TDHCA Governing Board Rules Committee Meeting Transcript* from May 7, 2025

1:00 p.m. Central Time

Dewitt C. Greer State Highway Building, Williamson Board Room

125 E. 11th Street, Austin, TX 78701

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Kenny Marchant (0:00:11):
Okay. Thank you, guys, for being here today. We're going to go ahead and convene the meeting even though our Chairman Velasquez (sic) is somewhere between two semi-trucks trying to get here. And all of you can understand what I'm talking about. So I'll call the roll. Mr. Marchant? I am here. Mr. Vasquez is not here at this time. Mr. Holland?

Holland Harper (0:00:40):
Yes, sir.

Kenny Marchant (0:00:41):
And we are also joined by Ms. Farias. Thank you for being here. So we do have a quorum. And when Mr. Vasquez gets here, we'll go ahead and swear him in. Bobby, do we go through all of the same formalities? We do this normal meeting.

Bobby Wilkinson (0:01:01):
I think we can just get into it and have Cody lay it out.

Kenny Marchant (0:01:04):
I've been given this to read today before the meeting. Thank you everyone for being here today and would like to provide a friendly reminder about decorum. Anybody bring a baseball bat or, please do not yell out comments from your seat. We want your input and ask you to provide that input from the dais only. At the dais, please identify yourself for the benefit of the court reporter and the audience. Finally, we ask that all comments and interactions between those present be conducted in a constructive and respectful manner.

Thank you, guys, for being here. And I'm going to recognize, I give you a little bit of a time, kind of the timeline that we plan on going. We plan on going from like 1:00 to 3:00, I mean, 1:00 to 4:00, talking mainly about the upcoming qualifications, and then from 4:00 to 5:00 or whenever we'll take miscellaneous from left field comments. And we welcome those. And at this time, I'll recognize Cody Campbell.

Cody Campbell (0:02:23):
Thank you. I believe this microphone is on. Cody Campbell.

Kenny Marchant (0:02:27):

Do they need to sign in or not?

Cody Campbell (0:02:28):

There is a sign-in sheet right here. People only need to sign in once. I assume we'll be hearing from the same people multiple times on several items. Cody Campbell, Director of Multifamily Programs for the Texas Department of Housing and Community Affairs. We are here today to discuss the development on the 2026 QAP and to talk over some proposals that staff intends to make for that QAP. The primary function of today's meeting is for staff to receive input from the board members on items. That way, as we continue to develop...

Kenny Marchant (0:03:05):

Excuse me, Cody. Can everybody hear Cody fine? Okay.

Cody Campbell (0:03:07):

Okay. Just to make sure that by the time that we're presenting a QAP to the board that it is in line with sort of what you would like to see, we have a couple of items that we've identified specifically for conversation today. My recommendation would be that we take these topics one at a time and that the board here input on them individually rather than having all the input at once. It gets kind of messy when we do that.

Additionally, there's really only so many ways to say that you either support or do not support a proposal. So I don't know that it's constructive necessarily to discuss every item to exhaustion. And so for the interest of time, it might be better if commenters are time limited and that it is recommended to anybody who wishes to speak that as Mr. Vasquez often says, if you agree with the last person, just get up and say, I agree. And then we'll all know where you're at.

The timeline for the 2026 QAP is in line with what we've done in the past. In September, we will bring a formal draft of the QAP to the board for approval. It will go out for public comment. We will bring it back in November for final approval, at which point it is sent across the street to the Office of the governor. The governor may approve, approve with modifications, or decline to approve the QAP.

That's never happened before. Let's hope we don't find out what happens when that occurs. The staff at TDHCA goes above and beyond in the QAP development process. We've already had one roundtable. We are now having this Rules Committee meeting. We will have an informal draft of the QAP out within the next, probably six weeks for public comment. The intention of all of that extra process that we go through is to hopefully smooth out any conflict before the QAP is finalized. And with that, I'm just going to jump into some topics, if it is all right with you, Mr. Marchant.

Kenny Marchant (0:04:55):

Yeah. Let me just say this, that we will not be taking any formal votes today, but any members on the panel today, if you have specific preferences about an item, give that input to Cody as well. All input will be taken into consideration for QAP.

Cody Campbell (0:05:18):

Great. Thank you, Mr. Marchant, if it's okay with you, I've had a request from an attendee today that we take these topics a little bit out of order. The reason is there's a person here today that would like to speak on one of these items that has...

Kenny Marchant (0:05:31):
Without any objection...

Cody Campbell (0:05:32):
Sure. Okay. So then we will jump into a proposed change that staff is recommending as it relates to force majeure and extensions of the place in service deadline. Federally, applicants have until two years, the end of the second calendar year following the year that they receive an award to place a development in service, meaning that it is constructed and ready for occupancy.

In the state of Texas, we have a statutory limitation at the state level that requires that our credits be allocated in July every year. Because of that, applicants lose about seven months of the federally allowable development timeline. Other states deal with this by either allocating credits very early in the year or in some circumstances even allocating one year's credits a year in advance. That way developers have the entire three-year timeline to construct and place in service. We don't have the option to do that.

As you are aware, we have seen a tremendous increase in the number of force majeure requests that we've gotten over the last couple of years with people needing additional time. What staff is recommending is that we build into the QAP an automatically available six-month extension to compensate for that seven months that we lose by allocating in July.

The intention of this would be that it would not come to the board unless they need an additional time beyond that six months. We believe that this will save a lot of the board's time and quite frankly, brain damage having to listen to the same requests over and over again. We haven't written a specific policy yet, but if it is in line with something that the committee would like to see, we will certainly do that. And I believe that there are people who would like to comment on this, although I suspect very strongly all the comments will just be in support.

Kenny Marchant (0:07:16):
Anybody?

Holland Harper (0:07:16):
Pretty much as you're saying, give them a six month as the QAP that the staff have recommendations, they can push it as long as it's doing all the right things...

Cody Campbell (0:07:22):
That's correct.

Holland Harper (0:07:23):
On there, then we'll come back for force majeure request from the board.

Cody Campbell (0:07:26):
That's exactly correct. Yes, sir.

Kenny Marchant (0:07:29):
Is it a formal request that they get the six months?

Cody Campbell (0:07:32):
So again, we haven't written a specific policy yet, but yes, they would need to approach staff and request

because there is some paperwork that we have to do for that. So there would have to be a request put in to get that six months.

Kenny Marchant (0:07:43):
So, anybody that came to us with a force majeure request after that period would have already been granted a six-month period to remedy whatever issues they had.

Cody Campbell (0:07:54):
Either that or from the get-go they would recognize that they definitely need more than six months. And because that would be beyond what staff could approve, we would have to bring that to the board to get approval for it.

Kenny Marchant (0:08:03):
Okay.

Holland Harper (0:08:08):
All right. That seems reasonable.

Cody Campbell (0:08:09):
Great.

Kenny Marchant (0:08:13):
Okay.

Beau Eccles (0:08:14):
Sorry, just to clarify, we'd also have to make sure that this is something that's federally ~~permissible?~~permissible.

Cody Campbell (0:08:19):
Sure.

Kenny Marchant (0:08:20):
So, do you want to just take specific comment on that?

Cody Campbell (0:08:24):
Sure. You know, again, I think on this item the comments are going to be pretty universally supportive. It's hard for me to imagine that anybody,

Kenny Marchant (0:08:31):
Why don't we do it this way? Is there anyone in the audience today that would oppose this proposal for the QAP? I don't see any. So there will be no discussion about this.

Cody Campbell (0:08:45):
Great.

Kenny Marchant (0:08:48):
Okay. So proceed to last, the next item.

Cody Campbell (0:08:49):
Great. Fantastic. All righty. With that, we can jump back to the beginning, which is the first topic in your board materials, which concerns concerted revitalization plans.

So federal statute requires that we take into consideration that a development might contribute to the concerted revitalization plan of a municipality or a county, and we are required to provide a scoring incentive for those applications.

A concerted revitalization plan is a plan that is published by a unit of government for the revitalization of a part of town. Obviously, building new housing or rehabilitating existing housing is a good contributor to the revitalization of a part of town. What we have seen, before I get into that, it is important to understand that there are two scoring items in the QAP that kind of work in concert, and that is the opportunity index and the concerted revitalization plans.

They are each worth seven points. Opportunity index provides points for applications that are building in areas that are considered to be high opportunity, so they have solid incomes, low poverty, and they're close to good community amenities. That's worth seven points. concerted revitalization plan is worth seven points. You can only select one of those, which follows, because if you are in an area that needs revitalization, you definitionally are probably not a high opportunity area.

The award list over the last couple of years has swung so that we are doing a lot more concerted revitalization plan applications than we used to. Concerted revitalization plans often target areas that are low in income and high in poverty. And so, the consequence of this is that we are seeing more of our applications be awarded in higher opportunity or higher poverty, lower income areas.

Just to help mitigate that a little bit, staff recommends that in order to be eligible for concerted by the revitalization plan points that the census tract would need to have a poverty rate at 30 percent or lower. This will still allow many census tracts to qualify for these points, but it will prohibit the census tracts that have the highest poverty rates from coming in and being eligible for these points.

We had originally proposed that this would be a limitation on the income quartile. So we had originally written that conservative revitalization plan points be not available in census tracts that are in the fourth quartile in terms of income for the sub-region. And the industry had some very understandable concerns about that. We talked about it at our roundtable. And so we modified this policy to instead look at the poverty rate. We believe that still meets our goals. And, you know, we believe this is good public policy.

Kenny Marchant (0:11:34):
Okay. Is there any public comment on this item? If you'll come to the front row, we'll recognize you. A surprising group.

Sarah Anderson (0:11:57):
All right. Didn't know there would be this many. Sarah Anderson of Sanderson Consulting. I have one comment and one question. The first question would be whether or not staff has run an analysis to let us know how many census tracts in the state that takes out of the pool related to. So I don't know what the impact of this is, not knowing how many census tracts have over 30 percent of poverty.

I also feel like it's really already being addressed. The tiebreaker, the first tiebreaker that's being proposed is that you get cut from the future tiebreakers if you exceed the 30 percent poverty. So I feel like it's a double whammy. I think that we still should be encouraging people to be going to these revitalization areas. But if we have concerns about the poverty, I think that's taken care of by the new tiebreaker already.

And I don't think we need to completely kill everything that's in those tracts. But if you want to disincentivize, I think you already have put one in there that would, all things being equal, you would always have the higher income deal win. So I think you've already done it. I don't think you need both. Thank you.

Kenny Marchant (0:13:14):

So I think if it's all right with you, Cody, we'll just hear all of the comments and then you can address them en masse. Yes, ma'am. Thank you.

Lora Myrick (0:13:25):

Better do this before I forget. The Ole Gray mare is not what she used to be. Okay. So I think my comment is also regarding the data and what data analysis staff has done. I actually just took a really quick stab at the last few years and we do have some poverty rates that are over the 30 percent.

But the one thing I was looking at primarily when I first started this analysis was what is the trend of the census tract? So if you go in and it's a CRP, it's a fourth quartile, it's a X poverty rate. What do the next years look like? What does that census tract look like in the next couple of years?

So the trend that I started looking at or paying attention to was, yes, there are some census tracts where the poverty rate goes up, but there are many where the poverty rate is going down. Even in the census tracts where the CRPs are located, where the cities want us to go to ~~to~~ help revitalize some of these areas that they have identified as wanting to revitalize.

So again, very quick, not anything super scientific, but I have 97 awards that I looked at. Twenty-nine of them have census tracts that increased and 68 have some that the poverty rate decreased. So I think we need to look at this a little further and make sure that we are really looking at this and making sure that we're not creating a bigger problem for some of the cities that they want to revitalize some of these areas. So I think that's just what I wanted to bring up.

Kenny Marchant (0:15:13):

And your point is that?

Lora Myrick (0:15:15):
Maybe 30 percent is too limiting? Maybe there are some areas that, yes, there were some poverty rates that were above 40 percent. In fact, I've seen some where there were 60.6, 40.9, 53.2, 46.8 and 54.3. But they've also gotten better. There's also something in the QAP that allows that if it goes over a certain poverty rate, you can get a resolution from the city saying we do recognize this, the poverty rate is high, but we want it anyway.

Kenny Marchant (0:15:48)
Okay. Thank you. Chair now recognizes Mr. Chairman Vasquez. Thank you for being here. Count him as present. Thank you.

Leo Vasquez III (0:16:00):
For the record, my GPS said I was going to arrive at 12:24.

Kenny Marchant (0:16:06):
I think you were here. You just sat outside.

Leo Vasquez III (0:16:10):
Sat on I10. Sat, not moving for like 30 minutes.

Kenny Marchant (0:16:16):
We're glad you're here. Yes, ma'am.

Sidney Beaty (0:16:18):
Hi, everybody. I'm Sidney Beaty. I'm with Texas Housers. And while we appreciate and support staff's proposal to place guardrails on the number of awards in high poverty areas, we do believe that there should be some additional guardrails to confirm that the properties are receiving these points, that they demonstrate an actual connection to the revitalization.

Kenny Marchant (0:16:35):
Would you talk a little closer to the microphone?

Sidney Beaty (0:16:37):
Yes, of course. Okay. So the federal purpose of this provision is to ensure that the department does not incentivize tax credit properties in qualified census tracts unless the project contributes to revitalization plan for the area. These tracts are by definition low-

income high poverty areas. And we support staff setting minimum standards on which low-income high poverty areas can qualify for CRP. But we feel that the CRP section needs a stronger connection to revitalization than was currently described. So we recommend that in order to get maximum points under the CRP, item properties need to be able to document either a commitment for ongoing or future investment in the area beyond the tax credit award doesn't necessarily have to be from the developer, just some commitment that funding will happen and also neighborhood improvements that show that revitalization is already occurring. That's particularly for kind of these older properties.

Looking through the applications, we saw some plans that were, you know, for 2013. And in my opinion, if you can't show that there's been an improvement since 2013 and there's no documented investment from that plan, then the connection just isn't really there. I would also like to highlight a point item in Georgia's QAP that does a really fantastic job.

We think of connecting a specific award to a specific meaningful revitalization effort. They have something called the community quarterback board. Properties get points for establishing this board. It's a third community members. And after the award, but before the project is placed in service, this board meets to work through how this specific property contributes to the local revitalization. And they use that plan as kind of the starting point. And the board, this community advisory board, sets metrics and does a lot of that subjective work of ensuring that revitalization is meaningful, which gives the state objective metrics to monitor.

Kenny Marchant (0:18:22):
Cody, did you follow that? Okay. Thank you.

Audrey Martin (0:18:31):
Hi, everyone. Audrey Martin with Purple Martin Real Estate. First, I wanted to say thank you to the board and to staff for starting these conversations this early. You know, it's really nice to just have the opportunity to chat about the policy objectives you guys are looking at and get a feel for what you're trying to achieve in the upcoming year. So thank you.

On CRP in particular, I just wanted to say, related to the 30 percent poverty, just a reminder that we have to Sarah's point a 20 percent metric for OP index, which is one category of points, and then CRP, sort of the offset for up and coming areas. I like the idea of just letting our threshold poverty provisions run and not having something additional in the CRP scoring. So we already have a 40 percent limit as a threshold item. So if you want to go into an area above 40 percent, you do have to get the city to sign off with a resolution.

And you know, I just, I think that functions probably well enough, and then it still allows the cities to tell us what those areas are where they want to see revitalization. So I get the objective, but I do think we have that 40 percent threshold already and that that's probably sufficient. So thank you.

Oh, and I agreed with Sarah and Lora and the research that Lora did was pretty interesting to show that, you know, in the years following a CRP award, it looks like the majority of those census tracts are having decreasing poverty. So starting early also gives us a chance to, you know, check all of that out and see what the data actually shows. So thank you.

Kenny Marchant (0:20:27):
Yeah, I guess one question I have about that is you're taking a just a snapshot of that project that date or that year and you all are saying that these census tracts are trending already either into richer tracts or quarter tracts?

Audrey Martin (0:20:48):
There, I mean, every poverty rate is going to change from year to year. So I guess the question is what have the past CRP deals specifically in those tracts shown us? And it looks like from a quick research project that I didn't do that maybe we are seeing increases, I'm sorry, decreases in the poverty rate over time. But, you know, we're going to see some difference in the poverty rate for every tract every year. So we'll see some kind of trend. It's just what is it for the CRP deals.

Kenny Marchant (0:21:22):
Thank you.

Audrey Martin (0:21:23):
Sure.

Tim Smith (0:21:28):
Tim Smith with Hope Development Services. I could say I do agree with the previous speakers. The one other caveat I want to bring up is there needs to be a carveout for at-risk deals on this item for CRP because at-risk developments by nature are already low income and those tenants living in those tracts can I've seen them skew the demographics just by the fact that tax credit housing already lives there or housing authority housing already lives there. So I would just ask for a carveout for the at-risk.

And I've seen one ~~things~~thing where I've seen a deal being a census tract and most of it it's around it is either office land or some other things that doesn't have household income. And that entire development project accounts for, you know, 50 percent of the actual individuals living in that census tract. So you're going to have a major skew towards the poverty rates if it's already in affordable development. That's it.

Kenny Marchant (0:22:28):

Thank you.

Kathryn Saar (0:22:43):

Hello. Kathryn Saar with the Brownstone Group. I'm also the QAP chair for TAAHP. I actually have a question on this item because the language that's been proposed since the last meeting we had a week or two ago, the red line, it says, If proposing new construction, the development site must be entirely located within a census tract that has a poverty rate equal to or below 30 percent. So is this 30 percent specific to new construction? So a rehabilitation we could do in a 35 percent poverty rate tract?

Cody Campbell (0:23:21):

Yes.

Kathryn Saar (0:23:22):

Okay. Okay. Thank you for that clarification. I think I understand the concern. When we changed in 2024, we changed the requirements for CRP so that the city basically tells the state we want this to be a CRP area. We are writing this letter and I believe staff's concern is that, you know, once that change was made, about 50 percent of the applications went the CRP route. That might not be the right balance. And so I understand wanting to make some changes here. I agree that, you know, we need to look at what the census tracts are actually doing in response to these CRPs because a lot of these properties are, you know, a typical tax credit property. You have 10 percent at 30 percent, you have, you know, 20 to 40 percent at 50 and you have the balance or maybe a little bit of extra with market rate.

So we are kind of already skewing these to higher income just by nature of putting a tax credit development in the tract. So I think that would be a really useful thing to look at to see before we decide, you know, how we want to solve for this equation where maybe we don't want 50 percent of the properties being CRP. So thank you.

Holland Harper (0:24:48):

So before you leave.

Kathryn Saar (0:24:50):
Oh, sorry.

Holland Harper (0:24:52):
So let's take two scenarios. We have a green field development in a more prosperous area or it's then a blighted area that we're going to (indiscernible). Housing is in a giant state of affairs. We all know that. There's, we're underwater 2 or 3 million houses right now. You guys are all developers. You put a development in and a blighted area, some of those tenants and subpar housing may move into those deals and then those lots would be up for sale for redevelopment or whatever they might be. Is that true statement or not true statement?

Kathryn Saar (0:25:27):
I mean, I think obviously it depends on where we're talking about. But yes, I've seen that in, for example, I have an at-risk project that I'm working on right now in Mission, Texas, in the Valley where, you know, very substandard 1950s, you know, Barrack-style housing, we've torn that down, we're building new housing and it is anticipated that the, and this project was done under

CRP. And, you know, the income tract or the income quartile should start to increase just by nature of having a lot of 60 percent tenants and some market rate tenants so,

Holland Harper (0:26:14):

I mean, Cody, I'm going to go back to you for a second. I mean I look at it, if you go into a bad neighborhood that has little A-frames that are falling off their blocks and you go put in a 10-, 20-, 30-million-dollar investment, what the number might be?

Cody Campbell (0:26:29):

Sure.

Holland Harper (0:26:31):

There should be a drive to turn those lots either into fresher housing or multifamily in the private market or not. Are you not seeing that in the data you're going for?

Cody Campbell (0:26:44):

So that is really the intention of a concerted revitalization plan, right, is to have that investment into a neighborhood. I think that the balance that staff is trying to strike with this proposal is the, the balance between those high opportunity sites and those CRP sites. And it's not that CRP is not a great goal because it is, it's just that we're seeing a lot of those. Excuse me.

Holland Harper (0:27:06):

But you also have, if I'm a developer and I'm not meaning to pontificate, guys. But if I'm a developer and I go to over here on 130, I got utility runs, I got road runs, I've got all of that infrastructure you'll put in. Whereas if I go into some neighborhood that's got utilities and road infrastructure and all those things, I get a discount and I probably get a discount on my dirt because most of my stuff is demo and maybe some brownfield work.

Cody Campbell (0:27:32):

Sure.

Holland Harper (0:27:33):

So what, if the market says we should do the revitalization program because I'm getting the most bang for my buck, do we need to put a lever on that to push it back, to keep it back to opportunity, which is higher dirt, more travel, more cost in the system.

Cody Campbell (0:27:53):
Correct. Correct. What we're doing right now is working. And so if it is the priority of the committee to do the exact kind of projects that you're talking about.

Holland Harper (0:28:06):
We’re in discussion, Mr. Campbell.

Cody Campbell (0:28:07):
Absolutely.

Holland Harper (0:28:08):
Why did you push it this direction? Because I'm going to be devil's advocate.

Cody Campbell (0:28:10):
Sure.

Holland Harper (0:28:11):
I look at it that if I can go get older neighborhoods, 100-year-old neighborhoods, whatever those might be, I can get them in better shape. That's a better use for that city to be successful.

Cody Campbell (0:28:29):
Sure. Yep. And this, this truly is just kind of a philosophically, you know, which, which direction do you want to push the housing in? The department has historically gotten a lot of pressure to locate our developments in higher opportunity, higher income tracts. But it is, it is truly the eternal tightrope of housing policy of do you invest in distressed neighborhoods or do you try to build housing in higher opportunity neighborhoods. And I don't know that there is a right or wrong answer to that question.

Holland Harper (0:28:58):
Well, for the board, as a guy who lives in a poor county, I'm going to push for fixing the stuff that's already broken because I'm tired of looking at it being all broken. So I would rather not try to move the lever back and forth and just say let the market do what it's

supposed to do if they need to do revitalization. And it should be a discount to the ~~developer~~developer, and it should be better for the city long term because now they've got blighted areas that they're putting capital investment in, and it maybe has a pop. You know, we, I was at South Fort Worth this morning, and that stuff's popping left and right, and it didn't look so good 10 years ago.

Kenny Marchant (0:29:37):

So if you put a, one of these projects in an area that's primarily Section 8, will this project, once it's full, lower or raise the income value, income level of that area?

Cody Campbell (0:29:57):

Sure. If you're specifically comparing to tenants that receive a Section 8 voucher, I would, and I don't have the data right in front of me, but I would say pretty confidently that you would be raising the average income.

Kenny Marchant (0:30:07):

Income level of that area.

Cody Campbell (0:30:10):

Because of the 60 percent tenants in general, a tenant that could occupy and pay the rent for a 60 percent unit would most likely be above the income threshold to receive a Section 8 voucher. And so I'm reasonably confident that it would raise the average income.

Kenny Marchant (0:30:27):

It would raise the average income in his scenario as well, wouldn't it?

Cody Campbell (0:30:32):

Presumably. So with those 60 percent tenants. Yes, sir.

Kenny Marchant (0:30:34):

Yeah. Until the revitalization kicked in. And then it could end up being even higher.

Cody Campbell (0:30:35):

Right.

Kenny Marchant (0:30:36):
Okay. You want to give a response to ~~the all~~all of the comments that were made.

Cody Campbell (0:30:52):
I think that staff has good direction on where to go from this. It sounds like we need to revisit what our priority is in terms of balancing revitalization versus those high opportunity areas. Again, there's not a right or wrong answer to that question, but we will take a look at this and revisit whether this is a policy...

Kenny Marchant (0:31:06):
And because we've got a little bit extra time this year, if you have any studies or any written evidence of your position, please present it to Cody so that he'll take it into consideration. All right. Thank you. All right. We'll start the next item.

Cody Campbell (0:31:24):
Okay. This, I presume, is going to be one of the, let's say, livelier topics that we discussed today, and that is the sponsor characteristics scoring item within the

QAP. So federally we are required to come up with some kind of scoring system that incentivizes the characteristics of the sponsor, in other words, whoever is submitting that application.

The federal code is not all that specific about what that scoring item has to look like. The way that we have effectuated that requirement over the last, you know, as long as I can remember is that there are two options, two broad options under which you can get up to two points.

One is the inclusion of a nonprofit organization in the ownership structure of the development. The other is the inclusion of a HUB, which is a Historically Underutilized Business. These are businesses that must have a primary location in the state of Texas and that are owned by a racial minority or a woman or certain service-disabled veterans.

For all intents and purposes, every 9 percent award that we have done for, as~~,~~ you know, long as matters has had either a nonprofit or a HUB be part of the ownership structure. It's possible that we've done one or two here or there that got through without one. But just to mentally situate yourself, they all have either a HUB or a nonprofit.

This board has understandably and very reasonably been pushing for developments to pay property taxes. And so we have looked for places in the QAP where we can incentivize developments that intend to pay full property taxes. And this is the scoring category where it makes the most sense to do that.

The reason that it makes the most sense to place it here is that we also have to incentivize nonprofit developments. Ten percent of our credit ceiling every year must go to developments that are owned by a nonprofit. Nonprofits by right do not pay property taxes or they don't pay full property taxes. And so this is the best place to balance that out. You can have a nonprofit and not pay property taxes, or you can pay property taxes and those would be on equal footing with each other so that nonprofits aren't disadvantaged.

The proposed changes that we have for sponsor characteristics are to leave nonprofits as is. We recommend a couple of changes to the HUB scoring category that I think would make it more meaningful. The proposed changes would require that the HUB be a totally separate group of people from the applicant and that the HUB would not have participated in more than five successful applications previously.

The rationale there being that this helps build capacity with new entities and new operators within the program. And then we've suggested adding two scoring categories: One being a property that pays full property taxes. So that would be on equal footing with a HUB or a nonprofit.

And then so as not to box these people out of the program, we recommend giving the same scoring consideration to applications that are submitted either by a city's housing authority or a city's housing finance corporation, so long as they are working within that city's jurisdictions. And the rationale there being that if a city's own housing finance corporation wants to move forward with an application understanding that it is not going to pay property taxes, that it's, you know, probably in line with that city's priorities to let that application (indiscernible - simultaneous speech) (0:34:45).

Kenny Marchant (0:34:47):
When you say city, you mean city. You're not going to, it's not going to be any government. You're saying, you're going to say city?

Cody Campbell (0:34:56):
City or county. And it would have to be within the boundaries. So none of this, we're doing deals halfway across the state that we've seen over the last couple of years.

Kenny Marchant (0:35:02):
Okay. If it was in Fort Worth but it was sponsored by the Mission City Housing Authority...

Cody Campbell (0:35:14):
It would get no consideration under the language that we've drafted.

Kenny Marchant (0:35:16):
Is that new to what we do now? I mean...

Cody Campbell (0:35:22):

The entire concept is new. Yes. So previously, a housing finance corporation would not have gotten any special consideration under the QAP in this proposed language. Because we are trying to incentivize developments that pay taxes, we don't want to box those out because generally they would not pay taxes because they are the city's own entity. And so to help balance that out, we're making that an option. I do believe that if we implement the scoring item as written, we will see a lot more developments pay taxes.

Kenny Marchant (0:35:44):

When you say scoring, I mean, is that a point?

Cody Campbell (0:35:48):

Two points.

Kenny Marchant (0:35:50):

Two points.

Cody Campbell (0:35:51):

Yes, sir.

Kenny Marchant (0:35:53):

Okay. Yeah, this might be lively.

Cody Campbell (0:35:54):

Yep.

Kenny Marchant (0:35:57):

Okay, if everybody ~~understand~~understands the question before us? Thank you, Cody.

Audrey Martin (0:36:06):

Hello again. Audrey Martin with Purple Martin Real Estate. So I just wanted to, I guess, speak a little bit specifically about the HUB changes that are being proposed. Once again, thank you very much for the opportunity to see these ideas early on. This is very, very helpful.

So as it relates to HUBs, the scoring category is kind of, the pendulum has kind of swung over the years, and there's been a question of, is it supposed to be capacity building or is it not? And I think the answer has changed over time. It looks like what we're trying to do is move back to a capacity building kind of model.

And so I think, you know, I think there are going to be some concerns from the folks that operate in the HUB space. And you'll probably hear a little bit of that after me. But, you know, just one thing I would point out is that we do have some pretty extensive HUB requirements that the comptroller has for that whole certification process.

And so I always like the idea of working with the existing regulations that we have to use from another agency rather than trying to stack some others in terms of, specifically meaning the number of deals that we're targeting for, I guess deciding whether capacity has been built. Right, is that five deals, is that two deals or whatever?

So I like the idea of just reverting to the state's HUB requirements as they are and maybe not trying to kind of pick what the right number is for whether capacity has been built.

And then also just big picture, you know, I think it's no secret that these deals have been pretty challenging for a number of years. And so that's the argument that you can make for making sure we have really ~~good experienced~~good, experienced sponsors.

And, you know, should we really be focusing our efforts on capacity building or not? I think it's a good thing to do, you know, I think we can debate that point. But, you know, if we are going to talk about the number of deals, just recognize that it takes a long time to get these deals done. They are multiyear projects.

And so I think staff was responsive. Just between the roundtable and now in changing the number of deals from 2 to 5, I think that's a good thing if we're going to go down that route. But, you know, I think before you really get capacity, you have to see a deal past award, past construction, past lease up through to stabilized operations and you ought to do that a few times and that takes a number of years. So anyway, just a few thoughts to share and I'm sure there will be some other folks to add too. Thank you.

Kenny Marchant (0:38:47):
And your main point is that we should not interject any kind of HUB restrictions that don't follow a common definition?

Audrey Martin (0:38:54):
Yeah, that's my personal recommendation. Yes, sir.

Kenny Marchant (0:39:00):
Okay. Thanks.

Audrey Martin (0:39:03):
Thank you.

Jason Arechiga (0:39:08):
Good afternoon, my name is Jason Arechiga, I'll sign in, with the NRP Group. My comments are a little bit more germane to the tax exemption issue and I'll keep it really high level. Ultimately what, I guess, what I'm trying to say is that really when it comes to tax exemptions, these are pretty much the only tool, one of the few tools that we have to help narrow the gap.

We already have gaps on 9 percent, we have gaps certainly on 4 percent. And I know we're not really discussing that now. I'm just afraid of a slippery slope issue. And this is a tool simply that we have to be able to help close those gaps by providing the tax exemption as evidenced through Section 303, 392 and 394. The state, effectively that is their method, the state of Texas method for helping close those gaps.

Whereas other states, New York, most other states around the United States, California, various other southern states, they have large programs where they funnel money directly into deals. This is the actual way to help provide affordable housing is through the tax exemption.

So I understand the desire to want to pay taxes certainly, but it does come at a ~~cost~~cost, and it will usually come at a cost of an increased gap. The last thing that I just wanted to point out in general is that I know you had mentioned certainly Mission, Cameron, Pecos, Maverick counties, some of the traveling HFCs and we stand behind you that that is actually a concern at least certainly members of TAAHP and NRP that that is something that we want to stop and we think that's a about to happen legislatively that's going to end.

But I do want to point out one thing when it comes to tax ~~exemptions~~exemptions, and this is just writ large. I have not seen an abuse, and please somebody correct me if I'm wrong, when it comes to a LIHTC deal. So the abuses are more, I think when we're talking about with HFCs, with PFCs, with other deals that are privately capitalized.

But deals using tax credits, I don't know if I could say that there would been, there is an abuse of this program utilizing tax credits for that extent. I think it's usually used with a, because of the minimized rents. And that's all I have to say.

Kenny Marchant (0:41:24):

Okay. Thank you. Cody, you go ahead and come up. I just want to ask Cody a quick question. I mean, I think our concern as a group is that a project gets approved and we sanction it by giving it credits and then all of a sudden these tax entities end up with projects that they're getting, that are highly intensive in police, fire, emergency services and all of a sudden in education they're finding out, heck, we don't, we're not even getting any tax out of this organization. So I think our biggest concern is that all of the entities sign off on that so that they're totally aware that they're getting this project. And I don't know if this specifically addresses that. But...

Holland Harper (0:42:23):
The other thing that in the non-tax taxable entity, what I see is a GP will own 51 percent of the, of the entity with the LP partners. Well, that's where all the operating funds and cash flow will go into. And so I don't know how much winnings are really going back to the GP, which is the non-taxing entity, which provides the non-taxing status.

You know, the thing that just jumps out at me if you're going to be a non-taxing is if we're do a P3 deal, right? We're going to do public/private money. We'll put it all together. It feels like it should be more 51 on the LP and 51 on the GP. That way the non-taxing entity gets the return back. That is terrible for the developer because he's got to draw the money to the rest of it.

But then you don't have the situation we had four or five months ago when the guy went, when they had too much leverage, rates started going, they got caught and the GP says I didn't know anything, what I was getting myself into. But you're the GP. So help us through some solutions too because at the end of the day, I get it, guys. I mean, who wants to pay taxes and insurance taxes? No one, no one wants to pay taxes.

But the end of the day, these assets need to have some return back to the community for education, healthcare services, and the rest. And if we keep pushing that over to someone else to pay your competitors in the private market that are putting doors up, it's not quite the same deal.

And you say, well, we can't get these deals to finish, but in the game, we're providing equity in exchange of credits in exchange for what we want for lower rent for these citizens. So I'll stop talking.

Kenny Marchant (0:44:15):

Yeah. And another question about the HUB. If the HUB, if the GP is a HUB and they own 1 percent, it just to piggyback on what he says, I mean you really don't have...

Cody Campbell (0:44:34):

So there are minimum ownership requirements. So that is addressed in the QAP. There have been requests, and this is specifically for HUBs. There have been requests from the industry that we reduce that. I believe right now it's 50 percent with no less than 5 percent in a number of categories.

In terms of a nonprofit entering the deal. My impression is that a lot of the nonprofits and a lot of the governmental agencies have gotten a lot more sophisticated and they've started making, I've only seen one from a municipality in Texas, but some pretty harsh demands of if we're going to enter and we're going to provide you with this tax abatement this is what you were going to give us in return, but that is not formalized in the QAP. That's all of those entities acting individually.

Holland Harper (0:45:14):
The last thing is in the HUBs, the HUBs have to be part of it. That is a mandate from the feds. Is that correct?

Cody Campbell (0:45:22):
No, sir. No HUBs are not required.

Holland Harper (0:45:23):
Oh, we just created these bills.

Bobby Wilkinson (0:45:25):
HUBs are not required to be in the QAP federally or in state statute. It's completely been done by this board. You can get rid of HUBs completely?

Cody Campbell (0:45:31):
That's correct. Yes. Nonprofits are a requirement. HUBs are not.

Bobby Wilkinson (0:45:35):

We'll still do HUBs for like vendor stuff. So there's some other state required stuff, but as far as the QAP goes, it's an invention of this body.

Cody Campbell (0:45:42)
Yep.

Holland Harper (0:45:44):
Oh, I would be in favor of taking that out.

Bobby Wilkinson (0:45:51):
Also, we've had some comments online. They can't hear us that well from the dais. So if everyone, you know, yell into your mic more.

Holland Harper (0:45:58):
Am I doing better back there? Yes. So we created the HUB side in our organization just for fun. Okay?

Cody Campbell (0:46:10):
Yes, sir.

Kenny Marchant (0:46:09):

I'm sure there was a more noble goal than fun, but I'm sure it will stimulate the conversation. Yes, ma'am.

Alice Salinas (0:46:22):
Hi, good afternoon. My name is Alice Salinas and I have been developing affordable housing for about 30 years now. I have been developing affordable housing and supportive housing for low-income families, transition age youth, homeless veterans, chronically homeless adults and seniors.

I was also the former state director of a nonprofit led by the Cesar Chavez family and I developed many units of farm worker housing. I work for the poor and I really champion those units at 30 percent of AMI, I know none of the deals that I can do would pencil without the property tax exemption.

Now, I don't have a fancy solution for you today on property taxes, but I can tell you from someone who has experience in both developing and operating affordable housing that targets very low-income populations that it would be very hard for me to do a deal without that property tax exemption.

Kenny Marchant (0:47:28):
Ma'am, let me ask, can I ask a question?

Alice Salinas (0:47:32):
Yes.

Kenny Marchant (0:47:33):
Would it be an imposition for you to get each of the taxing authorities to recognize and agree to that before your application was approved?

Alice Salinas (0:47:46):
I'm sorry, I don't think I quite follow the question, but I would probably not want to do more work than I already have to do.

Kenny Marchant (0:47:56):
Okay. That's about the most honest answer I've ever had.

Alice Salinas (0:47:57):
I do a lot of work on these deals.

Kenny Marchant (0:48:03):
Okay. Thanks.

Alice Salinas (0:48:05):
So I'll be very, very quick. I am a ~~HUB,~~HUB; you're looking at one now that's going through the certification process. It's not for fun. It's serious business. I particularly am in support of the elevating the conflict-of-interest language in the QAP. I think that, you know, I'm currently working on my certification and hope that it'll enable me to participate in more tax credit developments in a more meaningful way and that I'd like to see more brown and more Mexican American women in this field. And I think this is one way to do it. Thank you.

Kenny Marchant (0:48:48):
Thank you.

Tim Smith (0:48:53):
Tim Smith with Development Services. I just want to come back to, I guess, questions about the general partners on these tax, you know, tax abatement structures. Most of this is all structured under statute and we're having

to actually have a property tax abatement. You either have to have an HFC, a housing authority or a PFC. The legislature's fixed PFC issues. They're fixing it this year on traveling HFCs.

So right now, the way it's going to stand moving forward is you're going to have to be a housing authority or an HFC in your own jurisdiction to have a tax abatement that's its own entity which is going to require city council approval for those entity, for a housing authority to do a deal in its own city to do a joint venture.

And then with the PFCs, if you do have somebody that can travel or if they have the same ability for the HFC, you have to actually have a cooperation agreement with the city. We're going through this process right now in another city where we have a PFC that's issuing the bonds because that city's housing authority is not active.

So we're using a statewide housing authority. We have gone in from day one because it's mandated by law to get a cooperation agreement with both the signed by the city council and the housing authority in order to allow this outside PFC to come in and provide a tax abatement. There's just no other way around it. And I think...

Kenny Marchant (0:50:23):
But that you've got the county and the school district that are not parties of that. And that constitutes the largest in many instances...

Holland Harper (0:50:34):
Writ large.

Leo Vasquez III (0:50:35):
School district for sure.

Kenny Marchant (0:50:36):
The school district for sure is accounts and they may be the most effective because if you put 200 units up and they're family units, you may create 300 students.

Tim Smith (0:50:52):
Okay. And I hear you there. I do hear you there. I would just say this as you asked a question before like what about getting, you know, everybody on board? The way

school boards work in Texas. I sure hate to try to come and talk to something about housing when they're trying to figure out...

(Overlapping conversation.)

Holland Harper (0:51:07):
Let's be really fair with that. If you come into an industry tax and they want to do a 314, they have to go before that school board for a, like if I wanted to come in and I want to build a new industrial plant and I want to abatement on school tax, they can do it. I think it's 314 law. They go, you go before the school board, you come in a solar deal or some inter environmental wind farm, it's the same thing. So...

Kenny Marchant (0:51:32):
They can opt out. The city can do it.

Holland Harper (0:51:35):
The city and county can do it. But that school board needs to have that decision.

Tim Smith (0:51:42):
Well, then the other caveat I would make in this is that you do put language in there to carve out to make an exemption for pilots, which would be a payment in lieu of taxes agreement. If you were able to get an agreement with the school board, with anybody else, that the language in the QAP would not prohibit a pilot agreement which would be a direct negotiation with the school board or others.

Just from a legal standpoint, it basically says no exemptions at all whatsoever. But if you were able to go in and negotiate with the school board to say, hey, we're just going to pay 25 percent of our taxes or 15 percent and they approved it and you could show that agreement that staff would have the ability to receive that.

Holland Harper (0:52:21):
(Indiscernible) 0:52:21.

Tim Smith (0:52:25):
Okay. All right.

Kathryn Saar (0:52:30):

Hi, Katheryn Saar. I just want to point out that I think a large majority of the people in this room are for-profit developers. So we don't want to do tax exempt developments most of the time. The reason you're seeing so many come back in requesting that structure change is because we have a math problem that we're trying to solve.

So if there's other ways in the QAP, which I think that there are, to solve that math problem, you won't see taxable or tax-exempt structures coming back for you for approval. There are things that we can do to increase the number of credits that developments get. We artificially cap them in several different ways. We can, you know, rebalance. I think we just need to rebalance the requirements in the QAP so that we can work with the capital that's available.

And to your point, on CRP land, that land is a lot cheaper. When I have to go buy that dirt versus if I have to, you know, go to Capelle or, you know, the, what is it, Bel Air area in Houston, that is all very expensive land. But that's what the QAP currently incentivizes the most is going into the highest income quartile census tracts. And that also trickles down to, you know, costs that tenants at those properties ultimately pay because they go to grocery stores that are geared towards higher income families.

So I'm not saying that we should disincentivize first quartile census tracts, but I'm saying that we shouldn't incentivize them to the exclusion of second- and third-income quartiles because that's the middle and that's where I think a lot of people are. And I think that if we can rebalance the requirements in the QAP we'll stop seeing a lot of these taxable solutions come to you to solve the math problem that we have.

Kenny Marchant (0:54:48):
You have a specific list of things that could be done to the QAP that would disincentivize the seeking of tax exemptions.

Kathryn Saar (0:54:59):
Well, like I said, it's a math problem. So we have to deal with all of the things that drive up costs. So...

Kenny Marchant (0:55:03):
Yeah, but I think going to have to convert that general concept to some very specific items.

Kathryn Saar (0:55:11):
So one very specific item. It doesn't help with the larger transactions that are already capped at the maximum 2 million, but the transactions that are capped based on leveraging, we can change the leveraging scoring item so that they're not capped at that lower amount. We can change several, there's a lot of things in.

Holland Harper (0:55:37):
Can you reverse for a second?

Kathryn Saar (0:55:39):
Sure.

Holland Harper (0:55:38):
Just go through that.

Kenny Marchant (0:55:40):

She's responding to a question, so.

Holland Harper (0:55:42):
Please give her some more time. Pardon me. In the, there's a cap on the leveraging which limits your, your $2 million cap on the top.

Kathryn Saar (0:55:51):
Correct.

Holland Harper (0:55:52):
Can you go through that really slowly for me because you guys live this every day. And have to play by the rules that were created.

Kathryn Saar (0:55:59):
So let me give you a very specific example. I put in a 2025 tax credit application. I intended to get, I wanted the full $2 million in credits but because of the amount of that I had to pay for land in a first income quartile census tract and a bunch of other things. And you guys have heard all about the costs and the things like that.

So I was only able to put together a deal that was like 72 units.

Because I was at a lower unit count, my total cost was less. So in order to qualify for $2 million and stay under the 9 percent leveraging factor, which is a scoring item, you have to basically have a $22 million transaction. And to have something of that size, you're going to be around 100 something units or be in a really one of the major metros.

So this particular transaction, I only got 1.8, let's call it 65, because it was something, some change. So I had to cut my credits back by 125 to $50,000 so that I stayed under that 9 percent leveraging factor. And that's credits that I left on the table because I needed to be in that scoring position that I was at.

Cody Campbell (0:57:26):
Can I add to that?

Kathryn Saar (0:57:26):
Yes, of course.

Cody Campbell (0:57:27):

Mr. Harper just has some background information. Leveraging refers to a scoring item where applications are awarded points based on the credit request as a percentage of the total development costs. And section 2306, which is the Texas government code, requires that we incentivize based on the efficient use of public resource.

I can't remember the exact wording off the top of my head, but that's how we've effectuated that. And so when people talk to you about leveraging, it's, you know, if your development is $20 million, your credit request can't be more than $1.8 million, because that's at 9 percent of the total development cost.

Kenny Marchant (0:58:06):

So I thought my question was, what specific items would you change in the QAP? And we have time for you to prepare that outside of this.

Kathryn Saar (0:58:17):
Sure. That's just one example, the changing the leveraging either percentage because Cody's right, it is in statute that you have to incentivize efficient use. But it doesn't have to look like this. And we last increased the percentages in that scoring category, I believe in '18 or '19. So it's been a minute since we've...

Kenny Marchant (0:58:39):
And that would directly affect the amount of people trying to seek tax exemption?

Kathryn Saar (0:58:43):
Well, it would increase the number of credits some of these smaller developments would be able to get. And, you know, they could then size them such that they didn't need a tax exemption.

Kenny Marchant (0:58:56):
Yeah. I would invite you to commit that to a document and give it to Cody so we can discuss it.

Kathryn Saar (0:59:03):
We will absolutely do that. Thank you.

Kenny Marchant (0:59:06):
Thank you very much.

Leo Vasquez III (0:59:09):
I'm sorry. Wait. Kathryn, come back.

Kathryn Saar (0:59:12):
Sorry.

Leo Vasquez III (0:59:14):
We were just discussing. So what's going to happen with these ratios? If the proposed legislation gets through raising the cap from 2 million per project to 3 million per project, is that going to help or hurt with these percentage ratios?

Kathryn Saar (0:59:30):
So it could help with the percentage ratios. You're still potentially going to have issues in the smaller

regions that don't already get the $2 million. ~~Because,~~Because so your credits go through the regional allocation formula. And I'll let Cody explain more about that if you want. But essentially you guys look at the areas of the state, the population, the housing need, and you say this place is eligible for, you know, let's say rural six is only eligible for, I think, 675 or let's call it $700,000.

So in places like that, it's going to, the leveraging is going to help. You would have to make a determination in the QAP to change the maximum amount so that what happens across the street with the cap can funnel down to those smaller places.

Leo Vasquez III (1:00:33):

Just when you said this, it made me think of these unintended consequences if it goes up to 3 million.

Kathryn Saar (1:00:39):

Right. So the smaller regions of Texas don't have access to the 2 million now, so they're not going to have access to the 3 million if the legislation passes. But you could make a decision as this board to increase the amount that that sub region is eligible for.

Bobby Wilkinson (1:00:59):

For the larger areas that would be eligible for the 3 million, those projects would be more likely to pay property ~~taxes?~~taxes.

Kathryn Saar (1:01:08):

I think so because you would have more credit going into the development. So they would naturally be larger because I don't just get the extra credits. I have to build something that supports the eligible basis. And so I have to have tax credit units to support the eligible basis to get to the $3 million. And I know this is, we're getting into territory where, you know, people are going to maybe not like this idea, but the $3 million will create larger unit counts at the individual development and thereby probably not need a tax exemption. Like again, I don't want to do tax exempt deals if I don't have to.

Kenny Marchant (1:01:54):

Thank you.

Dru Childre (1:02:05):

Hello, my name is Dru Childre and I'm here representing Dharma Development, which is a certified HUB organization. And just want to speak on behalf of the HUBs. You know, the HUBs that, that I'm familiar with and have worked with over the years bring a lot to the developments, bring in a lot to providing good quality, affordable housing into the process.

And the QAP requires material participation of the HUB and, you know, the HUBs that are out there with the experience bring that material participation into the whole process of the HUBs, not just one aspect of the deal. You know, we work with the guarantors of the ~~developments~~developments, and we work with, bringing them work with the site selection site process, application through construction, through lease up, all throughout the whole process of the development. We are there to help material participate in the deal.

I think if you limit the wording that's being proposed, going to limits and bring in new developers that aren't as or new HUBs that aren't as experienced, the ones that are in the, you know, organization or in the industry currently.

And I think that's going to just make it where they're just being a box checker. You know, the ~~developers~~developer’s guarantor is going to bring in a HUB that has no affordable housing experience, has no knowledge of the industry and they're just there to check a box. Well, that's not what a good quality experienced HUB is there for in my opinion. So...

Kenny Marchant (1:03:57):

What are the components? I mean what makes a good quality HUB?

Dru Childre (1:04:04):

Well, I mean a HUB is as you know mentioned earlier a HUB is certified through the state procurement process. And so there are certain aspects that they, that a HUB needs to go through to make them a HUB. Doesn't make them necessarily, HUBs are all over the industry.

Doesn't make them necessarily ~~a~~an affordable housing expert or you can be a HUB if you're out there just getting bids. You're applying for construction sites if you're a plumber or an electrician.

Kenny Marchant (1:04:41):
Yeah, we've had testimony here before. I can't remember who it was that said I am the, I'm the consultant, I am the HUB, I'm the owner. And we go, okay. well this doesn't seem to actually be...

Dru Childre (1:04:54):
Right. No, I understand.

Kenny Marchant (1:04:55):
Benefiting the HUB, what we're trying to accomplish.

Dru Childre (1:05:01):
If that's the intent where there are some developers that are the HUB as well and if that's the intent. So they don't even work with an actual, a HUB that comes in and to help move along the development, help the guarantor developer. And I get, if that's the intent of TDHCA and the board and the staff is to try to go in a

different direction with those developers that are the HUB as well. That's one thing. I think there might be more discussion with staff as to figure out a good solution and as it relates to the intent of the ruling, and so...

Leo Vasquez III (1:05:51):

May I ask the question. This is probably easiest asked by me. So does the inclusion of HUBs in our whole process, does it do anything to increase the number of housing units that get produced through our department programs? Objectively...

Dru Childre (1:06:17):

I can't, there might be other people in the room that might think differently, but I can't think of anything right now that specifically pertains to the number of units as it relates to a HUB participation.

Leo Vasquez III (1:06:31):

I mean, if we didn't have the HUB component requirement anywhere in our rules, would that diminish, lower the number of housing units that we build?

Dru Childre (1:06:42):

Not that I can think of.

Leo Vasquez III (1:06:44):

Okay. All right. Me too. Good. Thanks.

Dru Childre (1:06:47):

Thank you.

Kenny Marchant (1:06:50):

And if you have any written suggestions to correct, to change his wording, please submit them. Yes, ma'am.

Lora Myrick (1:07:04):

Hi, I'm Lora Myrick with Betco Consulting. Again, I'm here to speak on the HUBs. I have been a HUB since probably 2012, and I got into our first transaction in 2015, and I have recertified at every chance I've gotten to continue that because it's also a requirement of TDHCA on my past deals that I have to keep that certification up.

There are about 17 other women that are HUBs along with me in this industry. And we have started at the beginning, and we have paid some pretty unpleasant dues. We've had some challenges. We've learned some lessons. But I think it's all for the betterment of ourselves, our companies, and the industry.

And we have, I think, invaluable contributions that we make all of the time. Again, I've also heard it's called a wives club. Again, these 17 women that are HUBs along with me, that I know of, that are probably in this room with me, we don't work for our husbands.

We have our own companies. We do our own thing. In fact, my husband just started working for me. We also do build capacity. I have had the pleasure of working with some really great women who became HUBs on their own and are still HUBs and creating more opportunities for themselves and helping developers in post award activities and in materially participating in the transaction the way that we are supposed to do, the way a nonprofit does.

We have to know what's going on with leasing. We have to know what's going on, it's not just at the beginning where we put an application together and we got awarded.

That's it. Yay. No, it is a lot more than that. It is post award activities. It is looking at leasing. It is looking at construction status reports. It is being there for monitoring visits. It is doing asset management. It is doing compliance.

And we are learning all of that. Not just the beginning and not just the construction. And not just the part that is the sticks and bricks of it all. We get to learn all of it and we get to do it every single day.

Kenny Marchant (1:09:17):
I will ask you a question. So we can extend our time because we've got some more stuff. In the wording that Cody has proposed, what specific objection do you have to his wording?

Lora Myrick (1:09:30):
The two year or five year. That if you have more than two transactions or more than five transactions that somehow you are no longer able to participate because we're too experienced maybe and we're not building capacity. We do build capacity within our own groups. I have one, two, three, four.

Kenny Marchant (1:09:48):
That specific objection?

Lora Myrick (1:09:51):
That is one of them. I would like for them to go back to what it was before. We have worked very hard for this certification.

Kenny Marchant (1:10:00):
It hasn't been changed yet. So you just...

Lora Myrick (1:10:01):
Right, right. I would like to kind of have it go back to the, to what it is and to where we are now. I think the other important thing is that when I've been a HUB, they are for-profit developers that I have partnered with and we pay taxes. I think I have been asked to be moved to the LP or to a special limited partnership because an entity is going to come in that's going to help with that tax exemption. But typically I am in the ~~GP~~GP, and we pay taxes. Most of my transactions with the exception

of one, I think that I had to be removed from to go into the SLP where...

Kenny Marchant (1:10:42):
So that we can do this other questions. Your specific objection to his recommendation is?

Lora Myrick (1:10:49):
Yes, I do. I'd rather it not limit us. We already have and someone mentioned this earlier, I believe it was...

Kenny Marchant (1:10:55):
And I would have Mr. Campbell address that specifically at the end.

Lora Myrick (1:11:02):
Okay. Can I just say one more thing and then I'll be done.

Kenny Marchant (1:11:02):
Yeah, you're out of time.

Lora Myrick (1:11:04):

Sorry. There are specific requirements of course for a HUB and you have to go through that ~~process~~process, and you have to recertify. The state of Texas can revoke your HUB if you don't meet the requirements or if there's a conflict of interest that they identify.

They also will continue to certify you if they feel that you have not graduated yet. They have a graduating process as well, once you meet ~~that graduating criteria~~that graduating criterion, they say you are a successful business and you are no longer a HUB and you can no longer qualify as one. Many of us have not reached that yet. And so we are still building our capacity, but we are helping others build capacity as well.

Kenny Marchant (1:11:49):

Thank you.

Lora Myrick (1:11:50):

Thank you very much.

Kenny Marchant (1:11:53):

Yes, ma'am.

Robbye Meyer (1:11:54):
Hi, my name is Robbye Meyer. I'm speaking on behalf of...

Kenny Marchant (1:11:57):
Robbye, I think we're going to need you to sign.

Robbye Meyer (1:12:00):
I'll sign in. My name is Robbye Meyer. I'm with Arx Advantage. I'm going to give you a little bit of a history lesson. This item got most of its support by a previous board member by the name of Shadrach Boggany from Houston. And he was a strong advocate and a strong champion of HUB points and for HUB participation. He not only wanted capacity building, but he wanted HUB participation in development and ownership. And if it ~~not had~~had not been for him and his championship, all the people that are speaking on behalf of this would probably not be HUB.

Kenny Marchant (1:12:39):
And you believe this suggestion by Mr. Campbell diminishes that?

Robbye Meyer (1:12:44):
Yes, it does.

Kenny Marchant (1:12:47):
You believe that it does?

Robbye Meyer (1:12:47):
Go ahead.

Kenny Marchant (1:12:48):
You believe that it does?

Robbye Meyer (1:12:50):
I do believe that.

Kenny Marchant (1:12:50):
Okay.

Robbye Meyer (1:12:50):
If it had not been for Mr. Boggany, I don't think you would have had all of the HUBs that you have in this room behind me in the program today as HUBs. And because of that, and I use my experience and to answer your

question, Mr. Vasquez, I use my HUB to help new applicants come into the program. So adding units does. Because I use my HUB to partner with them so that they can build affordable housing and move on to do development on their own.

So I use my HUB to help them to gain experience. So I think it does answer your question. It does put more units on the ground. And I use my HUB to help ~~them~~them, and I also help other HUBs advance their potential as well. So the HUB participation right now is working exactly how it was intended to begin with.

Kenny Marchant (1:14:02):

Thank you.

Megan Lasch (1:14:11):

Good afternoon. Megan Lasch, O-SDA Industries. I wanted to take it back to the question. I wasn't actually planning to speak because I think some of the people that went before me covered a lot of what I was going to say. But I want to take it back to the question of whether or not the HUB point should even be there. It's kind of hard for me to sit here and not say anything considering that I would not even be here if not for that HUB point 15 years ago.

I'm going to call it for what it is. I recognize that DEI slanted items are not popular right now. I get that. But I think we have to look at the entrepreneurship that has been created with this program. I was able to leave a company that I was working for and start my own company. It's the same mantra that I'm building within my own firm and the folks that have been working for me for years.

I hope that when I retire, they don't have to just go work for somebody else if they're able to go start their own business and do their own development. So to say, is it being used correctly? Is it producing more units? There's a lot of different things that we can discuss about that. But I think the entrepreneurship that not only are we putting affordable housing on the ground, but we are fostering new businesses to be created is pretty cool. And I think that's something that we should all be proud of because there's probably 15 businesses in here that have been created in part because this existed.

Kenny Marchant (1:15:21):
And you're reading it, that his suggestions eliminate you as a HUB?

Megan Lasch (1:15:28):
So it will eliminate me. And while that would not be the end of my world, sir, it's shortsighted for me to stand here and not voice support for the next generation, because I see how it's played out in my career. I literally couldn't even, I'm joking, but I literally couldn't spell affordable 15 years ago, when I created my company, I didn't know what I was going to do.

And then I found this program in this line of business. The current language as it is, I think is problematic for how the HUB is structured. And I think that that is key. I get the intent because I think the question that you asked Robbye is does the current language diminish the intent of the HUB program? And I think one could argue that it doesn't diminish the intent of the home program. However, it doesn't function the way it's written in a way that makes sense for how they're participating in developments from an ownership level and the length of time it takes projects to be completed.

Kenny Marchant (1:16:26):
Thank you. Very well said. Thank you.

Alice Woods (1:16:33):
Hi there. I'm Alice Woods with Broadleaf Community Consulting, and I just want to provide an example of how I do think these HUB changes may be inadvertently undercutting the capacity building intent of this program. So I was brought in as a HUB for the first time in the 2024 cycle on a couple of deals that's last year. And was brought in on a couple of more in the 2025 cycle. And if our 2025 deals are successful, that will be five for me.

And so the way that this is written, that means I'm done being a HUB and I've built all the capacity that I need to from that ~~program~~program, and I've learned everything that I need to. And yet none of those five deals that I'm a HUB on have started construction or even closed yet. So I don't think I've taken everything that I need to out of this program. And I do think that these changes, specifically limiting it at 5 may be kind of inadvertently cutting off the next generation.

Kenny Marchant (1:17:24):
When you say taking what you have taken out of these programs that you needed, can you explain what that means?

Alice Woods (1:17:33):
Sure. My understanding is that the intent of this, these HUB points are to help build capacity for women and minority owned businesses so that they might one day develop LIHTC projects on their own without being a small part of a larger development team and over, you know, gaining the experience through being part of the team as a HUB, you might be able to do that eventually. And just in my limited time having been a HUB on these five deals, I haven't necessarily gained that experience that I need to yet. Just because those projects haven't moved through there.

Kenny Marchant (1:18:10):

And his changes would limit you?

Alice Woods (1:18:13):
Yes. If I'm reading it correctly, I wouldn't be able to participate as a HUB on any future deals because I've already participated in five.

Kenny Marchant (1:18:20):
Is that correct, Mr. Campbell?

Cody Campbell (1:18:22):
That's all correct.

Kenny Marchant (1:18:23):
Okay.

Bobby Wilkinson (1:18:23):
Is there a number that works like 20?

Alice Woods (1:18:27):
I would defer to some of the HUBs that have participated in this program longer than me, but it seems to me that many of them were HUBs for, you know, up to 10 years before they were able to step into their own role as a

developer. So I wouldn't necessarily be comfortable giving a number.

Leo Vasquez III (1:18:45):
Thank you.

Kenny Marchant (1:18:47):
Would you consider to be more lucrative to participate as a developer than as a HUB partner?

Alice Woods (1:18:54):
Yes.

Kenny Marchant (1:18:56):
Yes.

Alice Woods (1:18:57):
To participate as the primary developer, yes, I would think so.

Kenny Marchant (1:18:59):
I mean, but we, I mean just in the limited time that I've been on the board, Mr. Chairman, if I understand what you say your goal is to go from this point to this

point. But it's been my limited experience that a lot of the HUBs are lifers. There's no, this is not about progressing to a ~~higher stages~~higher stage. This is, being a HUB is the goal, it's the destination. And I think what his intent is to open it up to more HUBs to participate. So do you understand that way or do you understand it a different way?

Alice Woods (1:19:46):
I think I can just speak to my experience, which is that I think that this change would kind of cut me as an example off at the very beginning of my career and not be able to participate in this program necessarily going forward, which I would like to.

Kenny Marchant (1:20:02):
I think the question, Mr. Woods in that is what is a proper, what's the proper number where that goal can be ~~accomplished~~accomplished, and we can bring more people into the system.

Alice Woods (1:20:13):
Sure.

Kenny Marchant (1:20:16):

Yeah. Thank you very much.

Alice Woods (1:20:16):

Thank you.

Sarah Andre (1:20:19):

Hi, good afternoon. Thank you all so much for volunteering your time here. I can't imagine doing this as a volunteer. It's a lot. I just wanted to talk about the process.

Unidentified Speaker (1:20:34):

Introduce yourself.

Sarah Andre (1:20:34):

I'm Sarah Andre and I'm with Structure Development. I became a HUB in 2012, and I had been in the tax credit world for about six years at that point. The first two years in tax credits, I worked three jobs. My tax credit job was unpaid. You know, we were waiting, waiting, waiting to have something hit. And I had two other jobs, one of which paid me $17,000 and the other of which paid me $34,000. And I was the primary breadwinner for my family. I did nothing but work.

When we finally got a development that where we had received a portion, you know, of a consulting fee, I was able to quit those other two jobs and continue on. I was only able to start guaranteeing developments 12 years after I became a HUB, and I'm still only a 50 percent guarantor.

The levels to develop on your own are quite high in terms of what you have in cash and what you have in assets. So it takes a very long time to develop that capacity. I am thrilled to be able to help others do the same. And for me, that end goal has been to become a developer. But not everybody's like that.

Some people want to run their small business and others don't ever want to try to guarantee a deal or perhaps they're in a relationship with a partner who is not willing to take that kind of risk with them.

You know this is a community property state, and your husband or wife, if you happen to be a HUB qualifying under a different category may not be comfortable. So it's not about just becoming a developer. I believe the state has a 30 percent target for HUB participation in deals.

And so it's not just as a consultant, as the accountant, it could be as the general contractor. There's all sorts of roles that people can play. And I just one want to say how grateful I am for this program and what it's meant to me and my family.

Kenny Marchant (1:22:54):
Thank you.

Sarah Andre (1:22:55):
Thank you.

Kenny Marchant (1:22:56):
Thank you. And do we have one more person on this item? Okay. After this gentleman speaks on this item, I'm going to recognize Mr. Campbell.

Michael Beard (1:23:11):

I'll be quick. Michael Beard, Betco Consulting. I just wanted to kind of reiterate and agree completely with Robbye in her comment when I was asked, do HUBs create capacity in and of themselves? Any for-profit developer can't get sponsored to do affordable housing unless they partner with the team that has the expertise. That is a way a HUB without being able to guarantee does actually build capacity.

And our HUB right now is doing that on two, well, hopefully, knock on wood, three deals this round because the for-profit developer has never done affordable housing and they're using our HUB as the tax credit expertise to be able to build these deals. So, you know, there's more than one way to build capacity, but HUBs do create a vital function in this.

Kenny Marchant (1:24:03):
And are you a HUB?

Michael Beard (1:24:05):
No, I work for a HUB.

Kenny Marchant (1:24:07):

You work for a HUB?

Michael Beard (1:24:07):
Yes, sir.

Kenny Marchant (1:24:07):
Okay. And your HUB is, what is your HUB?

Michael Beard (1:24:09):
It's Betco Consulting.

Kenny Marchant (1:24:11):
Okay.

Michael Beard (1:24:12):
Yeah. So we've been in the industry since 2012 and I've been in affordable housing since 2018. No, I'm sorry, since 2013 myself. But Lora Myrick, she's the principal of Betco Consulting and she worked for the state agency. She's had her own business since 2020. When did you start it, Lora?

Lora Myrick (1:24:32):

2011.

Michael Beard (1:24:33):
2011. So it's because of her and her team's expertise that a for-profit developer is going to be able to start developing affordable housing in this state because we're partnering in the deal. And I know some HUBs do that and that's how they help build capacity. Because like Sarah said, you might not ever be able to get the guarantees, the liquidity to meet the guarantees as a HUB, but you can still bring more housing into the state by doing that type of partnership.

Kenny Marchant (1:25:05):
Thanks very much.

Michael Beard (1:25:05):
Yeah, of course.

Tim Alcott (1:25:11):
Hi, I'm Tim Alcott and I'm with the San Antonio Housing Authority. I'm not a HUB, but I came up here. I was

actually talking about a different item, but you had a couple comments I want to make.

One is, first of all, thank you all for your all service here. You all do a great job. I know we don't come up very much because you all do such a great job. Bob does a great job keeping his staff going here. But one of the comments I heard was getting taxing authorities to sign off as we go through here, get all the taxing authorities to sign off.

As a housing authority, my goal is to build a lot of 0 to 30 percent of my units. And why is it that I'm trying to do that? It's because in San Antonio we have 62,000 people on our wait list and generally all those are around 12,000 something AMI. So way below 0 to 30 percent AMI.

And the reason I can't build more. And I talk to, you know, elected officials all the time or city officials. They say, well, how can we incentivize to build more housing at that level? What's your gap? I can always tell you what my gap is.

My gap is the cost of construction. Because of that low AMI, it pays enough for the leasing agents and insurance, but not actually the building itself. So my gap to build for those 62,000 people is the cost of construction.

And if I don't have a tax exemption or if I had to get everyone to sign off on, especially in high opportunity areas, I'm not going to be able to build. That's very simple. In many areas, I'm not going to talk about certain, well, I can, but certain areas they don't want affordable housing. They definitely don't want a bunch of folks that are very low income in that area.

And I wouldn't be able to get sign offs from all the groups that I would need to pass a resolution to be able to have no tax exemption, which means I'm going to have less, my wait lists get longer. I have less affordable housing that I can build. And so the net result is that you're probably going to have a lot more developments, if that actually occurred, that are helping 60 percent AMI, you know, the higher levels, but not 0 to 30 percent because the gap would just get worse. And I just want to respond to your comment, Mr. Merchant (sic), and...

Kenny Marchant (1:27:26):
But you're a housing authority?

Tim Alcott (1:27:27):
Yes, sir. Okay. Yeah. But I couldn't get everyone to sign off.

Holland Harper (1:27:30):
And are you prime developer on your housing authorities?

Tim Alcott (1:27:34):
So we have a, typically we have a partnership and much like the scenarios you have, we actually did do some deals that were, we actually were the, we wanted a loan. And so we were the, we didn't have a for-profit developer. What we found out was we have a staff of seven people on the development side and there's such a need for affordable housing that we spent so much time on that one or two developments. We did Snowden Road, you all passed it and I thank you all for the tax

credits. It's a 9 percent deal. But to really help the city of San Antonio and have more affordable housing, it was a better use of our time to have partnerships with for-profit developers.

Holland Harper (1:28:16):
And you own the real estate, correct?

Tim Alcott (1:28:18):
Yes, sir.

Holland Harper (1:28:19):
And the real estate's in your title and your name?

Tim Alcott (1:28:20):
Yes, sir.

Holland Harper (1:28:23):
Which means that right off the bat you get theirs. Then we're just talking about the construction of the buildings.

Tim Alcott (1:28:27):

You're right. And so but if I had to pay taxes, and I'm over more time. So I'm trying to be brief here, but we have, you know, requirements for more 0 to 30 percent AMI units. And so with a gap there, if I had to pay taxes, I'd build less of those units. And I'm not arguing with you guys. I just want to make sure you all realize my perspective.

Holland Harper (1:28:46):

We understand it. I mean, we understand the dilemma in the deal. We're private citizens, and we know that taxes cost money.

Tim Alcott (1:28:53):

Yeah. No, I appreciate you guys. I just wanted to give you that perspective. Thank you.

Kenny Marchant (1:28:57):

Thank you very much. Thanks. Okay. Mr. Campbell.

Cody Campbell (1:29:01):

Yes, sir. I'll defer to Mr. Marchant on that.

Unidentified Speaker (1:29:07):

(Indiscernible) 1:29:07.

Kenny Marchant (1:29:06):
Yes, ma'am. This will be the last comment we take on this item (indiscernible) 1:29:11 because we've got several items to consider.

Ina Spokas (1:29:13):
Hi, my name is Ina Spokas from Betco Housing Lab, and my, I guess my only comment is that having existing HUBs, I don't understand why putting a limit on them would make a difference, because we're not preventing new HUBs from participating if they want to. So putting a limit on it doesn't, what it will create is that if there are not HUBs available, developers will have to find somebody, pay for them to get a HUB. And you're just forcing that process for somebody who wants to be a HUB.

Kenny Marchant (1:29:52):

We'll ask Mr. Campbell what his reasoning behind that was. Thank you.

Ina Spokas (1:29:59):
I'm done. I'm just writing my name down.

Kenny Marchant (1:30:03):
Mr. Campbell.

Cody Campbell (1:30:05):
Yes, sir.

Kenny Marchant (1:30:06):
Yep.

Cody Campbell (1:30:06):
Well, like I said, it was lively. We certainly discussed many things. The question as to whether HUBs should exist in the QAP or not is not something that I believe staff has an opinion on. I would defer to Bobby, but I think he would probably agree with me on that. But as we discussed previously, they could be eliminated from the QAP. There is not any kind of statutory requirement that they exist in here.

In terms of the changes that we have proposed to HUBs, a significant motivator there was to tighten down the requirements for HUBs to incentivize people to pay property taxes. It is an ambitious policy proposal on behalf of staff with explicitly the intention of us getting more applications that pay property taxes throughout the life of the extended use period.

Kenny Marchant (1:30:51):

And after all this testimony that we've heard or comments, do you think there's another way for you to approach it that would accomplish the same thing?

Cody Campbell (1:31:02):

We, specifically for property taxes, could come up with a separate scoring item. We would need to build consideration for nonprofits and housing authorities in there because they would not pay property taxes. But, yes, we could do that.

Kenny Marchant (1:31:19):

What did the board members think about that?

Holland Harper (1:31:28):
I'm in favor for paying property taxes just because I think that's the best of the long-life cycle of these assets, which are long term assets. I, after hearing the testimony from the HUBs, both what it's done, but I don't know if it wouldn't drive more housing if the HUBs were not there, right? And more developers are in.

Once you had the, what's happened in the HUBs is they've got intellectual capital and they've become industry experts. What they've done to be able to get this thing done.

Cody Campbell (1:32:04):
Sure.

Holland Harper (1:32:05):
And then we incentivize that they have to stay in the, or they're in the deals. So you have to get the points. We just have this small group of human beings that are experts inside that.

So I do think that what you're trying to do in there where you opening that aperture up might change the world a little bit. But I would be in favor of doing some tests without HUBs and see what happens. See if we get more affordable housing in

Kenny Marchant (1:32:29):
Well, I'm not saying eliminate that. I'm just asking because this panel is not proposing that we do away with HUBs and the consideration of low-income tax housing credits. That's not the subject of this discussion. The subject of the discussion are ways to get projects qualified that will pay their property taxes and where the property taxes are less of a quotient in the deal. And so anything else about the testimony you'd like to clarify?

Cody Campbell (1:33:13):
No, sir, I believe everything...

Kenny Marchant (1:33:14):
Okay. So you don't think any of the testimony mischaracterized your motives?

Cody Campbell (1:33:18):

I don't believe that it's mischaracterized. No. And I believe that everyone, at least to my understanding of this issue as it exists in the industry, I believe that everyone testified in good faith.

Kenny Marchant (1:33:30):

Okay. we'll go on to the next item then.

Bobby Wilkinson (1:33:34):

So just direction-wise, just don't touch HUBs figure out a different way of property taxes. Is that right?

Kenny Marchant (1:33:37):

I would like to see, I mean personally I would like to see a, some modification of his proposal. That is, I'd like to see your suggestion stay in place because it does not eliminate HUBs. In fact, I would argue that it opens up opportunities for other HUBs to participate. That's the way I first read it. ~~Obviously~~Obviously, I wouldn't hold my mouth the right way when I read it. But that's the way. So...

Leo Vasquez III (1:34:19):

Mr. Marchant, can I make just a point...

Kenny Marchant (1:34:20):
Yes, sir.

Leo Vasquez III (1:34:22):
On this? I question whether five is the right number. Maybe it's seven, maybe it's 10. But something that I think we're skipping over in this whole discussion. If there is a limit of five, perhaps if we don't put the point system in where it makes such a difference to have a HUB as a partner. I think every one of these groups that HUBs have come up and spoken before us today at this point, with their experience and expertise and track record knowledge of how this works, they can be hired and be part of any project, regardless. They're not being hired today.

Well, they should not be being hired today because of being a HUB. They should be hired because they really know what they're doing. And that's a part where I don't know if we've hit that balance of if they enter into a project just being a partner rather than being a HUB. It's almost like now we're, if we keep that HUB incentive, that extra points, they're being penalized for entering as a regular partner rather than HUB. And I don't have a solution on how we fix that.

Kenny Marchant (1:35:49):
And it seems to me like that the higher we raise the number from five, the group that it affects will become smaller and more distinct. So then that group will say, well, you're just targeting us. And Ms. Farias, do you have any comment on this issue?

Anna Maria Farias (1:36:13):
I'm not a member of the rules committee.

Kenny Marchant (1:36:16):
Yeah, we're welcome.

Anna Maria Farias (1:36:17):
I've kept my mouth shut now for over two hours. I'm glad you asked. I can answer. Our experience when we were at HUD, periodically, you would get these huge scandals. And then of course, the fingers start pointing and somebody would say to the HUB, did you know this was

going on? And sometimes the HUBs would say, well, somebody approached ~~us~~us, and they knew somebody like us, so we went along with it. I have never seen that.

Unless you can tell me to the contrary. Are these HUBs here. Based on everything that I have heard over the last two years that I've been here, it sounds to me like they are besides experts they are extremely selective who they say yes to. And I think that is extremely important.

In other words, like, I'm my own boss, I'm not just going to give you my signature because I'm a minority or I'm a woman or blah, blah, blah. I'm very, and you know, a lot of them are experts because they worked for TDHCA for 20 years. They are experts. And going back to when I was at HUD, we always wanted to hear where are the success stories? Because we want more houses built.

And yes, there will always be this dichotomy of how many houses are built, how much money is coming in, property taxes. But I've only been here two years. Whoever here has been more. Bobby, have there ever been any scandals dealing with the HUBs? That's my question and my answer.

Cody Campbell (1:38:03):
Sure. Scandals that would rise to being anything significant. I can't think of any off the top of my head. I mean I've gotten word of HUBs getting crosswise with developers and the sort of things that come with highly volatile, the high risk, high reward business. But no, I can't think of anything that I'd call a scandal off the top of my head.

Kenny Marchant (1:38:33):
I think, Mr. Wilson, that the direction that I personally give, that we leave it ~~in~~in, and it that it is an item that we continue to work on but are totally cognizant of the fact it may come out before we pass it. Is that okay with the panel? Since we're not going to take any action today, we'll go to the next item.

Holland Harper (1:39:07):

How do you graduate from the HUB? I mean I'm very familiar with the HUBs in federal contracting HUBs and state contracting. How do you graduate from the HUBs in new market or historic tax credits or not historic tax credits, LIHTC how do you graduate from the system here? I mean if you were in construction and you hit $33.7 million, you're out. If you're in manufacturing and you break 500 noses, you're out. How do you graduate in this?

Cody Campbell (1:39:40):
That is a great question. Truthfully, until...

Bobby Wilkinson (1:39:44):
I can actually.

Unidentified Speaker (1:39:43):
Please go ahead.

Beau Eccles (1:39:45):
Yeah, it's actually in Rule 34 TAC Section 20.294. You exceed the size which is set under 13 CFR 121 for four years. In new multifamily housing construction, that size is $45 million per year.

Holland Harper (1:40:11):
So you'll never graduate.

Kenny Marchant (1:40:16):
So answer is never.

Holland Harper (1:40:20):
Pardon me. Sorry guys. I would be opposed to trying to take this and just see what happens the market if it was pure. If you, I mean I'm just, I know that's different than your view. I would like to see what happens you if this thing was pure because...

Kenny Marchant (1:40:38):
My proposals that we leave it in.

Holland Harper (1:40:40):
I just don't...

Kenny Marchant (1:40:41):
Just be cognizant of the fact that we may remove it at a later date. But I Understand.

Holland Harper (1:40:47):
And $45 million is in one year more than...

Leo Vasquez III (1:40:49):
Times four years.

Holland Harper (1:40:51):
Yeah. That's pretty impressive because construction, you break it three out of two.

Kenny Marchant (1:40:55):
I don't think anybody in the room would ever qualify, I mean, be disqualified. Is that right?

Cody Campbell (1:41:02):
It would be very difficult.

Kenny Marchant (1:41:03):
So it would be very difficult to ever bring any new, I mean, difficult to bring new HUB participation in.

Cody Campbell (1:41:14):
Yes.

Kenny Marchant (1:41:15):
Okay.

Cody Campbell (1:41:16):
Unless a developer just wanted to go with a new HUB because, you know, they liked them and, you know...

Kenny Marchant (1:41:21):
Got you, Got you. Okay. Thank you.

Cody Campbell (1:41:25):
Ready for the next topic?

Kenny Marchant (1:41:27):
Yes.

Cody Campbell (1:41:28):
Okay. So the...

Kenny Marchant (1:41:31):
Well, I think, I mean, you're perfectly welcome to make a comment in the...

Sarah Andre (1:41:36):

Okay. I just want to correct the...

Kenny Marchant (1:41:37):

And we're going to take an intermission for various reasons after this...

Sarah Andre (1:41:46):

Understood. Super quick. So that's not 100 percent factual. It's done by NAICS ~~code~~code, and it depends on what your NAICS is. So the number you gave is correct for specific codes, however many people, let's say you're a accountant and you're a HUB and you're in one of these projects.

Well, the level for an accountant is different. So it may be super high and maybe you never graduate, but, you know, try being a woman for 56 years and then let me know if you think it's unfair. Sarah Andre, Structure Development.

Kenny Marchant (1:42:24):

Thank you. We're going to take a 10-minute intermission.

Holland Harper (1:42:35):

All right. Okay. Mr. Campbell, are we on schedule as far as your, you think?

Cody Campbell (1:42:39):
We should. I knew that the last item was going to be the longest. The, I don't know that we need to spend that much time on tiebreakers. And I'm trying to be cognizant of the fact that we need to get to four and hopefully have an open comment period. I don't know that we need to spend that much time on tiebreakers.

Kenny Marchant (1:43:01):
Let me ask a question in the audience. How many of you are here that just simply want to make a comment on items other than on the QAP so that we could bleed into that last hour this subject matter?

Cody Campbell (1:43:21):
Okay. sure.

Kenny Marchant (1:43:22):
Okay. Two people. Okay. So we will not need the entire hour for other comment in. Okay. thanks. Okay. Mr. Campbell.

Cody Campbell (1:43:32):
Great. Fantastic. The next item that we have in your board book concerns the 9 percent housing tax credit tiebreaker. Because this process is so competitive, ties among applications are pretty common. And so the tiebreaker is a pretty significant component of the program. Right now, the tiebreaker determines priority based on proximity to a number of valuable community amenities. The four that we have in the QAP right now are a public park, the elementary school of attendance, a full-service grocery store and a public library.

The way that we run the tiebreaker is that applicants identify the closest three out of that four, and we use that cumulative distance just as a simple rank to determine the priority. It's worked really well. I'm very proud of this tiebreaker. I think it's helped disperse sites because those amenities are generally scattered throughout cities. So we're not necessarily congesting people all into one area.

There are two changes that staff proposes. The first is possibly replacing one of the four amenities that we're using. The benefit to doing that is that it kind of rescatters the site. So whereas we've had for I believe, two years now these four amenities. So everybody's looking for those things and trying to get close to them. If we replace one, it causes some dispersion in the map, which is a desirable outcome.

Staff would recommend that a public park would be the most appropriate one to replace. Not because parks aren't valuable, but because trying to figure out what is and isn't a park is taking years off of my life and plenty of other people in this room as well.

We've gotten a couple of suggestions for what might work. There are pros and cons to all of them. One that is sometimes mentioned is proximity to a public transit stop. Certainly that is a valuable amenity for low-income tenants. Although not all municipalities have public transport, transit stops. And so we would be disadvantaging them.

Another one that is suggested from time to time are healthcare facilities. And so we've, facilities. We've put one proposed definition of a healthcare facility that might work in your materials. We're also working to identify maybe any existing lists of definitive healthcare facilities, goodness, that we could use, because having just a list that everybody's working off of is better than trying to write a definition. So that's one proposed change is maybe replacing one of those amenities.

And the second, and this is a suggestion that has come from the industry, is adding an initial tiebreaker before you get to that proximity. Prior to this tiebreaker, the QAP included a threshold for the first tiebreaker that was based on the poverty level of the census tract. And so we're proposing that it might be a good idea to have a first tiebreaker that just looks at the poverty level of the census tract and prioritizes any application that has a poverty level under 20 percent.

Although Mr. Harper, this goes exactly back to what we were discussing earlier. I don't think that there is a right or wrong decision on that. But it is certain that prioritizing low poverty census tracts could increase the cost of land. And so there is a tradeoff to having that.

Kenny Marchant (1:46:36):
Could increase the cost of what?

Cody Campbell (1:46:37):
Could increase the cost of land, the cost of the development sites.

Holland Harper (1:46:42):
So Cody, are, you want to keep going?

Cody Campbell (1:46:45):
No, no, I'm done.

Holland Harper (1:46:46):
Yeah. So I get your tiebreaker. You don't enjoy the public park because you have to go through what is really a public park and what is not a public park and what's the school ground and the rest of it. I remember all those experiences. If we go with the 20 percent then that moves money around and we're pushing land and equity and maybe more parks.

Cody Campbell (1:47:05):
Correct.

Holland Harper (1:47:05):
What's wrong with what you got now? It just takes too much time.

Cody Campbell (1:47:10):
What we have right now is working. The public park thing really has been a thorn in staff side for the last couple of years we've tried to write a very, very limited definition of what is a public park. And even ~~then~~then, we've had some real gray area cases come up.

Holland Harper (1:47:26):
I mean I would think that the number one thing would be grocery store. Number two would be education. Number three would be public park. And number four would be library, which sounds terrible, but I don't know if you've been to your public library lately. It's a little different than it was in 1990. You want to, I mean, is

it not working the way it is? I mean because you know, food deserts, access to food, healthier food, that's what people need.

Cody Campbell (1:47:57):

Sure, absolutely. Again, I'm very proud of this tiebreaker. I do think it's working well. I just think that if they're, I think that there is a benefit to maybe swapping out one of those amenities every couple of years to disperse the site. But if we left it exactly how it is right now, I still think...

Kenny Marchant (1:48:12):

Could you add an amenity to it?

Cody Campbell (1:48:15):

We certainly could.

Kenny Marchant (1:48:16):

I mean, I think that public transit is important. It would disadvantage some that didn't have any public transit at all, but, and have you added any kind of specific language about public park?

Cody Campbell (1:48:35):
No, sir. We do have a definition in the QAP and it requires the land being dedicated for public use or recreational use by a governmental entity at least a year.

Kenny Marchant (1:48:46):
That would clear up the previous situation?

Cody Campbell (1:48:48):
Unfortunately, no. We still get empty plots of land that have been dedicated as a park for a year, but no progress has been made on them. So they're fuels, sure.

Holland Harper (1:48:58):
Do you use LCAD map? Do you use the, that's my personal one. Sorry.

Cody Campbell (1:49:04):
Sure. We do look at appraisal districts.

Holland Harper (1:49:07):

You use the appraisal district and what the designation or use the zoning map to do that?

Cody Campbell (1:49:12):

What we look for is the dedication by the city, which is kind of the precursor to that happening. Some of what has been presented to us, I disagree, is really in line with what the QAP is looking for in terms of a park. I mean, just empty fields that have been nothing, you know, for years that might at some point be a public park, but that...

Kenny Marchant (1:49:30):

You could have dedicated undeveloped parkland.

Cody Campbell (1:49:32):

Exactly. Correct.

Kenny Marchant (1:49:35):

Floodplain. That's another definition.

Holland Harper (1:49:37):
Yeah, but let's, I mean you could just put one caveat on that. It's being maintained by either a private or a public entity.

Cody Campbell (1:49:42):
Absolutely. Yes, sir.

Holland Harper (1:49:43):
It's going to get kind of squirrelly, right? You know, whether I'm shredding it or not. But if it looks like a jungle, I wouldn't say that's a, it's not exactly what we're looking for, right? So there have to be a little gray there.

Cody Campbell (1:49:54):
Yep. Yeah, yeah.

Bobby Wilkinson (1:49:57):
Like Remmer's Ranch or, there's plenty of raw land with trails and parking.

Holland Harper (1:50:03):

Yeah. But let's be clear about that. I mean there's, I got Pat Maze, Core Lake, 11 miles of mountain bike trails. Private individuals are maintaining those trails every day, right? So it's still a forest, but they're maintaining it every week. So we can make some definition there.

Kenny Marchant (1:50:21):
Have you clarified the definition of a full-service grocery?

Cody Campbell (1:50:27):
That is very, very specific. It is a definition that a couple of people have gotten tangled up in. This is very specific.

Kenny Marchant (1:50:34):
One of those. Didn't we?

Holland Harper (1:50:35):
Yes, you sure did.

Cody Campbell (1:50:36):
That is correct.

Unidentified Speaker (1:50:38):
(Indiscernible) 1:50:38.

Cody Campbell (1:50:41):
And the happiest I've ever been living was when I could walk to the HEB. It was about a five-minute walk from my house. Unfortunately, I'm not there anymore. But that is ~~a~~an unimaginable quality of life benefit to have.

Bobby Wilkinson (1:50:54):
I mean, I guess shop for seven and welcome with your bags.

Cody Campbell (1:50:59):
It's fair. It's just me and my one little bag. We'll get you a cart.

Kenny Marchant (1:51:05):
Somebody suggested a pub.

Cody Campbell (1:51:07):

Suggested?

Kenny Marchant (1:51:10):
This is a joke.

Cody Campbell (1:51:12):
Oh, bars. That would work because I have a mental map of all of those in my head. So there's no...

Kenny Marchant (1:51:18):
Hey, is there any public comment on this, this particular item? Yes, ma'am. If you would come forward and we'll get started.

Tracey Fine (1:51:25):
Tracey Fine. National Church Residences. And I do appreciate this current tiebreaker. I love the idea of adding the public transit stop as ~~as~~ number five. Yes, it does benefit some areas, but we're not taking away the other four options for other areas that don't have public transit.

I, for specifically for at-risk, I am not in favor of doing the first break of poverty rate. And that's because in at-risk we're a statewide bucket and we were rural and we're urban and it really favors urban and super suburban areas when you look at a poverty tiebreak.

And so I would rather us on the preservation and the at-risk side of things, if we're going to have like an initial break before we get to the amenities that we should focus on maybe something like population growth or rent burdens of that location. Doing poverty is not going to be an equalizer and you're going to miss out on preserving highly urban, highly needed, high rent burden areas in our urban communities.

Kenny Marchant (1:52:31):
Thank you. And Cody, you were suggesting that as a possibility or is that in the...

Cody Campbell (1:52:37):
Yes. So the initial review of the poverty rate of the census tract is not in the QAP now. We had something similar to it in there a couple of years ago, but as you

know, has been discussed at this meeting so far it might not be the board's priority to emphasize the poverty rate of the census tract quite that much. And so I think that before we finalize this recommendation to the board, we're definitely going to take a second look at that. Yep.

Kenny Marchant (1:53:02):
So it's not either or. I mean, if we, the other, adding the transit stop would be...

Cody Campbell (1:53:11):
Totally separate discussion.

Kenny Marchant (1:53:11):
Okay. Thanks. Yes, sir.

Zachary Krochtengel (1:53:31):
Zachary Krochtengel. Sycamore Strategies. So I think at one point suggested this tiebreaker way back when, but I suggested it with like nine different items and then you pick the highest four so that it really wouldn't advantage areas that didn't have public transit. But it

also would make it much more difficult to pinpoint sites based on just four different attributes.

With more attributes, it'd be much more difficult for everyone to zero in on the same site using GIS mapping and things like that. And I think that it would still have the same accomplishment. So I'm for adding multiple additional amenities as long as they can be easily defined.

The other thing I would say is I'm also against the low poverty rate tiebreaker as well. But I do think that there is a way to incorporate the low poverty tiebreaker. Like you could actually have it as one tiebreaker and have if you're in a very low poverty census tract, you subtract a thousand feet from your tiebreaker distance. If you're in a medium one, you subtract 500 feet and so on and so forth.

So that could still incorporate ~~that, but~~that but be in the same tiebreaker. So something that was extremely, highly amenitized in a CRP area could still beat out something with a low poverty rate if you kind of set that scenario up where there's one singular tiebreaker that takes into account all of those factors.

Kenny Marchant (1:55:01):
So, I mean, you would add to this list of ~~park~~parks, et cetera, you would add more...

Zachary Krochtengel (1:55:09):
I would add the medical facility. And I think that the way you...

Kenny Marchant (1:55:11):
I agree. I like the library.

Zachary Krochtengel (1:55:13):
I like library. I take my kids to the library for all their programming.

Kenny Marchant (1:55:18):
We don't want to double his problems.

Zachary Krochtengel (1:55:20):
That's true.

Kenny Marchant (1:55:20):

We don't want to double our force majeure request.

Zachary Krochtengel (1:55:23):

Well, that's true. And I think that, you know...

Kenny Marchant (1:55:28):

So we'd have to be very specific, like a library, you would have to say a library open to the public because it could be a school library that you couldn't go.

Zachary Krochtengel (1:55:36):

Right. And so I think, like, the medical one, we always had, like, daycares ~~was~~were part of the, you know, opportunity index. And they had a license, so it was a DPS license. And there's just no getting around that. You either had a license or you didn't. Nobody was putting in a daycare that somebody was running without a license because you actually had a database to look up and see if they had a license. So I think that there's a lot of medical facility licenses.

So I think you need to pick two or three licenses that make sense, and they either have that license and they ~~count~~count, or they don't have that license and they don't count. And that's something extremely easily verifiable as opposed to coming up with a definition and then saying, well, this ambulatory care also gives shots and diagnoses you for this, and is this, and is this, I think we need to look at definitions of what, like, actual governmental license are, and that's that cut.

Kenny Marchant (1:56:32):
I think we may have to do that next year. Okay. Yeah. I mean, as far as expanding it beyond. I mean, think we've got some good ideas and, but they have to be very specific ideas. Because of our past experience with definitions.

Zachary Krochtengel (1:56:48):
100 percent. Thank you.

Kenny Marchant (1:56:50):
Thank you for your input.

Sidney Beaty (1:56:55):

Hello. Sidney Beaty, again with Texas Housers. We don't have any issue with the staff proposals for the tiebreaker, but ultimately our preference would still be a weighted tiebreaker formula that incentivizes more deeply affordable units. As you heard somebody from San Antonio mention earlier the issue, the real issue is with those 30 percent units here in Austin, there's just 16 for every 130 percent AMI households.

There's, I'm sorry, I'm going to start over. There are just 16 affordable and available units for every 100 households in Austin that are making 30 percent AMI or less. So that's where the issue is. This is the largest affordable housing program in the country. That's kind of where the needed units need to go.

We've been proposing a weighted formula for the tiebreaker that gives more points for more affordability. So, for example, like a 30 percent unit would be 3 points, 50 percent, 2, 60 percent, 1 point. And that would both incentivize more units and more affordable units.

Kenny Marchant (1:57:46):

Thank you. You definitely qualified as the fastest reader today. Thank you.

Tanya Lavelle (1:58:05):
Good afternoon. Tanya Lavelle with Disability Rights Texas. I'm going to echo what Sid said. We have no issues with what staff suggested. But as she mentioned, we also think that the most important thing in the tiebreaker is to incentivize the development of low-income units, lowest income units. People with disabilities often fall into the extremely low-income gap in the bracket.

And we need as many units as we can. This program is the primary driver of any accessible, affordable units in the state and we need as many as possible. So we suggest that kind of as being the first tiebreaker. I also wanted to mention that we...

Kenny Marchant (1:58:43):
You suggest poverty be the first tiebreaker?

Tanya Lavelle (1:58:47):

No. Anything to incentivize the development of more extremely low-income units. Yeah. And additionally, we are in support of the suggestion, staff suggestion to swap out healthcare facilities for parks. I think the definition is fairly clear on what it would be. I think it's a hospital, a community health center, and maybe a general practice that is not specific enough to narrow people out.

That is going to make a big difference, I think to everybody who lives in a development, you know, regardless of age or familial status, but especially for people with disabilities who need access to healthcare facilities and it can be a matter of life and death for folks to be able to get to a hospital or, you know, somewhere to receive medical attention. So we definitely are in support of that swap.

Kenny Marchant (1:59:37):
Swap or you would be in favor of adding it?

Tanya Lavelle (1:59:40):
You can add it too, yeah. We just like hospitals.

Kenny Marchant (1:59:44):
Thank you.

Tanya Lavelle (1:59:44):
Thanks.

Kenny Marchant (1:59:45):
Yes.

Kathryn Saar (1:59:50):
Hi. Kathryn Saar. I think that adding a few additional amenities to the tie break help spread things out more and that's what we're really pushing for here because regardless of, you know, how many amenities we have, we all have the same maps. We all know where the winning census tracts are. So we all, you know, it's less so when we have this kind of system where we have four ~~amenities~~amenities, and we pick the top three. So if we had, you know, if we had...

Kenny Marchant (2:00:09):
If it gets bigger, the more you add to that list?

Kathryn Saar (2:00:10):

Yeah, I think if you had five, you could still do the top three or something like that. So it just, you know, right now you basically have to be really, really close to two amenities to be low enough on that tiebreak to get an allocation. So, you know, if you are directly adjacent to a grocery store, let's say a Walmart, you get a zero. And so when you add that zero to a 50 because you're right across the street from a park and maybe there's a library or something, that zero makes a really big difference in that number.

So if you can be touching one of those amenities and grocery stores are one of those places where there's often excess land, but it does come at a cost. So it's driving cost. And we're in a cost constrained environment. So I would be supportive of adding additional items to this list, but keeping the, you know, three of five or three of six or something like that. I think the industry at large, I fully support having 30 percent units in developments.

And when we talk about having the lowest income tenants, that's what we're talking about. People that make 30 percent or less of the area of median family income, those are people that are in need, serious need of housing. But those units do not generate debt carrying capacity. So I get less debt on that property the more 30 percent units I have.

So that means that I have less money to build with. And so that's going to drive the number of units down. And so I think that, you know, while a worthy goal, housing 30 percent tenants, I think we have to balance that with the resources that are available. So thank you.

Leo Vasquez III (2:02:20):
Kathryn, I'm sorry. Just...

Kathryn Saar (2:02:23):
Sorry.

Leo Vasquez III (2:02:25):
Two questions. Are you, and I think you're a good one to ask from your TAP perspective. So is there not a concern that if we add too many, the menu of possible tiebreakers and you take the top three or five or whatever it is, would we not end up having everyone

qualify for the most tiebreakers at some point and that kind of, in the same starting spot?

Kathryn Saar (2:03:05):
Well, yeah. I mean, I think you do have to kind of keep it small. But that's why I think like 3 of 5 or 3 of 6 is kind of as much as you could do. Also, you're also already doing this in opportunity index. We have an opportunity index which incentivizes you being within a certain radius of these amenities.

So now, we're doubly incentivizing them by putting them in the tiebreak. But if that's the policy that this board wants to pursue, then that's fine. And I think that this is the way that we can either swap out or add one or two to that number to help spread things out and not drive up the cost of acquisition.

Leo Vasquez III (2:03:40):
Yeah. Again, I'm just concerned that there's that balancing act that if we have too many options and we don't really prioritize certain ones, everyone's going to get the max points. So...

Kathryn Saar (2:03:52):
Right.

Leo Vasquez III (2:03:53):
Then I have just on your last point that you were talking about, and I'm just sort of talking out loud here on this one. So I think we have some folks arguing the need for the extremely, you know, the 30 percent AMI units. Hey, that's what should be...

Kathryn Saar (2:04:13):
And to be clear...

Leo Vasquez III (2:04:15):
Versus there's probably several of us here on the board that while we think those 30 percent AMI are really important, if there's 30 units that are being added on one complex. But if I can have 360 percent AMI units, to me that's the tiebreaker that, you know, offsets the much smaller number on the more needed, I understand that. But...

Kathryn Saar (2:04:39):

And to be clear, there's a scoring incentive that exists right now where all, let's just say all developments in, I'm sure there might be one that doesn't take the point for some reason because they're the only development in the region. But for all intents and purposes, all 9 percent tax credit developments have 10 percent of their affordable units at or below 30 percent. So we do build these units, but again they're, they limit our debt carrying capacity and to your point that, you know, drives down the number of units that we can actually build.

Leo Vasquez III (2:05:20):
Okay. Thank you.

Kenny Marchant (2:05:22):
Thank you.

Michael Tamez (2:05:39):
Michael Tamez. Madhouse Development, I just wanted to make two quick comments. One is I'm also in favor of removing the poverty rate as part of this threshold as a first tiebreaker. And then the second part was to try and add some amenities without creating too much burden

on staff would be to consider the middle school and high school in addition to the elementary school. You could expand that program. I know as a parent, letting my kid walk home from high school would be a, you know, real dream. So that would be easy than walking them to school every day for elementary school. So just want to keep that brief.

Kenny Marchant (2:06:11):

Thank you.

Alexa Sheehy (2:06:22):

Alexa Sheehy. Structure Development. I am also speaking just to the actual quantity of the ~~tiebreakers~~tiebreakers, and I am highly in favor of limiting it to four or five just to keep this process simple. It's already becoming just overwhelmingly complex trying to choose sites each year. Whether or not you replace parks with some sort of medical facility is to me up to staff and the board.

But please avoid trying to do like a menu of 10 items, choosing three and making staff know what the sort of definition of all 10 items is. Additionally, there is a pretty good federal data set of rural healthcare clinics, community healthcare hospitals. So I do agree with keeping that as a list that we all have to go off of as opposed to trying to like we do with supermarkets, try and tell you guys like, ah, this one sells one frozen item and it's going to count.

So yeah, and as far as the poverty, I don't I really indifferent on whether or not you keep that first tiebreaker in there. I would like to say though that this notion that it's a lot less expensive to build in Q4. That's sort of all I do is look at real estate all day and I'm happy to send information to Cody, but I don't think that developing in Q1 tracts is really that much more expensive than really in these Q4 urban dense tracts.

If anything, I'll be lot of the land in the lower poverty, higher quartile tracts is more suburban and less expensive. So I'm not sure that there's really like a correlation there, but I don't really have an opinion on whether or not you should keep that as the first tiebreaker. But please don't add 10. Thanks.

Justin Meyer (2:08:29):

Thank you. Justin Meyer. Arx Advantage. I'd like to echo the sentiments of several folks that have gone before me that said please, please, please don't make a tremendous list of items to pick from on tiebreaks because at a certain point we're just reproducing opportunity index in another capacity and I don't think it's necessarily a positive thing.

Coming from a primarily rural development point of view, I think hospitals and healthcare would be a really positive thing to include in tiebreaks, whether we're going to a five item, a best three out of five, or if we're going to replace an item. Honestly in the rural space, we see a lot of libraries being the least utilized thing over parks, but that's just our take from that viewpoint. Thank you.

Kenny Marchant (2:09:18):

Okay. Thank you. Mr. Campbell.

Cody Campbell (2:09:35):

Yes, sir.

Kenny Marchant (2:09:36):

How did you end up thinking that we were going on that? Expanding or replacing?

Cody Campbell (2:09:29):

I think, five, I think, is pretty manageable if we were to do the best three out of five, especially if there was a firm objective data set that we were working from. I do agree that if we add too many things, especially if those items are kind of nebulous and we have to write a definition and then try to implement that definition, I think we're going to create a lot of headaches for ourselves. But best three out of five, I think is a completely reasonable suggestion. Yes, sir.

Holland Harper (2:09:53):

Mr. Campbell, we only have elementary schools on there. I got 13-year-olds and they go to middle school. Why is it just elementary?

Cody Campbell (2:10:03):

It's elementary. That's just kind of what we started with. Because those are the children who need the most adult supervision. And so...

Bobby Wilkinson (2:10:08):

Shorter legs. Shorter legs all over the place.

Holland Harper (2:10:13):

Thank you, executive director. Yes, yes. But I mean, if we just opened up that one item to, because let's be clear. If you're poor and you don't have a vehicle, which is expensive and costs money and has all those things, if we just open up high school and middle school and elementary, your sites explode with one change.

Cody Campbell (2:10:39):

We absolutely could do that.

Bobby Wilkinson (2:10:44):

Unless you're from that quirk where they're not, districts are not necessarily required to provide bus service when a development was in within two miles.

Holland Harper (2:10:50):

That's correct.

Bobby Wilkinson (2:10:51):
And I mean, ours does anyway, so I didn't, I didn't know that. But, so that would really make a difference if you don't have bus service and you're, you know, you want to be as close as possible.

Holland Harper (2:11:18):
So a little bit, you know. This is, in...

Cody Campbell (2:11:20):
(Indiscernible) 2:11:20.

Holland Harper (2:11:21):
Pardon, (indiscernible) 2:11:21.

Cody Campbell (2:11:24):
Homer was asking me about charter schools and whether those would count, and under the current rule, I don't believe that they would. It's something that we could maybe take into consideration.

Holland Harper (2:11:31):

I think that our legislators can change that real fast here for us. I mean, that's a done deal. So I think that that's going to, I think that that's going to open up the market to be as efficient as it possibly can. The only thing that concerns me about the medical. And I completely 100 percent agree that all people need medical access. That is like a smorgasbord of what is a real service inside that.

Do they take public? Are they private only? Are these ERs? Are they not? I think they cross enormous amount of work on the staff. And even in rural northeast Texas, we have this support that if you're in trouble, the ambulance will pick you up and take you to the hospital.

Cody Campbell (2:12:11):

Sure.

Holland Harper (2:12:12):

So I think that the daily feeding of human beings, the education of human beings, the green space and mental health of human beings would be better than trying to...

Kenny Marchant (2:12:22):

Would you delete parks and add that, or would you add it?

Holland Harper (2:12:26):

I would not delete parks personally. I do not believe we should delete parks, but I think that's going to be, I'm not trying to say medical is not the right place. Okay. My wife's a nurse practitioner in pediatrics. She's in general practice. She's down the street. But is that really the same as having a full hospital? But I mean, you get all over the board of what's the value ~~there?~~there. So instead of hopping on that rail, let's just leave that one alone for a second.

Kenny Marchant (2:12:51):

So would there be a consensus that we add elementary, middle, and high school?

Cody Campbell (2:12:57):

I do believe that that would have the intended consequence of opening up more development sites.

Kenny Marchant (2:13:03):

Now going into distance. You know, many high schools are vast. Their boundaries are vast. So do you see any problems with the proximity to the actual school? I mean, where the boundaries don't they measure from the closest place?

Cody Campbell (2:13:14):
It's to the closest parks or boundary. Yes, sir. I, but I don't see that being difficult.

(Overlapping conversation.)

Kenny Marchant (2:13:31):
All right. I think that. I think that we have a fantastic consensus on that. So we'll go to the next item.

Cody Campbell (2:13:36):
Great. This is certainly a big one. I expect that there will be a lot of people wanting to...

Kenny Marchant (2:13:42):
Is this the last one?

Cody Campbell (2:13:47):
No, sir. We've got just a couple left.

Kenny Marchant (2:13:51):
Do we have a less controversial one that can be, go ahead to that.

Cody Campbell (2:13:52):
Unfortunately, not really. We probably...

Kenny Marchant (2:13:53):
We're working, we're working on...

Cody Campbell (2:13:55):
Sure, sure, sure. Okay. So the next item that we have on here is the quantum quantity of low-income unit scoring item. It is the scoring item that we added a couple years ago that awards points to applications that promise a number of units. The required number of units that they have to provide is based on the average of the 2022 and 2023 rounds. And so you get points for either providing that same number of units, an increase of 5 percent or an increase of 10 percent. Staff has

concluded that this might not be a workable scoring item moving forward. Excuse me.

The reason being that many cities have run out of soft funding. In addition, interest rates are very high. And what we're seeing this year, that's kind of a new factor in all this is that equity pricing is quite a bit lower than what it was even just a couple years ago. So whereas previously you were getting 90 cents on the dollar for tax credits, a couple years before that you might have been getting a dollar or $1.05.

Now what we're seeing is 70 cents, 75 cents. And those credits are just not going as far as they used to. And so because of that, staff recommends that it might be worth considering either a pause or an elimination of that scoring item for the 2026 QAP. Jeanna Adams, our director of underwriting, has prepared some numbers for you to help understand what we're seeing on the ground, if you would like to hear those. But I do anticipate that a lot of people will want to give comments on this.

Holland Harper (2:15:14):

We'd like to hear the comments.

Cody Campbell (2:15:16):
Fantastic. Thank you, Jeanna.

Kenny Marchant (2:15:18):
I'm sorry. So I was going to ask if so to clarify it, you're recommending a pause?

Cody Campbell (2:15:26):
Either a suspension or an elimination. Yes, sir. And we have suspended items in the QAP before, so that's not a complete elimination of them. It makes it much easier to bring them up when they're suspended.

Kenny Marchant (2:15:37):
If we took first the testimony of people that are opposed to your suspension, would that be a...

Cody Campbell (2:15:43):
It'd be a pretty short testimony.

Kenny Marchant (2:15:48):
So do we need to hear the testimony?

Holland Harper (2:15:53):

There's two things I'd like to know. And that could come to staff is or from the industry, is credits, is the lowering price of credits due to so much energy credits in the market that's driving that down, or is it because of lack of profitability in corporations that are buying or entities that are buying the credits? Or is it a little bit of both?

Cody Campbell (2:16:14):

That's a great question. So I met with a couple of syndicators earlier this year to try to wrap my head around why credit prices are decreasing so much. And energy credits were absolutely mentioned in a couple of those meetings. Texas unusually tight place in service deadline has made some investors a little risk averse in terms of wanting to invest in the state of the Texas.

So the idea that we discussed earlier, I'm hopeful will address some of that. And then aside from that, it's just generally the expected yield from these developments is lower than it was a couple of years ago. Other people may be able to add to that, but that is what I heard.

Jeanna Adams (2:16:54):

Jeanna Adams, Director of Real Estate Analysis. I'll keep this as short as possible to leave time for people to speak on this as well. But, you know, kind of I just want to talk about kind of what we're seeing with the 2024 and 2025 deals as we're looking at making the QAP for 2026. The 2024 deals are having a hard time staying financially feasible as they move towards the closing table due to all the financing still moving around. Cody alluded to the soft funds drying up. So as you applied with soft funds, so did a lot of other your colleagues, originally so many soft funds to go around.

So as you move towards closing, some of these deals aren't getting that soft funding. You have to pick up debt, debt puts up your debt coverage ratio. You have acquired number of low-income units, you can't raise your rents on your low-income units. So it leaves this gap of where you have to take on debt. But if you take on that debt, your long-term operating feasibility is really, really tight. That is happening now. And as Cody said, one thing that we're seeing already in 2025 is these current 2025 9 percent applications that my team's just barely starting to get our fingers on. They came in with $0.86 as an average credit price.

And what we, and that was they were due February 28th. So they got most of their letters in February. In April we're getting letters on at 77, 78, 76 cents on the dollar. That's what credit is offering right now. So if those 2025 applications that we haven't even started underwriting yet had to close today just simply because of the volatility and the credit pricing on a $2 million annual tax credit deal, like a large urban deal, the 9 percent round, that's a $1.6 million cut to their sources just because that's what the market did, right?

So that's $1.6 million that then they are going to have to go try to figure how to fill that gap. The soft money, low-interest rate money is drying up and these deals cannot support more debt. While also, and this is to the point of the quantity to low-income units in this market, requiring more income units to score with these other problems is just exasperating that gap. And I do have numbers if you guys want to see them.

Kenny Marchant (2:19:15):
Is that letter a, is it basically a put? Is that letter or can they then...

Jeanna Adams (2:19:28):
It will change up until it closes.

Kenny Marchant (2:19:29):
So they can up ~~that prices~~those prices up until closing?

Jeanna Adams (2:19:31):
In this case they'll be decreasing it. So they're saying, you know, if this deal is going on right now, we would offer you 85 cents but by the time they actually get to the closing table, they're only offering $0.78.

Kenny Marchant (2:19:36):
right?

Jeanna Adams (2:19:37):
And that's kind the, that's kind of the stick, Like what we're seeing is as you guys get requests force majeures, as we get requests for amendments to reduce the number of units to try to balance the financing up until

closing, it keeps pushing that closing date further away. And when you get this piece figured out, this one over here drops.

So now you're over here trying to pick that up and it's, what it's doing is the agency has a long pipeline of awarded tax credit deals but there's delays in closing, which means they're not actually getting on the ground right now. And that's the goal of this agency is to have housing that people can live in.

Kenny Marchant (2:20:17):
But the de facto change of the six-month extension is going to have some effect on that, isn't it?

Jeanna Adams (2:20:26):
I mean that means that they have longer to close and get on the ground. But it doesn't stop all of the fluctuations in their financial stack.

Holland Harper (2:20:31):
No, but what it does do is provide more security to the markets that they get the deal done. So the credits actually get more predictability on ~~that~~that, and they

don't have to come here and you guys don't have to beg for mercy on...

Kenny Marchant (2:20:46):
It's a miserable time to try to get a financial commitment right now.

Holland Harper (2:20:50):
So let's, so if we pause this, we take it out for a moment, developers' lives get better, we extend some out there that should make life better. And then maybe, I don't know, we stop building millions of square feet of solar panels.

Jeanna Adams (2:21:14):
~~There's~~There are options.

Unidentified Speaker (2:21:16):
I wanted to add a couple things. I tweaked my back so I'm walking kind of funny. (Indiscernible) 0:21:17 Deputy Executive Director. Adding these additional units is also the driving factor for the tax abatements because they got that gap like Jeanna was talking about. And so what they do they Okay. how do I fill that gap?

They look for the property tax credit and that's why you send a lot of them get taxable because they're trying to fill that gap. They're also deferring a lot of their developer fee. So monies that they were supposed to make for building it, now it's getting paid over 15 years. And so they're also losing money on that piece.

Then you got all the rising costs that they're dealing with. Properties that we funded 10 years ago are coming back in now for property tax abatement because insurance cost has gone up, inflation, repair and maintenance contract services, payroll costs. And so that's why they're coming in for tax abatement, because their deals that used to pencil out are not penciling no more. And that's why they're, and what's happening, a lot of these housing authorities are capitalizing on this.

Now, they're taking a big chunk of their developer fee and they're taking a big chunk of their cash flow also. And so they know that they need this tax abatement and so therefore said, okay, we're going to get a piece of that pie too.

Holland Harper (2:22:28):

I don't disagree with anything you're saying. I mean, insurance went up 26 points last year. I mean, property taxes go up every day. Inflation's gone up. I don't disagree anything but we, I don't disagree anything but if we're going to have services in the deal and then that, because that's, listen, it's a hard animal to do. It's no different than my own personal business. We have to get more creative of how we're going to win. And just taking taxable assets out of the market is not the best long-term solution for our cities.

Unidentified Speaker (2:23:40):

I agree with that. And that's why we got to look at the QAP and see what are the driving factors that's driving them to get these property tax abatement. And that's why a pause will be good at this time and we should be seeing less. And there's probably other things we can tweak in the QAP to help lower some of those expenses for them so they won't be going after property tax abatements. Thank you, sir.

Kenny Marchant (2:23:54):

Yeah, and my point on that is solely that the entities that are, that all entities that are affected by the exemption need to be consent. I mean, that's really my point on it. If they want to do it, fine. Okay. Does anyone else want to speak on this issue?

Kenny Marchant (2:24:00):
Should I say if you're against doing this, would you speak first? If you're against this pause? Okay. There's no one here that's here to speak against the pause. So those that would like to briefly speak for the pause, please come forward. And are you speaking on your behalf or the association?

Kathryn Saar (2:24:20):
Kathryn Saar speaking for TAAHP. TAAHP would support staff's recommendation. Thank you.

Kenny Marchant (2:24:36):
Okay. Thank you.

Michael Fogel (2:24:46):

Howdy. Michael Fogel with Trinity Housing Development. I was going to speak on this during public comment, but it ties very directly into our current matter. So it is a little personal. I am begging for mercy, but it is relevant. Equity credit pricing is affecting all deals, but it's quite extreme in rural regions. We have two rural deals with 2024, 9 percent awards that were approved with equity pricing at $0.84 on the dollar.

And now we're looking at $0.73. And that $0.84, I mean, that was verified at the time of application with investor quotes, was rule specific and already discounted to larger metro and urban pricing. One of these deals is completely shovel ready. And we've shopped both of the deals to seven or eight equity investors that we have relationships with and successful track records. All but one has just completely declined or passed on bidding for the tax credit equity. And the one off we do have is for that $0.73.

So to quantify this, in Athens, one of the deals, it's 57 units. That's a $10.6 million total construction contract. And that reduced equity pricing is a $1.4 million reduction in total funding. And there's been a little bit of talk about debt. The debt coverage ratio is already at 1.15 or 1.2, so there's no room there.

These small rural deals are already quite challenging due to their lack of scale and now very low investor appetite. For example, in Gatesville, which is other deal at 32 units, we're the only application in that region and in fact, I think we're the only pre application as well, which kind of says something and reinforces how difficult it is when it's a super competitive program otherwise if there's only one app in the region.

And the other thing to kind of take away from that is since we had no competition, we were hyper conservative in our estimates and assumptions. So we weren't making aggressive assumptions or underwriting to try and win the deal and figure it out later. We were as conservative as we could be. We didn't even take the extra units. And the reality is just with current equity pricing, nothing's feasible, at least on these rural deals.

So our options basically today are to walk away, which obviously we don't want to do. I don't think anyone wants request supplemental credits or request a unit count reduction. The gap is basically 15 percent. So we could request a 15 percent credit increase or 15 percent reduction in units and that would get us there. And kind of my hope and here today is to talk about it, get some feedback from the board members that are here today and the department kind of in anticipation of request.

Kenny Marchant (2:27:52):
I'm not sure that so you will file for a force majeure or will you file an appeal? What will be...

Michael Fogel (2:28:00):
I don't believe it'd be a force majeure. It would be an amendment.

Kenny Marchant (2:28:01):
So I'm not sure that we can discuss what we might do on a future item that's going to be before the board. I apologize for that, but it seems like if Cody could just kind of talk around what you said. You're fine, but I'm not sure that we can have a direct back and forth about

what we might or might not do to help you. I just don't think we can do that. And I appreciate you coming down, but I hope you understand what I'm saying.

Michael Fogel (2:28:30):
I do. Thank you.

Leo Vasquez III (2:28:31):
It's related to the number of units.

Cody Campbell (2:28:34):
Sure. And I don't want to speak for Mr. Fogel, but it sounds like he is trying to navigate whether it would be easier or more acceptable to the board to request additional credits or to request a reduction in the number of units. Procedurally requesting a number of units, the number of units be reduced.

Kenny Marchant (2:29:01):
That would be the advice you'd give him?

Cody Campbell (2:29:06):

Well, we can't put extra credits in without basically retooling the QAP to allow for supplemental credits, which we did in 2022 and 2023. That's a substantial revision to the QAP. Obviously, it's possible. We've done it before. Whereas an application amendment is an existing process that somebody would come in and request. They could do that anytime and then it would end up in front of the board and the board would make decision.

Kenny Marchant (2:29:18):
Does that help you at all?

Michael Fogel (2:29:19):
It does, yeah.

Kenny Marchant (2:29:21):
Okay. Thank you. Okay. I'll move on to the next item then.

Cody Campbell (2:29:28):
Okay. Fantastic. These last two, I think. Well, one of them is pretty straightforward and I think it's just kind of a judgment call that needs to be made. As it

stands right now, there is not a minimum age in the QAP for a property to have to reach to be rehabilitated with additional tax credits.

So what we see from time to time is a development gets tax credits. They come in 16 years later, once they're out of their federal compliance period, they apply for a rehabilitation, they get new tax credits and they rehab that 15- or 16-year-old development. I don't think that staff is certain that that is a good use of public resources.

And so what we're proposing is a minimum amount of time that must exist between rehabilitations. What we've proposed is 25 years. We've gotten early feedback that 20 years might be more appropriate. But I do believe that there should be some kind of limitation. If the board moves forward with this recommendation and an applicant has a development that due to some kind of extenuating circumstances, needs to be rehabilitated sooner, they could come to the board and request a waiver of that rule.

So this isn't a total ban, but it is a prohibition without a waiver of rehabilitating before a certain amount of time has passed.

Kenny Marchant (2:30:43):
And would there be a floor of 15?

Cody Campbell (2:30:44):
Well, we're discussing what the floor would be and we're proposing for the waiver.

Kenny Marchant (2:30:44):
Could you go below 15 on the waiver?

Cody Campbell (2:30:48):
There are federal limitations on how long you have to wait. I believe the somebody in this room is going to holler if I'm incorrect. I believe the federal limitation is 10, and generally we don't see them until 15 or 16.

Kenny Marchant (2:30:52):

But in your suggestion, would there be a floor for them to come in and get a waiver?

Cody Campbell (2:30:58):
There would not be. So they, we would, in our...

Kenny Marchant (2:31:12):
You have to wait at least 15 years, but you could get, if we put it in 20, you could get a waiver. But if you'd have to, it would have had to have been at least 15.

Cody Campbell (2:31:26):
It would still have to meet the federal requirements, which again, I believe, are 10.

Kenny Marchant (2:31:30):
Okay. And I apologize. Actually lower that number to 10. So anybody after 10 years can come in and ask for a waiver.

Cody Campbell (2:31:36):

Correct.

Kenny Marchant (2:31:38):
And the tax credits award after 10 years, right?

Cody Campbell (2:31:44):
The tax credits pay out for 10 years, the federal compliance period...

Kenny Marchant (2:31:46):
And that would be (indiscernible) 2:31:46 at the same time?

Cody Campbell (2:31:54):
That's correct. Yeah.

Kenny Marchant (2:32:04):
Okay. I think that's pretty clear.

Leo Vasquez III (2:31:45):
I have a question too.

Kenny Marchant (2:31:46):
Sure, go ahead.

Leo Vasquez III (2:31:46):

I'm not clear. Okay. sure. Let me make sure I understand. Are we talking about when we say the minimum age for rehabilitation, are you also talking about the minimum age to refinance the project? I mean, is that what's really the crux of this?

Cody Campbell (2:32:02):

This would not place a limitation on refinancing with non-department financing. It would be a limitation on how soon you could request a new syndication of tax credits for the rehabilitation of the development.

Leo Vasquez III (2:32:17):

Okay. And then does this relate to directly or not to the cash out aspect of those refinancing with tax credits?

Cody Campbell (2:32:24):

No, sir. That is the, the next item on the agenda. But there are two separate items.

Holland Harper (2:32:29):

And are you still proposing the same floor for nines and fours?

Cody Campbell (2:32:32):

That is, we have not proposed language in the board materials for this particular item. I think staff had contemplated initially that this would apply to nines and fours. We've gotten some early feedback that it might make sense to only apply this to the competitive applications rather than the non-competitive applications. But the materials in your board book don't make that distinction.

Kenny Marchant (2:32:54):

So you need some direction on that?

Cody Campbell (2:32:58):

There will be, I suspect, public input on that. And I do believe that people will request that 4 percents not be susceptible to the same limitation and maybe they can. Sure.

Unidentified Speaker (2:33:13):

If I may make a couple comments. We've seen over the, over the months, over the years that the board has made comments that, you know, we're not really adding more units, they're coming in for more tax credits and we're only getting 15 years more affordability added on top of that. So that's where this is coming from is from the comments made. And so does the board want to continue that practice where they can come in after 15 years or should it be 20 or 25. If you do for 20, then the affordability period is that much longer.

Kenny Marchant (2:33:49):
The recommendation is 25. But you've had feedback that may be a smaller number?

Cody Campbell (2:33:55):
That 20 might be more appropriate. Yes, sir. Yep.

Leo Vasquez III (2:33:58):
Okay. I'm sorry, before the comments, just so I, making sure I understand this. So we're trying, we issue tax credits, 9 percent 15-year compliance period and usually a 30 year...

Cody Campbell (2:34:13):
Extended use period.

Leo Vasquez III (2:34:28):
Extended period. And our concern was trying to put 25 years is that they're going to use, where you're contemplating, it's using new tax credits to, rather than allowing the rehab to be done after 15 years using tax credits or bonds or whatever, some sort of tax advantage investments that we are a conduit of. You're trying to say you have to wait till 25 years to do that.

Cody Campbell (2:34:50):
Correct. Correct.

Leo Vasquez III (2:34:51):
But we're not saying if you find some other ~~way~~way, so you use all your tax credits already. I mean that 10 years has elapsed. The, we're not trying to say an owner is restricted from financing, refinancing without using our instruments.

Cody Campbell (2:35:13):

That is correct. And I apologize if that wasn't clear in the materials.

Leo Vasquez III (2:35:16):
Okay. That's just, that's part of what I want to say. So if someone at 15 years, well, heck, at 10 years, if they want to start improving it and they have their own, it's unlikely right now in this current market, but they have their own banking or finance or you buy it into a new portfolio or sell your portfolio at that point if they're not using tax credits or issuing new bonds with us. We're not putting any kind of restriction on that.

Cody Campbell (2:35:46):
Correct.

Leo Vasquez III (2:35:48):
Okay. So the 20, your proposed 25 years is only if they're using some instrument, some vehicle through the department.

Cody Campbell (2:35:59):
Sure.

Leo Vasquez III (2:36:01):
Okay. I just want to understand what you're proposing here.

Cody Campbell (2:36:04):
Of course.

Kenny Marchant (2:36:06):
Okay. Take input.

Robbye Meyer (2:36:12):
Robbye Meyer with Arx Advantage. Also, I'm going to stick my hat on for rural rental housing. Age has never been a good indicator for rehabilitation for USDA. We've tried to use that for years to get the properties that needed the most rehabilitation to the top of the list. And it's never been a good indicator. There's a lot of variables that go into what needs rehabilitation.

It could be location, could be weather, can be the tenants, could be the management, could be a lot of things that wear down a property. And so just saying put in a blanket 25-year limit on development as to that's when you can come in and do rehab. It's not a good indicator. So I think you're going to limit properties and you could also have people opting out of the program and we could lose affordable units if you restrict properties having to wait until they've aged to 25 years. And I hope and encourage you not to put a limit on this restriction so that we don't lose affordable housing to other financing options. Thank you.

Miranda Castro (2:37:34):

Thank you for the opportunity to speak. My name is Miranda Castro. I'm the Chief Asset Management Officer at the Housing Authority of San Antonio. One of the things that I do for the agency is I oversee the asset management department and that includes the transition of properties outside of the from the initial compliance period to the extended use period.

This rule to sentiment the last speaker would really have a material impact on the work that we do at our agency. Again, the properties that we're getting at the initial compliance period, the condition of them are often very deferred capital needs. And we see properties in an affordable situation that have similar characteristics of use as we would see in maybe a 30-year-old market property.

And so putting these restrictions would be very problematic. It also is going to lower the quality of housing that we have. So we have housing property, we would have units that don't have the same quality because they're not eligible for vehicles of finance mechanism.

And resyndication with tax credits is a very advantageous way to go about it. And so I just would really encourage you not to go forward with this. Again to sentiment the last speaker, age is not necessarily a great indicator of condition. And I think it would be a poor choice. Thank you.

Tim Alcott (2:38:59):
Hi, I'm Tim Alcott, San Antonio Housing Authority. And so whenever we enter these partnerships on the front end, there's a lot of business terms on there. But the two of them I want to focus on is that we oftentimes want to own the development at year 15. So you have the

initial tax credit compliance period and then we have a bargain purchase price at year 15.

And typically our business terms is somewhat standard in the industry on Texas is we get 50 percent of the cash flow as the reality is we're not going to for-profit developer as they're getting 50 percent of the cash flow and they know that we're going to buy it at year 15, that they're not going to put a lot of money in capital repairs that go beyond the year 15 initial period because there's no return on investment.

And I love them to death, but you know, they are for-profit, right? And so they're not going to put in like a brand-new roof on year 14 and they're going to say, you know what, let's the housing authority do that. Also, so when we get these properties at year 15, they typically have a lot of capital needs and so we typically resyndicate that point in ~~time~~time, and we get additional equity and we do a lot of these repairs.

We also have loans from the city of San Antonio that's very common that are due in year 15 because they're smart, sophisticated and we have a lot of these loans are coming due. And so we got to resyndicate home loans or other type of loans that has to come out. If we couldn't resyndicate at year 15, a lot of these assets would be in trouble because they need lots of repairs and we wouldn't be able to get the repairs done.

So it's a really big deal to Miranda, who was just a second ago because she's over these projects. We have three or four of these probably come due a year.

And so it's a big deal if you guys didn't allow us to resyndicate because this has been going on for some time. You're impacting projects that are coming on that we've been our portfolio for a long period of time. Also, one of the things I want to point out is...

Kenny Marchant (2:41:08):

So can I just ask? You put it into writing in your business plan to flip the financing and the ownership at the 15 ~~year~~years specifically because that's our number.

Tim Alcott (2:41:23):

Yes. So there's a tax credit compliance period. And so whenever we do these deals, which is the first 10 years, it's a tax credit compliance period, we say, listen, okay, we're going to be your partner providing a tax exemption. But during that first 10 years, you're taking all the risks. The housing authority, we don't take the risk. You manage it.

And you're doing all that for some reason, it goes all the way out to year 15. I think there's lawyers that talk after this, but we'll talk about why they all go to 15. But I think it has to do with someone could sue after your 10 years of the statute of limitations period, where if someone wasn't compliant, they could go back.

And so typically it's around year 15, these deals are resyndicated. And so, yes, and so our, but we've gotten smarter as we go along. Now we have in our deals where we have a capital needs assessment that we require at year seven. And this is something new. We started this last year and say, listen, before cash flow is paid, you got to do a capital needs assessment and you put the money back into the development before any cash flow is taken out.

But that's something new we've done. But try and deal with the situation where a lot of these properties look like they're kind of tough at year 15.

Kenny Marchant (2:42:31):
We get it. I think we completely understand the, what you're, why you're wanting the 15 year to remain.

Tim Alcott (2:42:38):
Yeah, we want to be able to resyndicate 15 because a lot of these properties will not make it.

Kenny Marchant (2:42:45):
And as you understand in the resyndication, you're taking up tax credits that we could be using to build additional units.

Tim Alcott (2:42:53):
Right. And so what you're doing now, you're preserving...

(Overlapping conversation.)

Holland Harper (2:42:54):

You set the deal up. We took 50 percent of the cash flow on the front side. And you and your partner deferred maintenance on an asset through the entire period. That comes down to two things. I'm going to build an asset that's going to be durable enough for the long term. I'm also going to put the money into my asset throughout the period so I can get there because I'm going to own the asset because you had to buy option on it and you're the partner on the front side.

So I'm not trying to be mean here, but I look at my rental properties, I go, who's going to be in the rental property? There's going to be stick and Masonite, or am I going to do CMU block and brick veneer? Because I don't want to jack with it ever again.

Tim Alcott (2:43:33):

100 percent I agree with you. So the problem is this, is that especially in today's market that if I, if I was going to require say what you said, the higher quality building products, we already have gaps. And so I bet you guys are very sophisticated on this. Already these

projects with the interest rate, environment and other issues, construction prices we're going to the city, we're going to other institutions because there's already gaps we have on these deals.

And so I love to be able to have standard architectural plans and say, hey, you have to build to this quality standard, we want steel roofs, you know, et cetera. But it just doesn't work in the real world to be able to get these deals done. But also if you took with a tax exemptions and be worse. So, you know, I certainly appreciate that but, you know, it doesn't work without having gaps.

Kenny Marchant (2:44:29):
Okay. Yeah, we get it. Yep. Thanks. Mr. Null or...

Alan Null (2:44:40):
Somebody took the pen. So Alan Null.

Kenny Marchant (2:44:44):
It is really bad in the development when...

Alan Null (2:44:45):

There we go. Thank you.

Kenny Marchant (2:44:47):
Somebody's taking the pen.

Alan Null (2:44:47):
That's right. Tough crowd. So I like this rule. I think the net effect is we're all about creating new affordable units. We can't solve everyone's problems. There's, I would say 90 percent of the buildings that get renovated are already affordable. They're always going to be affordable. There's a built-in mechanism called amortization. You buy it, you renovate it, you pay the mortgage down, you refinance it. Inflation helps. We're all about building new units.

So if these things, there's only so many resources available, they can't solve every problem, but I think if we focus on incentivizing brand new affordable units or if there's a way to bring down the rents. Most of the deals we've looked at that get renovated, the new rents are basically the same as the old rents or slightly more or less. But if you're really bringing down the rent substantially, that's creating new affordability. I would just encourage us to have policies like this that really push more resources into new units.

Kenny Marchant (2:46:12):
Can I ask you a question?

Alan Null (2:46:13):
Sure.

Kenny Marchant (2:46:14):
In your experience, how long have you been involved with multifamily?

Alan Null (2:46:20):
So we're mainly in the healthcare business with nursing homes. So we've been involved in this for probably five years. The last two years we haven't put in 9 percent applications. The reason we talked about before...

Kenny Marchant (2:46:35):
I guess my question is that is there a substantive difference in the deterioration of the asset between 15 and 20 and 25 years? I mean, is there a breakover point?

Alan Null (2:46:50):

It all depends on how it was built, where it was built. There's lots of factors that go into it. So to me, I would just encourage us to make it harder to do renovations and easier to do new construction. I think this role would do it. It just makes it harder. Just fewer deals fit the criteria for renovation.

Kenny Marchant (2:47:12):

Would you make a distinction between four and nine?

Alan Null (2:47:13):

I think it's the same issue on both.

Kenny Marchant (2:47:18):

Okay. Thanks. Thank you very much.

Alan Null (2:47:25):

Sure.

Blake Hopkins (2:47:38):

Good afternoon. Blake Hopkins, Lincoln Avenue Communities. We obviously understand the need to allocate a scarce resource, but we also would be respectfully opposed to the new language. I don't have much to add to what Robbye said. It's almost word for word what I've written down. The one piece I would say is in regards to the 4 percent program versus the 9 percent, I think on the 9 percent you certainly have more of a scarcity issue, more competitive. On the 4 percent, correct me if I'm wrong, I think it's been at least since 2021 that everyone who submitted an application into the lottery has received a reservation in the bond year. So it's not as though you're receiving a blank bond reservation that would otherwise go to a new construction deal, at least on the bond side.

So overall, we would respectfully prefer the existing language to remain. If there is a need for some kind of extended threshold, certainly some kind of waiver program would be certainly welcome. But then again, exploring the differences between the 4 percent and 9 percent also would be something to look at.

Kenny Marchant (2:48:34):

So you'd like for to think about distinguishing between 4 and 9 and make sure there's a valid...

Blake Hopkins (2:48:41):

Yeah, we had our preference. Keep it the way it is. I understand. Second tier would be the waiver program. Third tier, explore the 4 percent versus 9 percent because I just don't think it's one and the same in terms of the scarcity and the demand.

Kenny Marchant (2:48:52):

Thank you.

Blake Hopkins (2:48:54):

Thank you.

Tim Smith (2:48:59):

Tim Smith. Hope Development Services. I'll give a quick official answer on the 15 years. That's because the credits are paid out of 10, but your recapture is over 15. So syndicators don't exit out of the partnership because if something goes wrong, the IRS comes back and still penalizes them.

So that's why it's a 15-year churn. Just for the record. I think I'd also ask, like, what problem is, are you trying to solve? Solve with this, I guess. What problem do you all see that's happening?

Kenny Marchant (2:49:30):
Like, I'll speak for myself, but...

Tim Smith (2:49:32):
No, please.

Kenny Marchant (2:49:32):
Consuming competitive tax credits that we could be using to build new units. In supplement to the existing unit. I mean, you add a unit instead of remodeling unit. That's a plus one. And in the fours, I mean, it could be argue that in a 4 percent, it's unlimited, and that's not actually the case, but we would like to have more units.

Tim Smith (2:50:02):
Totally reasonable. Understandable. I would just say, like, that's already accomplished in the QAP. Under the 9 percent, you can't have more than 50 percent of the regional set aside go to rehabs. I mean, in fact, there's a lot of deals that can't actually even support

a rehab at all because it's kind of winner take all. So effectively, rehabs are not really participating on the competitive regional 4 percent or 9 percent side.

Kenny Marchant (2:50:28):

So your testimony would be, this is not needed at all?

Tim Smith (2:50:31):

Right, right. I'm saying you already have, I guess, thresholds in there on the 9 percent side that kind of takes care of this exact issue. Like, accomplishes your goals, as I would say. And then on the 4 percent side, I mean, as of last week, in sub ceiling 5, every lottery deal that applied has gotten reached, and that's the big, huge state sub ceiling. Everybody that's putting in at this point in tax credit application is getting our bond application for the 4 percent credits, because that's where the limitation is, is getting reached.

And I don't think that rehabs are taking away from new construction opportunities because the deals just aren't penciling out just across the board. So I would say rehabs are not taking away from building new units. On the 9 percent, I could understand that because it is a very much more scarce competitive resource. You already have guardrails.

Kenny Marchant (2:51:27):
Okay. So this would have no effect? I mean...

Tim Smith (2:51:32):
Right. I think it would just create, I don't think it accomplishes your goal. And it just creates problems for, you know, nuanced problems where deals may need to come in or other things. So your goals are accomplished. The only thing you're doing is possibly you're not furthering your goals, but you could possibly create new problems. That's it.

Kenny Marchant (2:51:49):
Okay. Okay.

Lauren Hodge (2:52:03):
Good afternoon. Lauren Hodge with Coats Rose. So we believe that this would actually have a chilling effect on the quantity of affordable units in Texas. On 4

percent deals, if you were to push the time period out to 25 years, we believe that some project owners would choose to simply wait five more years and until their LURA expires and convert their affordable housing to market rate.

On 9 percent deals that most of which have chosen to have a longer extended use period. If you were to push the time period out, they would, there would be a possibility that they wouldn't be able to resyndicate and therefore they would go into foreclosure, which ultimately would take the affordable restrictions away. So we ask that this language remain unchanged. Thank you.

Kenny Marchant (2:52:52):
Okay. Thank you.

Tracey Fine (2:52:57):
Hi, Tracey Fine. National Church Residences. So I want to remind you guys, remind everyone here that within the 9 percent program, 15 percent of the bucket is dedicated to the at-risk set aside. At-risk is specifically for preservation. And so I'm really thinking about this as

that 15 percent. I do support report a threshold. I believe that threshold should be 20 years. I don't believe it should be 25.

There is a major material difference and the life of many of our materials between year 20 and 25. I also want to suggest that there's another way to think about this in terms of we could offer a point incentive for older deals to get a certain number of points more than a younger deal if you want to get away with a threshold.

The other thing about getting a waiver for a threshold concerns me because what does that look like? Do I have to go pay $7,000 for a capital needs assessment for you to determine whether my property is in need enough to afford your resources? Although I do think it should be a 28-year threshold only in the 9 percent program, I absolutely agree with everyone else on the 4 percent program that it should not have any threshold at all.

And I think that the reason why this came up is perhaps my project in particular. It pains me to look at a log and to see that a project that was placed in service 15 years and one day ago will potentially get tax credits in the 9 percent program over my 42-year-old deal. So that is why I really do support this. I hope the threshold is 20 years and it's only 9 percent. Appreciate it.

Kenny Marchant (2:54:41):
Okay. Thank you. Let me say, while he's signing in, is there anyone here that just stayed around to testify between 4:00 and 5:00 on another unrelated subject other than QAP? Because I'll let you speak next so you can go ahead and go, but if there's not anybody, we'll just continue on the QAP. If not, we'll just, we will not have that period after the QAP. Go ahead, sir.

Toby Williams (2:55:35):
Toby Williams, Mark Dana Corporation. I'm going to try to put a new spin on some of the previous comments. The useful life on the major components in these projects. I went to Consumer Reports and just got the average: HVAC, 15 years; water heaters, 10 to 15 years; electric range, 13 to 15 years; refrigerators, 10 years; roofs even on a 30-year architectural say in 20 to 25 years; windows, 15 to 30 years; countertops, 10 to 20 years.

I would also say like that's, that's coming from Consumer Reports. They all had caveats that obviously that depends on how things are maintained. And I would argue that the average consumer and homeowner is probably maintaining those systems at a better level than a lot of our tenants are.

So the 15-year mark is really already kind of at the average useful life for the major components in these buildings. I would also say that one of the, one of the challenges that we face as an industry at large is the NIMBYism, right?

We're dealing with that on every project that we go out. If we extend this period out to 25 years before we can bring in a tax credit deal and try to resyndicate it, then all of a sudden we've got properties that are having a lot of deferred maintenance that become an eyesore and become a sticking point for city council members and in the community at large when we're trying to convince them, hey, we're building high quality housing, we're building, it's something that the folks in your community are going to be proud of, that we're going to be proud of. But when we have something that's

25 years old, has deferred maintenance and becomes an eyesore, that doesn't lend well to that argument. So thank you.

Kenny Marchant (2:57:48):
So it doesn't have anything to do with the recapitalization project at 15 years, financial recapitalization?

Toby Williams (2:57:57):
Well, you're, you're, my argument is that at 15 years, a lot of these projects that are coming back in to recapitalize, they're doing that in order to, you're replacing those major systems. You're extending the useful life of the HVAC, of the appliances, windows.

Kenny Marchant (2:58:14):
When you build these new, you build new units?

Toby Williams (2:58:02):
Yes, sir.

Kenny Marchant (2:58:02):

Do you use this depreciation of the component? Component depreciation. You depreciate the AC units on an accelerated basis. And do you use any of that or are you just a straight 30, 27-year, 30-year.

Toby Williams (2:58:20):
You're talking from an accounting standpoint?

Kenny Marchant (2:58:20):
Yep.

Toby Williams (2:58:24):
I would assume that they do depreciate it. Yes. I'm not an accountant. I'm a developer. I'm not, I can run a pro forma. I'm not good with a balance sheet.

Kenny Marchant (2:58:33):
Thank you. Appreciate it.

Audrey Martin (2:58:39):
Audrey Martin with Purple Martin Real Estate. I'll be brief because I think everyone pretty much covered the points that I was going to cover. I agree with the comments that have been made. I think it's hard to put a

certain number of years as a kind of catch all that would be fair and kind of applicable to all deals.

All deals are a little different. I would hate to see deals that really do legitimately need rehab to major components before year 25 be prohibited from doing so. I do completely understand your point about what you're trying to accomplish with more new construction units.

Kenny Marchant (2:59:27):
Do you believe it accomplishes that? Because we've had one testimony says that we don't accomplish that at all.

Audrey Martin (2:59:19):
Well, what I'm saying is I understand the goal. It's a tough balancing act. I do think that 9 percent and 4 percent is very different how they function. So I agree with the prior speakers who kind of mentioned that we limit rehab deals on 9 percent just through scoring. And really outside of at-risk, it's so hard to get a rehab deal to just score perfectly because there are so many site-specific requirements. So you have to be just perfectly located in the right spot.

So we see more rehabs on the 4 percent side and those are non-competitive credits and we're not seeing a limitation on that source via the bond allocation which we used to. So I do think preservation is important. I think it's a good goal to make sure that the units that are already in TDHCA's portfolio stay decent and affordable.

And just don't forget that we do extend that tax credit, LURA, anytime there's a new resyndication as well. So you're not getting nothing in the transaction. We are extending out and so we're kind of getting a refresh on that affordability period. So...

Kenny Marchant (3:00:34):

Okay. Thank you.

Audrey Martin (3:00:36):

Thank you.

Kenny Marchant (3:00:38):

We really appreciate it. Thank you. Cody? All right. Will you address specifically the fact that we are not accomplishing anything in doing this? Because I mean if we're not, it's suppertime.

Cody Campbell (3:00:50):
Sure. There is a 16-year-old tax credit development on the 9 percent log this year. It appears to be positioned for an award. Were this rule in effect, that application would not be able to move forward. And so I'm not sure that I can agree with the characterization that this wouldn't accomplish anything. I do agree that it's probably...

Kenny Marchant (3:01:12):
How many applications would we have that it would affect...

Cody Campbell (3:01:15):
In this current round I believe it is just that one.

Kenny Marchant (3:01:17):
Just one?

Cody Campbell (3:01:18):
Yeah. It's a pretty limited universe.

Kenny Marchant (3:01:21):
So it wouldn't have a staggering effect on the 9 percent negative effect. As far as limiting...

Cody Campbell (3:01:28):
We don't see many applications that would fall within the scope of this rule. I do agree with commenters that it might be worth drawing a distinction between fours and nines and not having this limitation for nines. But I struggle to tell you honestly that I think using 9 percent credits to rehabilitate a 16-year-old property is a good use of public funds.

Holland Harper (3:02:05):
I mean I concur with that statement. We just put money into it and now we're putting more money back into this before the amortization of 39 and a half years by the IRS standard.

Kenny Marchant (3:02:00):
39 and a half?

Holland Harper (3:02:00):

Yeah. I mean it's 39 and a half. You can accelerate your equipment if you put on a separate schedule for 15 or seven depending on what those things are. But it's 39 and a half years. And to come back and have another bite at the apple of public dollars, it's 16 years. I don't think we're accomplishing the goal of this, of this program.

And I personally do not think that. I mean I think that I want to go see new assets being built because some of those ones we saw that look like train wrecks, especially in the 4 percent deal. I don't even know if they're worth it just does, we did a 4 percent credit, we came back, we did it again. We put money into it. They don't get maintained. We're just going to keep coming back to the entitlement program of this board versus I'm going to build a quality asset. I know that they're hard to build, guys.

I'm in the construction business too. I got clients who are mad at me because I can't build them for the price they want. I know it specifically. But that's our job as developers. That is what we do. We figure out how to solve problems. So I would...

Kenny Marchant (3:03:04):
You're in favor of as it's presented?

Holland Harper (3:03:07):
I'm in favor. I like to 20 versus the 25 and I'd make it for both fours and nines. That's my opinion.

Kenny Marchant (3:03:15):
Mr. Chairman, go ahead.

Leo Vasquez III (3:03:21):
Okay. My problem I think is part of the terminology. And then we still talk about, we're still going to talk about cash out refinances. Okay. I can't see how can talk about this subject without talking about the cash out at the same time. I mean the problem that I see, I think of when we use the word resyndication, to me it sounds like as we said the inflation reduction act. I mean that really what we're talking about, resyndication is we want new tax credits and/or bonds with the 4 percent for these existing deals.

Kenny Marchant (3:04:02):
And extract equity.

Leo Vasquez III (3:04:03):
And then that gets to the cash out. That's where I actually have no problem with the resyndicating but not using tax advantaged vehicles from the department to suck out the cash. The rehabilitation or renovation, whichever way you want to say it. I have the problem where you have a big property, we refinance and, oh, we're rehabbing. So we're going to put in a million dollars to rehab this.

By the way, we're also taking out $6 million cash and we're using bonds and tax credits to do that. That's where I have the big heartburn on developers taking out the majority, substantial majority of the refinance, the resyndication to profit. It's not that we don't want anyone to not make a profit, but using our tax advantaged vehicles is where I have the big heart...

Kenny Marchant (3:05:11):

Specific of what?

Leo Vasquez III (3:05:13):

I mean if they want to refinance it 15 years, fine. I mean that's, but in my mind not using bonds. And so, when I'm hearing this, when I first was reading this, I was thinking you were saying no, you can't refinance, you can't resyndicate/refinance until 25 years. That's ridiculous. I should be able to refinance whenever I want, but not using the bonds and tax credits and for certain distinguishing...

Well then also I agree with distinguishing between the 9 percent and 4 percents because 9 percent is a limited resource and we should be using those for new deals or rehabbing existing developments that are not part of the tax credit program. I'm kind of okay with that on the 9 percent. Yeah, well that's what I'm saying. That's what I'm saying.

Holland Harper (3:06:16):

That's a new project, a new lifespan.

Leo Vasquez III (3:06:18):
Yeah. And then we're putting on an affordability period and all that stuff. That's, so I'm not saying no rehabs at 9 percent. But it's, if we're bringing it into the program and putting in LURAs and everything like that. So, there's the, I don't think from what I've seen worded so far that it's banning resyndications outright. It's banning refinancing using our assets, our vehicles.

We need to be able to distinguish between those. If I'm an owner, I want, if I can find a refinance package or buying a portfolio or selling a portfolio, I mean that's, and there's affordable assets in there, we shouldn't be putting any kind of, we have to be careful not to put any kind of new restrictions on that.

Kenny Marchant (3:07:18):
How do you envision, excuse me.

Leo Vasquez III (3:07:17):
Go ahead. I'm done.

Kenny Marchant (3:07:18):
How do you envision the waiver process working?

Cody Campbell (3:07:21):
Very similar to the way that it does now.

Kenny Marchant (3:07:24):
Would we have to approve the waiver?

Cody Campbell (3:07:25):
Yes. Staff does not have the ability to approve waivers of any type. That I don't believe. Bobby, are there any waivers that staff can approve? I don't think there are.

Kenny Marchant (3:07:33):
Okay. Yes. Just so potential workload increase.

Cody Campbell (3:07:40):
There are so few of the developments. There are so few 9 percent developments that would fall in this...

Kenny Marchant (3:07:44):
Yeah. But if you did 4 and 9.

Cody Campbell (3:07:47):

Four and 9. Definitely.

Kenny Marchant (3:07:50):
You would not include the force.

Leo Vasquez III (3:07:56):
Well, I don't think that that's as limited of a resource. But he's, it's sounding like you're still proposing putting limits on the 4 percent.

Holland Harper (3:08:09):
Yeah, I said that.

Kenny Marchant (3:08:10):
Yeah, yeah, yeah. Me personally...

Leo Vasquez III (3:08:13):
My objection is all on the big cash out using our tax credits checks.

Kenny Marchant (3:08:23):

So Cody, I think if you were to head towards the 20-year threshold, and head towards, we might build around that consensus, four and nine.

Cody Campbell (3:08:37):
Okay. Okay. Fantastic.

Kenny Marchant (3:08:39):
Okay. next item please.

Cody Campbell (3:08:41):
Sure. So this is, this is more of a report in terms of what we are doing in terms of looking at this particular topic. There has been a lot of discussion over the last couple years about cash out refinances. So somebody resyndicates with tax credits, it's a related party transaction. They pull their equity out as cash at the time of that refinance. There are states that have limitations on this.

So far it appears that Ohio and Illinois both have some kind of limitations, although we're still looking through other QAPs to see if they're limited there. I don't know that staff has a firm recommendation for you today beyond the fact that we are looking at this. We do intend to propose that there be some kind of limitation on these cash outs.

In terms of what that would actually look like, the only firm recommendation that we've gotten so far is that the seller might be required to include that equity as a seller's note behind all the other debt in the transaction so that it would be eligible to be paid out of cash flow if there is sufficient cash flow.

Obviously, we have to be very careful with this because if we write bad policy, we will create innumerable headaches. And so, we're proceeding cautiously here. But this is definitely something that we are looking at.

Kenny Marchant (3:09:50):
Mr. Chairman, you'd like to make a comment?

Leo Vasquez III (3:09:50):
I was just going to ask. So how are you distinguishing this issue from the prior issue?

Cody Campbell (3:09:59):

So this would apply regardless if you come in and resyndicate and get new tax credits at year 28, it would still apply. It wouldn't necessarily be time limited like the previous issue was. They do both relate to resyndications, though.

Leo Vasquez III (3:10:18):

Again, I guess I hate to limit the resyndication if they are truly putting the money, reinvesting it back into the property versus the cash outs. I mean that's, don't use our money...

Kenny Marchant (3:10:33):

And I think probably we have to explore some law. I mean some law that's been enforced that's held up to scrutiny. Would you say, Mr. Counsel, that that'd be the safest thing to do is~~ is~~ suggest something that had some precedent or had some other, you may not want to answer that question.

Beau Eccles (3:10:58):

It would be my preference that we do this legally. Yes.

Kenny Marchant (3:11:02):
So how would we proceed then?

Cody Campbell (3:11:06):
Sure. We would need to continue our analysis of other states and their policies on this particular matter. I will say there's more than 50 state agencies, obviously territories have their own...

Kenny Marchant (3:11:21):
Definitions of related parties, all that stuff.

Cody Campbell (3:11:22):
So we do have a definition of related party already. We don't have to reinvent that wheel. What I will say is, obviously it's very helpful to look at other state agencies and see what they're doing. But Texas is the best and sometimes what we do is what everybody else looks at. We do need to continue our analysis and our research before we have a firm proposal for you.

Kenny Marchant (3:11:42):

But we're sure there are at least a couple of states that have something that's structured.

Cody Campbell (3:11:47):
There are some limitations. For example, Ohio distinguishes between income generating properties and non-income generating properties. And I plan on calling them at some point in the very near future to try and wrap my head around why they've made that distinction. But yes, there are limitations on cash outs in other states. Not all of them, but some of them.

Kenny Marchant (3:12:06):
Okay. Do we have some testimony concern concerning this in its state of vagueness at this point?

Blake Hopkins (3:12:17):
Blake Hopkins, Lincoln Avenue Communities. I'll tread lightly after the conversation we just had, but I think we are for some form of limitations or reform. We caution against completely eliminating for a couple reasons. One, a lot of these partnerships, these class B limited partners that are in the limited partnership, they're made up of half a dozen multiple people. Where

several may exit at a refinancing event, several may stay in and want to keep the property affordable, move it forward.

This language would essentially eliminate that right where those parties that wish to exit would have to stay in the deal or that party would have to essentially sell. So either through a qualified contract or some other third-party sale potentially puts the property at future risk for affordability. So I think there's, like I said, additional conversations much further than today. But we're all for some form of limitation what that limitation looks like up for discussion, but I think full scale elimination might have some additional unintended consequences.

Kenny Marchant (3:13:18):

Okay. Any other comment from the podium or from...

Tracey Fine (3:13:22):

Tracey Fine. National Church Residences. And you might have to get me a police escort after this meeting. But I also really support limiting cash out, particularly in 9 percent and I do think this one might also be a really good example of differentiating between the two different programs.

Deal applications, the 9 percent program are getting extra credits awarded to them that are going into the pockets of developers for cash out. As a result, fewer projects are getting awards. This primarily happens in at-risk, but because of the collapse of the credits throughout the entire application log, it potentially can impact other applications that are not in at-risk. I personally believe that I lost an award because of an application taking additional credits for a cash out.

As you know at the cross street the legislature, there is a good chance that the credit cap award will go from 2 million to 3 million per project. And if that happens, I look forward to discussing the implications of that and the at-risk set aside. But particularly this cash out, it becomes even more vulnerable because it gives developers even more bandwidth to pull more money out of the project because they can ask for additional credits.

I have provided a couple of pages of best practice recommendations on how to prevent cash out, how to structure your transactions to be investor approved, and I also make the recommendation that it should be looked at to prohibit cash out at the time you submit your application and not at the time of (indiscernible). I say that because in case you get a great windfall in your equity pricing and you have the ability to take some money out, I think that you should be allowed to do that, but I don't think you should be getting extra credits in order to do that.

Kenny Marchant (3:15:29):

So since you've been thinking about this, what do you think about a person that has a piece of property that they gave $1 a foot for and then they get it appraised for $10 a foot and then they put it into the syndication and then they, out of the syndication amount, they receive a cash amount for the difference between the value of the land. Would you consider that to be a cash out?

Tracey Fine (3:15:44):

So I really think about it as it relates to existing affordable housing. And so it's hard for me to answer that question. Yes, I would consider that a cash out. I do think that had they put any money into that land that they should be able to, be able to recuperate that. So for example, if I have a property, I'm going to pay off my debt.

If I have a capital advance because I put money into my deal to get it to the 15, 20, 25 years, I'm going to pay myself back for that capital advance. I'm going to make sure I have enough money to pay my, all my closing, my bills at the closing table, elevator, contract, trash contract, whatever that is.

But for me, I really think about this as identity of interest transactions and preservation of affordable housing. I think it's a little bit different when you're talking about just a piece of dirt.

Kenny Marchant (3:16:40):
Yeah, I understand. Yeah. Okay.

Leo Vasquez III (3:16:43):
Maybe getting out your, what I think you're referring to is your basis. So if you get out your basis, that's...

Kenny Marchant (3:16:53):

But if you're, if you're getting additional tax credits...

Tracey Fine (3:16:59):

I mean everyone is in 9 percent and new construction. They're so constrained. Like those deals, everyone's been up here all day talking about how tight and financially constrained those deals are that it's really hard for them to cash out on a piece of dirt that they might have bought cheap.

I mean, honestly, it would be awesome if they had that piece of dirt because it just makes their deal more financially feasible and they're a lot of times restricted to that $2 million cap and they're going to build as many units to get to that #2 million cap. And I'm saying that in a simplified manner, but in the at-risk set aside, I have a limited number of units that I'm trying to preserve.

And so I'm not always getting to that $2 million cap. I have some room to work with the numbers to get my credit request higher and higher that you don't have that same ability to manipulate on the new construction side of the business.

Kenny Marchant (3:17:54):
Okay. Thank you. Thank you very much. So this will be our last testimony today or hearing today. If anyone else wants to speak, come forward down because if not, this will be our last one. Thank you, sir.

Tim Smith (3:18:13):
Tim Smith, Hope Development Services. I deeply appreciate the way Cody worded his caching of how staff is going to have to look at creating language for this. I don't think anybody's opposed to stopping abuses because everybody has seen it. And that's a very legitimate purpose.

The one just kind of unintentional consequence would be making sure that people could get out if they put in capital, if they're at year 15 or something and they put in a whole bunch of money or year 20 for new roofs. Other things that there could be a return of capital investment. Other programs have seen properties deteriorate because there's not a mechanism to get that investment back. So just be basis. You're not talking about flipping or making...

Holland Harper (3:19:01):
I disagree with that. But the other side, as a developer, if your roof fails at 15 years, your contractor is terrible or used from inferior products. Fair enough?

Tim Smith (3:19:13):
I understand there's, but whether it's 28 years, you know, 28 years and you're coming in and do you keep the property up or do you just let it go? I think that's just the caveats we're looking at is like stop the flipping or just the pure profit taking. But if you're actually putting capital improvement dollars back in, looking for an exit, because that also incentivizes, I mean, you're going to have a whole bunch of deals that are new construction today that will one day be here.

And do developers put money in? I think the same thing would be, is if you do have a delta between your basis and the appraised value, making sure you can put that in as a seller note, contribute it to the project, the overall financing as well. So the devil's in the details.

Kenny Marchant (3:20:03):
Okay. If all minds are clear, which if you say that's true, then they're not. But thank you for so much for your patience today. Thank you, Cody, and all the staff for the proposals. Anyone on the podium on. Would you like to say anything?

Holland Harper (3:20:19):
I have one more request. We talked about this before we came of how we, and I know it really has to go with the bond packages, through Mr. Scott's programs for single family housing. How we can incentivize that, how we can get that out there?

Cody Campbell (3:20:32):
Yes, sir.

Holland Harper (3:20:35):
How? Do we push more single-family housing to get out there into community banks and the rest of it? First off, I mean this is going to be embarrassing, but I'm

not, how does that process work today from we sell these bonds, we push them in there, how do we syndicate that into the market for mortgages? For first home buy, how does that process go today?

Cody Campbell (3:21:02):
I have never wished to see Scott Fletcher more in my entire life.

Bobby Wilkinson (3:21:23):
Right now that's outside of his, we can get something together for you.

Holland Harper (3:21:12):
Because one of the things that I'm talking to billion-dollar capitalization banks, 4 billion dollar back of capitalization banks, $400 million capitalization banks and they're like they have no clue. Two of them didn't have any clue how that system worked. So I want to figure out how do we push that out there so we can get cheaper first-time mortgages for single family homeowners and make the world a better place.

Cody Campbell (3:21:37):
Sure.

Kenny Marchant (3:21:39):
Thank you. Okay. That's, I had that same conversation with Cody earlier. Caught me in the middle of a bite of a peanut butter cookie. Thank you. Okay. Well, we will be adjourned. Thank you.

Leo Vasquez III (3:21:57):
Very good.