Minutes

Texas Bond Review Board

Planning Session

Tuesday, March 8, 2011, 10:00 a.m.

R. E. Johnson Bldg., Central Conference Room

1501 N. Congress Avenue

Austin, Texas

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, March 8, 2011 in the R. E. Johnson Bldg., Central Conference Room in Austin, Texas. Present were Ed Robertson, Chair and Alternate for Governor Rick Perry; Kenneth Besserman, Alternate for Comptroller Susan Combs; and Don Green, Alternate for Lieutenant Governor David Dewhurst. Also in attendance were Tom Griess with the Office of the Attorney General, Bond Finance Office staff members and others.

1. **Call to Order**

Bob Kline, Executive Director of the BRB, called the meeting to order at 10:06 a.m. He announced that this was a planning meeting of Board staff to receive and discuss information relative to the applications before the Board. No votes would be taken. There was a quorum.

1. **Texas Department of Housing and Community Affairs (TDHCA) Memorandum of Understanding (MOU)**

Representative present was Teresa Morales, Multifamily Bond Program Administrator, TDHCA.

Bob Kline stated that the TDHCA MOU is entered into between TDHCA and the BRB once a year. Each year minor changes are made to the MOU for the BRB to review before Board approval.

1. **Texas Department of Housing and Community Affairs (TDHCA) Residential Mortgage Revenue Bonds, Series 2011A**

Representatives present were Timothy Earl Nelson, Director of Bond Finance, TDHCA and Ms. Elizabeth P. Rippy, Bond Counsel, Vinson & Elkins L.L.P.

Bob Kline stated that in March 2010 the Board approved TDHCA Residential Mortgage Revenue Bonds, Series 2011A in a par and total proceeds amount not to exceed $60,000,000. After the Bonds were priced, TDHCA discovered that the approval provided insufficient authority for the offering premium of $964,050. TDHCA has requested to amend its application to increase the total proceeds to $63,600,000, the amount approved in TDHCA’s Board resolution. The Attorney General’s office has agreed that the letter from TDHCA’s bond counsel provides authority for the BRB to approve the increase without requiring a new application.

1. **Texas State Affordable Housing Corporation (TSAHC) Multifamily Housing Revenue Bonds (HDSA Texas Affordable Housing Pool Project) Senior Series 2011A**

Representatives present were: David Long, President, TSAHC; David Danenfelzer, Manager of Development Finance, TSHAC; Robert Dransfield, Bond Counsel, Fulbright & Jaworski LLP; Robin Miller, Financial Advisor, First Southwest; Dan Dill, Senior Vice President, Merchant Capital (Underwriter); Philip J. Kennedy, President, AOF/Bexar Affordable Housing Corporation (Owner); Neal Rackleff, Attorney, Locke Lord Bissell and Liddell, LLP.

Bob Kline stated that TSAHC was seeking approval for the issuance of its qualified private activity multifamily housing revenue bonds in an aggregate par and total amount not to exceed $55,000,000 including premiums, if any.

The Houston Dallas San Antonio (HDSA) Affordable Housing Pool Project involves the acquisition and rehabilitation of seven affordable housing properties (1300 total units) by American Opportunity Foundation, Inc. (AOF) which was formed in 1983 as a 501(c)(3) corporation to sponsor low-income housing for the elderly and disabled. AOF operates 28 properties containing 6,808 units in 15 states. Five of the HDSA properties (Briarcrest, Clover Hill, Hillcrest, Mill Creek and One Westfield) were owned and operated by the American Opportunity for Housing Inc. (no relation to AOF) and financed as CHDOs with 501(c)(3) bonds in 2002. The other two properties (Regal Park and Vista Landing) were financed as CHDOs in 1999 by the City of San Antonio through 501(c)(3) bonds.

In 2007 MBIA, as bond insurer purchased the debt from all bond holders rather than continuing pay claims on the failing properties. Prior to foreclosure, the properties had over $108.0 million ($95.0 TSAHC portfolio and $13.0 San Antonio portfolio) in total debt, most of which was held by a substitute trustee, Fundamental Advisors. All seven properties were foreclosed in December 2010.

The Series A Bonds and Series B Bonds are expected to receive A and BBB ratings, respectively. The Series C Bonds will be unrated.

TSAHC has developed a Payment in Lieu of Taxes (PILOT) agreement that will provide for a minimum of 20% reimbursement to the appropriate taxing jurisdictions. The mortgage loan will be non-recourse and cross-collateralized by a pledge of revenues and assets of each of the properties.

In Texas more than one hundred 501(c)(3) bonds were issued between 1990 and 2003, including 30 issued by TSAHC of which a majority are in default. CHDOs failed for a number of reasons: little or no equity, inflated sales prices, uncompetitive rents compared with new construction and operational and maintenance issues.

Based on 85% occupancy rates, the debt coverage ratios for 2011 are projected to be 1.20 for the senior debt and 1.09 for total debt, including junior subordinated debt, respectively.

Two years ago the average cost of acquisition for properties was $60,000 to $65,000 per unit not including rehab costs. Acquisition cost of these units is approximately $33,000 per unit.

The total purchase price for the properties is 86% of the total Tax Appraised Value and 81% of the total third party appraisal.

Current vacancy rates for the properties are between 10% and 15%, and TSAHC utilized an 18% vacancy rate in their stress test.

Tom Griess asked how much of the bond proceeds are earmarked for rehab work. Daniel Dill stated slightly under $5 million and will be used for a variety of items such as counter tops, appliances, carpets, HVAC systems and exterior maintenance.

David Danenfelzer stated that the last 18 months has seen about $5.7 million invested in these properties by the partners and investors for maintenance issues such as replacing air conditioning systems, windows, doors, roofs and outside walkways. Also during the same timeframe, $7.3 million of insurance restorations were completed on the Houston properties as a result of damage caused by Hurricane Ike.

Tom Griess asked if the number of income-restricted rental units will apply per property or to the entire pool of properties. David Danenfelzer responded the restriction is per property, and the income limits are based on property location.

Bob Kline asked Phil Kennedy about any connection or commonality, ownership or directorship between AOF and OAH. Phil Kennedy stated that AOF has no connection with OAH.

Tom Griess asked, and Daniel Dill confirmed that the current owner will have a subordinate lien position to the new bond holders.

1. **EXEMPT - Texas Public Finance Authority Charter School Finance Corporation (Cosmos Foundation, Inc.) Education Revenue Bonds, Series 2011A and Taxable Education Revenue Bonds (Direct-Pay Qualified School Construction Bonds) Series 2011Q**

BRB is waiting for additional information from TPFA for this issue.

1. **Public Comment**

There were no public comments.

1. **Adjourn**

There being no further business to discuss, the planning session was adjourned at 11:10 a.m.