Adopted: December 15, 2011

MINUTES
FINANCE/AUDIT COMMITTEE OF THE CONNECTICUT HOUSING FINANCE AUTHORITY ("CHFA")
SPECIAL MEETING
November 3, 2011

Members Present:	Orest T. Dubno, Vice Chairperson of CHFA Board Donald Kirshbaum representing Denise Nappier, State Treasurer Kimberly Neilson James Heckman representing Howard Pitkin, State Banking Commissioner
Member Absent:	Michael Lyons
Other Board Members Present:	Catherine Smith, Chairperson of CHFA Board and Commissioner of the Department of Economic and Community Development Anne Foley representing Benjamin Barnes, Secretary, Office of Policy and Management Jeffrey Freiser Meghan Lowney Barbara McGrath

Mr. Dubno called the Finance/Audit Committee (the "Committee"), meeting to order at 10:05 a.m. in the Board Room of CHFA's offices, 999 West Street, Rocky Hill, Connecticut 06067.

Ms. Whetstone, CHFA Interim President – Executive Director, thanked the Committee and Board members for their participation in the budget process. She noted that a special Board meeting was held on September 16 to provide an overview of the components of CHFA's Budget and Plan of Operations and answer questions. A special Finance/Audit Committee meeting was held on October 13 to have a broad discussion and obtain more input from the Board and Committee. Based on the input received, staff has developed the proposed 2012 Budget and Plan of Operations. Ms. Whetstone indicated that the Committee can vote to recommend the proposed 2012 Budget and Plan of Operations to the Board or have further discussion at the Finance/Audit Committee meeting scheduled for November 17. By statute, CHFA must adopt a budget by December 1. Ms. Whetstone summarized that the Finance/Audit Committee and Board are being asked to consider 1) the 2012 Operating Budget and 2) the 2012 Lending Plan. Ms. Whetstone recognized and thanked Mr. Craford, Ms. Fitzgerald, Ms. Kovel, Ms. Lambert, Mr. Myskowski, Ms. Vallera, Mr. Ward and staff for their efforts with putting together the proposed 2012 Budget and Plan of Operations.

Before beginning the presentation, Mr. Kirshbaum asked about the 10-year comprehensive plan mentioned in the cover memorandum prepared by Mr. Ward. Ms. Whetstone explained that the initiative contemplated in the operating budget is to develop a comprehensive plan with potential capital needs assessments to begin to address the 14,000 units of state-funded public housing. At one time, the 14,000 units of state-funded public housing were in the Department of Economic and Community Development ("DECD") portfolio, and the mortgages for those loans were transferred to CHFA in 2003. It was noted that beyond holding the mortgages on the units, CHFA has certain regulatory and asset management responsibilities. Ms. Whetstone stated that a majority of the 30 to 40 year old projects need major rehabilitation and have very little or no operating subsidies associated with them. A majority of the projects are owned by public housing authorities, some by non-profits and a few by for-profits. Ms. Smith noted the importance of working with each of the owners to figure out a long-term strategy to get the projects running on their own.

Ms. Whetstone explained that CHFA's operating budget contemplates $15,000,000 of the $100,000,000 from DECD to make minor renovations (approximately $30,000 a unit) to some of the state-funded public housing properties that could become financially stable as a result of the small investment. Ms. Smith expressed some concern that the more egregious properties are not being addressed sooner. Ms. Whetstone stated that the larger properties will require a more comprehensive approach and substantially more funding. She indicated the need to identify financial partners (i.e. the state, housing authorities, private funding, etc.) Ms. Whetstone stated that staff anticipates developing a plan for each of the properties. There was a brief discussion on how to obtain support subsidies, and examples of possible supporters could include organizations like the Hartford Foundation for Public Giving.

Mr. Kirshbaum asked about the risks and exposure to CHFA as a result of the deteriorating state-funded public housing in its portfolio. Mr. Craford noted the difficulties trying to sort through the properties because of the different levels of repair and different levels of support for debt. He explained that the assets are in CHFA's portfolio, and the values have been reserved to an appropriate level. Mr. Craford stated that the strategy is to systematically develop a plan for each of the properties. Mr. Freiser reminded CHFA of the statutorily requirement to involve and obtain input from the residents regarding any potential disposition or substantial rehabilitation of the properties.

Mr. Ward, CHFA Administrator of Planning and Research, summarized CHFA's accomplishments for 2011. He stated that CHFA purchased fewer home mortgages than anticipated in 2011 but will exceed its goal for rental housing development because of the forward commitment of 2012 low-income housing tax credits and the substantial activity undertaken by CHFA in providing emergency mortgage assistance through the existing State and new major Federal program. Mr. Ward explained how short-term interest rates have impacted CHFA's earnings on short-term investments, and CHFA has less income to reinvest. He discussed CHFA's cost of funds compared with the 30-year treasury yield and CHFA's single-family mortgage rate compared to conventional rates. Mr. Ward explained the impact of the long-term interest rate environment on housing finance borrowing, limiting the ability of housing finance authorities to borrow to fund programs on their own credit. He discussed the intervention by the federal government through the creation of the New Issue Bond Program in

2009 to subsidize housing finance authority bond costs and make the bond programs for housing finance agencies more competitive.

Mr. Ward reviewed the volume cap and awarded carryforward for years 2001 through 2008. Since 2001, all of CHFA's carryforward has been designated to single-family programs and fully utilized through 2008. Once the carryforward is locked in, the bonds must be issued for the designated purpose within 3 subsequent years or the bonding authority is lost. Mr. Ward explained that it has been CHFA's practice to use the subsequent year's new bonding authority for multifamily, while funding the single-family programs with bond cap authority carryforward whenever possible. This practice gives multifamily a longer lead time for development and minimizes the likelihood of bonding authority being lost. The Committee requested that staff add years 2009, 2010 and 2011 to the chart on page 10 rather than having those years on a separate chart. Additionally, the Committee asked for an additional column that includes the total bonds issued in each year.

Mr. Kirshbaum questioned where CHFA is in terms of revenues and when the downturn in the housing market is projected to impact CHFA's bottom line. Mr. Craford noted that CHFA has several fundamental sources of tax-exempt bonding authority which include prepayments, new bonding authority and carryforward. He stated that prepayments vary and reflect the interest rate environment. Mr. Craford noted that CHFA carefully manages the sources of these different sources of tax-exempt bonding authority and shifts the use of those funds as necessary. He explained how CHFA has been able to successfully manage the continuation of the single-family program through many different economic changes and changes in the tax code. Mr. Craford stated that CHFA has been able to warehouse Convertible Option Bonds to be successfully issued at a later date when more advantageous to CHFA. He explained how CHFA was able to convert mortgages into Ginnie Mae program assets to increase its pool of funds available for the single-family program. In response to a question, Mr. Craford indicated that the only limit CHFA has on the bonds issued is on the tax-exempt bond authority available each year.

Mr. Kirshbaum questioned the negative arbitrage with CHFA issuing the NIBP bonds that are not likely to be utilized in the near term. Mr. Craford stated that CHFA took advantage of NIBP which is due to expire at the end of the year and is in the market with approximately $200,000,000 of bonds that will use up CHFA's NIBP allocation in addition to some CRA bonds. Mr. Craford mentioned that the lower borrowing costs of the NIBP will enable CHFA to offer lower mortgage rates. He indicated that this issue will help CHFA get back to previous years' home mortgage purchasing levels and position it to achieve its 2012 goal of purchasing 2,750 home mortgage loans. Mr. Craford stated that CHFA's cash flows take into consideration that there may be some short-term negative arbitrage.

Mr. Ward reviewed the proposed 2012 lending plan and the goal of purchasing 2,750 single-family mortgages in 2012, and 250 emergency mortgage loans. Mr. Ward noted that staff continues to work with other housing finance authorities to develop options and strategies to increase home mortgage lending.

Mr. Ward mentioned that in response to a question raised at a previous meeting, the number of rental homes financed in the past has been broken out between new and substantially rehabilitated. He reviewed the average per unit development costs for 2011. Some concerns were raised with the average total development costs being high. A question arose as to whether CHFA's standards are so cumbersome that they result in higher development costs. Ms. Kovel explained that this issue was reviewed extensively and other housing finance agencies were surveyed. She noted the challenges of balancing a number of factors that affect costs (i.e. room sizes, quality, building materials, smart growth initiatives, economies of scale, etc.) with the long-term 30 to 40 year investment. Ms. Kovel indicated that CHFA's construction standards are equivalent to the LEED Silver designation. She emphasized the importance of the state and federally funded developments being built to last 30 to 40 years. Mr. Ward mentioned that CHFA often financed smaller more specialized housing that shows higher "per unit" costs, as embedded required costs are spread over a smaller base of units. He explained that the goal for 2012 is to purchase 600 affordable housing units with 4 percent low-income housing tax credits and tax-exempt bonds, 150 supportive housing units and the rehabilitation of 600 units of state-funded public housing.

Some concern was expressed that the proposed goal for multifamily is not as robust as it should be and that the 150 units of supportive housing should not be in CHFA's goal since it is not financed by CHFA. Ms. Whetstone indicated that staff had an internal discussion about how to fairly represent itself since it administers and does all the work for programs that it does not finance. Staff was asked to remove the 150 units of supportive housing from its multifamily housing goal and/or to change the title so that it is not a "financing" goal. A discussion ensued about financing for the multifamily units. Ms. Kovel indicated that CHFA funding is not a constraint for multifamily housing development. She stated that producing affordable units is driven by the availability of subsidies. Ms. Kovel stated that only the availability of capital subsidies would produce more housing units. In response to a suggestion to do more grant funding, Ms. Whetstone responded that CHFA sells its bonds to bondholders, and CHFA has a fiduciary responsibility to pay back the bondholders with the proceeds from its loans. Mr. Craford explained that generally, there is a funding gap with the issuance of 4 percent bonds and low-income housing tax credits for multifamily developments. This gap funding is what is often provided by DECD.

A further discussion ensued on the proposed utilization of the $15,000,000 for the state-funded public housing. Ms. Whetstone reiterated that staff proposes to do minor renovations such as updating kitchens, bathrooms, some roofing, etc. to help improve the quality of life for some of the residents at properties that are in better physical condition but still in need of investment. Ms. Kovel mentioned that the proposal is to do light to moderate rehabilitation for those properties that could also improve its financial stability for the next 15 years. She noted that the $15,000,000 will not address any developments that are in need of substantial rehabilitation. Ms. Smith reiterated her concern with putting off and not addressing some of the more serious properties sooner rather than later. Ms. Whetstone explained that staff needs time to develop a strategy to deal with each of the properties as well as identifying funding and operating subsidies. Ms. Smith asked staff to determine whether the funds can be used to address some of the more egregious properties. Concerns were raised with addressing the needs of the properties but not having sufficient rental subsidies to sustain the properties in the long-term.

A discussion ensued on the value of the properties and the estimated costs of rehabilitation of the state-funded public housing portfolio. Ms. Kovel explained that in 2006 and 2010, the owners were asked to self-report capital needs. CHFA received approximately 60 to 70 percent response reporting total capital needs of approximately $300,000,000. Ms. Kovel stated that most of the properties cannot support additional debt. She indicated that it is critical to develop a strategic plan for each of the properties to address whether and how the projects can sustain operations. Ms. Smith urged staff to develop a plan to request funds to address some of the properties in this legislative session and to have a solid plan that will address the remaining properties over the next several years. Mr. Kirshbaum emphasized that the state-funded public housing should not solely be CHFA's responsibility. A discussion ensued on which agency should bring forth a plan to the legislature. Mr. Kirshbaum suggested that the Governor's office should present a plan to the legislature for the state-funded public housing rather than CHFA.

Mr. Ward summarized the decisions that have to be made regarding the 2012 Budget and Plan of Operations. In addition to establishing the operating budget, he indicated the need to allocate tax-exempt bond authority for the multifamily and single-family programs and allocate available Investment Trust Account ("ITA") and Community Investment Act ("CIA") funding. Mr. Ward reviewed the proposed business priorities. In response to a question about salary adjustments, Ms. Whetstone indicated that there will be no merit increases or success sharing incentives. However, adjustments are sometimes necessary when trying to recruit new hires and the salary does not accurately reflect the market. In those cases, Ms. Whetstone stated that it may also be necessary to adjust salaries for comparable existing staff. She mentioned that CHFA periodically checks the market and other housing finance agencies for comparable salaries. Mr. Kirshbaum stated that the Office of Policy and Management made recommendations to the Connecticut Development Authority about compensation and noted the need for consistency among the quasi-public agencies.

Ms. Whetstone discussed the proposed operating budget. She indicated that the budget does not assume any new positions. Ms. Whetstone stated that CHFA's budget includes 146 employees, and there are currently 16 or 17 vacant positions, approximately 12 of which are anticipated to be filled by the end of the calendar year. Several senior level positions are not expected to be filled by the end of the year. Ms. Smith asked management to consider whether staff is in the right places, whether there needs to be a change in the number of staff and/or shifting of staff or some sharing staff resources with the other quasi-public agencies as a result of some of the program changes. In response to a suggestion, Ms. Kovel indicated that there has been some cross training of staff over the last year, so that staff can be shifted to work in different areas as needed. Ms. Whetstone stated that the Board will be asked to approve a total operating budget of $38,342,000, which is an increase of $588,000 over the total budget approved for 2011 or a 1.56 percent increase. She reviewed the areas of the budget proposed to be impacted for 2012. In response to a question, Ms. Whetstone explained the reason for the proposed increase to temporary employees for 2012. She stated that it will be necessary to retain some temporary employees to service the Federal Emergency Homeowners' Loan Program, which is projected to be fully reimbursed from program funds and the state-funded Emergency Mortgage Assistance Program which expenses will be partially reimbursed from program funds.

Mr. Kirshbaum questioned how projected revenues compare with the total operating budget. Mr. Craford stated that he did not expect project revenues to vary much from this year's revenues and that that they will be sufficient to cover the operating budget.

Mr. Freiser questioned whether the budget includes any funds that might be needed as a result of the comprehensive information technology plan that is being developed. It was noted there are no significant changes to the information technology budget for 2012. Ms. Whetstone indicated that a recommendation will be presented in January or February 2012, and it is not yet known whether the recommendations will result in budget amendments.

Mr. Ward reviewed the proposed funding sources and lending plan for 2012. He noted the need to allocate some of the resources between single-family and multifamily purposes. Mr. Ward explained that staff recommends that all of the 2012 tax-exempt bond allocation be used for multifamily, which staff estimates to be sufficient to fund all of the multifamily housing anticipated for 2012. A discussion ensued on the allocation of tax-exempt bond authority for multifamily and single-family. Ms. Smith questioned whether it is appropriate to allocate more of the carryforward for multifamily rather single family. She asked whether some of the funds could be used in conjunction with the $15,000,000 from DECD for the state-funded public housing. Staff reiterated that CHFA's ability to produce more multifamily housing is constrained by the lack of funds to subsidize the operations of the housing. Questions arose as to whether there are any housing authorities that may be ready to utilize $15,000,000 for the state-funded public housing in 2012. Staff was asked to talk with housing authorities to determine whether there is major rehabilitation that could be accomplished in the next year or two. Ms. Whetstone noted some of the complications involved with a major rehabilitation that require big solutions, including the relocation of tenants.

Ms. Smith asked staff to try to figure out whether CHFA's funds can be used to provide subsidies or whether CHFA can issue bonds to provide subsidies needed to make the projects work. Mr. Craford explained that the state's general obligation bonds are very different from CHFA's private activity bonds. He noted that CHFA's assets have to support its bonds. The state's bonds are supported by the taxpayers. Mr. Craford explained some the potential implications to CHFA's credit, the state's credit, and its borrowing ability if its cash flows are significantly impacted. Mr. Kirshbaum cautioned about the impact on CHFA's credit rating. He noted that if CHFA's bond rating went down, the cost of funding would go up. Mr. Kirshbaum also cautioned about potential impacts to the State because CHFA's bonds are backed by the State. Ms. Smith asked staff to look at alternative and creative ways to solve the problem.

There was general consensus that CHFA, because of its expertise in housing in the State of Connecticut, is challenged with helping the state with the housing crisis while also recognizing its fiduciary responsibility to the bondholders.

Mr. Ward reviewed the proposed plan of operations. The Committee encouraged staff to continue to coordinate with other state and quasi-public agencies, including the Department of Energy and Environmental Protection and the Clean Energy Finance and Investment Authority on some of the energy efficiency efforts.

There being no further business to discuss, upon a motion made by Ms. Neilson, seconded by Mr. Kirshbaum and unanimously approved, the meeting was adjourned at 12:25 p.m.