

SUNSET ADVISORY COMMISSION

FINAL REPORT

Texas State Affordable
Housing Corporation

July 2009



Sunset Advisory Commission



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* Senator Kim Brimer served on the Commission from December 2005 through December 2008.

** Charles McMahan was appointed to fill the unexpired term of Michael Stevens.

Joey Longley
Director

In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 12-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them.

TEXAS STATE AFFORDABLE HOUSING CORPORATION



SUNSET FINAL REPORT
JULY 2009



This document is intended to compile all recommendations and action taken by the Sunset Advisory Commission and the Legislature for an agency under Sunset review. The following explains how the document is expanded and reissued to include responses from agency staff and members of the public, as well as action taken by the Sunset Commission and the Legislature in each step of the Sunset process.

- ◆ *Sunset Staff Report* – Contains all Sunset staff recommendations on an agency, including both statutory and management changes, developed after extensive evaluation of the agency.
- ◆ *Hearing Material* – Summarizes all responses from agency staff and members of the public to Sunset staff recommendations, as well as new policy issues raised for consideration by the Sunset Commission.
- ◆ *Decision Material* – Includes additional responses, testimony, or new policy issues raised during the public hearing for consideration by the Sunset Commission in its decision meeting on an agency.
- ◆ *Commission Decisions* – Contains the decisions of the Sunset Commission on staff recommendations and new policy issues. Statutory changes adopted by the Commission are presented to the Legislature in the agency’s Sunset bill.
- ◆ *Final Report* – Summarizes action taken by the Legislature on Sunset Commission recommendations and new provisions added by the Legislature to the agency’s Sunset bill.



Staff Report – March 2008

Commission Decisions – June 2008

Final Report – July 2009

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SUMMARY




Summary

The Texas State Affordable Housing Corporation (Corporation) is a self-funded, nonprofit entity created to help in Texas' efforts to better meet the needs of low-income families in obtaining access to affordable housing. While originally created to perform activities the State could not, the Corporation's key activities now revolve around issuing a portion of the State's private activity bond allocation. As a nonprofit, the Corporation can also seek grants and private donations to support housing initiatives statewide.

Sunset staff evaluated the need to maintain a nonprofit structure to assist in increasing access to affordable housing. Sunset staff found that the Corporation has struggled to serve a unique role in affordable housing and has only recently begun to capitalize on its nonprofit status to raise funds. While the Corporation's bond issuing duties could be performed by the Texas Department of Housing and Community Affairs, the Corporation relies on its bond-related fees to help support its activities to raise and leverage private funds.

Sunset staff concluded that Texas could benefit from the Corporation's ability to raise and leverage private funds to help meet Texas' significant needs for affordable housing. However, the Corporation's limited track record does not warrant continuation for longer than two years. To allow the Corporation additional time to demonstrate to the Legislature its ability to serve in this capacity, Sunset staff make the following recommendation.



The Corporation has struggled to serve a unique role in affordable housing.

Issue and Recommendation

Issue 1

The Corporation Continues to Struggle to Fulfill Its Potential in Helping the State Meet Its Need for Affordable Housing.

Key Recommendation

- ◆ Continue the Texas State Affordable Housing Corporation for a two-year probationary period and re-evaluate its progress and ongoing need in conjunction with the Sunset review of the Texas Department of Housing and Community Affairs in 2011.

Fiscal Implication Summary

This recommendation would not have a fiscal impact to the State because the Corporation is self-funded and does not receive state funding.

Summary of Legislative Action
S.B. 1002 Deuell (McClendon)



Senate Bill 1002 contained the Sunset Commission's recommendations on the Texas State Affordable Housing Corporation, as well as additional statutory modifications made by the Legislature. However, the Legislature did not pass S.B. 1002. The Corporation was continued in separate legislation in the 1st Called Session, 81st Legislature. Senate Bill 2 continues the Corporation until 2011, and requires the Sunset Commission to focus its next review of the Corporation on the appropriateness of its previous recommendations to the 81st Legislature. Continuing the Corporation for two years will allow the Sunset Commission to re-examine the Corporation and make recommendations to the 82nd Legislature.

ISSUE



Issue 1

The Corporation Continues to Struggle to Fulfill Its Potential in Helping the State Meet Its Need for Affordable Housing.

Summary

Key Recommendation

- ◆ Continue the Texas State Affordable Housing Corporation for a two-year probationary period and re-evaluate its progress and ongoing need in conjunction with the Sunset review of the Texas Department of Housing and Community Affairs in 2011.

Key Findings

- ◆ The Corporation's private activity bond programs mirror functions performed by the Texas Department of Housing and Community Affairs.
- ◆ The Corporation's status as a statewide nonprofit has potential, but its ability to leverage a meaningful amount of private funding, grants, and donations has yet to be clearly proven.
- ◆ Texas has significant unmet affordable housing needs, and despite concerns about its record to date, the Corporation has the potential to help meet this need.

Conclusion

The Corporation is unique in Texas' government, created as a self-funded nonprofit entity with authority to use numerous tools, such as soliciting donations and grants, and leveraging private funding to assist with providing affordable housing. The Sunset review evaluated the continuing need for the Corporation and assessed if current efforts by the Corporation to serve this unique role warrant continuation, despite duplicating key functions already carried out by the Texas Department of Housing and Community Affairs. Sunset staff found that the Corporation has potential to better maximize benefits from its status as a statewide nonprofit to solicit funds and leverage private funding to support housing initiatives. However, the Corporation's inconsistent track record of results does not warrant continuation for longer than two years, allowing the Legislature to evaluate the Corporation's progress in conjunction with the Sunset review of the Texas Department of Housing and Community Affairs.

Support

The Corporation helps finance affordable single family and multifamily housing in Texas, largely through the use of the State's private activity bonds.

- ◆ The Corporation's mission is to help develop affordable housing for low-income families and other underserved populations that cannot obtain housing through conventional means. The Corporation receives no State appropriations and must self-fund its operations. In 2007, the Corporation raised \$2 million from fees for overseeing multifamily properties, servicing loans, and issuing bonds. That year the Corporation operated on a budget of \$1.7 million, with a staff of 12.
- ◆ A five-member Governor-appointed Board oversees the Corporation. The Governor may select members from a wide range of 20 different housing industry sectors, including banking, mortgage brokering, financial advising, nonprofit housing development, real estate, and others.
- ◆ While its functions have changed several times over the years, the Corporation's current activities focus largely on the issuance of tax-exempt, private activity bonds. Bondholders bear all the risk, with no obligation to the State or the Corporation. The textbox, *Key Corporation Activities*, summarizes key activities that the Corporation performs to support affordable housing in Texas.

Key Corporation Activities

To carry out its housing mission, the Corporation:

- ◆ issues bonds to finance the purchase of single family homes;
- ◆ issues bonds to finance the construction or rehabilitation of multifamily housing;
- ◆ monitors multifamily properties financed with tax-exempt bonds;
- ◆ leverages private funding to help provide loans to affordable housing developers; and
- ◆ seeks grants and donations to support housing initiatives for low-income families in Texas.

The Corporation's private activity bond programs mirror functions performed by the Texas Department of Housing and Community Affairs.

- ◆ The Sunset Act requires the Commission to evaluate duplication across agencies. Sunset staff found that the Corporation's core functions duplicate functions performed by the Texas Department of Housing

and Community Affairs (Department). While some Department and Corporation programs target different populations, the functions themselves are the same, as shown in the chart, *Corporation Duplication of Department Functions*.

Corporation Duplication of Department Functions – 2007

	Corporation	Department
Issues single family bonds and administers single family loan programs	\$133 million in loans to 1,198 families	\$281 million in loans to 2,431 families
Issues multifamily bonds and awards financing for multifamily properties	\$36 million rehabilitating 1,008 affordable units	\$118 million creating and rehabilitating 2,081 affordable units
Oversees multifamily properties to ensure owners maintain decent and affordable units	Monitors 155 properties with 29,146 affordable units*	Monitors 1,921 properties with 227,640 affordable units


*Includes 49 properties and 7,360 units financed with Corporation bonds; and 106 properties and 21,786 units overseen by contract for the Texas Department of Housing and Community Affairs.

- ◆ The Corporation administers three single family housing programs, using 10 percent of the State’s single family private activity bond allocation. These include the Professional Educators Home Loan Program that targets teachers; the Homes for Texas Heroes Loan Program that targets firefighters and peace officers; and the Home Sweet Texas Loan Program that serves low-income people, regardless of their profession.

The Department performs the same function, issuing 33 percent of the State’s single family bond allocation. The Corporation, through a network of private lenders, provides home loans and down payment assistance to qualified families. The Department uses the same process as the Corporation, but targets its resources to low-income families, rather than to specific professions. The Department also provides down payment assistance for qualified low-income families, not with every loan.

While the Department could perform this function, the Corporation has consistently and efficiently used its annual allocation of about \$25 million each for its Professional Educators and Homes for Heroes programs. The Corporation also pursued and received an additional \$101 million in single family bonds in 2006, and \$150 million in 2007. The bonds provided additional funding for these professions and enabled the Corporation to create another home loan program targeting a more general population of low-income families. Teachers, firefighters, police officers, and other low-income families clearly benefit from the Corporation’s assistance in obtaining affordable single family home loans.

- ◆ For multifamily housing, the Corporation receives 10 percent of the State’s private activity multifamily bond allocation. The Corporation’s Board determines areas of greatest need, and solicits proposals from developers



The Corporation and Department of Housing and Community Affairs carry out similar bond issuing functions.

to best meet that need. The Department performs this same function as well, issuing 20 percent of the State's multifamily bond allocation. The Department uses a lottery process to target these resources to very low-income families in areas of highest need. In comparison, the Corporation uses a request for proposal process to target funding to underserved areas and hard-to-serve populations.

Over the years, the Corporation has experienced difficulties with its administration of multifamily bonds. In 2001- 02, the Corporation issued more than \$486 million in 501(c)(3) tax-exempt bonds for 39 properties that are now facing foreclosure. Unlike private activity bonds, the 501(c)(3) bonds were 100 percent debt-financed, with no equity to help ensure the properties could remain financially viable. Local communities have also not received \$12.7 million promised to be paid in lieu of the taxes lost on these properties.¹

In 2003, the Legislature authorized the Corporation to issue multifamily private activity bonds. In the first three years, the Corporation funded only one \$14 million project in San Antonio. In 2006, the Corporation changed to a more flexible approach of targeting unmet needs, rather than certain areas of the state. In 2007, the Corporation then used \$36 million of its \$44 million bond allocation in a pooled project to rehabilitate about 1,000 affordable rental units in 13 properties across the state.

- ◆ Both the Corporation and the Department oversee tax-exempt multifamily properties to ensure the properties are properly maintained and continue to meet affordability requirements. Since 1997, the Corporation has had an agreement with the Department to oversee the assets of a portion of the Department's multifamily properties.

The Corporation's status as a statewide nonprofit has potential, but its ability to leverage a meaningful amount of private funding, grants, and donations has yet to be clearly proven.

- ◆ The Legislature created the Corporation as a nonprofit entity authorized to solicit grants and donations to support its purpose of providing affordable housing. The Corporation received its provisional federal 501(c)(3) charity status in 2001; however, the Corporation did not begin actively fundraising until 2006. Since that time, it raised only \$45,000 in private donations.
- ◆ The Corporation also has the ability to leverage private dollars from financial institutions, such as the Federal Home Loan Bank of Dallas. The Corporation combines these private funds with its own to make loans to affordable housing developers. Since 2002, the Corporation leveraged \$6.11 million in private funds, with \$1.23 million of its own funds. However, as shown in the chart on the following page, *Corporation Direct Loans*, this represents a total of only eight loans over seven years, with the less significant amounts in more recent years.


Since actively fundraising in 2006, the Corporation has raised only \$45,000.


Corporation Direct Loans 2002 – 2008

Year	Number of Loans	Corporation Funds	Private Funds
2002	3	\$379,000	\$2.05 million
2003	2	\$0	\$3.16 million
2004	0	\$0	\$0
2005	1	\$500,000	\$0
2006	0	\$0	\$0
2007	1	\$0	\$500,000
2008	1	\$350,000	\$400,000
Total	8	\$1.23 million	\$6.11 million

Texas has significant unmet affordable housing needs, and despite concerns about its record to date, the Corporation has the potential to help meet this need.

- ◆ By 2010, the Texas Department of Housing and Community Affairs predicts that 2.8 million low-income people in Texas will experience problems from the lack of affordable housing.² Housing experts anticipate increasing numbers of hard-to-serve housing populations in Texas, such as individuals in rural communities, migrant workers, and persons over 65 needing assistive housing.³ Texas also ranks sixth in the country in the number of foreclosures-per-home mortgage, and faces ongoing challenges in ensuring affordable homeownership opportunities as sub-prime lending problems unfold.⁴ As home foreclosures increase, the need for affordable rental housing will also increase.
- ◆ The Corporation receives no direct state-appropriated funding. However, to support its operations, the Corporation relies on fees it receives for overseeing properties, servicing loans, and issuing bonds. The receipt of these fees is tied largely to the Corporation’s administration of state private activity bonds, and if these programs were transferred out, the Corporation would have to find an alternative means for supporting its operations. Additional funds left over after covering its administrative overhead also support the Corporation’s unique functions of raising private donations and leveraging private funds to provide loans and grants.
- ◆ If the Corporation can effectively use its status as a 501(c)(3) nonprofit to secure grants and leverage private funds for lending for affordable housing, it could clearly impact the availability of affordable housing in Texas, and in a unique way that a state agency cannot. The Corporation has begun this process with the following steps.

The Corporation hired an employee in 2006 devoted solely to marketing and fundraising, and is making a clearer effort to actively pursue private funding. The Corporation is currently pursuing \$2.15 million in grants from two foundations and one financial institution. If the Corporation


To raise and leverage private funds, the Corporation depends on fees tied to its administration of state bonds.

succeeds in securing these funds, it plans to use them for various initiatives, such as a new program for businesses to assist employees in purchasing homes.

As a nonprofit, the Corporation competed for and received an Equity Investment Award from Wells Fargo Bank. The 2006 award gives the Corporation the use of \$1.05 million for 10 years at a 2 percent interest rate. The Corporation used this funding to make its two most recent loans in 2007 and 2008.

In 2007, the Corporation changed its logo to better reflect its nonprofit affordable housing mission, eliminating its previous logo that projected a more formal, state agency image.

In February 2008, the Corporation created a dedicated fund, the Texas Foundations Fund, to provide grants to nonprofit organizations and local communities to support housing initiatives for hard-to-serve populations. The Corporation is providing an initial deposit to the Fund of \$500,000. The Corporation expects that its 501(c)(3) status will encourage private foundations and donors to contribute to the Fund. Due to its recent development, Sunset staff could not evaluate the effectiveness of this tool in attracting donations beyond those of the Corporation itself.

Recommendation

Change in Statute

1.1 Continue the Texas State Affordable Housing Corporation for a two-year probationary period and re-evaluate its progress and ongoing need in conjunction with the Sunset review of the Texas Department of Housing and Community Affairs in 2011.

This recommendation would give the Corporation two years to more fully develop its capacity and track record as a effective nonprofit. As part of the Department's Sunset review in 2011, the Sunset Commission would revisit the Corporation's effectiveness at competing for grant funds, raising private donations, leveraging private funds for lending, and making grants. This recommendation would allow the Legislature to examine the larger picture of how to best approach meeting the needs for affordable housing and how to best resolve any ongoing concerns of duplication between the Corporation and the Department.

As part of this recommendation, the Corporation would be required to report to the Sunset Commission by September 1, 2010, on its annual performance in each of the following areas.

- ◆ The number and amount of private grants, donations, or other funds applied for and received by the Corporation, and the use of these funds.
- ◆ The number, amount, and purpose of loans provided to affordable housing developers, including Corporation funds and other funds accessed by the Corporation.

- ◆ The amount of funds deposited in the Texas Foundations Fund by source; and the amount and purpose of grants provided through the Fund.
- ◆ The number and amounts of loans, and amount of down payment assistance, provided through each of its single family programs.
- ◆ The number of affordable multifamily rental units created or rehabilitated by issuing multifamily bonds; and the targeted populations, areas, or needs served.
- ◆ For single family and multifamily programs, the number and percentage of families served by income level.
- ◆ The status of 501(c)(3) bond-financed multifamily properties and payment in lieu of taxes.
- ◆ Total amount of revenue generated beyond revenues expended to support the Corporation's operations.
- ◆ The amount of funds invested and investment earnings generated.

Agency Response to 1.1

The Texas State Affordable Housing Corporation opposes this recommendation, stating that the two-year continuation date will have a significant adverse effect on the Corporation's ability to raise affordable housing funds from the private sector and to fully realize its potential as a 501(c)(3) organization.

Agency Modification

1. Continue the Corporation for 12 years, rather than two.

(Thomas A. Leeper, Chairman, and David Long, President – Texas State Affordable Housing Corporation)

For 1.1

Steven A. Carriker, Executive Director – Texas Association of Community Development Corporations, Austin

John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin

Jean Langendorf, Chair – Disability Policy Consortium, Austin

Against 1.1

Mike Higgins, Chief of Staff/Legislative Director – Texas State Association of Fire Fighters, Austin

Modifications

2. Continue the Corporation for a six-year period, until 2015. As part of this recommendation, require the Corporation to include in its annual report to the Legislature information on the following areas.

- ◆ The number and amount of private grants, donations, or other funds applied for and received by the Corporation, and the use of these funds.
- ◆ The number, amount, and purpose of loans provided to affordable housing developers, including Corporation funds and other funds accessed by the Corporation.
- ◆ The amount of funds deposited into the Texas Foundations Fund by source; and the amount and purpose of grants provided through the Fund.
- ◆ The total amount of revenue generated annually beyond revenues expended to support the Corporation's operations.

(Sunset staff, based on a request of Sunset Commission members)

3. Continue the Corporation for six to 12 years, rather than two. (Mike Higgins, Chief of Staff/ Legislative Director – Texas State Association of Fire Fighters, Austin)

Fiscal Implication

This recommendation would not have a fiscal impact to the State because the Corporation is self-funded and does not receive state funding.

Commission Decision

Adopted Modification 2.

Legislative Action

Senate Bill 2, 1st Called Session, 81st Legislature, continues the Corporation until 2011 and requires the Sunset Commission to focus its next review of the Corporation on the appropriateness of its previous recommendations to the 81st Legislature.

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¹ Texas State Affordable Housing Corporation, *Quarterly Portfolio Update*, November 7, 2007 and information on Payments in Lieu of Taxes provided by the Corporation to Sunset staff.

² Texas Department of Housing and Community Affairs (TDHCA), *Agency Strategic Plan for Fiscal Years 2007-11*, p.42.

³ TDHCA, *Migrant Labor Facilities In Texas*, p. 8 (September 2006).

⁴ TDHCA, *A Study of Residential Foreclosures in Texas*, p.35 (September 2006).

ACROSS-THE-BOARD RECOMMENDATIONS



Texas State Affordable Housing Corporation

Recommendations	Across-the-Board Provisions
Do Not Apply	1. Require public membership on the agency's policymaking body.
Update	2. Require provisions relating to conflicts of interest.
Already in Statute	3. Require unbiased appointments to the agency's policymaking body.
Update	4. Provide that the Governor designate the presiding officer of the policymaking body.
Already in Statute	5. Specify grounds for removal of a member of the policymaking body.
Update	6. Require training for members of the policymaking body.
Already in Statute	7. Require separation of policymaking and agency staff functions.
Already in Statute	8. Provide for public testimony at meetings of the policymaking body.
Update	9. Require information to be maintained on complaints.
Update	10. Require the agency to use technology to increase public access.
Do Not Apply	11. Develop and use appropriate alternative rulemaking and dispute resolution procedures.

Commission Decision

Adopted staff recommendations.

Legislative Action

The recommendations were not adopted, as S.B. 1002 failed to pass.

NEW ISSUES



New Issues

The following issues were raised in addition to the issue in the staff report.

2. Increase the size of the Corporation's Board of Directors from five members to seven members by adding one member to represent the interests of families served by the Corporation's single family programs, and one member to represent non-profit housing organizations. (Sunset staff, based on a request of Sunset Commission members)
3. To ensure better ongoing compliance, statutorily require the Corporation to include the following range of enforcement options in all contracts for multifamily projects financed fully, or in part, by the Corporation.
 - ◆ Assessment of financial penalties for non-compliance with bond documents and Corporation policies.
 - ◆ Withdrawal of reserve funds by the Corporation to make needed repairs and replacements to a property.
 - ◆ Removal of the property manager and replacement with one acceptable to the Corporation.
 - ◆ Appointment of the Corporation as receiver to protect and operate the property.(Sunset staff, based on a request of Sunset Commission members)
4. Expand the Corporation's Board of Directors from five to seven or nine members by designating Board seats for one to two representatives of those served by the Homes for Heroes and Professional Educators programs, such as fire fighters, peace officers, or teachers; and one to two representatives of non-profit or charitable organizations. (Steven A. Carriker, Executive Director – Texas Association of Community Development Corporations, Austin)
5. Expand the Corporation's Board of Directors by adding a consumer or advocate member. (Jean Langendorf, Chair – Disability Policy Consortium, Austin)
6. Expand the Corporation's Board of Directors by adding members knowledgeable about the housing needs of populations served by the Corporation, and members familiar with the different segments of the housing provider community, including nonprofit corporations. Provide consumer representation on the Board, including low income persons, persons with disabilities, and special targeted communities such as rural communities. A majority of the Board should be appointed by the Governor; however, a minority of members should be appointed by other entities with expertise and interest in housing. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
7. Require the Corporation to focus on assisting underserved populations and developing innovative strategies to address the housing needs of those populations, particularly extremely low income populations, rural populations, and farm workers. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)

8. Require the Corporation and Texas Department of Housing and Community Affairs (TDHCA) to perform site inspections of each multifamily property every two years. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
9. Require the Corporation and TDHCA to monitor police reports on a yearly basis at each property and conduct special inspections of properties where there are an unusual number of police calls. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
10. Require the Corporation and TDHCA to require property management companies to include in leases a toll-free number for tenants to contact these agencies with information regarding substandard of dangerous conditions. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
11. Require the Corporation and TDHCA to conduct resident satisfaction surveys on a regular basis. Owners and property developers that fail to achieve a reasonable standard of satisfaction through these surveys should be barred from further participation in these agencies financing programs. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
12. Require the Corporation and TDHCA to report revenues earned to the Senate Finance Committee and House Appropriations Committee, so these revenues can be directed at program activities, rather than hidden as administrative expenses. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
13. Require the Corporation to return grants and revenues it generates to the Texas Housing Trust Fund, instead of establishing yet another housing fund. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
14. The Sunset review process should evaluate whether or not assigning TDHCA's master servicing role to the Corporation would generate significant savings and loan servicing costs which could be transferred to the Texas Housing Trust Fund. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
15. Revise the Corporation's and TDHCA's performance indicators reported to the Legislative Budget Board to provide a better understanding of what housing resources are being produced by the agencies, and what populations are being served by the agencies. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)
16. The Legislature should give the Corporation and TDHCA two years to demonstrate innovative approaches to making home ownership loans affordable to borrowers not served by the conventional market. At the end of two years, the Legislature should review the performance of both agencies and determine which agency is best equipped to administer the State's first-time home buyer programs. (John Henneberger, Co-Director – Texas Low Income Housing Information Service, Austin)

Commission Decision



Adopted New Issues 2 and 3.

Legislative Action



The statutory recommendations were not adopted, as S.B. 1002 failed to pass.

CORPORATION INFORMATION

(MARCH 2008)




Corporation Information

Corporation at a Glance

The Legislature created the Texas State Affordable Housing Corporation (Corporation) in 1995 as a self-sustaining nonprofit corporation to help low-income Texans obtain affordable housing. To achieve its mission, the Corporation carries out the following key activities:


- ◆ issues bonds to finance the purchase of single family homes by qualifying teachers, firefighters, police officers, and low-income families;
- ◆ issues bonds to finance the development and rehabilitation of multifamily rental properties;
- ◆ oversees and monitors multifamily properties to ensure owners maintain decent, affordable units;
- ◆ provides loans to assist affordable housing developers with initial construction and start-up costs; and
- ◆ markets its programs and seeks out grants and donations to help support affordable housing.



Information about first-time homebuyer programs and development of affordable multifamily housing can be found at the Corporation's website, www.tsahc.org.

Key Facts

- ◆ **Funding.** The Corporation self-funds its operations and receives no state-appropriated funding. In fiscal year 2007, the Corporation generated about \$2 million in revenues and expended about \$1.7 million on its operations.
- ◆ **Governance and Staffing.** A five-member, Governor-appointed Board oversees the Corporation, which employs 12 people in Austin.
- ◆ **Single Family Programs.** In 2007, the Corporation issued bonds to finance \$133 million in loans. About 1,200 families used these funds to purchase homes, with an average loan amount of \$108,000.
- ◆ **Multifamily Programs.** In 2007, the Corporation issued \$36 million in bonds to rehabilitate 13 properties, preserving about 1,000 units of affordable housing.
- ◆ **Asset Oversight and Compliance.** In fiscal year 2007, Corporation staff conducted about 150 site visits of multifamily properties to check for compliance with property condition and affordable unit set-aside requirements.



*The Legislature
has expanded
the Corporation's
duties to include
helping teachers
and firefighters
get home loans.*

Major Events in Corporation History

- 1994 The Texas Department of Housing and Community Affairs (Department) creates the Corporation to help residents of the El Cenizo colonia near Laredo by purchasing their contracts for deed and converting them into mortgages.
- 1995 The Legislature establishes the Corporation in law as an independent entity, though the Department's Board still serves as the Corporation's Board. The Corporation functions as a nonprofit mortgage bank, providing singlefamily home loans with funds from the Department.
- 1997 The Legislature separates the Corporation from the Department and creates a Board for the Corporation with two Department members and four Governor-appointed members. The Executive Director of the Department serves as the president of the Corporation.
- 1999 The Legislature completely separates the Corporation from the Department, creating a new Governor-appointed board, and authorizing the Board to hiring the Corporation's president.
- 2001 The Corporation changes its focus to issuing 501(c)(3) bonds to rehabilitate multifamily properties. The Legislature creates, and charges the Corporation with administering, the Teacher Home Loan Program, dedicating \$25 million of the State's single family bond allocation to the program. The Legislature reauthorizes the Corporation for two years, directing the Sunset Commission to re-evaluate the Corporation's new focus and its ongoing need.
- 2003 The Legislature creates, and charges the Corporation with administering, the Homes for Texas Heroes Loan Program, dedicating \$25 million of the State's bond allocation to the program. The Legislature authorizes the Corporation to issue 10 percent of the State's multifamily private activity bond allocation.

The Legislature continues the Corporation for six years – rather than the standard 12 years – to provide more frequent evaluation of the Corporation's ongoing need, given its unique structure and lack of appropriations oversight.

Organization

Policy Body

A five-member Board oversees the Corporation. The Governor appoints members to serve staggered six-year terms and selects the presiding officer. The Governor may select members from a wide range of 20 different housing

industry sectors, including banking, mortgage brokering, financial advising, nonprofit housing development, real estate, and others. To serve on the Board, a person must not have ties to industry associations or be a registered lobbyist. The chart, *Texas State Affordable Housing Corporation Board*, provides information about each member. The Board meets monthly in Austin.

Texas State Affordable Housing Corporation Board

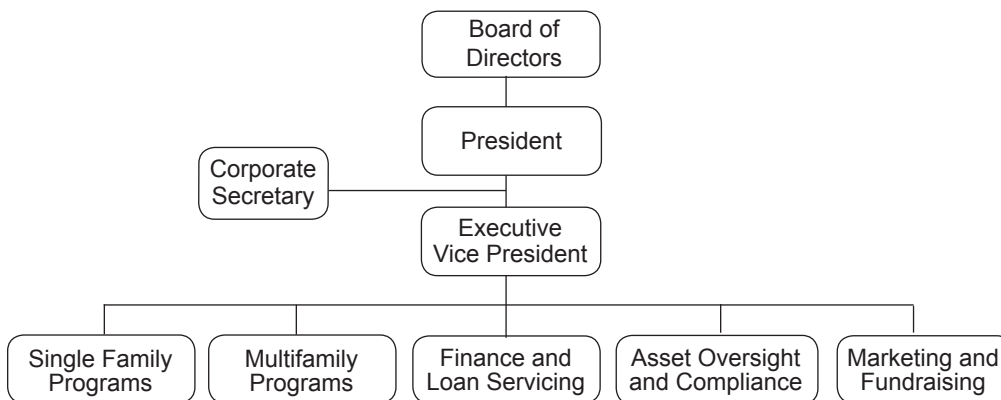
Member	City	Expertise	Term Expires
Jerry Romero, Chair	El Paso	Banking	2005*
Thomas Leeper, Vice Chair	Huntsville	Real Estate Law / City Attorney	2013
Jesse Coffey	Denton	Real Estate	2009
Jo Van Hovel	Temple	Real Estate	2013
Charles Rencher	Sugarland	Property Management	2009

*Mr. Romero continues to serve at the discretion of the Governor.

Staff

The Corporation employs 12 staff, all based in Austin. Under the direction of the Board, the President manages the Corporation’s day-to-day operations and implements Board policies. The Corporation contracts for certain support services, such as legal counsel and human resources. The *Texas State Affordable Housing Corporation Organizational Chart* depicts the Corporation’s structure.

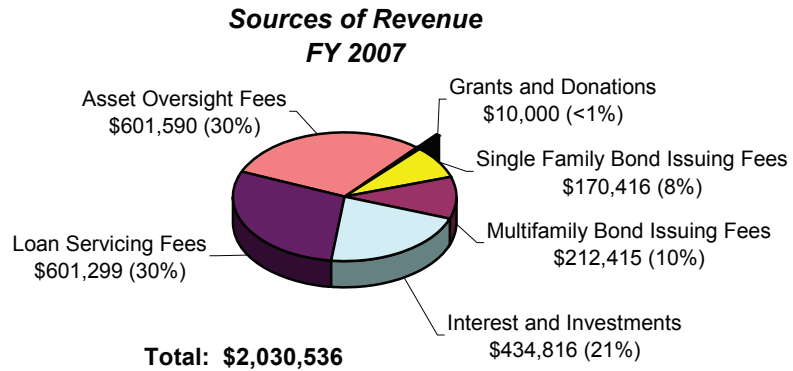
Texas State Affordable Housing Corporation Organizational Chart



Funding

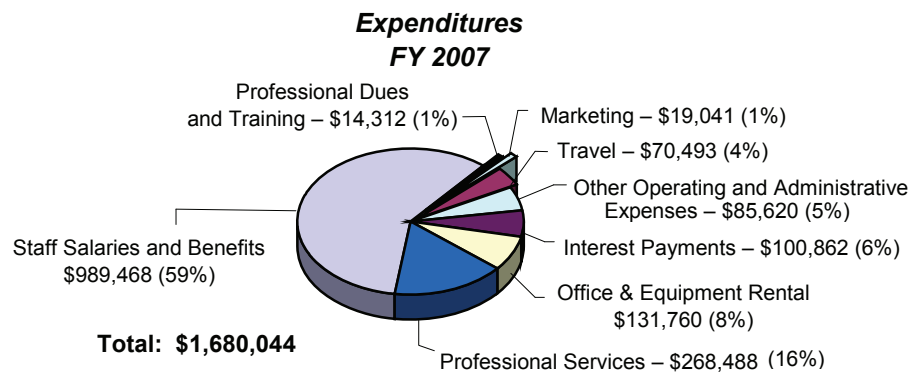
Revenues

The Corporation does not receive any state revenues and is not subject to the legislative appropriations process. In fiscal year 2007, the Corporation generated about \$2 million in operating revenues. As shown in the chart, *Sources of Revenue*, this funding came primarily from fees received for overseeing assets, servicing loans, and issuing bonds.



Expenditures

The Corporation's operating expenses in fiscal year 2007 totaled about \$1.7 million. As shown in the chart, *Expenditures*, salaries and benefits accounted for the largest portion of the Corporation's expenses. The Corporation also generated about \$350,000 more than it spent, with this revenue carrying forward into the next year. By law, the Corporation must file annual financial reports with the Governor and the Legislature, and may be audited by the State Auditor's Office.



Corporation Functions

To achieve its mission and goals, the Corporation performs five key functions: issuing bonds to finance single family home loans; issuing bonds to finance the construction and rehabilitation of multifamily housing; overseeing multifamily rental properties financed with bonds; providing direct loans

to construct and rehabilitate affordable housing; and pursuing grants and donations to support affordable housing in Texas.

Single Family Housing

The Corporation administers three single family housing programs, all financed with private activity bonds. The Professional Educators Home Loan Program targets low-to-moderate income teachers. The Homes for Texas Heroes Loan Program helps low-to-moderate income firefighters and peace officers. Over time, the Legislature expanded both programs to serve additional related professionals. In addition to these two statutorily-created programs, the Corporation created the Home Sweet Texas Loan Program in 2006 to serve a more general population of low-income families.

In 2007, the Corporation assisted 1,200 families with purchasing homes.

In 2007, the Corporation assisted about 1,200 families with purchasing homes through these three programs, with a total of \$133 million in mortgage loans. The Corporation provides 5 percent in down payment assistance with each of its loans. The chart, *Corporation Single Family Programs*, provides additional information on the categories of people the Corporation served with each of these programs in 2007.

Corporation Single Family Programs – 2007

	Professional Educators	Homes for Texas Heroes	Home Sweet Texas
Professional Requirements	By law, may serve a full-time teacher, teacher's aide, school librarian, school nurse, school counselor, or a nursing or allied health faculty member.	By law, may serve a full-time paid firefighter, peace officer, correctional officer, juvenile corrections officer, county jailer, public security officer, or EMS personnel.	Not in law, created by the Corporation with no restrictions on profession.
Income Category Served	Low-to-Moderate Income	Low-to-Moderate Income	Low-Income
Average Borrower Income	\$48,990	\$52,374	\$39,273
Average Loan Amount	\$117,040	\$110,802	\$96,221
Number of Loans	654	302	242

To qualify for a loan, homebuyers must meet federal income limits. The programs targeting professional groups serve low-to-moderate income families, while Home Sweet Texas serves only low-income families. The chart, *Single Family Housing Income Limits*, illustrates how much a family can earn, on average statewide, and still qualify for a loan. Actual income limits vary by geographic area, based on the Area Median Family Income (AMFI).

Single Family Housing Income Limits – 2007

Income Category	Percent of AMFI	Income Limits (Statewide Average)
Low	80%	\$43,440
Moderate	115%*	\$62,445

*Income limits increase to 140 percent AMFI for people in certain economically distressed and hurricane-affected areas.

The Corporation receives a set amount of the State's single family private activity bond allocation for each of the two statutorily-created programs. In 2007, the Professional Educators and the Homes for Texas Heroes programs each received a bond allocation of \$25 million. Starting in 2008, the Corporation's statutory programs will receive 10 percent of the State's single family allocation, instead of a fixed dollar amount. This change will not initially increase the Corporation's allocation significantly. However, using a percentage for the allocation allows it to increase as the State's total bond allocation increases, based on population growth.

Like all other bond issuers, the Corporation can apply for additional bond allocation through the Bond Review Board after all unused set-aside allocations become available for other purposes. The Corporation cannot depend on this funding, as it varies from year to year. However, in 2007, the Corporation picked up an extra \$150 million in bond allocation others did not use. The Corporation used \$25 million of this for Home Sweet Texas, and will use the other \$125 million for the Professional Educators and Homes for Texas Heroes loan programs.

As a statewide issuer of single family mortgage revenue bonds, the Corporation works with a network of approved lenders to assist eligible borrowers throughout the loan process. The Bond Review Board reviews and authorizes each bond transaction structure. A third party trustee uses the homebuyers' mortgage payments to pay bondholders, who bear the financial risk, without any obligation to the State or the Corporation to repay the bonds. Once issued, the Corporation subcontracts with a financial institution to service the loans and pass-through payments to the trustee.

*In 2007, the
Corporation
helped
rehabilitate
1,000 affordable
rental units.*

Multifamily Housing

Since 2003, the Corporation has been allocated 10 percent of the State's multifamily private activity bond cap to provide financing to developers of affordable multifamily rental housing. State law requires the Corporation to target this bond funding to areas of greatest need, as determined by the Corporation's Board. The current areas of greatest need identified by the Board include senior housing, rural housing, rehabilitation of housing, and supportive housing, such as housing for victims of domestic violence. The Corporation solicits proposals from developers and awards financing to the highest scoring proposals.

In 2007, the Corporation received an allocation of \$44 million and issued \$36 million in bonds to fund one project involving 13 properties and the rehabilitation of about 1,000 affordable rental units. These properties, collectively known as the Rainbow portfolio, are located in different areas of the state, including Amarillo and Odessa. This portfolio of properties fits the Corporation's criteria as they are all rehabilitation projects and many are located in underserved geographic areas.

To ensure that low-income families benefit from the financing, developers must reserve either: 40 percent of their units for households at or below 60 percent of AMFI; or 20 percent of their units for households at or below 50 percent of AMFI. The chart, *Multifamily Housing Income Limits*, shows income levels, on average statewide, needed to meet these requirements. Actual income limits vary by geographic area.

Multifamily Housing Income Limits – 2007

Income Category	Percent of AMFI	Income Limits (Statewide Average)
Very Low	50%	\$27,150
Low	60%	\$32,580

Asset Oversight and Compliance

To ensure that multifamily housing developments financed with tax-exempt bonds are maintained and comply with affordability requirements, the Corporation monitors these properties. The Corporation currently oversees 49 properties financed with bonds issued by the Corporation. These properties contain 7,360 affordable units.

The majority of these properties were financed with 501(c)(3) bonds. State law authorizes the Corporation to issue multifamily 501(c)(3) tax-exempt mortgage revenue bonds, but due to problems experienced with this type of bond financing, the Corporation has not received any new applications since 2002. However, the Corporation does retain an ongoing responsibility to oversee these properties.

Property owners must submit regular compliance reports to the Corporation, which include occupancy information, rental rates, and the number of affordable units available for rent. Staff conduct compliance audits to review resident files to ensure renters qualify for affordable housing and are not overcharged rents. Staff also conduct asset oversight inspections to evaluate the condition of a property, assess the frequency of crime incidents, and review the type and frequency of resident services provided. Staff send letters to property owners noting compliance and asset oversight corrective actions needed. In fiscal year 2007, the Corporation visited each of its properties twice to conduct these activities.

The Texas Department of Housing and Community Affairs contracts with the Corporation to provide asset oversight services for 106 of the Department’s properties, containing about 21,800 affordable units. Staff provide the Department with regular reports on the status of Department properties. In fiscal year 2007, the Corporation visited each of the Department’s properties once, receiving about \$600,000 in fees for this service.

Direct Lending

The Corporation makes short-term capital loans to assist multifamily and single family affordable housing developers with project start-up costs. The Corporation lends some of its own funds, and acquires funds from other financial institutions to re-lend to developers. In 2006, the Corporation received an award from Wells Fargo Bank giving the Corporation use of \$1.05 million for 10 years at a 2 percent interest rate. In 2007, the Corporation used

The Corporation oversees multifamily properties to ensure owners provide decent, affordable housing.

\$500,000 of these funds to make a loan to the Rainbow portfolio developer to cover initial start-up costs at a rate of 4 percent.

Marketing and Fundraising

The Corporation's marketing staff promote its single family loan and multifamily financing programs. Staff market Corporation programs at conventions and professional association conferences, targeting both potential homebuyers and the housing industry as a whole.

The Corporation began operating as a 501(c)(3) tax-exempt public charity in 2001, and began actively pursuing fundraising in 2006. The Corporation received two grants totaling \$15,000 to market its single family programs, and accepted \$30,000 in donations for the Texas Statewide Homebuyer Education Program, which is administered by the Texas Department of Housing and Community Affairs.

In 2008, the Corporation also approved creation of the Texas Foundations Fund to provide grants to nonprofit organizations and rural communities to support housing initiatives for very low-and extremely low-income families. The Corporation provided the Fund's first donation of \$500,000 in Corporation revenues.

APPENDIX



Appendix A

Staff Review Activities

During the review of the Texas State Affordable Housing Corporation, staff engaged in the following activities that are standard to all Sunset reviews. Sunset staff worked extensively with Corporation personnel; attended Board meetings and interviewed the Board chair; met with staff from key legislative offices; conducted interviews and solicited written comments from interest groups and the public; reviewed Corporation documents and reports, state statutes, legislative reports, previous legislation, and literature; researched the organization and functions of similar state agencies and functions in other states; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this review.

- ◆ Accompanied Corporation staff on monitoring visits at three affordable multifamily properties in Corpus Christi.
- ◆ Met with nonprofit organizations in San Antonio that create affordable rental housing and homeownership opportunities.
- ◆ Attended the Texas Association of Community Development Corporation's 2007 Policy Summit at the University of Texas at Austin.
- ◆ Met with groups representing low-income Texans, people with disabilities, local housing finance agencies, and rural communities.
- ◆ Talked with associations whose members qualify for the Corporation's single family programs.
- ◆ Met with staff of the Texas Department of Housing and Community Affairs and the Texas Bond Review Board.
- ◆ Met and talked with other individuals with legal and policy expertise in affordable housing financing and programming.

PROVISIONS ADDED BY LEGISLATURE



Provisions Added by Legislature

Senate Bill 1002 failed to pass.

SUNSET STAFF REVIEW OF THE TEXAS STATE AFFORDABLE HOUSING CORPORATION



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