

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE REGULAR MEETING OF THE COMMISSIONERS
HELD ON MAY 19 AND 20, 2003

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the regular meeting of the Commissioners of the Virginia Housing Development Authority were held on May 19 and 20, 2003, at the offices of the Authority, 601 South Belvidere Street, Richmond, Virginia.

COMMISSIONERS PRESENT:

Sam Kornblau, Chairman*
Charles L. Krum, Jr., Vice Chairman*
H. Evans Thomas, V*
Allen H. Jones*
Jay Fisette*
Joan D. Gifford*
Terri M. Ceaser*
J. Cheryl J. Avery-Hargrove*
Gary C. Klein*
Jody M. Wagner*
William C. Shelton**

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Arthur N. Bowen, Managing Director of Finance and Administration
Ronald A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Brenda K. Goodman, Managing Director of Public Policy
J. Judson McKellar, Jr., General Counsel
Tammy A. Tyler, Strategic Development Leader
John F. Hastings, Assistant Director of Multi-Family Development
Michele G. Watson, Assistant Director of Single Family
James M. Chandler, Senior Development Officer
Kathleen A. O'Rourke, Media Affairs Manager
Barbara Kevit, HR Manager

*Authorized to vote

**Non-voting

Robert Halloran, Marketing Manager

Thomas J. James, Treasury and Investment Manager
Linda K. Evans, Budget and Risk Management Analyst
Richard L. Johndrow, Senior Housing Initiatives Officer
John P. Smith, IT Support Manager
M. Gary Murray, Controller
Janet Brown, Virginia Poverty Law Center

The meeting of the Committee of the Whole was called to order at 3:05 p.m. on May 19, 2003. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee on May 19, 2003, except Commissioners Shelton and Avery-Hargrove who joined the meeting in progress as noted below and thereafter remained present during the meeting of the Committee and except Commissioner Fisetto who was not present at the meeting of the Committee on May 19, 2003.

Mr. Bowen summarized the results of the Authority's organizational performance for the third quarter of fiscal year 2002-2003 and reviewed the critical issues and challenges that have affected such performance. Mr. Ritenour reported on the Authority's multi-family and single family production and the related strategic efforts and organizational results as of the end of the third quarter. During this report Commissioner Shelton joined the meeting. Mr. Dolce reviewed the status of the Authority's loan servicing portfolio, and Mr. Bowen reported on the Authority's revenues and expenses during the three quarters of fiscal year 2002-2003.

Ms. Dewey reviewed the Authority's proposed budget for fiscal year 2003-2004, including the principal components of the Authority's revenues and expenses and the recent trends in the Authority's program production activity, revenues and expenses, administrative and programmatic expenses, fund balances, and percentage changes in the administrative and programmatic expenses. Ms. Dewey also reviewed the percentage decreases in the Authority's revenues and expenses resulting from the impact of the economy. Mr. Bowen then reported on the funding in the proposed budget for the Authority's strategic initiatives. During this report, Commissioner Avery-Hargrove joined the meeting. Mr. Bowen next reviewed the key budget drivers and the best and worst case budgetary scenarios based upon changes in the interest rate and production assumptions used in developing the proposed budget. Upon the conclusion of further discussion by the Commissioners of the proposed budget, a motion was duly made and seconded to recommend approval of the proposed budget for fiscal year 2003-2004 in the form attached hereto, and this motion was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

There being no further business, the meeting of the Committee of the Whole was recessed at 5:55 p.m.

The Committee of the Whole reconvened at 9:00 a.m. on May 20, 2003. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee on May 20, 2003, except Commissioners Fisetto and Wagner who joined the meeting in progress as noted below and thereafter remained present during the meeting of the Committee.

Ms. Dewey reviewed the terms of the proposed purchase by the Authority of the loans and other assets of the Virginia Housing Partnership Revolving Fund. During this presentation, Commissioner Fisette joined the meeting. Ms. Dewey also reviewed the proposed joint administration by the Department of Housing and Community Development and the Authority of the residual funds expected to be remaining after \$40,822,000 of the proceeds of the purchase price are transferred to the Commonwealth's General Fund. Ms. Dewey then advised the Commissioners as to the proposed use of \$7,000,000 annually, for at least the next three years, of funds in the Virginia Housing Fund for the financing of \$5,000,000 in multi-family loans similar to those previously financed by the Virginia Housing Partnership Revolving Fund and for the financing of \$2,000,000 in single family mortgage loans under the Regional Loan Fund. Vice Chairman Krum moved that the Committee recommend that (1) the purchase by the Authority of the loans and other assets of the Virginia Housing Partnership Revolving Fund be approved and (2) the Executive Director be authorized to determine the purchase price for such loans and assets, to execute and deliver the Agreement and Memorandum of Understanding in substantially the form attached hereto, and to take any and all other action deemed by her to be necessary or appropriate to effect the purchase of the loans and other assets of the Virginia Housing Partnership Revolving Fund. This motion was seconded by Commissioner Avery-Hargrove and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Mr. Ritenour, Mr. Bowen and Mr. Reger reported on recent restructurings in their respective divisions. During this report, Commissioner Wagner joined the meeting. Ms. Taylor then advised the Commissioners that the staff will be merging the two current severance policies into one policy.

There being no further business, the meeting of the Committee of the Whole was adjourned at 10:03 a.m.

The regular meeting of the Board of Commissioners was called to order at approximately 11:25 a.m. on May 20, 2003. All of the Commissioners listed above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioners Klein who joined the meeting in progress as noted below and thereafter remained present during the meeting.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

Vice Chairman Krum moved approval of the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on March 23 and 24, 2003. This motion was seconded by Commissioner Avery-Hargrove and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Ms. Dewey presented the monthly financials and budget comparisons. During this report Commissioner Klein joined the meeting.

Ms. Dewey next reported that the Committee of the Whole had received and discussed reports on the Authority's organizational performance for the third quarter of fiscal year 2002-

2003, the Authority's proposed budget for fiscal year 2003-2004, and the proposed purchase by the Authority of the loans and other assets of the Virginia Housing Partnership Revolving Fund. Vice Chairman Krum moved that the proposed budget for fiscal year 2003-2004 be approved in the form attached hereto. This motion was seconded by Commissioner Thomas and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote. Commissioner Thomas moved that (1) the purchase by the Authority of the loans and other assets of the Virginia Housing Partnership Revolving Fund be approved and (2) the Executive Director be authorized to determine the purchase price for such loans and assets, to execute and deliver the Agreement and Memorandum of Understanding in substantially the form attached hereto, and to take any and all other action deemed by her to be necessary or appropriate to effect the purchase of the loans and other assets of the Virginia Housing Partnership Revolving Fund. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Commissioner Klein, on behalf of the Audit/Operations Committee, reported the following: the Committee had received and discussed reports from the General Auditor on the status of the audit schedule and the status of reports issued and replies received since the last meeting of the Committee; KPMG had made a presentation to the Committee on its plan for the performance of the audit of the Authority's financial statements; the Committee had received and discussed a report on distribution of the Trigon payment and had directed the staff to provide additional information; and the staff had distributed to the Committee a compensation comparison matrix. Commissioner Klein next reported that the Committee recommended approval of a proposed supplemental resolution authorizing the issuance of VHDA General Purpose Bonds and requested Mr. McKellar to review the terms of such resolution. Mr. McKellar reviewed the provisions which (i) authorized the sale and delivery of VHDA General Purpose Bonds in an aggregate amount not to exceed \$350 million to such purchasers or underwriters, at such purchase prices and on such terms and conditions as shall be set forth in or determined pursuant to one or more written determinations by an Authorized Officer of the Authority and in one or more purchase contracts, including notices of sale, in accordance with the supplemental resolution; (ii) provided for the sale of the VHDA General Purpose Bonds not later than June 30, 2004, (iii) established limitations and restrictions with respect to such written determinations; (iv) authorized the execution and delivery of purchase contracts and other necessary or appropriate agreements, instruments, documents and certificates; (v) specified that the portion of the Debt Service Reserve Account Requirement allocable to each series of bonds to be issued pursuant to the supplemental resolution shall be \$0 or such higher amount as may be set forth in or determined pursuant to the applicable written determinations; and (vi) authorized the distribution of one or more preliminary and final official statements in substantially the form presented at the meeting. Commissioner Klein then moved approval of the resolution entitled "Supplemental Resolution Authorizing the Issuance and Sale of VHDA General Purpose Bonds" dated May 20, 2003, in the form attached hereto. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote.

Commissioner Jones, on behalf of the Programs Committee, reported that the Committee had received staff reports on the following: the status of the "soft second" single family loan

program to be known as “Home Stretch”; homeownership and multi-family loan production; the proposed multi-family and single family financings for Columbia Heights Apartments; the status of the Housing Choice Voucher Program; the preliminary rankings of applications for 2003 federal low-income housing tax credits; and the use of a third party contractor in the proposed performance based contract administration of HUD project-based section 8 subsidy.

Commissioner Jones further reported that the staff would be preparing proposed amendments to the Authority’s single family regulations to delete the provision prohibiting the use of the proceeds of Flex loans to refinance the Authority’s mortgage loans and that, pending the adoption of such amendments, the staff would be waiving such provision for individual loans.

Ms. Dewey presented her monthly report of operations. In this report, Ms. Dewey reviewed the status of the proposed amendments to the single family rules and regulations that would delete the requirement that multiple borrowers be related by blood, marriage or adoption or by legal custodial relationship. Commissioner Klein moved that prior to the next Board meeting the staff be authorized to publish notice of and hold a public hearing for the proposed amendments to the Authority’s single family regulations that will repeal the requirement that multiple borrowers be related by blood, marriage, or adoption or by legal custodial relationship, which proposed amendments shall be in the form published in the Register of Regulations on December 17, 2001. This motion was seconded by Vice Chairman Krum and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting and authorized to vote. Ms. Dewey advised the Commissioners that the Board meeting for July may be rescheduled, and the Commissioner should advise her of their available dates for the meeting.

Mr. McKellar then informed the Commissioners of the status of the litigation involving Ashland Gardens. Ms. Dewey next reported on the following: the status of federal legislation to convert the Housing Choice Voucher program into a block grant program; an annual fund raising dinner to be held by the Virginia Housing Coalition on June 19, 2003; participation by the Authority in the building of a home for Habitat for Humanity on May 29-31, 2003 and June 5-7, 2003 in Chesapeake; and preparation by the staff for the Governor’s office of an Executive Agreement between the Governor and the Authority, a description of the key challenges and issues in the Authority’s strategic plan, and a “Management Standards Scorecard” relating to the Authority’s performance of certain objectives established by the Governor.

Ms. Dewey then recognized the contributions and services of Chairman Kornblau who expressed his pleasure in serving as a Commissioner and his appreciation to the other Commissioners and staff for their efforts and assistance.

There being no further business, the meeting was adjourned at approximately 12:02 p.m.

Chairman

J. Judson McKellar, Jr.
Assistant Secretary

Minutes of the Meeting of the Audit/Operations Committee Held on May 20, 2003

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on May 20, 2003 at the offices of the Authority, 601 S. Belvidere Street, Richmond, Virginia 23220.

Committee Members Present Gary C. Klein, Chairman
J. Cheryl J. Avery-Hargrove
Jay Fisette
Charles Krum
Jody Wagner

Others Present Susan F. Dewey, Executive Director
Art Bowen, Managing Director of Finance & Administration
Brenda Goodman, Acting Director of Public Policy
Ron A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Tammy A. Tyler, Strategic Development Leader
Russ Wyatt, General Auditor
Carrie Pettitt, KPMG
Rob Churchman, KPMG

Meeting Called to Order The meeting was called to order at 10:09 a.m. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting.

Approval of Minutes Commissioner Avery-Hargrove moved approval of the minutes of the meeting of the Audit/Operations Committee held on March 24, 2003. Commissioner Krum seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Internal Audit Report The General Auditor reported that the Audit Department is on schedule regarding the production of planned activities. The General Auditor also reported on the scheduled activities completed since the last meeting, which included three audits and five special projects. The General Auditor also reported that the scheduled activities of FY 2003 Confirmations and the Housing Choice Voucher Program audit are in progress.

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Internal Audit Report (cont'd)

The General Auditor then reported on audit concerns identified in the Desktop Services and Telecommunications audit including: Management of Portable Equipment Assigned Directly to Associates, Associate Reimbursement for Personal Use of Cellular Services and Maintenance of the Authority Software Library. The General Auditor then discussed the objectives and conclusions resulting from the special projects completed since the last meeting, which included: Analysis of Software Purchased, Disposal Process of IT Equipment, IT Related Maintenance and Support Contract Administration. The Managing Directors of Information Services and Finance and Administration briefly discussed ongoing initiatives designed to address many of the concerns raised by the General Auditor. The General Auditor indicated that no adverse audit reports were issued in the time period covered by this report.

External Audit/KPMG Presentation

Carrie Pettitt and Rob Churchman of KPMG discussed their plan for the 2003 audit. Processes to be reviewed in the current year include: lending, bond management, treasury management, OREO management and financial reporting (includes investments). Preliminary fieldwork will begin the last week of June 2003. Actual tests of controls will occur August 19, 2003 – mid-September, 2003. KPMG will prepare audited financial statements which are due to the Governor's Office within 90 days of year-end (September 30, 2003). The annual management letter and single audit reports will be issued prior to the October 2003 Audit/Operations Committee meeting.

The following areas of audit emphasis have been identified for the June 2003 audit:

- Recent changes to the Virginia Housing Partnership Revolving Fund
- Update of hedging practices, in light of new types of hedges entered into in the prior year
- Second year of GASB 34
- Accurate presentation of Section 8 operations, including over and under payments
- Loan loss allowance (specifically related to single family flex product).

Trigon Distribution

Tammy Taylor, Managing Director of Human Resources, presented a proposal regarding VHDA's plan to buy down large sick leave balances using funds from a 1997 Trigon stock conversion. By way of background, in 1996 Trigon Blue Cross/Blue Shield converted from a mutual insurance corporation to a stock corporation. Each Trigon policyholder received a distribution of Trigon stock or cash relative to their interests in the corporation. In the case of group policyholders such as VHDA, shares of Trigon stock or cash were distributed to the company providing the group policy for their employees. VHDA received a check from

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**Trigon
Distribution**
(cont'd)

Trigon in the amount of \$229,105 which reflects VHDA's history of low claim filings between 1988-1995. These funds were deposited in VHDA's General Fund and booked as a liability. While the funds are currently invested and have earned approximately \$71,000 since receipt, the earnings are not booked as part of the overall liability.

VHDA has a business need to reduce high sick leave balances. To begin to address this business need, VHDA planned to provide associates a one-time, voluntary opportunity to buy down their sick leave balances at half of the hourly value. The program was to be funded through the Trigon stock conversion proceeds. By enabling associates to voluntarily buy down sick leave, VHDA had hoped to accomplish four (4) things:

1. Clear VHDA's liability from the books;
2. Lower sick leave balances at half the value (50% haircut)
3. Reeducate associates on VHDA's leave policies and current administration practices; and
4. Better positioned VHDA to explore converting to a Paid Time Off (PTO) program.

VHDA applied certain criterion to ensure that the program was fair and didn't cause associates to buy down sick leave below 480 hours (FMLA). This program had the potential to reduce VHDA's contingent sick leave liability by approximately 17,918 hours.

After lengthy discussion, the Committee decided that more information was needed before a decision could be made. Questions to be answered include what are the legal requirements regarding use and payment for information on our current sick leave policy, how many sick leave hours are currently being carried on the books and historical data on how sick leave has been used in the past. Tammy will prepare a status report addressing these questions which will be presented at the July or September Audit/Operations meeting.

**Compensation
Comparison
Matrix**

Due to lack of time, this item was not discussed but a handout was presented by Tammy Taylor. This shows all three aspects of total compensation (base pay, incentives and benefits) for comparable organizations. This will be on the agenda for the July meeting.

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VHDA General Purpose Bonds

Art Bowen, Managing Director of Finance & Administration, gave an overview of the bond resolution entitled "Supplemental Resolution Authorizing the Issuance and Sale of VHDA General Purpose Bonds." This resolution authorizes the issuance and sale of bonds in an amount not to exceed \$350 million through June 30, 2004. The Authority is currently expecting to issue General Purpose Bonds to finance the purchase of loans and assets in the Partnership Fund and may later this year issue General Purpose Bonds to refund certain outstanding multifamily bonds and finance new multifamily and single family mortgage loans. Commissioner Krum moved that the resolution be recommended to the Board for approval. Commissioner Avery-Hargrove seconded this motion. This motion was approved by the affirmative vote of each of the members of the Committee then present at the meeting.

Adjournment

There being no further business, Chairman Klein adjourned the meeting at 11:20 a.m.

Arthur N. Bowen, III
Managing Director of Finance &
Administration

Gary C. Klein
Chairman

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE
ON MAY 20, 2003

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on May 20, 2003, at the Virginia Housing Center, 601 South Belvidere Street, Richmond Virginia.

COMMITTEE MEMBERS PRESENT:

Allen H. Jones, Committee Chairman*
H. Evans Thomas, V*
Joan D. Gifford*
Terri M. Ceaser*
William C. Shelton**
Sam Kornblau, Ex Officio*

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Assistant Director of Multi-Family Development
Michele G. Watson, Assistant Director of Single Family
Sharon B. Fairburn, Director of Special Programs
James M. Chandler, Senior Development Officer
Llewellyn C. Anderson, Business Liaison
Janet Brown, Virginia Poverty Law Center

*Authorized to vote

**Non-voting

The meeting of the Committee was called to order by Commissioner Jones at approximately 10:10 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Thomas who joined the meeting in progress as noted below and thereafter remained present during the meeting.

Commissioner Kornblau moved approval of the minutes of the meeting of the Committee held on March 24, 2003. This motion was seconded by Commissioner Ceaser and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting and authorized to vote.

Mr. Chandler presented a report on the preliminary rankings of the applications for FY2003 Low Income Housing Tax Credits. Mr. Chandler advised the Committee that the final rankings will be announced on June 17, 2003. Mr. Chandler also reported that a forum is scheduled for July 24, 2003 to discuss the FY2004 Qualified Allocation Plan.

Mr. Ritenour presented reports on single family and multi-family loan production. Ms. Watson updated the Committee on the Soft Second program. Mr. Hastings and Ms. Watson reported on the proposed multifamily and single family loan financings for the Columbia Heights project.

Ms. Fairburn presented a map identifying the localities in which the Authority is the contract administrator for the Housing Choice Voucher Program.

Next, Mr. Dolce presented a report on the pros and cons of outsourcing the administrative responsibilities of the performance based contract administration of HUD project-based section 8 subsidy. Following this report, Commissioner Thomas joined the meeting.

Mr. Ritenour and Mr. McKellar reported that the staff would be preparing proposed amendments to the Authority's single family regulations to delete the provision prohibiting the use of the proceeds of Flex loans to refinance the Authority's mortgage loans and that, pending the adoption of such regulations, the staff would be waiving such provision for individual loans.

There being no further business, the meeting was adjourned at approximately 11:01.