms	Bathroom	Size in SF
36	1	1	765
122	1	1	789
12	2	2	1,100
24	2	2	1,105
36	2	2	1,152

**Net Rentable SF:** 204,990    **Av Un SF:** 891    **Common Area SF:** 17,676    **Gross Bldg SF** 222,666

**Property Type:**     Multifamily     SFR Rental     Elderly     Mixed Income     Special Use

**CONSTRUCTION SPECIFICATIONS**

**STRUCTURAL MATERIALS**

Wood frame on a post-tensioned concrete slab on grade w/ grade beams, 35% brick veneer/ 65% Hardiplank siding exterior wall covering with wood trim, drywall interior wall surfaces, composite shingle roofing

**APPLIANCES AND INTERIOR FEATURES**

Carpeting & vinyl flooring, range & oven, hood & fan, garbage disposal, dishwasher, refrigerator, stall shower, fiberglass tub/shower, washer & dryer connections, ceiling fans, laminated counter tops, individual water heaters

**ON-SITE AMENITIES**

Community center in main building with congregate dining & activity room, management offices, kitchen, restrooms, central mailroom, beauty shop, library, chapel, store & coffee shop, swimming pool, equipped children's play area, perimeter fencing with limited access gate

**Uncovered Parking:** 415 spaces    **Carports:** n/a spaces    **Garages:** n/a spaces

**OTHER SOURCES of FUNDS**

**INTERIM to PERMANENT FINANCING**

**Source:** SunAmerica, Inc.    **Contact:** Dana Mayo

**Principal Amount:** \$12,8000,000    **Interest Rate:** Fixed rate estimated by bank at 7.75%

**Additional Information:** \_\_\_\_\_

**Amortization:** 30 yrs    **Term:** 18 yrs    **Commitment:**     None     Firm     Conditional

**Annual Payment:** \$91,701    **Lien Priority:** 1st    **Commitment Date**    03/ 08/ 2001

**LIHTC SYNDICATION**

**Source:** SunAmerica Affordable Housing Partners, Inc.    **Contact:** Dana Mayo

**Address:** 1 SunAmerica Center, Century City    **City:** Los Angeles

**State:** Texas    **Zip:** 90067    **Phone:** (310) 772-6831    **Fax:** (310) 772-6179

**Net Proceeds:** \$2,927,821    **Net Syndication Rate** (per \$1.00 of 10-yr LIHTC) 82¢

**Commitment**     None     Firm     Conditional    **Date:**    03/ 08/ 2001

**Additional Information:** Bridge loan of \$2,533,873 during construction period with no interest on up to \$1,756,692

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS**

**APPLICANT EQUITY**

**Amount:** \$1,744,243                      **Source:** Deferred developer fee

**Amount:** \$150,000                      **Source:** Construction cash flow from rental income

**VALUATION INFORMATION**

**APPRAISED VALUE**

**Land Only:** \$1,030,000                      **Date of Valuation:** 02/ 10/ 2001

**Appraiser:** Joe J. Blood, III, Real Estate Appraisers, Inc.    **City:** Weatherford    **Phone:** (817) 732-0206

**ASSESSED VALUE**

**Land: 32.9614 acres and 3.353 acres**    \$35,000 per acre    **Assessment for the Year of:** 2000

**Land: 15.766 acres prorated**                      \$552,160 total    **Valuation by:** Collin County Appraisal District

**Tax Rate:** 2.582049

**EVIDENCE of SITE or PROPERTY CONTROL**

**Type of Site Control:** Earnest money contract (12.161 + 2.975 + 0.640 acres)

**Contract Expiration Date:** 12/ 31/ 2001    **Anticipated Closing Date:** 10/ 31/ 2001

**Acquisition Cost:** \$ 953,520    **Other Terms/Conditions:** \$500 earnest money

**Seller:** McKinney Hospital Land, Ltd.                      **Related to Development Team Member:** Yes

**REVIEW of PREVIOUS UNDERWRITING REPORTS**

The same Applicant made application for roughly the same site in the 2000 LIHTC cycle; however, that application was not underwritten.

**PROPOSAL and DEVELOPMENT PLAN DESCRIPTION**

**Description:** The Grand Texas Seniors Community is a proposed new construction project of 230 units of mixed income, independent living elderly housing to be located in McKinney. The project is to be developed immediately adjacent to the recently completed 230 unit Country Lane Seniors project. This adjacent project was a 1999 tax-exempt bond/tax credit financed project developed by the same principal of the proposed development, Ken Mitchell. According to the current market study submitted in the application for the proposed project, the adjacent project was 79.6% leased as of February 6, 2001. It would appear that the proximity of the previously funded tax credit project and its lack of stabilized status as determined by the market analyst would violate the 2001 QAP limitations on the size of projects making the proposed project ineligible in the current allocation cycle. Section 50.7(g)(2) of the QAP states that "...Projects involving new construction will be limited to 250 units. For those developments which are a second phase or are otherwise adjacent to an existing tax credit development unless such proposed development is being constructed to replace previously existing affordable multifamily units on its site, the combined Unit total for the developments may not exceed the maximum allowable project size, unless the first phase has been completed and stabilized for at least six months." Any allocation of credits for this project should be subject to the Board's acceptance and or waiver of this conflict with the 2001 QAP.

The proposed project is said to be very similar in design to the adjacent project and is comprised of three main three-story residential buildings, which are arranged as a central building and two wings connected by enclosed walkways. Based on the site plan, the apartment buildings and parking areas are placed on a 12.161-acre tract. A 2.975-acre tract was added to allow for additional parking and a 0.640-acre tract was added primarily to preserve a cluster of trees. A 1.64-acre pond borders the site beyond a landscaped courtyard. The center building will contain the community facilities and is planned to include the

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**CREDIT UNDERWRITING ANALYSIS**

management offices, a 3,400-square foot congregate dining/multipurpose room, a coffee shop and small convenience store, a beauty salon, an exercise room, sitting areas, commercial kitchen, restrooms, and a small library and chapel on the upper floors. There is also to be a swimming pool and children's playground within the courtyard behind the main building.

**Supportive Services:** The Applicant has contracted with the Visiting Nurse Association to provide health and wellness services to tenants. These services will be provided at no cost to tenants. The contract requires the Applicant to display the service provider's information package and pay \$2,000 per year for these support services.

**Schedule:** The Applicant anticipates construction to begin in March of 2002, to be completed in February of 2003, to be placed in service in September of 2002, and to be substantially leased-up in March of 2003.

**POPULATIONS TARGETED**

**Income Set-Aside:** The Applicant has elected the 20% at 50% or less of area median gross income (AMGI) set-aside. Two hundred and thirty of the units (100% of the total) will be reserved for elderly tenants. Fifty-four of the units (23.5%) will be reserved for households earning 50% or less of AMGI and the remaining 176 units will be offered at market rents.

**Special Needs Set-Asides:** Twelve units (5.2%) will be handicapped-accessible and none of the units will be equipped for tenants with hearing or visual impairments.

**Compliance Period Extension:** The Applicant has not elected to extend the compliance period.

**MARKET HIGHLIGHTS**

Ipser & Associates prepared a market feasibility study dated February 1, 2001; a summary is attached. The following tables reflect information extracted by the Underwriter:

<b>ANNUAL INCOME-ELIGIBLE SUBMARKET DEMAND SUMMARY</b>		
<b>Type of Demand</b>	<b>Units of Demand</b>	<b>% of Total Demand</b>
Household Growth	58	14%
Existing Households	412	96%
Other Sources	47	11%
- Unoccupied New Elderly Units	(88)	-21%
<b>TOTAL ANNUAL DEMAND</b>	<b>429</b>	<b>100%</b>

Ref: p. 3-4

Based on this demand summary, a calculated capture rate of 53% would be suggested and this is significantly higher than the 25% guideline.

<b>RENT ANALYSIS (net tenant-paid rents)</b>					
	<b>Proposed</b>	<b>Program Max</b>	<b>Differential</b>	<b>Market*</b>	<b>Differential</b>
<b>1-Bedroom (50%)</b>	\$495	\$522	-\$27	\$596	-\$101
<b>1-Bedroom (MR)</b>	\$770	n/a	n/a	\$596	+\$174
<b>2-Bedroom (MR)</b>	\$1,025	n/a	n/a	\$775	+\$250
<b>2-Bedroom (MR)</b>	\$1,035	n/a	n/a	\$775	+\$260
<b>2-Bedroom (MR)</b>	\$1,060	n/a	n/a	\$775	+\$285

(NOTE: Differentials are amount of difference between proposed rents and program limits and average market rents, e.g., proposed rent = \$500, program max = \$600, differential = -\$100)

\* The market rents above are simple averages. The market analyst was unable to accurately calculate the weighted average rents for private market units because none of the more expensive locations provided a breakdown of units by size. It should be noted that only two projects had higher 2-bedroom rents (by \$5 and \$10) and only one project had higher 1-bedroom rents than the proposed market rents in the market area according to the market analyst. The analyst used the five highest rent market units to derive an adjusted market rent for the subject that could justify the proposed market rents. Moreover these five comps were all family units in garden style apartments. There are 37 1-bedroom and 23 two-bedroom market rent units in the recently completed adjacent and similar seniors project. The market rent 1-bedroom unit rent for \$640

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and the 2-bedroom units rent for \$785 according to the market analyst. Thus the adjacent properties market rents are \$130 (17%) and \$240 (23%) less than the subjects market rents. The market analyst does not address this apparent inconsistency. Overall, the Underwriter found the market study provided sufficient information on which to base a funding recommendation.

**SITE and NEIGHBORHOOD CHARACTERISTICS**

**Location:** McKinney is located in North Central Texas, approximately 30 miles north of Dallas in Collin County. The site is an irregularly shaped parcel located in the southeastern area of McKinney, approximately 3.5 miles from the central business district. The site is situated on the east side of State Highway 5, north of Country View Lane and south of the junction with State Highway 121.

**Population:** The estimated 2000 population of McKinney was 48,500 and is expected to increase by 5.15% to approximately 51,000 by 2010. Within the primary market area there were estimated to be 7,596 households in 1990. The 1990 Census data shows that there were 407 renters age 65 and older in the city and 1,999 elderly renters in the county. The 1990 to 2000 period indicates an increase of 9,270 elderly and the 2000 to 2005 projections show the addition of 9,952 elderly.

**Adjacent Land Uses:** Land uses in the overall area in which the site is located are mixed with vacant land and multifamily housing. Adjacent land uses include:

- **North:** Senior apartment complex
- **South:** Vacant land
- **East:** Railroad line, Heard Natural Science Museum and Wildlife Sanctuary beyond
- **West:** Vacant land

**Site Access:** Access to the property will be from State Highway 5 via Country View Lane, a new road leading to the seniors' community. State Highway 5 provides access to downtown Dallas.

**Public Transportation:** The availability of public transportation is unknown.

**Shopping & Services:** The site is within a distance of 2-3 miles of major groceries/pharmacies, shopping centers, a library, churches, parks and a variety of retail establishments and restaurants. Colleges and universities, the social security office, a community center and more extensive retail are located within a short driving distance from the site. The North Central Medical Center is a full service medical facility located about one-half mile west of the subject. Closer to the subject is the future site of Gambro Health Clinic. For more intense medical conditions, such as transplants, several hospitals in Dallas provide such services.

**Site Inspection Findings:** TDHCA staff performed a site inspection on May 24, 2000 for last years application and found the location to be acceptable for the proposed development.

**HIGHLIGHTS of SOILS & HAZARDOUS MATERIALS REPORT(S)**

Environmental Managers, Inc. prepared a Phase I Environmental Site Assessment report dated January 2001; a summary is attached.

**OPERATING PROFORMA ANALYSIS**

**Income:** Despite the Applicant's use of a slightly understated utility allowance assumption, their calculated net rent, based on the 2000 LIHTC rent limits available at application, is only \$495. The 2001 LIHTC rent limits and utility allowances for the City of McKinney result in a net rent of \$522 for the one-bedroom units set-aside to be affordable to households with incomes at 50% of AMGI. According to the submitted market analysis, this rental rate is achievable in the market area. The market analysis also indicates that the Applicant's proposed market rents fall within the respective rent ranges when compared to conventional family units. The Underwriter has serious concern about the achievability of the proposed market rents given that rents for the market units in the adjacent project are 17% to 23% lower than the subjects proposed market rents. The majority of the units in this project are proposed as market rate units. If current market rents for the adjacent seniors project were utilized instead of the proposed market rents, potential gross rent would decline by a significant \$388K and require a \$3.3M reduction in debt. Nonetheless, the Underwriter accepted the proposed market rate rents given the Market Analysts confidence in the market rents and the lender's commitment to the proposed loan amount.

The Applicant has included secondary income of \$12 per unit per month rather than the Department's

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS**  
**CREDIT UNDERWRITING ANALYSIS**

guideline of \$10 per unit per month without providing support for the higher estimate. The net result is an effective gross income estimate that falls within the 5% tolerance range as compared to the Underwriter's estimate.

**Expenses:** The Applicant's total operating expense figure is \$16K, or 2%, less than the Underwriter's TDHCA database-derived estimate. Several of the Applicant's line items varied significantly including general & administrative, repairs & maintenance and water, sewer & trash, which are \$30K, \$36K and \$17K, respectively, lower than the Underwriter's estimates. The Applicant's line item expenses for payroll, utilities and property tax are \$12K, \$8K and \$47K, respectively, higher than the Underwriter's estimates.

**Conclusion:** Overall, the Applicant's net operating income estimate falls within the 5% tolerance range as compared to the Underwriter's estimate. The Applicant's year one projections result in a debt coverage ratio (DCR) of 1.13 and the Underwriter's pro forma with a comparable annual debt service results in a DCR of 1.12; both are within the Department's DCR guideline of 1.10 to 1.25.

**CONSTRUCTION COST ESTIMATE EVALUATION**

**Land Value:** The submitted earnest money contract and amendments indicate a revised sale price of \$953,520, lowered from an original price of \$1,191,899. The amendments also increase the overall acreage of the site from 12.161 acres to 15.776 acres by adding a 2.975-acre tract and a 0.640-acre tract. Kenneth H Mitchell, 100% owner of the General Partner, is also a principal of the seller, McKinney Hospital Land, Ltd.

Because the land sale is not an arm's length transaction, the Applicant provided a third party appraisal for the entire 15.771-acre site. Joe J Bond, III of Real Estate Appraisers, Inc. has concluded a market value of the fee simple interest of the site, as of February 10, 2001, of \$1,030,000. The conclusion was based on eight land sales in the McKinney Area dating back to March 1997 and individually adjusted for location, zoning, availability of utilities at time of sale, density, anticipated use, size and date of sale. The comparables did not include the original acquisition of the subject property or the resale of the adjacent property for an identical use as the subject. Both of those transactions were \$35K to \$36,416 per acre. The appraiser indicated that since the acquisition in March of 1999, the owner has spent another 1.25M on streets and infrastructure. While documentation detailing such improvements benefiting the subject are required for consideration under the QAP, none were provided. Moreover, the improvements in question appear to have provided benefit to the adjacent project and significant amounts were included in the budget for that project. Finally, the assessed value for the subject project provides a value comparable of \$35,000 per acre, which is comparable to the value of the prior transaction. Therefore, the underwriter utilized the \$36,416 per acre cost of the original acquisition and the basis for the cost of the land.

**Off-Site Costs:** The Applicant did not include off-site costs in their total development cost budget. However, both the market study and appraisal indicate access to the property will be from State Highway 5 via a new road. It is unknown if this road has been constructed or is yet to be constructed. In addition, water and sewer availability letter from the City of McKinney indicates that off-site water and sewer lines may need to be constructed as part of the development.

**Site Work Cost:** At \$4,000 per unit, site work costs are on the low side of the typical range but are acceptable.

**Direct Construction Cost:** The Applicant's direct construction cost estimate is \$679K, or 7%, higher than the Underwriter's Marshall & Swift *Residential Cost Handbook*-derived estimate. While cost certification information was not provided to the Underwriter for the adjacent Country Lane it would appear that the Applicant's direct construction costs per square foot for the proposed project have increased by 22% in the two years since the application for the adjacent project was made. The Underwriter's costs, which were higher than the Applicant's in the previous application, increased by 7% based on Marshall and Swift data.

**Reserves:** The Applicant's reserve estimate is lower than the minimum two-month estimate used by the Underwriter and this results in a \$229K understatement of ineligible costs.

**Conclusion:** Overall, the Applicant's total development cost estimate is \$1M or 6.4% higher than the Underwriter's estimate and this exceeds the 5% tolerance range. Therefore, the Underwriter's total development cost estimate of \$16,581,607 will be used to calculate the project's eligible basis of \$15,502,276 and recommended annual tax credit allocation.

**FINANCING STRUCTURE ANALYSIS**

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The Applicant intends to finance the development with four types of financing from four sources: a conventional interim to permanent loan, syndicated LIHTC equity, deferred developer's fees, and rental income received during the construction phase.

**Interim to Permanent Loan:** There is a commitment for interim to permanent financing through SunAmerica in the amount of \$12,800,000 during both the interim construction period and at conversion to permanent. The commitment letter indicated a term of 18 years and an amortization period of 30 years for the permanent loan. The interest rate will be fixed at the time of rate lock and is estimated by the Bank to be 7.75%. The Applicant also plans to utilize estimated construction cash flow of \$150,000 during both the interim and permanent periods.

**LIHTC Syndication:** SunAmerica Affordable Housing Partners, Inc. has offered terms for syndication of the tax credits. The commitment letter shows net proceeds are anticipated to be \$2,927,821 based on a syndication factor of 82%. The funds would be disbursed in a three-phased pay-in schedule:

1. SunAmerica's first investment will take the form of a bridge loan of \$2,533,873, to be made at closing of the construction loan and admission to the partnership, and the proceeds will be used for land and construction costs. No interest is to be charged on the principal balance up to \$1,756,692, and interest will accrue on the balance above that amount at the prevailing prime rate.
2. Upon receipt of the last certificate of occupancy and evidence of lien-free completion, SunAmerica will invest \$2,533,873 (86.5%) of LIHTC equity, which will be used to pay off the bridge loan.
3. \$393,948 (13.5%) will be invested upon receipt of an audited cost certification of final eligible basis, IRS Forms 8609, and achievement of 90% physical occupancy and a DCR of 1.15 for three consecutive months.

**Deferred Developer's Fees:** The Applicant's proposed deferred developer's fees of \$1,744,243 amount to 82% of the total proposed fees.

**Financing Conclusions:** As stated above, the Underwriter's total development cost estimate was used to calculate the project eligible basis and recommended annual tax credit allocation of \$349,228. This figure is \$7,859 less than requested and results in syndication proceeds of \$2,863,699, which is \$64,152 less than anticipated by the Applicant. However, the Underwriter's lower total development cost estimate results in the need for only \$917,938 in deferred developer fees. The recommended deferred developer fees appear to be repayable from project cash flow within the first five years of stabilized operation. Moreover, if the Applicant's higher costs are realized and funded through the additional deferment of developer fee, they too could be recovered from the project's cash flow within the first ten years of stabilized operations.

**REVIEW of ARCHITECTURAL DESIGN**

The exterior elevations are attractive, with architectural elements such as bay windows, imitation chimneys, and open atriums in the two wings. The units are of average size for market rate and LIHTC units, and have covered patios or balconies and utility rooms with hookups for full-size appliances. The four larger units have an outdoor storage closet in addition to adequate interior storage space. One drawback noted is that in the one-bedroom units the bathroom is accessible only through the bedroom.

**IDENTITIES of INTEREST**

The Developer, Kenneth Mitchell, also owns the General Partner. This appears to be an acceptable relationship. As discussed above, Mr. Mitchell also is the principal of the seller of the land. The Underwriter has reconciled the proposed sales price to eliminate the potential for excess profit on the transfer of the land based on the documentation provided in this application and the application for the adjacent project.

**TEXAS DEPARTMENT of HOUSING and COMMUNITY AFFAIRS  
CREDIT UNDERWRITING ANALYSIS**

**APPLICANT'S/PRINCIPALS' FINANCIAL HIGHLIGHTS, BACKGROUND, and EXPERIENCE**

**Financial Highlights:** The Applicant and General Partner are single-purpose entities created for the purpose of receiving assistance from TDHCA and, therefore, have no material financial statements.

**Background & Experience:**

- The Applicant and General Partner are new entities formed for the purpose of developing the project.
- Kenneth Mitchell, the Developer and owner of the General Partner, listed participation as member of the general partner on six affordable housing projects totaling 1,166 units since 1997. No disclosures or defaults were listed.

**SUMMARY OF SALIENT RISKS AND ISSUES**

- Applicant's development costs differ from the Underwriter's verifiable estimate by more than 5%.

**RECOMMENDATION**

RECOMMEND DECLINE

- The lack of stabilized status In February 2001 as determined by the market analyst would violate the 2001 QAP limitations on the size of projects making the proposed project ineligible in the current allocation cycle

**ALTERNATIVE**

ANY APPROVAL OF AN LIHTC ALLOCATION SHOULD NOT EXCEED \$349,228 ANNUALLY FOR TEN YEARS AND BE SUBJECT TO THE FOLLOWING CONDITIONS

1. Board's acceptance and/or waiver of the conflict with the 2001 QAP Section 50.7(g)(2) which states that "...Projects involving new construction will be limited to 250 units. For those developments which are a second phase or are otherwise adjacent to an existing tax credit development unless such proposed development is being constructed to replace previously existing affordable multifamily units on its site, the combined Unit total for the developments may not exceed the maximum allowable project size, unless the first phase has been completed and stabilized for at least six months.

Underwriter:

\_\_\_\_\_  
*Lisa Vecchiatti*

Date: October 31, 2001

Director of Credit Underwriting:

\_\_\_\_\_  
*Tom Gouris*

Date: October 31, 2001

**MULTIFAMILY FINANCIAL ASSISTANCE REQUEST: Comparative Analysis**

**The Grand Texas Seniors Community, McKinney, LIHTC 01007**

Type of Unit	Number	Bedrooms	No. of Baths	Size in SF	Gross Rent Lmt.	Net Rent per Unit	Rent per Month	Rent per SF	Tnt Pd Util	Wtr, Swr, Trsh
TC 50%	36	1	1	765	603	\$522	\$18,792	\$0.68	\$81.00	\$29.00
TC 50%	18	1	1	789	603	\$522	9,396	0.66	81.00	29.00
MR	104	1	1	789		\$770	80,080	0.98	81.00	29.00
MR	12	2	2	1,100		\$1,025	12,300	0.93	96.00	35.00
MR	24	2	2	1,105		\$1,035	24,840	0.94	96.00	35.00
MR	36	2	2	1,152		\$1,060	38,160	0.92	\$96.00	\$35.00
<b>TOTAL:</b>	<b>230</b>		<b>AVERAGE:</b>	<b>891</b>	<b>\$142</b>	<b>\$798</b>	<b>\$183,568</b>	<b>\$0.90</b>	<b>\$85.70</b>	<b>\$30.88</b>

**INCOME & EXPENSE** Total Net Rentable Sq Ft **204,990**

**POTENTIAL GROSS RENT**

Secondary Income Per Unit Per Month: \$10.00  
 Other Support Income: (describe)

**POTENTIAL GROSS INCOME**

Vacancy & Collection Loss % of Potential Gross Income: -7.50%  
 Employee or Other Non-Rental Units or Concessions

**EFFECTIVE GROSS INCOME**

**EXPENSES**

	% OF EGI	PER UNIT	PER SQ FT
General & Administrative	3.66%	\$326	\$0.37
Management	5.00%	446	0.50
Payroll & Payroll Tax	7.40%	660	0.74
Repairs & Maintenance	4.27%	381	0.43
Utilities	2.94%	262	0.29
Water, Sewer, & Trash	4.15%	371	0.42
Property Insurance	1.60%	143	0.16
Property Tax 2.582049	7.24%	646	0.72
Reserve for Replacements	2.24%	200	0.22
Compliance, supportive services, court	1.35%	121	0.14

**TOTAL EXPENSES**

39.85% \$3,554 \$3.99

**NET OPERATING INC**

60.15% \$5,364 \$6.02

**First Lien Mortgage**

53.65% \$4,784 \$5.37

**LIHTC Syndication Proceeds**

0.00% \$0 \$0.00

**Construction Cash Flow**

0.00% \$0 \$0.00

**NET CASH FLOW**

6.50% \$579 \$0.65

**AGGREGATE DEBT COVERAGE RATIO**

1.12 1.13

**ALTERNATIVE DEBT COVERAGE RATIO**

1.12

**CONSTRUCTION COST**

Description	Factor	% of TOTAL	PER UNIT	PER SQ FT
Acquisition Cost (site or bld)		3.46%	\$2,498	\$2.80
Off-Sites		0.00%	0	0.00
Sitework		5.55%	4,000	4.49
Direct Construction		55.14%	39,755	44.61
Contingency 4.47%		2.71%	1,957	2.20
General Require 6.00%		3.64%	2,625	2.95
Contractor's G 2.00%		1.21%	875	0.98
Contractor's Pr 6.00%		3.64%	2,625	2.95
Indirect Construction		3.20%	2,309	2.59
Ineligible Expenses		1.30%	938	1.05
Developer's G & A 2.31%		1.88%	1,354	1.52
Developer's Profit 12.69%		10.32%	7,437	8.34
Interim Financing		6.19%	4,463	5.01
Reserves		1.74%	1,257	1.41
<b>TOTAL COST</b>		<b>100.00%</b>	<b>\$72,094</b>	<b>\$80.89</b>

**SOURCES OF FUNDS**

First Lien Mortgage	77.19%	\$55,652	\$62.44
LIHTC Syndication Proceeds	17.66%	\$12,730	\$14.28
Construction Cash Flow	0.90%	\$652	\$0.73
Deferred Developer Fees	10.52%	\$7,584	\$8.51
Additional (excess) Funds Requ	-6.27%	(\$4,524)	(\$5.08)
<b>TOTAL SOURCES</b>			

	TDHCA	APPLICANT		
	\$2,202,816	\$2,185,320		
	27,600	33,120	\$12.00	Per Unit Per Month
	0	0		
	\$2,230,416	\$2,218,440		
	(167,281)	(166,380)	-7.50%	of Potential Gross Rent
	(12,000)	(12,000)		
	\$2,051,135	\$2,040,060		
	\$75,020	\$45,400	\$0.22	\$197 2.23%
	102,557	102,603	0.50	446 5.03%
	151,693	163,340	0.80	710 8.01%
	87,640	51,840	0.25	225 2.54%
	60,313	68,250	0.33	297 3.35%
	85,224	68,000	0.33	296 3.33%
	32,798	33,000	0.16	143 1.62%
	148,468	195,500	0.95	850 9.58%
	46,000	46,000	0.22	200 2.25%
	27,750	27,750	0.14	121 1.36%
	\$817,463	\$801,683	\$3.91	\$3,486 39.30%
	\$1,233,672	\$1,238,377	\$6.04	\$5,384 60.70%
	\$1,100,409	\$1,100,412	\$5.37	\$4,784 53.94%
	0	0	\$0.00	\$0 0.00%
	0	0	\$0.00	\$0 0.00%
	\$133,263	\$137,965	\$0.67	\$600 6.76%
	1.12	1.13		
	1.12			

	TDHCA	APPLICANT	PER SQ FT	PER UNIT	% of TOTAL
	\$574,499	\$953,520	\$4.65	\$4,146	5.41%
	0	0	0.00	0	0.00%
	920,000	920,000	4.49	4,000	5.22%
	9,143,719	9,823,000	47.92	42,709	55.74%
	450,000	450,000	2.20	1,957	2.55%
	603,823	644,580	3.14	2,803	3.66%
	201,274	214,860	1.05	934	1.22%
	603,823	644,580	3.14	2,803	3.66%
	531,100	531,100	2.59	2,309	3.01%
	215,733	215,733	1.05	938	1.22%
	311,483	427,638	2.09	1,859	2.43%
	1,710,553	1,710,553	8.34	7,437	9.71%
	1,026,500	1,026,500	5.01	4,463	5.83%
	289,100	60,000	0.29	261	0.34%
	\$16,581,607	\$17,622,064	\$85.97	\$76,618	100.00%
	\$12,800,000	\$12,800,000	\$12,800,000		
	2,927,821	2,927,821	2,863,669		
	150,000	150,000	0		
	1,744,243	1,744,243	917,938		
	(1,040,457)	0	0		
	\$16,581,607	\$17,622,064	\$16,581,607		

**RECOMMENDED**  
**Max. Cost Guideline**  
 \$15,169,260

**MULTIFAMILY FINANCIAL ASSISTANCE REQUEST (continued)**

*The Grand Texas Seniors Community, McKinney, LIHTC 01007*

**DIRECT CONSTRUCTION COST ESTIMATE**

Residential Cost Handbook  
Average Quality Multiple Residence Basis

CATEGORY	FACTOR	UNITS/SQ FT	PER SF	AMOUNT
Base Cost			\$39.77	\$8,152,452
<b>Adjustments</b>				
Exterior Wall Fini.	3.45%		\$1.37	\$281,260
Elderly	5.00%		1.99	407,623
Roofing			0.00	0
Subfloor			(1.96)	(401,780)
Floor Cover			1.82	373,082
Porches & Corridor	\$25.33	43,000	5.31	1,089,190
Plumbing	\$585	216	0.62	126,360
Built-In Appliance	\$1,550	230	1.74	356,500
Fire Sprinkler Sys	\$2.13	262,990	2.73	560,169
Floor Insulation			0.00	0
Heating/Cooling			1.41	289,036
Elevators	\$50,200	5	1.22	251,000
Comm &/or Aux Bldg	\$39.77	17,676	3.43	702,975
Patio	\$19.32	2,500	0.24	48,300
<b>SUBTOTAL</b>			<b>59.69</b>	<b>12,236,165</b>
Current Cost Multiplier	1.01		0.60	122,362
Local Multiplier	0.91		(5.37)	(1,101,255)
<b>TOTAL DIRECT CONSTRUCTION COSTS</b>			<b>\$54.92</b>	<b>\$11,257,272</b>
Plans, specs, survy, b	3.90%		(\$2.14)	(\$439,034)
Interim Construction I	3.38%		(1.85)	(379,933)
Contractor's OH & Prof	11.50%		(6.32)	(1,294,586)
<b>NET DIRECT CONSTRUCTION COSTS</b>			<b>\$44.61</b>	<b>\$9,143,719</b>

**PAYMENT COMPUTATION**

<b>Primary</b>	\$12,800,000	Term	360
Int Rate	7.75%	DCR	1.12

<b>Secondary</b>		Term	
Int Rate		Subtotal DCR	1.12

<b>Additional</b>		Term	
Int Rate		Aggregate DCR	1.12

**ALTERNATIVE FINANCING STRUCTURE:**

Primary Debt Service	\$1,100,409
Secondary Debt Service	0
Additional Debt Service	0
<b>NET CASH FLOW</b>	<b>\$133,263</b>

<b>Primary</b>	\$12,800,000	Term	360
Int Rate	7.75%	DCR	1.12

<b>Secondary</b>		Term	
Int Rate		Subtotal DCR	1.12

<b>Additional</b>		Term	
Int Rate		Aggregate DCR	1.12

**OPERATING INCOME & EXPENSE PROFORMA: RECOMMENDED FINANCING STRUCTURE**

INCOME at 3.00%	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 10	YEAR 15	YEAR 20	YEAR 30
POTENTIAL GROSS RENT	\$2,202,816	\$2,268,900	\$2,336,967	\$2,407,077	\$2,479,289	\$2,874,175	\$3,331,957	\$3,862,651	\$5,191,080
Secondary Income	27,600	28,428	29,281	30,159	31,064	36,012	41,747	48,397	65,041
Other Support Income: (d)	0	0	0	0	0	0	0	0	0
POTENTIAL GROSS INCOME	2,230,416	2,297,328	2,366,248	2,437,236	2,510,353	2,910,187	3,373,704	3,911,048	5,256,121
Vacancy & Collection Loss	(167,281)	(172,300)	(177,469)	(182,793)	(188,276)	(218,264)	(253,028)	(293,329)	(394,209)
Employee or Other Non-Res	(12,000)	(12,360)	(12,731)	(13,113)	(13,506)	(15,657)	(18,151)	(21,042)	(28,279)
EFFECTIVE GROSS INCOME	\$2,051,135	\$2,112,669	\$2,176,049	\$2,241,330	\$2,308,570	\$2,676,266	\$3,102,525	\$3,596,677	\$4,833,634
<b>EXPENSES at 4.00%</b>									
General & Administrative	\$75,020	\$78,021	\$81,142	\$84,388	\$87,763	\$106,777	\$129,911	\$158,057	\$233,962
Management	102,557	105,633	108,802	112,067	115,429	133,813	155,126	179,834	241,682
Payroll & Payroll Tax	151,693	157,760	164,071	170,634	177,459	215,906	262,683	319,593	473,076
Repairs & Maintenance	87,640	91,146	94,792	98,583	102,527	124,739	151,764	184,645	273,319
Utilities	60,313	62,725	65,234	67,843	70,557	85,844	104,442	127,070	188,094
Water, Sewer & Trash	85,224	88,633	92,178	95,865	99,700	121,300	147,580	179,554	265,784
Insurance	32,798	34,110	35,475	36,894	38,369	46,682	56,796	69,101	102,287
Property Tax	148,468	154,407	160,583	167,006	173,686	211,316	257,098	312,799	463,019
Reserve for Replacements	46,000	47,840	49,754	51,744	53,813	65,472	79,657	96,915	143,458
Other	27,750	28,860	30,014	31,215	32,464	39,497	48,054	58,465	86,543
TOTAL EXPENSES	\$817,463	\$849,136	\$882,045	\$916,239	\$951,767	\$1,151,347	\$1,393,112	\$1,686,033	\$2,471,224
NET OPERATING INCOME	\$1,233,672	\$1,263,533	\$1,294,004	\$1,325,092	\$1,356,803	\$1,524,918	\$1,709,413	\$1,910,644	\$2,362,409
<b>DEBT SERVICE</b>									
First Lien Financing	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409	\$1,100,409
Second Lien	0	0	0	0	0	0	0	0	0
Other Financing	0	0	0	0	0	0	0	0	0
NET CASH FLOW	\$133,263	\$163,124	\$193,595	\$224,683	\$256,394	\$424,509	\$609,004	\$810,235	\$1,262,000
DEBT COVERAGE RATIO	1.12	1.15	1.18	1.20	1.23	1.39	1.55	1.74	2.15

**LIHTC Allocation Calculation - The Grand Texas Seniors Community, McKin**

CATEGORY	APPLICANT'S TOTAL AMOUNTS	TDHCA TOTAL AMOUNTS	APPLICANT'S REHAB/NEW ELIGIBLE BASIS	TDHCA REHAB/NEW ELIGIBLE BASIS
<b>(1) Acquisition Cost</b>				
Purchase of land	\$953,520	\$574,499		
Purchase of buildings				
<b>(2) Rehabilitation/New Construction Cost</b>				
On-site work	\$920,000	\$920,000	\$920,000	\$920,000
Off-site improvements				
<b>(3) Construction Hard Costs</b>				
New structures/rehabilitation ha	\$9,823,000	\$9,143,719	\$9,823,000	\$9,143,719
<b>(4) Contractor Fees &amp; General Requirements</b>				
Contractor overhead	\$214,860	\$201,274	\$214,860	\$201,274
Contractor profit	\$644,580	\$603,823	\$644,580	\$603,823
General requirements	\$644,580	\$603,823	\$644,580	\$603,823
<b>(5) Contingencies</b>	\$450,000	\$450,000	\$450,000	\$450,000
<b>(6) Eligible Indirect Fees</b>	\$531,100	\$531,100	\$531,100	\$531,100
<b>(7) Eligible Financing Fees</b>	\$1,026,500	\$1,026,500	\$1,026,500	\$1,026,500
<b>(8) All Ineligible Costs</b>	\$215,733	\$215,733		
<b>(9) Developer Fees</b>				
Developer overhead	\$427,638	\$311,483	\$427,638	\$311,483
Developer fee	\$1,710,553	\$1,710,553	\$1,710,553	\$1,710,553
<b>(10) Development Reserves</b>	\$60,000	\$289,100		
<b>TOTAL DEVELOPMENT COSTS</b>	<b>\$17,622,064</b>	<b>\$16,581,607</b>	<b>\$16,392,811</b>	<b>\$15,502,276</b>

<b>Deduct from Basis:</b>				
All grant proceeds used to finance costs in eligible basis				
B.M.R. loans used to finance cost in eligible basis				
Non-qualified non-recourse financing				
Non-qualified portion of higher quality units [42(d)(3)]				
Historic Credits (on residential portion only)				
<b>TOTAL ELIGIBLE BASIS</b>			\$16,392,811	\$15,502,276
High Cost Area Adjustment			130%	130%
<b>TOTAL ADJUSTED BASIS</b>			\$21,310,654	\$20,152,958
Applicable Fraction			20%	20%
<b>TOTAL QUALIFIED BASIS</b>			\$4,339,477	\$4,103,736
Applicable Percentage			8.51%	8.51%
<b>TOTAL AMOUNT OF TAX CREDITS</b>			\$369,289	\$349,228
<b>Syndication Proceeds</b>		<b>0.8200</b>	<b>\$3,028,174</b>	<b>\$2,863,669</b>

## **Proposed TDHCA CHDO Certification Policy**

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### ***Background***

TDHCA's involvement with CHDOs is derived exclusively from its administration of the federal HOME program. The HOME program statute at 42 USC Sec. 12771(a) requires that for a period of 24 months not less than 15% of the HOME allocation must be "reserved" for CHDOs. As the state administrator of the HOME program<sup>1</sup>, TDHCA is responsible for determining that a nonprofit organization satisfies the definitional requirements for a CHDO specified in 42 USC Sec. 12704(6) and the implementing regulations at 24 CFR Sec. 92.1. TDHCA has chosen to require applicants for a CHDO designation to certify to the federal requirements. The certification process has been used as the administrative tool to assist TDHCA in making the determination, although it is not required. TDHCA has been certifying CHDOs contemporaneously with its administration of the HOME program since 1992, and during that time has not required an organization seeking certification as a CHDO to have also submitted an application for HOME funds.

At the April 11, 2002 TDHCA Board meeting, staff was instructed to take the certification process to the public for comment, and to develop/propose a policy to present to the Board at the May 9, 2002 meeting. In response to these instructions, the Department held three public hearings. Below is an overview of those hearings:

### **Dallas (4/22/02)**

Attendees: 15

Comments: 7

Overview of Comments:

- Continue processing CHDO certifications as currently done. Problems are created by having to obtain certification under a variety of local jurisdictions.
- Cease certifying CHDOs and limit the review of an organization's CHDO status to a determination of its eligibility to apply for TDHCA HOME funds under the CHDO set-aside.
- Leave policy changes to the Legislature. The certification of an organization as a CHDO has been held unnecessary for the exemption.
- Local governments should do the CHDO determination – to ensure local approval and participation in projects.

### **Houston (4/22/02)**

Attendees: 7

Comments: 2

Overview of Comments:

- Local governments should be responsible for the certification process.

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<sup>1</sup> Section 2306.111, Texas Government Code

- Cease certifying CHDOs and limit the review of an organization's CHDO status to a determination of its eligibility to apply for TDHCA HOME funds under the CHDO set-aside.

**Austin (4/25/02)**

Attendees: 25

Comments: 12

Overview of Comments:

- CHDO certification process should continue as is, until legislative changes can be made.
- Cease certifying CHDOs and limit the review of an organization's CHDO status to a determination of its eligibility to apply for TDHCA HOME funds under the CHDO set-aside.
- Support not certifying CHDOs in PJs and a moratorium on new CHDO certification through the end of the year.
- Need some refinement of the certification process to incorporate local input.
- There is a lack of local input with the State's certification process.
- The process needs to look more at the experience of nonprofit organizations.

***Recommendation***

Staff recommends that the Department propose new rules related to State CHDO certification. The proposed rules will incorporate the following changes:

1. Only those organizations applying for the CHDO set-aside within the State HOME Program will be eligible for State CHDO certification. At the time of application for funds, an organization will be required to apply for and submit the pertinent information for CHDO certification. Certification to a qualified organization will only be granted upon the award of State HOME funds by the Department.
2. In the event that an organization applying for State HOME funds (CHDO set-aside) and State CHDO certification intends to serve a population within a Participating Jurisdiction, the applicant must submit evidence of the local taxing jurisdiction or local Participating Jurisdiction certification or designation of the applicant as a CHDO.
3. In the case of an applicant applying for State HOME funds (CHDO set-aside) to be used in a Participating Jurisdiction, where neither the Participating Jurisdiction nor the local taxing entity certifies CHDOs outside of the local HOME application process, the State Certification process described for non-Participating Jurisdiction areas applies.

Attached is the proposed new State CHDO certification rule.

<p><etb>Title 10. COMMUNITY DEVELOPMENT<et>  
<p><etb>Part I. TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS<et>  
<p><etb>Chapter 53. HOME INVESTMENT PARTNERSHIPS PROGRAM<et>  
<p><etb>10 TAC <8>53.63. Community Housing Development Organization (CHDO) Certification<et>

<p>The Texas Department of Housing and Community Affairs (the Department) proposes new <\*>53.63, concerning the Community Housing Development Organization (CHDO) Certification. The purpose of this section is to provide a process for the certification of Community Housing Development Organizations (CHDO) to participate in the Department's HOME program.

<p>Ms. Edwina P. Carrington, Executive Director, has determined that for the first five-year period the proposed section is in effect there will be no fiscal implications for state or local government as a result of enforcing or administering the rule.

<p>Ms. Carrington also has determined that for each year of the first five years the proposed section is in effect, the public benefit anticipated as a result of enforcing the section will be more efficient certification of Community Housing Development Organizations for the HOME program. There will be no effect on persons, small businesses or micro-businesses. There are no anticipated economic costs to persons, small businesses or micro-businesses who are required to comply with the section as proposed. The proposed new rule will not have an impact on any local economy.

<p>Comments may be submitted to Anne O. Paddock, Acting General Counsel, Texas Department of Housing and Community Affairs, P.O. Box 13941, Austin, Texas, 78711-3941 or by email at the following address: [apaddock@tdhca.state.tx.us](mailto:apaddock@tdhca.state.tx.us).

<p>The new section is proposed pursuant to the authority of the Texas Government Code, Chapter 2306.

<p>No other codes, articles or statutes are affected by this proposed new section.

<new><\*>53.63. Community Housing Development Organization (CHDO) Certification

- (a) Definitions and Terms. The following words and terms, when used in this section, shall have the following meanings, unless the context clearly indicates otherwise.
- (1) Applicant--A private nonprofit organization that has submitted a request for certification as a Community Housing Development Organization (CHDO) to the Department.
  - (2) Articles of Incorporation --A document that sets forth the basic terms of a corporation's existence and is the official recognition of the corporation's existence. The documents must evidence that they have been filed with the Secretary of State.

- (3) Bylaws--A rule or administrative provision adopted by a corporation for its internal governance. Bylaws are enacted apart from the articles of incorporation. Bylaws and amendments to bylaws must be formerly adopted in the manner prescribed by the organization's articles or current bylaws by either the organization's board of directors or the organization's members, whoever has the authority to adopt and amend bylaws.
  - (4) Community--For urban areas, the term "community" is defined as one or several neighborhoods, a city, county, or metropolitan area. For rural areas, "community" is defined as one or several neighborhoods, a town, village, county, or multi-county area, but not the whole state.
  - (5) Low income--An annual income that does not exceed eighty percent (80%) of the median income for the area, with adjustments for family size, as defined by the U.S. Department of Housing and Urban Development (HUD).
  - (6) Memorandum of Understanding (MOU)--A written statement detailing the understanding between parties.
  - (7) Moderate income or Low to Moderate income--An annual income that does not exceed eighty percent (80%) of the median income for the area, with adjustments for family size, as defined by the U.S. Department of Housing and Urban Development (HUD).
  - (8) Neighborhood--A geographic location designated in comprehensive plans, ordinances, or other local documents as a neighborhood, village, or similar geographical designation that is within the boundary but does not encompass the entire area of a unit of general local government; except that if the unit of general local government has a population under 25,000, the neighborhood may, but need not, encompass the entire area of a unit of general local government.
  - (9) Nonprofit organization--Any private, nonprofit organization (including a State or locally chartered, nonprofit organization) that-
    - (A) is organized under State or local laws,
    - (B) has no part of its net earnings inuring to the benefit of any member, founder, contributor, or individual,
    - (C) complies with standards of financial accountability acceptable to the Secretary of the United States Department of Housing and Urban Affairs, and
    - (D) has among its purposes significant activities related to the provision of decent housing that is affordable to low-income and moderate-income persons.
  - (10) Resolutions--Formal action by a corporate board of directors or other corporate body authorizing a particular act, transaction, or appointment. Resolutions must be in writing and state the specific action that was approved and adopted, the date the action was approved and adopted, and the signature of person or persons authorized to signed resolutions. Resolutions must be approved and adopted in accordance with the corporate bylaws.
- (b) Application Procedures for Certification of CHDO. An Applicant requesting certification as a CHDO must submit an application for CHDO certification in a form prescribed by the Department. The CHDO application must be submitted with an application for HOME funding under the CHDO set aside. The application must include documentation evidencing the requirements of this subsection.

- (1) An Applicant must have the following required legal status at the time of application to apply for certification as a CHDO:
  - (A) Organized as a private nonprofit organization under the Texas Nonprofit Corporation Act or other state not-for-profit/nonprofit statute as evidenced by:
    - (i) Charter, or
    - (ii) Articles of Incorporation.,
  - (B) The Applicant must be registered with the Secretary of State to do business in the State of Texas.
  - (C) No part of the private nonprofit organization's net earnings inure to the benefit of any member, founder, contributor, or individual, as evidenced by:
    - (i) Charter, or
    - (ii) Articles of Incorporation.
  - (D) The Applicant must have the following tax status:
    - (i) A current tax exemption ruling from the Internal Revenue Service (IRS) under Section 501(c)(3), a charitable, nonprofit corporation, or 501(c)(4), a community or civic organization, of the Internal Revenue Code of 1986, as evidenced by a certificate from the IRS that is dated 1986 or later. The exemption ruling must be effective on the date of the application and must continue to be effective while certified as a CHDO; or
    - (ii) Classification as a subordinate of a central organization non-profit under the Internal Revenue Code, as evidenced by a current group exemption letter, that is dated 1986 or later, from the IRS that includes the Applicant. The group exemption letter must specifically list the Applicant; and
    - (iii) A private nonprofit organization's pending application for 501(c) status cannot be used to comply with the tax status requirement under this subsection.
  - (E) The Applicant must have among its purposes the provision of decent housing that is affordable to low and moderate income people as evidenced by a statement in the organization's:
    - (i) Articles of Incorporation,
    - (ii) Charter,
    - (iii) Resolutions, or
    - (iv) Bylaws.
  - (F) The Applicant must have a clearly defined service area. The Applicant may include as its service area an entire community as defined in subsection (a)(4) of this section, but not the whole state. Private nonprofit organizations serving special populations must also define the geographic boundaries of its service areas. This subsection does not require a private nonprofit organization to represent only a single neighborhood.
- (2) An Applicant must have the following capacity and experience:
  - (A) Conforms to the financial accountability standards of 24 CFR 84.21, "Standards of Financial Management Systems" as evidenced by:
    - (i) notarized statement by the Executive Director or chief financial officer of the organization in a form prescribed by the Department,

- (ii) certification from a Certified Public Accountant, or
  - (iii) HUD approved audit summary.
- (B) Has a demonstrated capacity for carrying out activities assisted with HOME funds, as evidenced by:
  - (i) resumes and/or statements that describe the experience of key staff members who have successfully completed projects similar to those to be assisted with HOME funds, or
  - (ii) contract(s) with consultant firms or individuals who have housing experience similar to projects to be assisted with HOME funds, to train appropriate key staff of the organization.
- (C) Has a history of serving the community within which housing to be assisted with HOME funds is to be located as evidenced by:
  - (i) statement that documents at least one year of experience in serving the community, or
  - (ii) for newly created organization formed by local churches, service or community organizations, a statement that documents that its parent organization has at least one year of experience in serving the community; and
  - (iii) The CHDO or its parent organization must be able to show one year of serving the community prior to the date the participating jurisdiction provides HOME funds to the organization. In the statement, the organization must describe its history (or its parent organization's history) of serving the community by describing activities which it provided (or its parent organization provided), such as, developing new housing, rehabilitating existing stock and managing housing stock, or delivering non-housing services that have had lasting benefits for the community, such as counseling, food relief, or childcare facilities. The statement must be signed by the president or other official of the organization.
- (3) An Applicant must have the following organizational structure:
  - (A) The Applicant must maintain at least one-third of its governing board's membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations in the Applicant's service area. Low-income neighborhoods are defined as neighborhoods where 51 percent or more of the residents are low-income. Residents of low-income neighborhoods do not have to be low income individuals themselves. If a low-income individual does not live in a low-income neighborhood as herein defined, the low-income individual must certify that he qualifies as a low-income individual. This certification is in addition to the affidavit required in this clause (ii) of this subparagraph. For the purpose of this subparagraph, elected representatives of low-income neighborhood organizations include block groups, town watch organizations, civic associations, neighborhood church groups, Neighbor Works organizations and any organization composed primarily of residents of a low-income neighborhood as herein defined whose primary purpose is to serve the

interest of the neighborhood residents. Compliance with this subparagraph shall be evidenced by:

- (i) written provision or statement in the organizations By-laws, Charter or Articles of Incorporation,
- (ii) affidavit in a form prescribed by the Department signed by the organization's Executive Director and notarized, and
- (iii) current roster of all Board of Directors, including names and mailing addresses. The required one-third low-income residents or elected representatives must be marked on list as such.

(B) The Applicant must provide a formal process for low-income, program beneficiaries to advise the organization in all of its decisions regarding the design, siting, development, and management of affordable housing projects. The formal process should include a system for community involvement in parts of the private nonprofit organization's service areas where housing will be developed, but which are not represented on its boards. Input from the low-income community is not met solely by having low-income representation on the board. The formal process must be in writing and approved or adopted by the private nonprofit organization, as evidenced by:

- (i) organization's By-laws,
- (ii) Resolution, or
- (iii) written statement of operating procedures approved by the governing body. Statement must be original letterhead, signed by the Executive Director and evidence date of board approval.

(C) A local or state government and/or public agency cannot qualify as a CHDO, but may sponsor the creation of a CHDO. A private nonprofit organization may be chartered by a State or local government, but the following restrictions apply:

- (i) The state or local government may not appoint more than one-third of the membership of the organization's governing body.
- (ii) The board members appointed by the state or local government may not, in turn, appoint the remaining two-thirds of the board members.
- (iii) No more than one-third of the governing board members may be public officials. Public officials include elected officials, appointed public officials, public employees, and individuals appointed by a public official. Elected officials include, but are not limited to, city council members, aldermen, commissioners, state legislators, or members of a school board. Appointed public officials include, but are not limited to, members of a planning or zoning commission, or of any other regulatory and/or advisory boards or commissions that are appointed by a Participating Jurisdiction official. Public employees include, but are not limited to, employees of public agencies and schools or departments of the Participating Jurisdiction's government.
- (iv) Public officials who themselves are low-income residents or representatives do not count toward the one-third minimum requirement of community representatives in subparagraph (A) of this paragraph.

- (v) Compliance with clauses (i) – (iv) of this subparagraph shall be evidenced by:
  - (I) organization’s By-laws,
  - (II) Charter, or
  - (III) Articles of Incorporation.
- (D) If the Applicant is sponsored or created by a for-profit entity, the for-profit entity may not appoint more than one-third of the membership of the Applicant’s governing body, and the board members appointed by the for-profit entity may not, in turn, appoint the remaining two-thirds of the board members, as evidenced by the Applicant’s:
  - (i) By-laws,
  - (ii) Charter, or
  - (iii) Articles of Incorporation.
- (E) An Applicant may be sponsored or created by a for-profit entity provided the for-profit entity’s primary purpose does not include the development or management of housing, as evidenced in the for-profit organization’s By-laws. If an Applicant is associated or has a relationship with a for-profit entity or entities, the Applicant must prove it is not controlled, nor receives directions from individuals, or entities seeking profit as evidenced by:
  - (i) organization’s By-laws, or
  - (ii) Memorandum of Understanding (MOU).
- (4) Religious organizations cannot qualify as a CHDO, but may sponsor the creation of wholly secular private nonprofit organizations. If Applicant is sponsored by a religious organization, the following restrictions apply.
  - (A) The Applicant must prove that it is not controlled by the religious organization.
  - (B) The developed housing must be used exclusively for secular purposes and the housing owned, developed or sponsored by the Applicant must be made available to all persons regardless of religious affiliations or beliefs.
  - (C) There are no limits on the proportion of the board that may be appointed by the religious organization.
  - (D) Compliance with this clauses (i)-(iii) of this paragraph shall be evidenced by:
    - (i) organization’s By-laws,
    - (ii) Charter, or
    - (iii) Articles of Incorporation.
- (c) An application for Community Housing Development Organization (CHDO) Certification will only be accepted if submitted with an application to the Department for HOME funds. If all requirements under this Section 53.63 are met, the Applicant will be certified as a CHDO upon the award of HOME funds by the Department. A new application for CHDO certification must be submitted to the Department with each new application for HOME funds under the CHDO set aside.
- (d) If an Applicant submits an application for CHDO certification for a service area that is located in a local Participating Jurisdiction, the Applicant must submit evidence of the local taxing jurisdiction or local Participating Jurisdiction certification or designation of the Applicant as a CHDO.

- (e) In the case of an applicant applying for HOME funds (CHDO set-aside) from the Department to be used in a Participating Jurisdiction, where neither the Participating Jurisdiction nor the local taxing entity certifies CHDOs outside of the local HOME application process, the Certification process described in this section applies.

## **Proposed Multifamily Bond Program Property Tax Exemption Policy Which Will Be Incorporated in the Multifamily Rules**

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### ***Background***

During the 75<sup>th</sup> Texas Legislative Session, HB 137 provided property tax exemptions for properties that are owned by nonprofit organizations that are organized as Community Housing Development Organization (CHDOs), as defined by 42 U.S.C. Section 12704 -- the federal HOME Investment Partnerships Program (HOME) statute. These tax exemptions were intended to increase the stock of affordable housing and allow property owners to pass along the savings to their lower income tenants

During the 77<sup>th</sup> Texas Legislative Session, HB 3383 further modified the State tax code. Section 11.182 provides that a CHDO (as defined by 42 U.S.C. Section 12704) constructing a housing project after December 31, 2001 financed with 501(c)(3) bonds issued under Section 145 of the Internal Revenue Code, tax-exempt private activity bonds subject to the volume cap, or low income housing tax credits the CHDO must “comply with all rules of and laws administered by the Texas Department of Housing and Community Affairs (TDHCA) applicable to community housing development organizations; and...submit annually to THDCA...evidence that the organization spent an amount equal to at least 90 percent of the project’s cash flow in the preceding fiscal year...on social, educational, or economic development services, capital improvement projects, or rent reduction.”<sup>2</sup>

The Department’s Multifamily Bond Program issues tax-exempt bonds through two different authorities defined by the Internal Revenue Code.

### ***Private Activity***

Under one authority, tax-exempt bonds that are used to create housing projects are subject to the State’s private activity volume cap.

### ***501(c)(3)***

Under the second authority, TDHCA may issue tax-exempt bonds to finance properties that are owned entirely by nonprofit organizations. Bonds issued under this authority are exempt from the private activity volume cap.

In many cases these organizations funded with tax exempt bonds have requested and received verification through TDHCA regarding their CHDO status, rather than through their local participating jurisdiction or tax appraiser.

Through proposed revised rules regarding CHDO certification the Department believes that no new organizations will be verified as a CHDO outside of the knowledge of the local government. Because there are existing CHDOs that have already received State verification of CHDO status, the Department has reviewed its process for tax exempt bond financing applications.

### ***Recommended Policy***

Staff proposes the following policy which will be incorporated into the Multifamily Bond rules. These rules are currently being revised and will be brought before the Board at a future meeting.

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<sup>2</sup> Section 11.182(e)(2) and (3)

In an effort to ensure local awareness and involvement in its projects, TDHCA will require applications received by the Department's Multifamily Bond Program for the financing of multifamily rental projects, which are owned or partially owned by a nonprofit corporation qualified as a Community Housing Development Organization to provide:

1. Notification to TDHCA if the organization intends to apply for a property tax exemption;
2. Confirmation of the CHDO tax exempt status of the applicant from the local Participating Jurisdiction or tax appraisal district;
3. A letter of non-opposition as to the property tax exempt status of the applicant from every affected taxing unit or entities affected by this exemption, including but not limited to school, county, and city municipal utility districts; or
4. If applicable, the terms of any Payment in Lieu of Taxes (PILOT) agreements between the taxing units or entities affected by this exemption.

## **Proposed Methodology for Sub-Prime Lending Market Study**

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### ***Background***

Per Senate Bill 322 passed during the 77<sup>th</sup> Texas Legislative Session, the Department is to conduct a market study to determine the home mortgage credit needs in underserved economic and geographic sub-markets in the state. Specifically Section 2306.142 (c) states:

(c) The board by rule shall adopt a methodology for determining through a market study the home mortgage credit needs in underserved economic and geographic sub-markets in the state. In conducting the market study required by this subsection, the department or its designee shall analyze for the underserved economic and geographic sub-markets, at a minimum, the following factors:

- (1) home ownership rates;
- (2) loan volume;
- (3) loan approval ratios;
- (4) loan interest rates;
- (5) loan terms;
- (6) loan availability;
- (7) type and number of dwelling units; and
- (8) use of subprime mortgage loan products, comparing the volume amount of subprime loans and interest rates to "A" paper mortgage loans as defined by Standard and Poor's credit underwriting criteria.

The Department is to use the market study to evaluate the feasibility of developing a subprime lending product and dedicating 40% of the Single Family Mortgage Revenue Bond Program loan volume towards meeting the needs of underserved economic and geographic submarkets. TDHCA is to submit the market study results to the Bond Review Board by the end of the fiscal year

The Department initially explored the option of out-sourcing the market study and published two Requests for Information (RFI) at the beginning of 2002.

In March of 2002, after reviewing the various RFIs and determining the cost of contracting for the market study, the Executive Director charged the Department's Housing Resource Center (HRC) with conducting the study.

### ***Current Status***

The HRC has collected relevant Home Mortgage Disclosure Act (HMDA), Federal Financial Institutions Examination Council (FFIEC), Home Ownership Protection Act (HOEPA), Federal Deposit Insurance Corporation (FDIC), and 1990/2000 Census data.<sup>3</sup> Analysis has begun based on the proposed methodology.

### ***Proposed Action***

The legislation outlining the market study calls for the Board to adopt a methodology for the market study. While the legislation specifically states that this should be done by rule, the rule

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<sup>3</sup> Much of the pertinent 2000 Census information will not be released until the spring of 2003. It is the intention of the Department to update the findings of this study as more current information is made available.

making process is not applicable to an action that occurs only once and does not affect the rights of outside entities.

To ensure that the scope of the study is comprehensive, and that the spirit of the law is followed, the Department will make the methodology available for a three-week public comment period beginning Monday, June 17<sup>th</sup> and ending at 5:00 pm, Monday, July 8<sup>th</sup>. In addition, the Department will have one public hearing on the methodology on Wednesday, June 26<sup>th</sup> beginning at 10:00 am, in the 4<sup>th</sup> floor TDHCA Board room.

Taking into account comments received during the public comment period, staff will develop a finalized methodology and bring it to the Board for adoption at the July Board meeting.

Attached is copy of the proposed methodology that will be available for public comment.

## Data Analysis

### 1. Identify study areas

a. Rural areas: For 2000 the U.S. Census Bureau defines rural as all territory, population, and housing units located outside of Urbanized Areas (UAs) and Urbanized Clusters (UCs). The Bureau delineates UA and UC boundaries to encompass densely settle territory, which generally consists of:

1. A cluster of one or more block groups or census blocks each of which has a population density of at least 1,000 people per square mile at the time, and
2. Surrounding block groups and census blocks each of which has a population density of at least 500 people per square mile at the time, and
3. Less densely settled blocks that form enclaves or indentations, or are used to connect discontinuous areas with qualifying densities.

<http://www.census.gov/geo/www/tiger/tigerua/ua2ktgr.pdf>

### Urban Areas

FIPS	UA	Name
48	00280	Abilene, TX
48	01927	Amarillo, TX
48	04384	Austin, TX
48	06058	Beaumont, TX
48	10972	Brownsville, TX
48	18748	College Station--Bryan, TX
48	20287	Corpus Christi, TX
48	22042	Dallas--Fort Worth--Arlington, TX
48	23500	Denton--Lewisville, TX
48	27253	El Paso, TX--NM
48	32491	Galveston, TX
48	36892	Harlingen, TX
48	40429	Houston, TX
48	44992	Killeen, TX
48	46801	Lake Jackson--Angleton, TX
48	47854	Laredo, TX
48	51256	Longview, TX
48	51877	Lubbock, TX

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48	52390	McAllen, TX
48	52687	McKinney, TX
48	57007	Midland, TX
48	64864	Odessa, TX
48	70993	Port Arthur, TX
48	78553	San Angelo, TX
48	78580	San Antonio, TX
48	81631	Sherman, TX
48	87058	Temple, TX
48	87193	Texarkana, TX--Texarkana, AR
48	87220	Texas City, TX
48	87328	The Woodlands, TX
48	89326	Tyler, TX
48	90514	Victoria, TX
48	91027	Waco, TX
48	95104	Wichita Falls, TX

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4. Group rural counties by Uniform State Service Regions in order to simplify analysis.

b. Border areas: According to the Texas Department of Housing and Community Affairs Office of Colonia Initiatives (TDHCA OCI) border areas include the following 75 counties:

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County Name	FIPS Code
Aransas County	48007
Atascosa County	48013
Bandera County	48019
Bee County	48025
Bexar County	48029
Blanco County	48031
Brewster County	48043
Brooks County	48047
Cameron County	48061
Coke County	48081
Comal County	48091
Concho County	48095
Crane County	48103
Crockett County	48105
Culberson County	48109
DeWitt County	48123
Dimmit County	48127
Duval County	48131
Ector County	48135
Edwards County	48137
El Paso County	48141
Frio County	48163

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Gillespie County	48171
Glasscock County	48173
Goliad County	48175
Guadalupe County	48187
Hidalgo County	48215
Hudspeth County	48229
Irion County	48235
Jeff Davis County	48243
Jim Hogg County	48247
Jim Wells County	48249
Karnes County	48255
Kendall County	48259
Kenedy County	48261
Kerr County	48265
Kimble County	48267
Kinney County	48271
Kleberg County	48273
La Salle County	48283
Live Oak County	48297
Llano County	48299
Loving County	48301
McCulloch County	48307
McMullen County	48311
Mason County	48319
Maverick County	48323
Medina County	48325
Menard County	48327
Midland County	48329
Nueces County	48355
Pecos County	48371
Presidio County	48377
Reagan County	48383
Real County	48385
Reeves County	48389
Refugio County	48391
Runnels County	48399
San Patricio County	48409
Schleicher County	48413
Starr County	48427
Sterling County	48431
Sutton County	48435
Terrell County	48443
Tom Green County	48451
Upton County	48461
Uvalde County	48463
Val Verde County	48465
Ward County	48475
Webb County	48479
Willacy County	48489
Wilson County	48493

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Winkler County	48495
Zapata County	48505
Zavala County	48507

1. Group the border areas by Uniform State Service Regions based on level of urbanization in order to simplify analysis.
- c. Low income census tracts: Non-rural and non-border area census tracts with median family income less than or equal to 80% of the county median family income; or if in a Metropolitan Statistical Area (MSA), census tract median family income less than or equal to 80% of the MSA median family income. Median family income figures for tract, county and MSA levels are available from the decennial census. The most recent data available is from the 1990 U.S. Census.
  1. Group by Uniform State Service Regions in order to simplify analysis.

**2. For each study area analyze the following factors.**

- a. Homeownership rates: Data for homeownership rates is available from the 2000 U.S. Census at the census tract and county levels. Compare study area homeownership rates to state average rate and non-study area homeownership rates.
  1. Homeownership rate is the total number of owner-occupied housing units divided by the total number of occupied housing units.
- b. Loan volume: The number of loans originated for each study area is available from Home Mortgage Disclosure Act (HMDA) data, published annually by the Federal Financial Institutions Examination Council (FFIEC).
  1. The total census tract or county level loan volume is an aggregate of the available loan level data for all reported owner-occupied, home purchase, 1-4 family loans originated in the year 2000.

- c. Subprime loan volume: The number of subprime and prime loans originated is available from 2000 HMDA data. Calculate subprime and prime ratios for each area. Compare ratios for state and non-study areas and report index for each study area.
1. HUD's subprime lender list for 2000 to identify the subprime lenders in the state. Match the lender ID number on HUD's list with the ID number on HMDA data; categorize each loan as prime or subprime. Subprime ratio is the number of subprime loans divided by the number of prime loans for each study area. The state subprime ratio is the index; the relationship of the study area's ratio to the state subprime ratio is the indexed ratio.
- d. Loan approval ratios: Data on loan approvals is available from HMDA. Compare approval ratios for prime and subprime lenders in study areas. Compare ratios for state and non-study areas and report index for each study area.
1. The number of loan originations and applications approved is the total approved. The number of applications denied by financial institutions is the total denied. Approval ratio is the total approved divided by the total denied. The state approval ratio is the index; the relationship of the study area's ratio to the state ratio is the indexed ratio.
- e. Loan interest rates and terms: *Average interest rate and loan term data is not available at the census tract and county level. (Loan term data could include amortization type, original term, conventional vs. non-conventional, balloon vs. level payment, fees and points)*
1. If the intent is to identify subprime loans then the data will be available from HMDA in the future. New HMDA reporting rules will require lenders to report the annual percentage rate (APR) on loans with a spread between the APR and the yield on the comparable Treasury security above a certain threshold. The threshold is currently 3% for first lien and 5% for subordinate

lien loans. Lenders will also be required to report on loans that are subject to the Home Ownership Protection Act (HOEPA). HOEPA requires additional disclosure on loans that meet one of two criteria: a) an APR of 10% above Treasury rate or b) points and fees above or equal to 8%. Lenders are required to start reporting these additional data elements starting January 2003.

- f.* Type and number of dwelling units: The number of housing units is available from the decennial census. Data on housing type, housing age, plumbing, and kitchen facilities is available. The most recent data available at the census tract level is from the 1990 Census.
1. Units in structure – type of housing unit from census; categories include 1 unit detached, 1 unit attached, 2 or more unit, mobile home or trailer, and other. Calculate percentage for each housing category for study areas and compare to state averages and non-study area averages.
  2. Age of structure - Median Year Structure Built--The median divides the distribution into two equal parts. The median is rounded to the nearest calendar year. Median age of housing can be obtained by subtracting median year structure built from 1990. For example, if the median year structure built is 1957, the median age of housing in that area is 33 years (1990 minus 1957).
  3. Plumbing – Complete plumbing facilities include hot and cold piped water, a flush toilet, and a bathtub or shower. All three facilities must be located inside the house, apartment, or mobile home, but not necessarily in the same room. Housing units are classified as lacking complete plumbing facilities when any of the three facilities are not present.
  4. Kitchen Facilities – Data on kitchen facilities were obtained from questionnaire item H11, which was asked at both occupied and vacant housing units. A unit has complete kitchen facilities when

it has all of the following: (1) an installed sink with piped water, (2) a range, cook top and convection or microwave oven, or cookstove, and (3) a refrigerator. All kitchen facilities must be located in the structure. They need not be in the same room. Portable cooking equipment is not considered a range or cookstove. An ice box is not considered to be a refrigerator.

5. Source of definitions:

[http://www.census.gov/td/stf3/append\\_b.html](http://www.census.gov/td/stf3/append_b.html)

g. Loan availability: Analyze the presence of mortgage lenders in the study areas and report on whether or not these lenders participate in the TDHCA Single Family Bond Programs.

1. Analyze HMDA data and report loan origination activity in study area by lenders. List the number of lenders in study areas and compare with current bond program participating lenders.
2. Federal Deposit Insurance Corporation (FDIC) branch address data reflects locational detail (name, city, state, etc.) for each FDIC-insured institution; the most current data is from May 23, 2002. In combination with the HMDA data, this will give a good picture of loan availability in each of the study areas.

h. Housing affordability

1. Affordability data for metropolitan areas is available from Texas A&M University's Real Estate Center.
2. For non-metropolitan areas, compare average income data from the 1990 census to housing value. Affordability is defined as units for which the family would pay no more than two and one-half times their annual income to purchase. (2002 State of Texas Low Income Housing Plan and Annual Report, p. 38)
3. Another option for non-metropolitan areas is to compare average income data from 1990 Census to selected monthly owner costs.

1. Selected monthly owner costs is the sum of payments for mortgages, deeds of trust, contracts to purchase, or similar debts on the property (including payments for the first mortgage, second or junior mortgages, and home equity loans); real estate taxes; fire, hazard, and flood insurance on the property; utilities (electricity, gas, and water); and fuels (oil, coal, kerosene, wood, etc.). It also includes, where appropriate, the monthly condominium fee for condominiums and mobile home costs (personal property taxes, site rent, registration fees, and license fees) for mobile homes.

[http://www.census.gov/td/stf3/append\\_b.html](http://www.census.gov/td/stf3/append_b.html)

- i. Income levels and poverty rates: Calculate percent area median income (AMI) for study areas and report poverty rates. The most recent data available is from the 1990 Census. Compare with state average AMI and poverty rate and non-study area average AMI and poverty rates.
  1. Percent AMI for a census tract is the median family income for the census tract divided by the county median family income; or if in an MSA, the census tract median family income divided by the MSA median family income. Percent AMI for a county is the county area median income divided by the state median family income.
  2. The poverty rate for a geographic area is the total number of persons under the poverty level divided by the total population.

### **3. Maps**

- a. State map, Uniform State Service Region maps, and MSA or county level map with study areas identified and categorized as border areas, rural areas or low-income areas.

- b. State maps, Uniform State Service Region maps, and MSA or county level maps with homeownership rates for study areas compared to homeownership rates for non-study areas.
- c. State maps, Uniform State Service Region maps, and MSA or county level maps with loan volume, including prime and subprime volume.
- d. State maps, Uniform State Service Region maps, and MSA or county level maps with loan approval ratios for prime and subprime loans.
- e. State maps, Uniform State Service Region maps, and MSA or county level maps showing presence of mortgage lenders in area.
- f. State maps, Uniform State Service Region maps, and MSA or county level maps showing number of dwelling unit per 100 residents.
- g. State maps, Uniform State Service Region maps, and MSA or county level maps with income levels for study area compared to income levels for non-study area.
- h. State maps, Uniform State Service Region maps, and MSA or county level maps with poverty rates for study area compared to poverty rates for non-study area.

**REPORT ITEMS**

Executive Directors Report

Edwina Carrington

Collateralized Home Mortgage Revenue Bonds, Series 1991A,  
GNMA Sale, Closing and Bond Redemption

Taxable Junior Lien Mortgage Revenue Bonds,  
Series 2002A Pricing and Closing

Single Family Mortgage Revenue Bond Indenture Economics

Testimony: Urban Affairs Meeting of 05-08-02;  
Financial Institutions of 06-12-02;  
Urban Affairs of 06-12-02;  
Border Affairs of 06-21-02

## **REPORT ITEMS**

Executive Directors Report

Taxable Junior Lien Mortgage Revenue Bonds, Series 2002A Pricing and Closing

Single Family Mortgage Revenue Bond Indenture Economics

**Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A, Pricing and Closing -** Bonds were successfully priced on March 5, 2002. The transaction was closed on March 27, 2002. The funds are available and staff is working on programs to distribute the funds.

**Single Family Mortgage Revenue Bond Indenture Economics** – As a result of indenture studies prepared in 2000 and cashflows prepared for the recent Taxable Junior Lien transaction, Bond Finance has concluded that over \$9 million in additional funds will be available to redeem bonds. This redemption should enhance the SFMRB indenture's net worth over the intermediate term.

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## Urban Affairs Meeting of 05-08-02

There will be a House Committee on Urban Affairs Meeting at 9 a.m. on Wednesday, May 8, 2002 at the State Capitol Extension, Room E1.014, Austin, Texas

The agenda is:

Committee Interim Charge 1: Review the roles of the state and of local public housing authorities in increasing access to housing assistance for the state's poorest families and in supporting families making the transition from welfare to work.

TDHCA staff will be present to give testimony at this meeting.

The House Committee on Urban Affairs will also meet on Wednesday, June 12, at the Capitol in Austin, to discuss the issue of community housing development organization (CHDO) certification and subsequent issues.

**EXECUTIVE SESSION**

Michael Jones

Litigation and Anticipated Litigation (Potential or Threatened  
under Sec. 551.071 and 551.103, Texas Government Code  
Litigation Exception)

Consultation with Attorney Pursuant to Sec. 551.071(2), Texas  
Government Code

The Board may discuss any item listed on this agenda in Executive Session

**OPEN SESSION**

Michael Jones

Action in Open Session on Items Discussed in Executive Session

**ADJOURN**

Michael Jones  
Chair of Board

*To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact the Board Secretary, Delores Groneck, TDHCA, 507 Sabine, Austin, Texas 78701, 512-475-3934 and request the information.*

*Individuals who require auxiliary aids, services or translators for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can **be made**.*