TEXAS STATE AFFORDABLE HOUSING CORPORATION

BOARD MEETING

10:00 a.m.
Thursday, November 10, 2011

2200 East Martin Luther King Boulevard
Austin, Texas

MEMBERS PRESENT:

ROBERT "BOB" JONES, Chair
JERAN AKERS (not present)
WILLIAM DIETZ
JERRY ROMERO
JO VAN HOVEL

STAFF PRESENT:

DAVID LONG, Executive Director

AGENDA

PROCEEDINGS

MR. JONES: The November Board meeting of the Texas State Affordable Housing Corporation is called to order. Okay. Jo Van Hovel?

MS. VAN HOVEL: Here.

MR. JONES: Jeran Akers?

(No response.)

MR. JONES: William Dietz?

MR. DIETZ: Here.

MR. JONES: Jerry Romero?

MR. ROMERO: Here.

MR. JONES: And Bob Jones.

MS. VAN HOVEL: Here.

MR. JONES: Maybe he is not here. Okay. Thank you. I appreciate it. I'm present and accounted for.

All right. We'll begin. Is there any public comment?

(No response.)

MR. JONES: That's always first, even though we have to ask for it after every item. Right. Okay.

Let's ask for the President's report and you have Tabs A through F, and maybe introductions of any guests that are here.

MR. LONG: Thank you, Mr. Chairman, members. I would like to make a few introductions as we have some of our professionals here. Mr. Mikeska with Mikeska, Monahan & Peckham, our outside auditor, actually is here but he is also going to be presenting under one of the tab items so you'll get a chance to see him.

Pam Stein with Greenberg Traurig, our general counsel is here. And Robin Miller with First Southwest, our financial advisory firm, is here as well. I did also want to introduce -- he wasn't here at the last meeting but I would like to introduce Ben Elinor. He's a UT graduate student that is working with us as an intern. He will be working directly with Janie. And if Ben could stand up and at least wave his hand.

He's here and working with us. He's going to be working with Janie directly, as I said. And working on our projects related to whatever Janie has working.

So a couple of quick updates on some conferences. Staff attended the Texas Association of Local Housing Finance Authorities conference in Corpus Christi the end of last month, the 26th through the 28th. That was attended by myself, Paige, Liz and Dave Danenfelzer.

David and I have a conference coming up at the end of this month that we will be attending here in Austin. It's the Housing Partnership Network conference. As far as check presentations go for the Texas Foundations Fund, we were able to do one of those check presentations while we were in Corpus Christi for the Coastal Bend Center for Independent Living. All the staff that attended the conference were able to join us to make the presentation, as well as Mr. Romero who was actually at the conference himself as well. He attended that with us.

We have two more check presentations under this year's round of funding that we'll be having, one on November 14 in Rio Grande City with MET. Myself and Liz will be attending that. That's Monday of next week. And then on the 17th, there's one in Houston with New Hope Housing. And Liz will be attending that with probably another staff member.

A couple of other things that we've been working on or we've been involved in. The Senate IGR had an interim charge hearing last week. And David Danenfelzer was asked to speak at that. And he spoke on the ACT program or Affordable Communities Texas program in land banking and land trust activities.

I was asked by the Governor's Office to attend a disaster housing task force meeting last week as well and kind of just was asked to sit in for giving feedback on housing-related issues during a natural disaster that affects Texas.

I attended the Making Home Affordable New Hope event in Houston last week. Katie and I attended that on Friday. It was one of our foreclosure prevention task force events that are put on through the Houston task force but it was actually put on from the national level at Hope Now and Making Home Affordable.

And there were approximately 432 people that actually came through the event and about 136 of those actually got a chance to meet with counselors in addition to meeting with their service or representatives. So we're pretty pleased with the results of that.

This morning, Mr. Jones and I had the opportunity to have a face-to-face meeting with the new Chairman of the Board of TDHCA, Mr. J. Paul Oxer, and the new Executive Director, Tim Irvine. And we had a chance to sit down with them for about an hour this morning -- a little early, but we made it at 7:30 and spent about an hour with them.

And with that, you also have the staff reports that are in the tabs, as Mr. Jones referenced A through F in your Board book, including the single-family development finance. You also this month -- because of the quarterly report, you have for compliance and resident services that Mindy put together for you all. Marketing and development reports are in there.

I mentioned the Foreclosure Prevention Task Force, the event we attended in Houston, and then you have your monthly budget investment reports. And if you had any questions on those, either myself or staff will be more than happy to answer any questions on those reports specifically.

And with that, the only other thing I would mention to you is that tomorrow is Veterans Day and our offices will be closed.

MR. JONES: On Tab Item B.

MR. LONG: B?

MR. JONES: B, yes. Affordable Communities of Texas?

MR. LONG: Uh-huh.

MR. JONES: The program, it says it's processing its final closings, using NSP funding. It also says that you submitted application for more income funding, and there's an uptick in donation properties.

Can you talk a little bit about those three items?

MR. LONG: I can have David come up here, if you don't mind.

MR. JONES: Okay.

MR. LONG: And David, do you want to come up and just kind of give an update? What we had is, we received a certain amount of funding on the original round and then we got an increase to our account, I mean, to our funds that we got from TDH under our original contract.

MR. JONES: So it was final closing, using original funds?

MR. LONG: I'll let David speak to all of that, but, essentially, yes. And then, also, there are other additional rounds of funding they're now offering and we've applied apply to one of those.

So David, do you want to kind of address those points?

MR. DANENFELZER: Sure. Dave Danenfelzer, Manager of Development Finance. Yes, the Corporation is currently using up the remaining $6.25 million original funding that we had available to us under our NSP-1 contract and we have just a handful of closings left to wrap that up.

And then we have submitted an application with the Board's approval for the NSP program income round. We originally got a resolution from the Board in the springtime to apply for that, but the application process didn't go as we had planned, and they've reopened that round. So we've resubmitted our application and hopefully we'll get accepted into that.

That's more of a reservation system so there's not a set dollar amount but we'll be able to draw down funds as we have projects available to purchase.

MR. JONES: And the third point was the donation properties.

MR. DANENFELZER: Yes.

MR. JONES: How does that kind of work?

MR. DANENFELZER: Well, a number of banks that we've been working with over the last couple of years have come to us about the idea of donating properties to the Corporation. These range from single-family homes where there may have been a particular title issue which the bank just didn't want to have to take care of, or they're vacant lots.

The predominant number are vacant lots that were intended to have new homes built on them, but the banks have essentially said, you know, the market's -- there is not much new construction in those subdivisions and they've had them on the market for over a year now and the value of those properties are just such that they don't want to continue to hold them on their books.

So they see it as a way to provide the Corporation with a donation and a write-off for the bank. And the Corporation's been able to use some of those lots to give to our local partners, and then other lots will be used to develop new housing for other local partners or expand our local partner network as we develop that program.

MR. JONES: Okay. And you see an increase -- well, I guess, with the economic climate, there might be an increase. Right?

MR. DANENFELZER: Yes. And I think not only the economic climate but the fact that many of the banks for the last couple of years have been holding onto a lot of foreclosed properties and just keeping them in their portfolios. But I think they've finally reached sort of a breaking point. The holding costs of those single lots have gotten to the point where they just want to get rid of those individual --

MR. JONES: Recently, I read that the federal government was doing that, too. The banks had those foreclosed properties, and rather than maintain them, fix them up and pay taxes, they've been knocking them down and donating the land to the cities, like the cities need more vacant land, but hey --

MR. DANENFELZER: Yes. We are actually running into a problem where several cities, especially large metros like the Dallas area, are no longer accepting donation properties.

MR. JONES: Right.

MR. DANENFELZER: So that could be also a trend that we're seeing is now the banks are no longer able to donate to the larger cities, and now the banks are looking for another entity to take those properties on.

Our land-banking abilities give us a really good foothold and the ability to expand that, as well, we'll bring a lot of value to those lots down the road as we can get local partners to develop and build on those sites.

MR. JONES: I understand. Does the Board have any questions about Tab items A through F?

MS. VAN HOVEL: I had one on F.

MR. JONES: On which item?

MS. VAN HOVEL: It doesn't have a number but it says Unrestricted --

MR. JONES: The one F. It's Tab item F.

MS. VAN HOVEL: Yes.

MR. JONES: Right. At the bottom of the page?

MS. VAN HOVEL: Right. Is that what you asked me?

MR. JONES: Yes.

MS. VAN HOVEL: Where it says, Unrestricted net assets. There she is.

MS. SMITH: You just want to know what that represents?

MS. VAN HOVEL: Yes.

MS. SMITH: The restricted assets are those that are related to the bond programs, or they may be restricted by a grant that's been given to us. Anything that's not restricted by the covenants of the bonds or by a specific grant is unrestricted.

MS. VAN HOVEL: Like?

MS. SMITH: It just belongs to the corporation.

MS. VAN HOVEL: Oh.

MS. SMITH: -- so that we can do with it, you know, whatever, for program purposes that we and the Board deem necessary. And then we also separate out invested and capital assets, which is just our fixed assets, the building, furniture and equipment.

MS. VAN HOVEL: That's all.

MR. JONES: Does that answer it?

(No response.)

MR. JONES: Any other questions?

(Pause.)

MR. JONES: Under the President's report, do we ask for public comment here, too, or no? No? Okay, just the action items?

MR. LONG: Yes, sir.

MR. JONES: Okay. I just wanted to make sure that we comply.

All right. David, thank you very much.

All right. Tab Item 1, presentation, discussion and possible approval of the minutes of the Board held October

20, 2011.

MR. ROMERO: Move to approve as presented.

MR. JONES: Moved to approve. Is there a second?

MS. VAN HOVEL: I'll second, Mr. Chair.

MR. JONES: Okay. Moved and seconded. Is there any public comment regarding our minutes?

(No response.)

MR. JONES: Hearing none, is there any further discussion with the Board?

(No response.)

MR. JONES: All in favor, signify of approving by saying aye.

(A chorus of ayes.)

MR. JONES: Any opposition?

(No response.)

MR. JONES: Okay. The minutes are approved. Item 2, the presentation, discussion and possible approval of a resolution regarding the conversion of reservation for allocation of private activity bonds to mortgage credit certificates and containing other matters incident and related thereto.

MS. MCGILLOWAY: Good morning. I'm Paige McGilloway, manager of the single-family programs. The resolution before you is asking the Board to approve the

Corporation using a portion of its private activity bonds, or the authority for private activity bonds, to convert to mortgage credit certificates.

So, as the resolution states, we have approximately $200 million in carryforward funds, or we did. We've used 55.5 million of that already, leaving us with roughly 144 million to use.

This resolution specifically only asks that we convert 100 million of that that we have remaining, and as you'll see under Tab Item A of the report section, we are getting low on our MCC funds and so this would just allow us to go out with a new program in 2012.

MR. JONES: Okay. Any questions?

(No response.)

MR. JONES: All right. Hearing none, I'll entertain a motion.

MR. ROMERO: Move to approve as presented.

MR. JONES: Is there a second?

MR. DIETZ: Second.

MR. JONES: Moved and seconded. Any public comment regarding this item?

(No response.)

MR. JONES: Okay. All in favor, signify by saying aye.

(A chorus of ayes.)

MR. JONES: Any opposition?

(No response.)

MR. JONES: It carries. Thank you, Paige.

MS. MCGILLOWAY: Thank you.

MR. JONES: Item 3, presentation, discussion and possible approval of a loan under the Multifamily Direct Lending Program, to the Brookswood Apartments project in West Columbia, Texas. Good morning.

MR. DANENFELZER: Good morning. David Danenfelzer, Manager of Development Finance. I'm joined here by Scott Poor, representative of the developer.

The Brookswood Apartments is a 50-unit apartment complex that is located in West Columbia, Texas. It has been operated as primarily housing for elderly and persons with disabilities for the last 20 years.

And PK Brookswood Apartments, LP, the limited partnership which is proposing an acquisition rehab of the property, has requested a $750,000 loan from the Corporation in order to fill and provide gap financing for the project, which includes over $800,000 worth of restructured USDA loans, a 9 percent housing tax credit award of about $2.2 million, and a total acquisition of rehabilitation cost of $4.7 million.

The Corporation reviewed this application under its multifamily direct lending program. The projects meets all of our threshold criteria for development standards affordability, as well as public benefit. We're very pleased to see that the developer is actually including a very significant amount of rehab; approximately $37,000 in actual rehabilitation costs per unit will be used on the property and that 37,000 does not include overhead costs or the contractors' profits or anything. That's just the actual amount of work that is going to be done.

So this includes new windows, new air-conditioning and water heater systems, a significant amount of upgrades to the interior of the apartments as well as exterior finishes and landscaping to the property.

As far as the location, West Columbia is located in Brazoria County, just about in the middle of Brazoria County, which is southwest of the Houston metropolitan area. Brazoria is actually located within the Houston MSA and so it does benefit from a great deal of the economic growth of the Houston area as well as some of the other advantages of being next to a large metropolitan area.

As far as the market analysis, we looked over quarterly home sales and median home pricing as well as rental rates. The area has been very stable over the last several years despite the overall national economic downturn. Texas, as most of you know, has really fared very well through the economic recession that we are in currently, or coming out of.

And as far as housing units go and rental units, the rental market in West Columbia and the surrounding area has been very stable as well. It's generally actually seen a bit of a growth and, in fact, for the targeted population of elderly households, the vacancy rate currently is 3 percent and has been for over a year now in this market area.

So the Corporation's loan would be a 15-year term loan with a 30-year amortization. This is our typical way of structuring properties that receive tax credit since the tax credit affordability period is 15 years and then, generally, you see a new capitalization of projects within that time frame to do new rehab and upgrades to properties.

100 percent of the units will be affordable under our LURA for 80 and below households; however, the LURA that will be put in place by the State's housing tax credit requirements will also include 30 and below households, 50 and below, and 60 and below households. So they're going to be a little bit tougher on the tax credit affordability than we are but we like to have a little bit higher cap for them. In case there are issues we don't have to trigger any type of default or foreclosure issues. We let them work it out with

just the State, and not have to get involved in overreaching our bounds.

The loan rate is 6.75, which is based on our current borrowing costs, as well as the ability of the project to repay our loan over the 15-year term, and it does meet all of our threshold for underwriting criteria, as I mentioned before. Are there any questions?

MS. VAN HOVEL: Mr. Chair, I have a question. It says the conversion, the borrower will have 18 months from the closing date to convert the loan from construction to permanent.

MR. DANENFELZER: Right. Generally, we allow an 18-month construction period on our loans. This is simply the time --

MS. VAN HOVEL: Do we usually do that?

MR. DANENFELZER: We usually do this. And that's because typically, once we close a loan, there is a construction, a rehab period.

They're obviously -- they want -- on a typical project, they'll have to kind of rotate units in and out of service, because of the rehab. They'll need to actually move tenants out of some units to be able to fix them up and do all of the construction work they need to.

On a project this small, it probably won't take 18 months to complete the rehab but we generally provide that because we can't always be guaranteed that once we close our financing for the acquisition fees that they'll be immediately able to go into the rehab.

There may be delays in permits; there may be other financing issues that come into play, like when the tax credit equity comes in. And, you know, we fully expect, based on the developer's experience, that they will be able to complete it with 18 months.

MS. VAN HOVEL: Then it will close.

MR. DANENFELZER: And if they complete early, we will convert the loan early. Once they've completed their full construction and they've gotten to economic occupancy again for the tax credit purposes, we'll convert, and if that happens to be sooner than 18 months, that'll be good.

MS. VAN HOVEL: It just seems like that's a while.

MR. DANENFELZER: It certainly does, but we end up finding that a lot of our projects use up that full 18 months just because of -- you know, one of the biggest delays we see is permitting, quite honestly.

We see a lot of projects that have a lot of issues with local governments getting their permits in place, making sure that everything works and, inevitably, you know, as many times as they've built in any one community they find that halfway through that one inspector decides that, no, we need to reroute all of the pipes for this drainage line on all the units, and now that's not acceptable, when it was last year or the year before.

So it's always something that's a game-changer for a lot of our developments and 18 months is a typical time frame for both new and rehab construction.

MS. VAN HOVEL: Thank you.

MR. DANENFELZER: You're welcome.

MR. JONES: It's probably not as complex as it sounds. Under the financial summary, so 300,000 in tax credit generates the equity and you're dealing with a 515 on two levels -- right? --

MR. DANENFELZER: Yes.

MR. JONES: -- which is why you have the caveat on additional requirements that unless that second one where something happens?

MR. DANENFELZER: Yes. And, basically, the caveats that I put in place there for the 515 -- there's one that the assumption is approved and fully converted of the existing debt on the property but then also that the rental assistance contract is approved and extended by USDA.

We know that the current development just received another extension this year for their increase. We see no reason why USDA wouldn't, but in past projects we've put this as a condition on our loan documents so that we're ensured that the rents that we anticipated when we underwrote the deal are going to be in place once the conversion --

MR. JONES: So our piece of the puzzle here -- putting it all together is essential to finishing off on the financing that's needed, or -- like bridge fund, cash flow?

MR. DANENFELZER: Yes. And to give some of the back story, and Mr. Poor can add on to this if you would like, but this development originally when it was awarded also received HOME funding from the Texas Department of Housing. Unfortunately, after further review, the Department of Housing had to rescind that award because Brazoria County actually fell into a participating jurisdiction and the Texas Department of Housing is not supposed to use their HOME funds from the State in local participating jurisdictions.

So they had to kind of backtrack on this deal and get some extensions from the Department, which the Department gave them, and then scramble to look for alternative financing. Our name came up as one of the more flexible and easier sources to help work with all the parties already involved and with our good working relationship with USDA, it made it very easy for us to come in and place our loan on parity with the USDA note and kind of restructure --

MR. JONES: The HOME funds would have been a grant as opposed to a loan? Or they would have done it at 2 percent or what?

MR. POOR: It would have been a loan, yes, but because of the jurisdictional issues, yes, they had to rescind the loan.

MR. JONES: So our participation doesn't mean it would be a higher interest rate that you would have gotten if you had had the HUD HOME funds loans. Wouldn't have been at a lower rate?

MR. POOR: I do not recall.

MR. DANENFELZER: Yes. Based on the original underwriting, the HOME funds were about 4-1/2 percent. There was actually a floating rate for HOME funds with tax credits. You have to fix it on a federal rate.

But the way the restructure has occurred under this is while we are having slightly higher interest rates now, the subordinate debt that is being provided and is listed here is actually -- it is a cash flow note. So if there is not sufficient cash flow to pay off that note, it is not a foreclosable issue.

So we underwrote it with that debt listed as a hard debt, meaning they will pay it off and it still met our underwriting criteria. However, technically, we could have pushed it below the line and they would have significantly more cash flow.

But the Corporation has generally taken the tact in the past that subordinate lenders, even when their cash flow, we need to make sure that they're going to get cash because even if they can't foreclose, we don't want them really kind of calling and bothering us all the time, and saying, why aren't we getting our money.

Frankly, we've been in that position before and we don't like being in that position, so we don't want to put anyone else in that position.

MR. JONES: Any other questions or comments?

MR. ROMERO: David, on the 15-year term, does that include the 18 months on the construction period?

MR. DANENFELZER: No. That 15-year term triggers once the conversion is in place so it essentially makes it about a 16-1/2-year loan but that's typically how they're structured so that -- and that's the way --

MR. ROMERO: right. So we potentially earn this in -- for 16-1/2 years, potentially?

MR. DANENFELZER: Right. Potentially.

MR. JONES: Any other comments, questions? Jo?

MS. VAN HOVEL: How long?

MR. ROMERO: Sixteen and a half, approximately --

MR. DANENFELZER: Yes.

MR. ROMERO: -- depending on how long the construction period takes -- if they went all 18 years -- or 18 months.

MR. DANENFELZER: Right. And that's the same with all of the other sources of funding. Once the construction is complete, they'll all convert and then the general 15-year affordability term for the tax credits will start, our loan period will start, and then all of the other debt sources will --

MR. JONES: Obviously, you're comfortable with this, or you wouldn't be presenting it, so --

MR. DANENFELZER: No, we -- the loan committee passed this unanimously with five full votes so -- you know, everyone seems to be very well on-board with it and it's a pretty good deal for us financially.

MR. ROMERO: I just have one more question. On the financial summary, you say that the developer is going to assume the existing USDA RD 515 mortgage? It's been on there for 30 years now already.

MR. DANENFELZER: About 20 years, actually.

MR. ROMERO: Was it not '81, then, because you show the date as 1981.

MR. DANENFELZER: I think that was the date that the developer started in the RD program. But for this particular product, it's only been on the market for about 20 years.

MR. JONES: Okay. The Chair will entertain a motion in regards to this item.

MR. ROMERO: I make a motion to approve.

MS. VAN HOVEL: I'll second, Mr. Chair.

MR. JONES: Moved and seconded. Is there any public comment in regards to this item?

(No response.)

MR. JONES: Okay. Hearing none, all in favor of approving, aye.

(A chorus of ayes.)

MR. JONES: Okay. It's unanimous; it's approved.

MR. DANENFELZER: Thank you very much.

MS. VAN HOVEL: Thank you.

MR. JONES: Okay. Item 4.

And good luck on that project, sir. We wish you the best on that.

MR. POOR: Thank you.

MR. JONES: Tab Item 4, presentation, discussion and possible approval for publication and public comment the Corporation's multifamily housing private activity bond program, 501(c)(3) program compliance policy including the assessment of penalties for noncompliance.

MS. GREEN: I gave you a -- sorry, Mindy Green, Senior Asset Oversight Compliance Specialist. The copy of the compliance policy's is in --

MR. JONES: Did you get all that? She said that real fast, didn't she?

MS. GREEN: Sorry.

MR. JONES: She said what's -- now, back to my business.

MS. GREEN: All right. Here we go. The compliance policy that's in your Board book isn't a redline copy. I apologize. So I gave you a clean copy so I gave you a red copy in front of you.

MR. JONES: Oh, this is the red one?

MS. GREEN: No.

MR. JONES: Where?

MS. GREEN: Right --

MR. JONES: This one.

MS. GREEN: Yes. There you go. So if you look through it, you'll notice that there aren't many changes. There are only three additions. The major addition is going to be Section 8 and that's on page 3.

And it's just -- we're adding a notice of health and safety to residents. And this is our way of allowing them another outlet, if they feel their unit is not meeting the health and safety standards that they want so --

MS. VAN HOVEL: I'm sorry. What page is it?

MR. JONES: In that number right after --

MS. GREEN: Page 3. Section 8.

MS. VAN HOVEL: Okay.

MS. GREEN: You're in the right document.

MR. ROMERO: It's the third page, Jo. In blue.

MR. JONES: Oh, yes. I was looking at that. They're just not numbered. I was telling her that they're not numbered.

MS. GREEN: Sorry. Okay. Other than that, did you guys have any questions about Section 8 here, the addition of the health and safety notice for residents?

MR. JONES: Correct me if I'm wrong. This is for existing 501(c)(3)s?

MR. ROMERO: And bond review.

MS. GREEN: And private activity.

MR. JONES: And --

MS. GREEN: And private activity.

MR. ROMERO: And private activity bond activities.

MR. JONES: Okay.

MR. ROMERO: And in the future?

(Pause.)

MS. GREEN: The other two additions you'll find are on the very last page, and the second-to-last page. And they're just additions of possible fees for -- one is for if the property has had a Fair Housing violation. And then the other would be if they have a change in general partnership without notifying us. It's just to ensure that we are aware of everything that's happening.

MS. VAN HOVEL: So what page is that, please?

MS. GREEN: It's the very last page and the next-to-last page. We've given this to our legal counsel, and they approved it so we're ready to just publish it for --

MR. JONES: This has a typo, though. It just says 1,000 for violations, instead of $1,000.

MS. GREEN: Well, we'll get that changed.

MR. JONES: That's the better way to say it is to be shown in currency. See, that's the banker talking. I want to say dollars and cents but --

MR. ROMERO: Have we had any violations of this nature?

MS. GREEN: No.

MR. ROMERO: Okay.

MR. JONES: Okay. Any discussion?

MS. VAN HOVEL: If we could get these pages numbered next time, it would be super great for me.

MS. GREEN: Absolutely. Yes. I apologize. I'll make sure.

MR. JONES: Okay. Is there a motion? On the floor? You're the designated mover today.

MR. ROMERO: I'll move to approve.

MR. JONES: And a second, the seconder.

Okay. Any public comment regarding our Item 4?

(No response.)

MR. JONES: Okay. Hearing none, any further discussion among the Board?

(No response.)

MR. JONES: All in favor of approval, signify by saying aye.

(A chorus of ayes.)

MR. JONES: It's unanimous; it carries. Thank you.

Okay. We're down to Item 5. Presentation and discussion of the fiscal year ending August 31, annual independent financial audit.

MR. LONG: Mr. Chairman, Don Mikeska with Mikeska, Monahan & Peckham, external auditor, had asked to give you an update on the internal audit, the status of our audit. And so I am going to turn it over to Mr. Mikeska and let him give you the update.

MR. JONES: Before you -- okay.

MR. MIKESKA: My name is Don Mikeska. I'm the resident manager of Mikeska, Monahan & Peckham and I am the audit partner responsible for your engagement.

MR. JONES: Okay. I just wanted to say that -- is that any yellow in your tie there?

MR. MIKESKA: No, sir.

MR. JONES: There's no yellow in there at all? Look David. Look close. Is there any yellow in there? It looks like a little yellow.

MS. VAN HOVEL: They're trying to match everybody else.

MR. MIKESKA: Gold.

MR. JONES: Gold. Okay. I was just saying that everybody here, in case you didn't get the memo -- there was supposed to be yellow or some yellow in your tie this morning.

MR. MIKESKA: It must have gone to the wrong email address.

MR. JONES: Is that sufficient? Okay.

MR. MIKESKA: It'll work.

MR. JONES: All right. Having said that -- that was important.

MR. MIKESKA: All right. Well, it is. Consistency. That's what we have to deal with in the business. Really, I wanted to be placed on the agenda, for two reasons. One was to give you an update on the status of the audit engagement and second would be to allow you to ask any questions you might have of me. Because I do want to have to do it under public comment. That was our goal for putting us on the agenda.

Really, there are four parts to this engagement. One is the audit of the Texas Public Funds Investment Act for compliance with the investment policies and the act itself. We virtually completed that engagement. And there were no exceptions. There will be a clean report issued under the Public Funds Investment Act.

The second part of this four-part engagement is -- we refer to it as the HUD audit. It's not necessarily a HUD audit as such but the auditor must opine on two things.

Number one is the adequacy of your mortgage bond insurance policy. And then second is the adequacy of your net worth because both HUD and Ginnie Mae, Fannie Mae require certain net worth calculations in order to be an authorized issuer.

The third audit is what we call the GAAS audit, Generally Accepted Auditing Standard. It's the audit of your financial statements in accordance with governmental auditing standards.

And then the last part is the single audit under OMB Circular A-1(33). That audit has not really begun at this point in time. That will be an audit of your NSP program wherein we will select certain properties, and we will ascertain if the Corporation has complied with the various audit requirements that could have a direct and material affect on your financial statement.

So everything is going smooth sailing at this point in time. Staff has been pretty much inundated with our requests, plus everything else that they are having to do with their daily routines, but everything is going smooth. I don't have anything to report at this point in time, other than good progress.

MR. JONES: And it should be due, completed by what -- year end or something?

MR. MIKESKA: Well, the draft is due to the State Auditor's office, I believe, November 20, and then the final is due December 20. So we're well within those time frames. The audit under OMB, a 133, the single audit, is not due for 180 days but we will not procrastinate that. It will be done in a timely fashion.

And I would suspect we would have some product at the December Board meeting to present to the Board for approval.

MR. JONES: All you're saying is we have to have a December meeting.

MR. MIKESKA: Yes, sir.

MS. VAN HOVEL: We have to have a lot of --

MR. JONES: Okay. You guys got that? How about on December 25? Is there any motions?

MR. LONG: We don't need a motion. This is more just a discussion.

MR. JONES: We don't want to say we like what he did so we can ask for public comment?

MR. LONG: If you would like to, you can. You should.

MR. JONES: Okay. All right. Is there any comment, though, from the public regarding our progress on the audit?

(No response.)

MR. JONES: Okay. None. Any questions from the Board?

(No response.)

MR. JONES: Thank you, sir.

MR. MIKESKA: Thank you.

MR. JONES: We look forward to seeing you next month.

(Simultaneous discussion.)

MR. MIKESKA: Thank you.

MR. LONG: Mr. Chairman, we do not have any issues that would require us into closed session. So absent that, the final item would be to discuss the Corporation's next Board meeting. It would fall on December 8, which is the second Thursday.

I'll suggest to you that, as a result of it falling on the 8th, it's relatively early in the month. And I know accounting would appreciate the opportunity to push it back a little bit. But again, it is the second Thursday of the month so I'm just leaving that out there for your comment.

I don't know if the other members have any thoughts on that but we can leave it on the 8th now, and let you know what we can do later or we can push it back at this time.

MR. JONES: Board?

MR. LONG: The third Thursday is the 15th and I will not be in town. I've got meetings in Dallas. So I would certainly be more than happy to have Liz run those meetings on the 15th, if you need to have it on the 15th, on a Thursday, or if you would like to do it some other day during the week of the 12th. We can do it at your discretion.

MR. JONES: Is there any way we can poll and get a consensus within the next week or two?

MR. LONG: We can certainly do that and get back with the Board in general.

MR. JONES: Yes.

MR. ROMERO: I was wondering, what does Accounting need? Now much time did they need?

MS. GREEN: It would be nice if we could do it that --

MR. LONG: The week of the 12th?

MS. GREEN: Yes.

MR. LONG: According to Melinda, she would like to do it sometime in the week of the 12th, so give her that rest of that week, that full weekend, the first full week in December. So we have would be trying to do it the week of the 12th. So we'll get back with you on that. We'll make --

MR. JONES: So we are thinking about that week, but a different date.

MR. LONG: It could be. You could do it on the 15th, which is the Thursday. I just unfortunately have --

MR. JONES: I don't know. If we're getting our final report and voting on our audit, you probably should be sitting here. Right?

MR. LONG: I'm open any day other than Thursday.

MR. JONES: I don't have to work on that because

I blew that last Wednesday. I was sitting here, and I told them, I was going to pick up a car tonight and I'll be there in the morning. And he said, the meeting's in town.

MR. LONG: So, what I -- I might suggest this. What we could do is we'll just poll the Board members for availability and get back with each of you, and let you know. And then we will schedule it accordingly.

MS. VAN HOVEL: Sounds good.

MR. JONES: Okay.

MR. LONG: I know Mr. Dietz has schedules that he has to maintain, as we all do so you might have travel arrangements that you have already made for other meetings outside the Corporation's business schedule. So we would be more than happy to accommodate where we can.

MR. JONES: We're going to try to do this that week.

MR. LONG: Yes, sir. We'll get with you all accordingly. It's the second full week of the month.

MR. ROMERO: The 15th is the second full week.

MR. JONES: Between Monday the 14th and Friday the 18th.

MR. ROMERO: Monday the 12th.

MR. LONG: Monday the 12th.

MR. JONES: Oh, I'm in November.

MR. ROMERO: That's what happened last time.

MR. JONES: The 12th to the 16th, somewhere in there. Okay. All right. Any other comments the Board would like to make?

(No response.)

MR. JONES: Okay. Again, I want to thank the staff for their thorough presentations and work that they do. The meeting that we had this morning with the new Chairman of the Board and the new Executive Director of TDHCA went well and they went out of their way to remind us of how great a staff we have over here at TSAHC.

So it was something that they initiated and talked about, and said. And of course, David played it cool. And I heartily agreed. So we did good cop, bad cop. Hearing no other business, the meeting is adjourned.

(Whereupon, the meeting was adjourned at 10:52 a.m.)

C E R T I F I C A T E

MEETING OF: TSAHC Board

LOCATION: Austin, Texas

DATE: November 10, 2011

I do hereby certify that the foregoing pages, numbers 1 through 38, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Joe Schafer before the Texas State Affordable Housing Corporation.

11/16/2011
(Transcriber) (Date)

On the Record Reporting
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