TEXAS STATE AFFORDABLE HOUSING CORPORATION

BOARD MEETING

TSAHC Offices
2200 East Martin Luther King Jr. Blvd.
Austin, Texas 78702

Thursday,
August 16, 2012
10:03 a.m.

BOARD MEMBERS:

ROBERT “BOB” JONES, Chair
JO VAN HOVEL, Vice Chair
WILLIAM H. DIETZ, JR.
GERRY EVENWEL (not present)
JERRY ROMERO

I N D E X

P R O C E E D I N G S

MR. JONES: I call to order the August Board Meeting of the Texas State Affordable Housing Corporation. And good morning, everybody, welcome.

Roll call. Jo Van Hovel, Vice Chair?

MS. VAN HOVEL: Here.

MR. JONES: William Dietz, Member? I got a call from Mr. Dietz, he said he's about ten minutes away, so we're going to proceed and then we'll let him join us later. I'm not going to mark him absent, I'm just going to leave it blank.

Gerry Evenwel? He is absent. I don't know if you know, his mother, 90-year-old mother passed last week and he's in Pennsylvania attending the funeral arrangements for his mother's funeral.

Jerry Romero, Member?

MR. ROMERO: Present.

MR. JONES: Okay. We have a quorum.

Is there any public comment at this time? Any public comment for the future? We'll see.

(No response.)

MR. JONES: At this time, Mr. David Long, president of the corporation, will give us his president's report.

MR. LONG: Thank you, Mr. Chairman, members. Good morning.

Quick introductions for those in the audience from our

professional team. Mr. Bob Dransfield, with Fulbright & Jaworski, who has been serving as our bond counsel for several years, is here. He'll actually be engaged with Mr. Danenfelzer in Tabs 2 through 8. He also brought one of his colleagues along, Paul Braden is here. Robin Miller with First Southwest is here as financial advisor firm. And then our illustrious Pam Stein is here, with Greenberg Traurig, as our general counsel.

MR. JONES: The illustrious Pam Stein.

MR. JONES: And then Edwina Carrington, who serves as the chair of our advisory council is also in the audience with us today.

MR. JONES: Ms. Edwina Carrington of the Tennessee Carringtons.

(General laughter.)

MR. LONG: I will leave that alone.

You have in front of you in your board book all of the staff reports relating to the different programs, and staff are obviously in the audience if you have questions regarding any of those reports.

I also would give you an update on some of the things that we've been engaged in. The TAAHP conference was held, the Texas Affiliation of Affordable Housing Providers conference was held here in Austin the latter part of July, and Dave Danenfelzer, myself and Mr. Romero attended that conference. Dave Danenfelzer actually was a presenter at one of those sessions.

David and Jo had a NSP, Neighborhood Stabilization Program training in our offices earlier this month, and that was actually presented by

TDHCA and their staff, and it was very well attended by several of our participating nonprofit organizations that we work with as partners under that program.

And just this week we also had TDHCA out here auditing our NSP program to make sure we were doing everything the right way.

MR. JONES: Did you get that report back?

MR. LONG: They just left yesterday, so we'll hear back from them. We've had two prior clean audits; I would envision we would have the same thing, Mr. Chairman.

Charlie Leal and myself had the opportunity to have a meeting with Jean Talerico just to kind of touch base with her on TALHFA and what's going on with them for the legislative session. No major updates on that, just it was a good opportunity to meet with her and kind of touch base.

The staff continue to be engaged in Senate IGR work groups, and there's additional work groups scheduled coming up, and staff will be attending those later this month.

Had the chance to meet with Habitat for Humanity Austin, just talking about ideas. Now we can continue to work with them and maybe engage them under some of our other programs.

And then, as you all know, Katie Howard and Laura Ross have been working with our NFMC. We administer the NFMC program for TDHCA which is the National Foreclosure Mitigation Council. We got confirmation yesterday that all the information we submitted to NeighborWorks was accepted, and therefore, Round 5 was closed which means we now have

access to Round 6, and that will engage starting next month. And again, just to remind you, that award amount that TDHCA received is $366,700, and we'll be administering that along in the partnership with eleven counseling organizations we'll be working with.

With that, Mr. Chairman, unless anybody has any questions on the staff reports, I will conclude my president's report.

MR. JONES: And I do want to say on record that the scheduled staff presentations today, there were three. Correct?

MR. LONG: That's correct.

MR. JONES: There were four.

MR. LONG: There were four scheduled. David was going to talk about the Multifamily bond programs, Mindy Green was going to make a presentation on asset allocation oversight and compliance related to the Multifamily projects, Tom Almquist was going to give an update on Single Family compliance program, and Janie Taylor was going to give you an update on marketing.

MR. JONES: And I've asked that because we staggered them over the next series of months primarily to help Mr. Evenwel get up to speed, but since he's not here, we would have to do them twice for his benefit and have to spend time, so I've asked that they defer the staff reports that were scheduled for this month to next month.

Is that fine, Jerry?

MR. ROMERO: Yes, sure.

MR. JONES: Because a number of us have been here over the

years so we have the connection, so out of deference to him, and I think if you could just send him an email and let him know.

MR. LONG: I will do so, and I also made that clear to staff and they'll be ready for next month.

MR. JONES: Okay. Unless the staff insists and they really want to do it now.

MR. LONG: Actually, I think you made their day when you told them they didn't have to do it.

MR. JONES: Any questions or comments regarding the president's report or any of the tabs A to F?

MR. ROMERO: I just have one question on the Development Finance Program reports. By the way, thanks for that map that has all the different projects.

MR. DANENFELZER: You're welcome.

MR. ROMERO: David, what are we doing to try to look for opportunities down in the Rio Grande Valley?

MR. DANENFELZER: On this particular report that you're referring to -- David Danenfelzer, manager of Development Finance -- we highlighted the properties that we do bond projects for. In the Rio Grande Valley, as far as targeting, the corporation doesn't currently do much targeting for projects, we try to look for promoting the fact that we have targeted housing needs such as rural areas, elderly housing, persons with disabilities. We've not looked at much geographic targeting for those projects yet.

It is something we can work on and look at, however, one of the

difficulties I know that we see in the marketplace for particularly bonds with 4 percent projects in the Rio Grande Valley is that the median incomes and per capita incomes are very low, and so median rents end up being very low, and a 4 percent development generally doesn't provide enough tax credit equity in order to get very low income properties built.

It is something we face, though, with rural projects as well, and so it is something that certainly we can continue to look at and try to market to developers and see if we can reach out more thoroughly.

MR. JONES: But if I'm correct, we do do other types of programs in the Rio Grande Valley.

MR. DANENFELZER: Yes.

MR. JONES: Maybe not this particular one.

MR. ROMERO: We do, and I guess my question to you we've got some good partners in Affordable Home of South Texas and CDC Brownsville, and I'm wondering if we can't collaborate with them and see if we can't come up with some kind of deal that might work in the Valley.

MR. DANENFELZER: Absolutely. It is something that we've talked to them before about and I think it's going to be an ongoing project to look for ways that we can do those 4 percent deals in the Valley.

MR. ROMERO: It's a good distribution of projects, don't get me wrong. It looks like you've done a really good job.

MR. DANENFELZER: Thank you.

MR. JONES: Any other questions or comments on the president's report?

(No response.)

MR. JONES: Thank you, David. Thank you, Mr. Long.

Okay. So we'll forego staff presentations this morning.

MS. VAN HOVEL: I'd like to know who put this together.

MR. LONG: Janie Taylor, well, staff input, but Janie Taylor, she needs to be complimented for that.

MS. VAN HOVEL: It's really great.

MR. LONG: And Laura. I'm sorry. I don't mean to leave anybody out, staff, but that was Janie's project.

MS. VAN HOVEL: Thank you, thank you.

MR. JONES: How come I look like I had a mugshot?

MS. VAN HOVEL: Well, I think we all do.

MR. JONES: I remember the day Janie took those pictures.

MR. ROMERO: It was a bad camera.

MR. JONES: I should have showed more teeth.

(General laughter.)

MR. LONG: Thank you very much.

MR. JONES: Action item tab 1 -- and I didn't get a chance to look at it, so thanks for recognizing it.

MS. VAN HOVEL: Yes. It's great.

MR. JONES: Presentation, discussion and possible approval of minutes of the board meeting held on July 19, 2012. That's tab item 1.

On page 3, when I was looking at the staff reports, paragraph 3, I had to make sure I understood that basically --

MS. VAN HOVEL: In the minutes?

MR. JONES: In the minutes on page 3. That's tab item 1. Under programs financed with MRBs, they had to be first-time buyers given the TBA program is not financed with MRBs. So you don't have to be a first-time buyer because of the MCC program. Right?

MR. LONG: No.

MR. JONES: Because it wasn't clear. I was saying if it's not MRB --

MR. LONG: Well, for clarification, Mr. Chairman, previous transactions that we've used for first-time homebuyer programs have been funded through the issuance of tax-exempt bonding authority. That requires that the individuals receiving that funding, or borrowers, must be first-time homebuyers.

MR. JONES: Right. Mortgage revenue bonds.

MR. LONG: Mortgage revenue bonds. Right now the current TBA program is not funding with issuance of bond transactions, and therefore, if you're getting an award through our TBA program, you're not required to be a first-time homebuyer.

MR. JONES: Understood.

MR. LONG: The MCC program does require you to be a first-time homebuyer.

MR. JONES: But the question I had when I read that paragraph from the minutes, what is funding it. If it's not mortgage revenue bonds, what is funding it that allows you not have to be required to be a first-time homebuyer?

MR. LONG: It's the sale of the securities.

MR. JONES: But that doesn't say that anywhere.

MR. LONG: Well, I'll be more than happy to make that clear in the statement. Again, we're trying to transpose 75 pages of transcript.

MR. JONES: I understand. I'm just saying when I was reading this --

MR. JONES: It's not clear to you so we need to make a change.

MR. JONES: I understand that, but the key to this about not having to be a first-time homebuyer, because that's a big deal.

MR. LONG: It is a very big deal, it's a big change.

MR. JONES: You can be living in a home for at least five years and if you qualify, you can get another home and be entitled to all of those things that we do. How is it funded, what are they using, and it wasn't clear.

MR. LONG: I'll make that clear. I'll make that adjustment for you and include a sentence in there that states how it is funded.

MR. JONES: And it's funded how?

MR. LONG: Through the sale of the MBS, the mortgage-backed securities as we deliver the loans.

MR. JONES: And I didn't see that anywhere in here.

MR. LONG: And I'll make that very clear.

MR. JONES: So if anybody looks at our minutes, there's no indication where the money comes from. That was my only question.

Any other comments about the minutes?

MS. VAN HOVEL: I noticed that too.

MR. JONES: I went up and down. How is this funded? Where's the money coming from?

Okay. We'll entertain a motion.

MR. ROMERO: I'll move to approve the minutes with the corrections that were noted.

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

MR. JONES: Moved and seconded. Any further discussion? Any public comment?

(No response.)

MR. JONES: All in favor of approving the minutes with the correction?

(A chorus of ayes.)

MR. JONES: Passed unanimously.

Tab item 2: Presentation, discussion and possible approval of a resolution authorizing the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Gateway Northwest Project), Series 2012, a trust indenture, financing agreement, a bond purchase agreement, an asset oversight, compliance and security agreement, a regulatory agreement, a preliminary official statement, and a final official statement; authorizing the execution of documents and instruments necessary or convenient to carry out the issuance of the bonds and other provisions in connection therewith.

And we welcome Mr. Dietz. Let me put that you are present.

And let's continue. We're on tab item 2. We'll let you get up to

speed, pull your minutes and notes up.

Mr. Danenfelzer, you'll be handling that this morning.

MR. DANENFELZER: Yes. David Danenfelzer, manager of Development Finance, and I'm here with Bob Dransfield, our bond counsel for the corporation's multifamily bond programs. We also do have the developers, so if you do have any direct questions for them, we can ask them to come up and answer those. But I'd like to jump into my summary first and then see what kind of questions you guys do have.

The Gateway Project, as you know, was induced back in March of this year. It is a 180-unit new affordable housing complex that will be built in Georgetown, Texas. The land that it's going to be located on is about half a mile to a mile west of Interstate 35 in Georgetown. It borders some sort of light industrial and commercial uses and then also a residential neighborhood that was developed out in the 1970s through the 1990s, and then north of it is an enormous amount of vacant land which is going to be a planned development with, as far as we know, up to a thousand or more new residential homes and residential apartments, as well as commercial, retail and other services put in there.

This project site has looked at being financed a number of times, previously by the Georgetown Housing Authority who is the current owner of the property, but for different reasons they were unable to receive housing tax credits under the competitive round for this project, and at this time the developer, Texas Housing Foundation, along with it development partners and consultants, were able to put together a 4 percent housing tax credit application

with private activity bonds.

One of the unique features of this project that we like, particularly on the public benefit side, is that the property is located in an area which is actually well above the median income for Williamson County where Georgetown is located. It has a very low unemployment rate, and also, while the percentage of renters overall in Georgetown or in Williamson county is relatively high, this particular area has very low rental percentage for this census tract, so we really see that as a great win for the corporation's goals to meet for housing and get properties into what we consider high opportunity areas where there's job growth, there's good economics, and there's a sense of good schools and other facilities on site rather than much of the housing which does get built which ends up being in high minority, high renter and also high unemployment areas around the state.

The financial analysis for this project is very positive. One of the unique structures that we are doing -- this is the first time we've done this, in fact, I think it's the first time it's been done in Texas -- is that our private activity bonds which are going to be issued will be on a short term basis. The bonds will be outstanding for a three- to four-year period, and they will be repaid by a first lien mortgage that is insured by the Federal Housing Administration and will become the long-term debt of the project.

The reason this is unique and the reason right now we have a unique situation and able to do this is that typically if we look back over the history really of financial rates for private activity bonds, tax-exempt bonds and taxable mortgages, taxable mortgages would usually be 1, 1-1/2 or even 2

percent higher interest rate than a tax-exempt rate, however, because the federal government is currently keeping interest rates so low for short- and even long-term treasuries and risk markets are very different because of the financial crisis we've gone through the last several years, we are actually in a situation where the mortgage on this property right now, with the commitment we received last week, is for 3.1 percent interest, and a comparable tax-exempt bond rate would be somewhere around 5 to 6 percent interest. So a taxable FHA insured mortgage actually saves the borrower an enormous amount over a relatively similarly priced tax-exempt mortgage.

The private activity bonds are necessary, though, to be issued and to be held for a short term while the project is being built and leased in its initial lease period in order to access the 4 percent housing tax credits. Four percent housing tax credits can only be granted to a property which receives tax-exempt financing.

These types of deals have been done in other states. We know that in many states this has been used to finance very low income housing where the bonds were issued, tax credits were given, and then the bonds repaid with additional public subsidies. There's a couple of deals around the country right now, one recently that closed, I believe, in Louisiana and one in North Carolina that were structured almost identical to this project. In fact, the underwriter for this project, which is Merchant Capital, is the company that did those projects and has successfully executed them.

We really think this is a good project, and the financials worked out very well. Our analysis which is attached to your board writeup showed

that the debt coverage ratios were very strong, there was very little risk in rent. The stress tests I run for interest rate adjustments, for vacancy loss and other things all were well within the corporation's minimum standards for operating.

So with that, I'll open the floor to your questions and ask if you have any.

MR. JONES: Any questions?

(No response.)

MR. JONES: Evidently you've done a good job preparing us over the months. Okay, we'll open the floor for a motion.

MR. ROMERO: I move to approve the project as presented.

MR. JONES: Is there a second?

MR. DIETZ: Second.

MR. JONES: There's been a second by Mr. Dietz. Any further discussion? Any public comment on item 2?

(No response.)

MR. JONES: Hearing none, all in favor of approval say aye.

(A chorus of ayes.)

MR. JONES: It's unanimous, it passes. Thank you, Mr. Danenfelzer. Now item 3, and you continue on: Presentation, discussion and possible approval of a resolution authorizing the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Dalcor - Pine Club Apartments Project), Series 2012, an indenture of trust, a loan agreement, a bond purchase, an asset oversight, compliance and security agreement, and a regulatory agreement; authorizing the execution of

documents and instruments necessary or convenient to carry out the issuance of the bonds and other provisions in connection therewith.

MR. DANENFELZER: And if it so pleases the board, I would like to request that we actually take this agenda item 3, along with the remaining five agenda items, 3 through 8, together in one vote.

MR. JONES: Interesting. Where's our attorney?

MR. DANENFELZER: Counsel can go ahead and confirm that that is acceptable.

MR. JONES: Counsel, help.

MS. STEIN: Pam Stein, Greenberg Traurig, general counsel to the corporation.

We discussed this a little bit in advance of the meeting and I think there's no problem with treating these projects together as one as long as in your resolution you specify that you're approving all of them collectively.

MR. JONES: Are they all identical?

MS. STEIN: Yes, other than the locations.

MR. DANENFELZER: Other than the property names, the resolutions themselves are identical.

MR. JONES: And this is a case of one large project being broken down into smaller bites.

MR. DANENFELZER: Correct.

MR. JONES: So the same thing is said. Well, having said that, my question is that when you deal with tab item 2, you do a financial analysis, but only on item 3, and item 3 you do a developer experience

summary that's not in item 2. So why would you need developer experience listed for item 3 but not for item 2? How does that make them identical?

MR. DANENFELZER: Unfortunately, my explanation for that is that I'm not always very consistent with the way I write my report. A lot of the developer experience is actually included in the summary of the project in the first one.

MR. JONES: But the summary for each project, there were differences.

MR. DANENFELZER: Yes.

MS. VAN HOVEL: Mr. Chair, I have a question.

MR. JONES: Yes, ma'am.

MS. VAN HOVEL: I have a question. They're not the same size either.

MR. DANENFELZER: Right. And I think if I can give my presentation on the project overall, you'll kind of understand.

MR. JONES: So what we're asking now is that we cover 3 through 8 and the discussion will include all tab items, 3, 4, 5, 6, 7 and 8. Correct?

MR. DANENFELZER: All five tab items I'll be discussing with this presentation.

MS. VAN HOVEL: I don't think we should do that.

MR. JONES: All five?

MR. DANENFELZER: Well, yes, 3 through 8. Is that five -- no six.

MS. VAN HOVEL: Mr. Chairman, I don't agree with that.

MR. JONES: I understand. You want to take them one at a time.

Counsel, your response to why we should do them all six or the benefit of doing all six, as opposed to Jo's misgivings.

MS. STEIN: The benefit of doing all six is that substantively you're approving one very similar structure. It's going to be located in different parts of the state, the properties are scattered throughout the state in different counties, but overall, the business behind it and the financing behind it is the same.

MR. JONES: It's one project, you just have multiple sites throughout the state but it's the same project, it's the same people that are operating all six sites.

MS. VAN HOVEL: I understand that.

MR. DANENFELZER: And what might help, if I can do the presentation on number 3 and explain how the project is different. Unfortunately, I know that, Ms. Van Hovel, you and Mr. Dietz were not here at the last meeting and I actually gave a presentation about one of the changes to this and detailed this change.

MR. JONES: Do it again.

MR. DANENFELZER: Do that presentation again?

MR. DIETZ: Do the presentation and then we can decide.

MR. JONES: Well, I want you to hear what you didn't hear last meeting first, and then we can do the presentation.

MR. DANENFELZER: Mr. Dransfield also pointed out to me it is acceptable too for me to go ahead and give my presentation on number 3, and if afterwards you decide to go ahead and then vote six separate times on each of the properties, that's fine.

MR. JONES: What I would like for you to do is kind of give a synopsis on what you said, set this up for today's meeting last month, since neither of these two were here. Can you do that in a concise way?

MR. DANENFELZER: Yes, I will do that.

MS. VAN HOVEL: I'm sorry.

MR. DANENFELZER: No, it's okay.

MR. JONES: Prior to our deciding to do all items. We haven't decided to do all six in one. I need you to do a synopsis of last month's reasoning for appearing the way it is today for their benefit.

MR. DANENFELZER: Okay, and I thank you for the opportunity.

MR. JONES: Sure.

MR. DANENFELZER: So again, in March of this year the corporation looked at an inducement for a total of $75 million to the Dalcor Affordable Housing I Project. At that time when the project was brought to us, we looked at this as what we have traditionally looked at as a straight up pooled transaction, meaning all six properties would be financed under several series of bonds together and cross-collateralized. Through the discussions over the last several months of developing our bond documents and working with the different parties, including and most specifically our tax credit syndicator, the tax credit

syndicator requested that the properties be separated legally and that they not be cross-collateralized.

The benefits to that from the tax credit syndicator's point of view is that if there is a default on one property, it does not cross-default all the other properties in the pool. From our perspective, it really does not matter whether they are cross-collateralized or not because we do our underwriting of each specific property to ensure that each property stands alone and is able to operate without depending upon other properties within the pool to be feasible and pay its dues to the entire pool.

So last month we did take the opportunity to explain that difference to the board because we realized that was a change, we realized we would be coming to you this month to try to get votes on it. And it was a significant change in the project but from a feasibility perspective and ownership and otherwise, there's really been no change in the overall goals of the project. The six properties are still the same properties, the number of units, the benefit in each community remains the same. So we're confident that it remains, it's just that for the purposes of meeting the syndicator's requirements, we've had to break these out into six separate properties and have six separate bond resolutions in order to meet that requirement and keep the properties from being cross-collateralized.

MR. JONES: In other words, instead of all coming down because one property defaults, they'll all be stand-alone in terms of their category so there won't be a massive default, if any at all. That's one of the key benefits of breaking them up into pieces.

MR. DANENFELZER: Right.

MR. ROMERO: So David, when you originally proposed cross-collateralizing it, did you have any concerns that any one property would default?

MR. DANENFELZER: No. At that point we did not have any concern that it would, and I would reiterate that even if we have a pooled transaction, we underwrite each individual property and make sure each individual property meets our underwriting standards. The idea of cross-collateralization really, to a certain extent, simplifies the bond issuance process. Instead of having to do six separate issues, you do one. It can also be a significant cost savings to the developer because the bond fees are on a sliding scale basis and if you have one large bond you pay the most fee for the first $10 million and then the fee kind of shrinks as the bonds get bigger.

Unfortunately, because these are separate, the developer is actually going to have to pay a much larger overall fee because the six separate bonds are being done, but even given that, it's not such a significant increase in these projects that that's going to hurt them.

MR. JONES: But again, it's the syndicator that says, Look, I'm more comfortable if you do it this way.

MR. DANENFELZER: Right. And we have to find common ground among all the parties involved. Whether it's the bond purchaser, the syndicator, the developer, the issuer all have to agree on the structure in order to make these things carry forward, and none of us felt that the pooling versus separate deals was an issue.

MS. VAN HOVEL: So what is the advantage to put all these together?

MR. DANENFELZER: Simply that it reduces cost for the issuance.

MS. VAN HOVEL: To put it together the way you're trying to.

MR. DANENFELZER: Well, if you put it all together in a pool, it lowers the cost of the bond issue. Separating them increases the cost because you're now have to do the same work six times rather than once.

MR. JONES: But having done the same work six times, what is the benefit of the way the syndicator wants it done? Is there a benefit to doing them individually?

MR. DANENFELZER: Well, for the syndicator's purpose, it's just that they can place their tax credits into different investment pools if they so choose, and that means they don't have to take one large property and put it into an investor pool and get one rate of return, they can get actually multiple rates of return based on the pool that that property fits into. And syndicators do from time to time, in fact I think it's very frequently now, they find investors for their tax credit pools based on the location of properties, so they may have investors in Dallas who are very interested in investing money in Dallas but they don't have anyone in Wichita Falls that wants to invest in Wichita Falls, but then they have a general pool nationwide that they can put an investor into the Wichita Falls location.

MS. VAN HOVEL: So can any of these fall through the crack?

MR. DANENFELZER: No, nothing will fall through the cracks.

I mean, we have strong commitments across the board for everything.

MS. VAN HOVEL: I guess we have six properties.

MR. JONES: Jo, if I may say this, you have a better chance of something falling through the crack if they're all packaged into one. Individually, by breaking them out, there's less of a chance of that happening because you're looking at each one separately.

MS. VAN HOVEL: Yes.

MR. JONES: The crack issue kind of goes away when they're all broken out and nobody can take from this property to carry that property. So I can see why a syndicator might want it done that way.

MR. DANENFELZER: And if I can add, there's no difference in the way I review a pooled transaction as an individual transaction.

MR. JONES: Other than paperwork.

MR. DANENFELZER: Well, not really on my side. It helps with the bond counsel's side because they can write one master indenture, but for me, I have to look at six marketing reports, I have to look at six appraisals, I have to look at six underwritings and pro formas for six properties to make sure everything works. I don't get to say well, I don't care if that one is bad or good because the pool is good. I can't do that under our policies.

MS. VAN HOVEL: The cost, how much would that be, kind of, of each one?

MR. DANENFELZER: I'm not 100 percent positive of the actual cost. I know that our professional fees that we calculate are about $100- to $150,000 more by splitting out into six properties, but this is a very large

transaction, it's $71 million total combined, so it's probably about a 15 percent increase, I think, maybe almost 20 percent increase on the cost of issuance per bond, and Mr. Dransfield can speak to this maybe better than I, but having to do six separate sets of documents, indentures and everything, his work has been multiplied by six.

MS. VAN HOVEL: Six times what?

MR. DANENFELZER: Well, normally he'd done one indenture but now he has to do six indentures, so the amount of legal review is multiplied by six on this project for Mr. Dransfield and his staff. And I would add that when this change happened we discussed it with our professionals, Mr. Dransfield, Robin Miller and others, whether or not they provide any relief on the fees, and they did actually provide some discounts on the normal fees. If these were done as six separate properties, they gave a break because they knew there was some commonality in the project and we have been working on it for some time. So I great appreciate that, believe me.

MR. JONES: I'm going to amend the item and say that we will now discuss tab items 3, 4, 5, 6, 7 and 8 as presented here as listed in action items and the presentation by Mr. Danenfelzer, and we'll be voting on 3, 4, 5, 6, 7 and 8.

MR. DANENFELZER: Okay. Again, what I read pretty much says it all as far as what these properties are and where they are. We do have six properties, we have properties in Beaumont, Huntsville, Bryan, Wichita Falls, Houston and Dallas. All six of the properties were originally financed back in 1995 and 1996 as 9 percent housing tax credit projects, so these are all

relatively new construction and in relatively good condition. They were financed and rehabbed back in 1996.

Staff also, during site visits and during public hearings, visited the properties and we all did notice that the properties are in relatively good condition, but the developer has also committed to spend at least $15,000 per unit in upgrades and rehabs, including new air conditioning systems in many units, door and window improvements, new hot water heaters, improvements to roofing and other landscaping and exterior improvements to the properties. And we found really their scope of work to be very thorough and what we generally expect of any type of rehab project.

As far as the public benefit, one of the key issues here is that all of these properties were at the end of their minimum affordability period. Fifteen years is the minimum qualified contract period for tax credits. They were all eligible and actually being marketed at the time to sale for market rate apartments, so they would have lost any affordability restrictions. So this refinancing and rehab of the properties will preserve the affordable nature of these properties for an additional 15 to 30 years, which that's one of our key goals as a preservation project.

The feasibility analysis, as I noted, was completed on each individual property, and some of the key things I wanted to point out in my writeup was that vacancy rates currently for these properties is very strong, meaning that there are very low vacancy rates currently. The management team will be very consistent between what is there now and what is going to be there after the refinancing, and so we expect those vacancy rates to continue to

be strong.

We also ran stress testing on the vacancy rates to see what the maximum vacancy rate could be before the properties would fall below our minimum debt coverage ratio, and for the pool of properties it was between 11 percent and 20 percent, so it would need a significant increase, almost double in most cases, for us to not have underwritten them and met our standards.

Additionally, one key analysis especially on these types of properties, I do look at the cost of rent per square foot, and if you look on page 3 of the writeup there, there's a table. All but one of the properties was in an area where the market per square foot rent by the market analysis was much higher than what the planned rents will be. We had savings as high as 37 percent and the low of 21 percent, with the exception of the Woodglen Park I and II properties.

As we looked at that one more closely, we understood that the Woodglen Park was in a unique area where there's been some new construction but all of it has been subsidized housing which has much lower per square foot rentals, and the market analyst noted that while this property will be about 4 percent higher than what the market square foot rent is, it is one of the newest properties in the market and is actually a pretty good cost per unit given the fact that the average statewide in 2011 was $82,000 for acquisition and rehab of apartment units of this quality and this will fall in around $79,000 per unit for that property. So it ended up showing that it was still a really good deal. Even though it's very close to the market for rent, it's going to be a much nicer property and we don't believe it will have any rent up issues because of that. We think

it's going to be very competitive, it's going to be the nicest property on the street once it's finished.

I don't know if I have any other details I want to elaborate on unless you have questions about the writeup.

MR. JONES: Did you want to say anything?

MR. DRANSFIELD: My name is Bob Dransfield with Fulbright & Jaworski. We're your bond counsel.

And just as a matter of refresher, these projects, as Mr. Danenfelzer indicates, will from a technical perspective all be treated as separate projects in terms of going through the Attorney General's Office, getting volume allocation from the Bond Review Board which they're required to do, and so on and so forth, but collectively, they're all functioning like one $71 million financing. So there will be six different transactions, six different sets of papers, six different everything associated with these projects, but they're going to function a lot like this.

So when the money people said this is how we want these things to be structured -- because as Mr. Danenfelzer said, when the initial process was to do these as one big pooled project as you have done in the past -- now when they wanted to split those out separately, it just requires a duplication, in some respects, of the effort and there's additional treatment of those things. But the process will be as identical as it would have been had they been one collective group. They'll all go through the Attorney General's Office, they'll all go through and get their approval, and we would expect to have the financings concluded at the end of September, thereabouts.

They will get volume allocation and that application has been made and you have previously authorized that, and we'll proceed on to get those things closed.

MR. JONES: And all were reviewed, due diligence was compiled with the initial package and when we were looking at it as one big deal, you're just breaking them out because the money people said this is the way we'll handle it and do the deal.

MR. DRANSFIELD: That's exactly right.

MR. JONES: Same developer.

MR. DANENFELZER: Everything is the same, it's the same development team. In fact, none of the parties that originally came in have changed, it's just one party decided they wanted to have these six as six separate issues rather than one big issue.

MR. JONES: Any questions? Mr. Dietz, do you have anything?

MR. DIETZ: No, no questions.

MR. JONES: Mr. Romero?

MS. VAN HOVEL: I've got a question.

MR. JONES: Ms. Van Hovel.

MS. VAN HOVEL: So they're going to deal with this six times, each property.

MR. DRANSFIELD: Well, the project structure is essentially the same for all, and I say essentially the same because the only real difference is the name of the borrower, they've created an entity that's going to be the actual

borrower for this project.

MS. VAN HOVEL: But it's not the same properties.

MR. DRANSFIELD: They're not the same properties.

MS. VAN HOVEL: No, sir.

MR. ROMERO: And they stand alone so if there's an issue at one property, it doesn't transform itself over to an issue in another property. They're all project-financed transactions that are independent of each other.

MS. VAN HOVEL: And each of these cities are different as far as properties.

MR. JONES: Can I ask you a question? Are you saying that you feel comfortable with one entity building in different cities with one package, or one entity having each development in each city stand alone.

MS. VAN HOVEL: Yes, stand alone.

MR. JONES: That's what they're doing. Rather than have the same developer build in five cities in five different areas under one umbrella, what this does is separate them all out so that each city and their demographics and the funding and finances and all basically are looked at individually.

MS. VAN HOVEL: So if one of them fails, all of the won't fail.

MR. DRANSFIELD: That's correct. They're stand alone projects in that sense, so you've got six separate stand alone projects, all of which have met the criteria that TSAHC has for underwriting but from a bond perspective they're going to be functioning as six separate transactions. It just so happens that they have the same development group, and I say the same, the principals are fundamentally the same, but if you look at your agenda you'll

see, for example, different references to Dalcor-Pine Club, and Dalcor-Ridgewood and Dalcor-Tealwood. They are different entities that have been created to be the borrowers but they're all related to the whole Dalcor concept. And so if your thought process is you'd like those to be standing on their own merits separately and distinctly, that's exactly what's happening in this transaction.

So there are going to be six separate properties, six separate bond issues that will have six separate closings, if you will.

MR. ROMERO: And Jo, I think from the standpoint of each particular project, there's historical data on the rents and everything else, so they've done the analysis on the rents and how much it can support as far as the business concern, and that's the reason they're doing it this way. Each property can support the debt that's going to be on that property.

MS. VAN HOVEL: When I was going through this, it didn't appear that way.

MR. DANENFELZER: Yes, and I think that was my attempt to try to streamline the discussion instead of having six separate reports, to have one report.

MR. JONES: Which is why your stuff was different.

MR. DANENFELZER: I apologize for that.

MR. JONES: Theoretically, if we approve item 3 and 4, don't approve 5, approve 6, 7 and 8, what happens to the project?

MR. ROMERO: It changes dramatically.

MR. JONES: It changes everything. We could conceivably not

approve one or two of these sites. Right? And then what does that do in the scheme of things?

MR. DRANSFIELD: You absolutely could conceivably do that.

MS. VAN HOVEL: It won't happen, though; we wouldn't let that happen.

MR. JONES: Well, that's why we're doing them all together, another reason.

MS. VAN HOVEL: Okay.

MR. JONES: They're all individual, we're just voting on it because it's going to say the same thing with just particulars on each, but all of them meet the criteria, but rather than vote six separate times, we can vote once.

MR. DANENFELZER: And if I might add, it will also relieve Mr. Jones of the duty of having to read each resolution separately into the record, so it might save us a little time.

(General laughter.)

MR. JONES: That's levity.

MR. DANENFELZER: Yes. I'm sorry.

MS. VAN HOVEL: I don't think we're worried about the time.

MR. DANENFELZER: I know.

MR. JONES: Go ahead.

MR. DRANSFIELD: If I might, Mr. Chairman, from our perspective, what we submit to the Attorney General's Office will, in fact, be reflective of -- if you vote on these things at one time, now that you've discussed all six of them, that's your prerogative, but the paperwork that will be submitted

will be one bond resolution, for example, for each project, and they will be viewed from that perspective as six separate, totally separate transactions. The vote may be four-zero for all of them, but we won't revise the minutes to say that we have one collective group in terms of the bond resolutions.

So even though you're going to discuss them and vote on them as you've joined, if you elect to go that route, then our paperwork, though, is going to be reflective of these transactions as separate transactions, each having the same vote that you would describe if you consider them collectively as a whole. Very much like a lot of entities do when they do a consent agenda, for example, where they have several items that are listed on an agenda and they take one motion to take care of all those items.

MR. ROMERO: And I think it's important to note that these properties, if they're not managed the way we're trying to get them approved today, they could go back out to the open market and they could be higher rents, the affordable community wouldn't be able to get into those apartments. This is preserving those units for affordability into the future.

MR. JONES: Conceivably, we could have added 2 with this and just did 2 through 8. Right?

MR. DANENFELZER: No.

MR. JONES: Why not?

MR. DANENFELZER: Number 2 is a wholly separately owned property.

MR. JONES: And that's the difference. That's why 2 is separated.

MR. DANENFELZER: That had a full different explanation because the ownership entity and the details of that project are very different from the details of this group.

MR. DRANSFIELD: All of the Dalcor properties are existing properties that need rehabilitation, unlike the Gateway property which needs to be constructed.

MR. JONES: Correct.

MR. DRANSFIELD: And you've got different methods, different participants, different ways to deliver the product between the Gateway financing and the six Dalcor properties.

MR. JONES: But I believe she got thrown off because we did Gateway separate and then we've got the Dalcor, but the thing is they're all Dalcor, if you'll look down, in different locations. So the Dalcor properties are broken down separately.

Any other discussion or comment on item 3, 4, 5, 6, 7 and 8?

(No response.)

MR. JONES: Hearing none, we'll entertain a motion.

MR. DIETZ: I move that we approve a resolution authorizing the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds as detailed in tabs 3 through 8.

MR. ROMERO: I'll second.

MR. JONES: And it's been seconded. Any other discussion or comments? Is there any public comment on these items?

(No response.)

MR. JONES: Hearing none, all in favor of approval signify by saying aye.

(Aye vote: Dietz, Jones and Romero.)

MR. JONES: Any opposition, say no.

(No vote: Van Hovel.)

MR. JONES: Three ayes, one no, the motion is approved.

It looks like that's it. Is that it?

MR. DANENFELZER: That's all that we have.

MR. JONES: Are we ready to let Mr. Danenfelzer go yet? You opened up the can of worms.

MS. VAN HOVEL: Thank you very much.

MR. JONES: Mr. Long, do you have any final comments?

MR. LONG: I do have a couple of comments, Mr. Chairman.

MR. JONES: Before you do that, we don't need to belabor this, but did you want to say why you still voted no, or do you just want to go down as a no?

MS. VAN HOVEL: Because I don't agree with how it's being put together.

MR. JONES: Okay. Understood.

Thank you very much. Thank you, sir.

MS. VAN HOVEL: It's a little frightening, in fact.

MR. JONES: Understood.

MR. LONG: Obviously we like to set up our next board meeting, tentatively. The second Thursday of September is the 13th. That would be the

date that staff would recommend that we meet, given that it's our normal schedule and we don't have any reason to delay it beyond that unless you want to have us do the review process where check with each of you and schedule that. But it would be set for Thursday, the 17th at ten o'clock.

MR. DIETZ: September 13. Right?

MR. LONG: Yes, 13th. That would be the second Thursday of the month. Correct?

MR. DIETZ: Yes, September 13.

MR. LONG: And then if we do that, I would note that we will be bringing our annual budget to the board at that meeting which would require us to have an audit committee meeting, and that does require that we have an open meeting for the audit committee as well, so we would have two meetings that day. The audit committee would typically run in the morning before the board meeting.

MR. DIETZ: Nine o'clock, an hour beforehand?

MR. LONG: About an hour before, yes, sir. We can do it earlier than that,

MR. JONES: And the budget committee is Ms. Van Hovel and Mr. Dietz.

MR. LONG: Correct. And then Melinda Smith will typically attend as staff.

MS. VAN HOVEL: Is that next time?

MR. LONG: September 13.

MR. JONES: That will be the second Thursday.

MR. LONG: Second Thursday which is the 13th of September.

MR. JONES: Is that fine with you, Mr. Dietz?

MR. DIETZ: September 13 is fine, yes.

MR. ROMERO: You're posting a meeting. Right?

MR. LONG: We would do meeting postings for both of those meetings.

MR. ROMERO: So I could attend if I wanted to.

MR. LONG: Certainly you could, yes. Any of the board members can attend.

MR. JONES: He can sit in but he can't say anything, can he?

MR. LONG: He can't participate as a member.

MR. JONES: You guys need to know that.

MS. VAN HOVEL: Yes, he can't say anything.

MR. JONES: Don't let him say nothing.

MR. ROMERO: I'll write down a lot of stuff.

(General laughter.)

MR. JONES: Thank you, sir.

MR. LONG: And that would be it, Mr. Chairman, other than that. There's no reason to go into closed session today, so that's the 13th and both meetings would be set for next month. We'll coordinate with the board members and making sure Mr. Evenwel is also aware of the time frame.

MR. JONES: Okay. I want to thank everybody for being here. I want to thank Ms. Nancy King for dutifully recording the content of our meeting. Thank you very much, ma'am.

Any other business, any other comments?

(No response.)

MR. JONES: Hearing none, this meeting is adjourned.

(Whereupon, at 10:56 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TSAHC board

LOCATION: Austin, Texas

DATE: August 16, 2012

I do hereby certify that the foregoing pages, numbers 1 through 41, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy King before the Texas State Affordable Housing Corporation.

08/20/2012
(Transcriber) (Date)

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