

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE RETREAT MEETING AND REGULAR MEETING
OF THE COMMISSIONERS HELD ON MARCH 13, 14 AND 15, 2005

Pursuant to the call of the Chairman and notice duly given, the retreat meeting and the regular meeting of the Commissioners of the Virginia Housing Development Authority (the "Authority") were held on March 13, 14 and 15, 2005 at the National Conference Center, 18980 Upper Belmont Place, Lansdowne, Virginia.

COMMISSIONERS PRESENT:

Douglas R. Fahl, Chairman
Jay Fisette, Vice Chairman
Joan D. Gifford
Terri M. Ceaser
Jody M. Wagner
John P. McCann
Edward L. McCoy
Charles McConnell
Gerald W. Hopkins
William C. Shelton

COMMISSIONER ABSENT:

Jack Loeb, Jr.

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
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Tammy A. Tyler, Strategic Development Leader
James M. Chandler, Director of Low Income Housing Tax Credit Programs
Llewellyn C. Anderson, Business Planning Analyst
Barry S. Merchant, Policy Analyst
Robert Halloran, Marketing Director
Brian C. Matt, Public Relations Manager
Ken Aughenbaugh, Department of Community Planning, Arlington County

Mildrilyn S. Davis, Office of Housing, City of Alexandria
Angeles Curry, PMI Mortgage Insurance Co.
Paula C. Sampson, Department of Housing and Community Development, Fairfax County
Mark Silverwood, Silverwood Associates, Inc.
Alvin W. Smuzynski, Wesley Housing Development Corporation

At approximately 11:30 a.m. on March 13, 2005, the retreat meeting commenced with a bus tour of housing developments financed by the Authority. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the bus tour, except Commissioner Wagner who was not present. This bus tour concluded at approximately 3:30 p.m. on March 13, 2005.

The retreat meeting of the Commissioners was reconvened at 8:05 p.m. on March 13, 2005. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Wagner who was not present.

Mr. Halloran presented a recording of radio announcements for the Authority's single family loan programs. Following this presentation, the retreat meeting was recessed at approximately 8:45 p.m. on March 13, 2005.

The retreat meeting of the Commissioners was reconvened at approximately 9:10 a.m. on March 14, 2005. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioners Ceaser, McCoy and Wagner who joined the meeting in progress as noted below and thereafter remained present during the meeting.

Chairman Fahl reviewed the agenda for the retreat meeting. During this review, Commissioner Ceaser joined the meeting. Ms. Dewey presented the vision, mission, principles, goals and strategic objectives set forth in the proposed strategic plan. During this presentation, Commissioner McCoy joined the meeting. Ms. Dewey then advised the Commissioners that the name REACH (Resources Enabling Affordable Community Housing) had been selected to describe the use and allocation of the net assets of the Authority to provide reduced interest rates or other housing subsidies under its programs pursuant to the resolution approved by the Commissioners at their meeting on January 19, 2005.

Mr. Ritenour discussed with the Commissioners the new REACH team to be formed in the Development Division. Mr. Dolce reviewed the goals in the Servicing and Compliance Division for mitigating losses in the single family programs, for servicing new single family loan products, and for providing subsidies for homeownership in the Section 8 Housing Choice Voucher Program. Mr. Bowen reviewed the goals in the Finance and Administration Division for raising capital at the lowest cost, balancing short-term and long-term needs, seeking opportunities to improve the Authority's capital structure, and addressing the capital needs of the Authority's office building. Mr. Reger

reviewed the goals in the Information Services Division for making the applications more responsive and adaptive, for making the systems more accessible and available, and for providing useful information to the people who need it. Mr. Hill reviewed the goals of the Policy, Planning, and Communications Division for educating and strengthening relationships with local, state and federal officials, for improving the strategic planning and performance process, for improving the value, quality and accessibility of information for decision making, and for increasing the awareness of the Authority's products and services. Ms. Taylor discussed the goals of the Human Resources Division for attracting and retaining a diverse workforce, for developing and strengthening the needed knowledge, skills and abilities of the Authority's associates, for filling and reallocating positions as needed, and for succession planning.

Following a discussion by the Commissioners of the proposed strategic plan, it was the consensus of the Commissioners that the vision, mission, guiding principles, goals and strategic objectives set forth in the strategic plan for fiscal years 2006-2010 be presented for approval at the regular meeting of the Commissioners on March 15, 2005.

The Commissioners next considered and discussed decision briefs and recommendations presented by Ms. Dewey and Mr. Ritenour relating to the Authority's ownership of multi-family developments. Upon the conclusion of this discussion, Vice Chairman Fiset moved approval of the following recommendations: (i) the Authority will continue to own multi-family developments acquired by foreclosure or deed in lieu of foreclosure; (ii) the Authority may elect to acquire any multi-family development which is assisted by federal low-income housing tax credits and whose owner has given notice to terminate the income and rent restrictions after the 15-year compliance period, if such multi-family development may not otherwise continue to be affordable, the purchase price calculated in accordance with Section 42 of the Internal Revenue Code is appropriate, and no other capable purchaser has notified the Authority that such purchaser is willing and able to acquire such multi-family development at the end of the one-year period following such notice; (iii) the Authority may elect to acquire and hold on an interim basis on behalf of a capable developer any land or multi-family development that otherwise may not remain or be developed as affordable housing, if such developer intends to retain or develop the property as affordable housing but is unable to take necessary action to acquire the property within the requisite time period; (iv) the Authority will not acquire any such land or multi-family development if no capable developer intends to retain or develop the property as affordable housing, and (iv) the Authority will not acquire and own any land or multi-family development through land trusts or otherwise in order to preserve or develop housing that is to be owned by the Authority in perpetuity. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Mr. Hastings presented a decision brief and recommendations relating to alternative multi-family lending programs in high-growth and high cost markets. It was the consensus of the Commissioners that the Authority proceed to (i) provide interim financing under the multi-family SPARC program to enable developers to acquire

properties that otherwise may not remain or be developed as affordable housing and (ii) provide incentives, in the form of more favorable terms and conditions than would otherwise be available, in the multi-family SPARC program for developers to obtain other subsidies and support for their proposed developments.

The Commissioners next considered and discussed a decision brief and recommendations presented by Mr. Chandler relating to alternative processes for allocating federal low-income housing tax credits in high-growth, high-cost markets. It was the consensus of the Commissioners that the staff proceed to develop, in consultation with the program stakeholders, proposed amendments to the 2006 Qualified Allocation Plan that would create a non-competitive pool of tax credits for high-growth, high-cost market areas to be available for tax credit applications which will preserve affordable housing developments that will not be feasible using tax exempt bond financing and related tax credits.

The Commissioners next considered and discussed a report and recommendations presented by Mr. Ritenour on proposed allocations of REACH moneys for fiscal year 2006. Ms. Watson and Mr. Hastings described each of the proposed allocations for single family programs and multi-family programs, respectively. It was the consensus of the Commissioners that the proposed allocations be presented for approval at the regular meeting of the Commissioners on March 15, 2005, except that Commissioner McConnell abstained and disqualified himself from participating in this matter due to a potential conflict of interest by reason of his position as Executive Director of the Wise County Redevelopment and Housing Authority.

The Commissioners next considered and discussed a decision brief and recommendations presented by Mr. Bowen on the building modernization and capital plan for the Authority's office building. Vice Chairman Fisette moved approval of the following: (i) the reconfiguration of the first floor to optimize the existing meeting space in the Authority's office building, including additional rest room space, full handicapped accessibility, improvement of the lobby for public relations and customer service purposes, and improved security, and the construction of 100 additional surface parking spaces along the southern edge of the Authority's property, provided that the staff hire a parking consultant to study and make recommendations as to parking space needs and alternative solutions, (ii) the replacement of carpeting, the replacement of data and telecommunicating cabling, the restacking of workspaces, the completion of electrical safety improvements by separating electrical and telecommunication closets, the improvements to internal security, and the update of the building signage, all upon completion of the reconfiguration of the first floor, (iii) the identification of existing warehouse space that could be leased or purchased (including costs necessary to adapt the space to the Authority's needs) and the identification of possible sites for construction of a warehouse, the evaluation of the cost and benefit of each space and site, and the presentation to the Board of a final recommendation, and (iv) the inclusion in the Authority's proposed fiscal year 2006 budget of sufficient funds to begin the planning and design of, and the first phases of construction for, the recommended projects. This

motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners then present at the meeting.

A panel composed of Mr. Aughenbaugh, Ms. Curry, Ms. Davis, Ms. Sampson, Mr. Silverwood, and Mr. Smuzynski addressed the Commissioners regarding housing issues in Northern Virginia. The discussion by the panel members and the Commissioners included the following issues relating to affordable housing in the Northern Virginia area: the current status of affordable housing; the need and demand for single family and multi-family housing; the availability of land for the development of affordable housing; the need for preservation of existing affordable multi-family developments; population and economic growth in the area; current rents and sales prices for affordable housing; acquisition and construction costs for affordable housing; the barriers to the development and preservation of affordable housing; the status of federal housing programs and the availability of federal funding; the affordable housing programs and activities of the local governments; the Authority's programs that have been used to make rents and home prices affordable; the housing needs of minorities; and the types of housing assistance needed to provide affordable housing. During this discussion, Commissioner Wagner joined the meeting.

There being no further business, the retreat meeting was adjourned at 6:08 p.m. on March 14, 2005.

Chairman Fahl called the regular meeting of the Board of Commissioners to order at approximately 11:10 a.m. on March 15, 2005. All of the Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioners McCoy and Hopkins 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.

On motion duly made and seconded, the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on January 18 and 19, 2005 were approved by the affirmative vote of each of the Commissioners then present at the meeting.

Mr. Bowen presented a report on the Authority's unaudited financial statements for the periods ended December 31, 2004 and January 31, 2005. During this presentation, Commissioners McCoy and Hopkins joined the meeting.

Chairman Fahl reported on the issues discussed at the retreat meeting on March 14, 2005. On motion duly made and seconded, a resolution approving the vision, mission, guiding principles, goals and strategic objectives set forth in the strategic plan for fiscal years 2006-2010 presented at the retreat meeting on March 14, 2005 in the form attached hereto was approved by the affirmative vote of each of the Commissioners present at the meeting. On motion duly made and seconded, a resolution approving the use of

\$15,862,412 in present value subsidy funds for REACH programs and approving the fiscal year 2006 allocation of \$195,550,000 of loan funds for the REACH programs substantially in accordance with the schedule dated March 1, 2005 and presented at the retreat meeting on March 14, 2005 in the form attached hereto was approved by the affirmative vote of each of the Commissioners present at the meeting, except Commissioner McConnell who abstained and disqualified himself from participating in this matter due to a potential conflict of interest by reason of his position as Executive Director of the Wise County Redevelopment and Housing Authority.

Commissioner McCann, on behalf of the Audit/Operations Committee, reported that the Committee had reviewed and discussed the employee benefits offered by the Authority for fiscal year 2006 and preliminary compensation trends for fiscal year 2006. Commissioner McCann advised the Commissioners that the Committee had authorized the inclusion of a 4% increase in salaries for the purpose of preparation of the proposed budget for fiscal year 2006. Commissioner McCann next reported that the Committee recommended approval of the series resolution for the Authority's Commonwealth Mortgage Bonds and the bond limitations resolution for the Rental Housing Bonds. Mr. McKellar then advised the Commissioners as to the terms of a proposed series resolution authorizing the issuance of Commonwealth Mortgage Bonds. He reviewed the provisions which (i) authorize the sale and delivery of Commonwealth Mortgage Bonds in an aggregate amount not to exceed \$1.2 billion 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 series resolution; (ii) establish limitations and restrictions with respect to such written determinations; (iii) provide for the sale of the Bonds not later than May 31, 2006; (iv) authorize the execution and delivery of purchase contracts and other necessary or appropriate agreements, instruments, documents and certificates; (v) specify that the portion of the Debt Service Reserve Fund Requirement allocable to each series of bonds to be issued pursuant to the series resolution shall be \$0 or such higher amount as may be set forth in or determined pursuant to the applicable written determinations; and (vi) authorize the distribution of one or more preliminary and final official statements in substantially the forms presented at the meeting. Mr. McKellar next advised the Commissioners as to the terms of the proposed bond limitations resolution setting forth the conditions and limitations for the issuance of Rental Housing Bonds. He reviewed the provisions which (i) provide for the maximum principal amount of Rental Housing Bonds to be \$450 million, (ii) provide for the sale of the Bonds not later than May 31, 2006 and (iii) authorize the distribution of one or more preliminary and final official statements in substantially the form presented at the meeting. On motion duly made and seconded, the resolutions entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" and "Bond Limitations Resolution," both dated March 15, 2005, in the forms attached hereto, were approved by the affirmative vote of each of the Commissioners present at the meeting. Commissioner McCann next reported that the Committee had received and discussed reports from the General Auditor on the status of the internal audit schedule and audit recommendations and that a revised audit schedule will be prepared by the General Auditor. Commissioner

McCann reported that the Committee had reviewed and discussed reports on the accounting and investment studies, including recommendations for the reorganization and additional staffing of the Accounting Department, the purchase of a new general ledger software system and a new investment software system, and the implementation of benchmark reporting for investments.

Commissioner Gifford, on behalf of the Programs Committee, reported that the Committee had reviewed and discussed staff reports on the homeownership and multi-family bi-monthly loan production and on single family and multi-family loans delinquencies. Commissioner Gifford next reported that the Committee had reviewed and discussed, and recommended approval of, the Authority's annual and five-year plans for the Housing Choice Voucher Program. On motion duly made and seconded, the resolution entitled "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program" dated March 15, 2005 in the form attached hereto was approved by the affirmative vote of each of the Commissioners present at the meeting. Commissioner Gifford next reported that the Committee had approved the revised form of Board Approval Request presented at the meeting and that the Committee recommended approval of the proposed resolution approving the minimum standards for multi-family mortgage loans and the procedure for authorizing the Executive Director to approve multi-family mortgage loans and to issue commitments for such mortgage loans. On motion duly made and seconded, the resolution entitled "Amended and Restated Resolution Adopting Minimum Standards for Multi-family Mortgage Loans and Procedures for Authorization of Executive Director to Approve Mortgage Loans and to Authorize the Issuance of Multi-Family Mortgage Loan Commitments" dated March 15, 2005 in the form attached hereto was approved by the affirmative vote of each of the Commissioners present at the meeting. Commissioner Gifford next reported that the Committee had received and discussed a report that an additional \$42,000,000 will be contributed to the Virginia Housing Fund for fiscal year 2005 and will be allocated to the single family SPARC program and had recommended approval of such additional contribution and allocation. On motion duly made and seconded, a resolution approving the additional contribution of \$42,000,000 to the Virginia Housing Fund for fiscal year 2005 and the allocation of such additional contribution to the single family SPARC program was approved by the affirmative vote of each of the Commissioners present at the meeting, except Commissioner McConnell who abstained and disqualified himself from participating in this matter due to a potential conflict of interest by reason of his position as Executive Director of the Wise County Redevelopment and Housing Authority. Commissioner Gifford next reported that the Committee had reviewed and discussed a report on the applications received by the Authority for allocations of the federal low-income housing tax credits in 2005.

Ms. Dewey presented her report of operations in which she presented the organizational performance report for the second quarter of fiscal year 2006. In this report, she advised the Commissioners as to the following matters: the status of single family and multi-family loan production; the lease-up rate in the Section 8 Housing Choice Voucher Program; the number of homeownership classes held by the Authority and the number of minority attendees; the evaluation of the Genesis outreach program

and the issuance of a request for proposal to expand the program; the status of the Housing Virginia Campaign; the development of the predevelopment loan program by the Virginia Foundation for Housing Preservation, Inc.; the underwriting and issuance of loan commitments for mixed income, mixed use developments; the initiation of the online accessible housing registry, AccessVa; the receipt of a \$25,000 grant from Fannie Mae to be used for grants to support accessibility modifications on low-income rental units; the production of a video “Doing Universal Design Affordably” in collaboration with the Department of Rehabilitative Services and the Assistive Technology Loan Fund Authority; the achievement, based on a 3-year rolling average, of a ratio of operating net revenue to total operating revenue of 24.8%, which is above the benchmark of 20%; and the adoption of a process for evaluating property management performance, including the method for a loss of points on future applications for federal low-income housing tax credits. Following this report, she advised the Commissioners as to the Authority’s charity golf tournament to be held on May 26, 2005 and the forum on federal low-income housing tax credits to be held on April 14, 2005. Mr. McKellar then reported on the status of legislation in the 2005 Session of the General Assembly. In this report, Mr. McKellar advised the Commissioners as to the following: passage by the General Assembly of the legislation to extend the state rent reduction tax credit program through 2010; the inclusion in the budget bill of the transfer of \$7.5 million from the Commonwealth Priority Housing Fund to the community development bank to be formed by the Commonwealth; the absence of funding in the budget bill for rental assistance programs for the homeless or disabled but the inclusion in the budget bill of a provision requiring the Secretary of Health and Human Resources to report to the General Assembly on the demand for housing services for persons with disabilities and specific housing options for such persons; the studies to be performed by the Virginia Housing Commission; and the confirmation of the appointments of Commissioners Hopkins, McConnell, and McCoy.

There being no further business, the meeting was adjourned at approximately 12:18 p.m.

Douglas R. Fahl, Chairman

J. Judson McKellar, Jr.
Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE
ON MARCH 15, 2005

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 March 15, 2005, at the National Conference Center, 18980 Upper Belmont Place, Lansdowne, Virginia.

COMMITTEE MEMBERS PRESENT:

Joan D. Gifford, Committee Chairman
Terri M. Ceaser
William C. Shelton
Jay Fisette
Charles McConnell

COMMITTEE MEMBER ABSENT:

Jack Loeb, Jr.

OTHERS PRESENT:

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, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Llewellyn C. Anderson, Business Planning Analyst
Herb H. Hill, Jr., Managing Director of Policy, Planning, and Communications
Jim Chandler, Director of Low Income Housing Tax Credit Programs
Robert Halloran, Marketing Director
Brian C. Matt, Public Relations Manager

The meeting of the Committee was called to order by Committee Chairman Gifford at approximately 10:03 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.

On motion duly made and seconded, the minutes of the meeting of the Programs Committee held on January 19, 2005 were approved by the affirmative vote of each of the members of the Committee present at the meeting.

Mr. Ritenour presented reports on single family and multi-family loan production. There was a discussion by the Committee members regarding the increases in the reservations for both single family and multi-family loans.

Mr. Dolce presented reports on delinquencies and foreclosures in the homeownership and multi-family loan servicing portfolios and noted the decreases in the delinquency rates in those portfolios.

Next, Mr. Dolce reviewed and discussed the Authority's annual and five-year plans for the Housing Choice Voucher Program to be submitted to HUD for approval prior to the due date of April 15, 2005. It was the consensus of the members of the Committee to recommend approval of the resolution entitled "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program" dated March 15, 2005. Mr. Dolce noted that the signatures of both Ms. Dewey and Commissioner Shelton are required on the Certification by State or Local Official of PHA Plans Consistency with the Consolidated Plan.

Mr. McKellar presented the proposed resolution to approve the minimum standards for multi-family mortgage loans and the procedure for authorizing the Executive Director to approve multi-family mortgage loans and to issue commitments for such mortgage loans and reviewed the revised Board Approval Request form. Following a discussion by the Committee members, Commissioner Fisette moved that the Committee approve the proposed form of Board Approval Request and recommend approval of the resolution entitled "Amended and Restated Resolution Adopting Minimum Standards for Multi-Family Mortgage Loans and Procedures for Authorization of Executive Director to Approve Mortgage Loans and to Authorize the Issuance of Multi-Family Mortgage Loan Commitments" dated March 15, 2005. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee present at the meeting.

Mr. Ritenour and Ms. Watson presented a report that an additional \$42,000,000 will be contributed to the Virginia Housing Fund for fiscal year 2005 and will be allocated to the single family SPARC program. Following a discussion by the Commissioners, Commissioner Fisette moved that the Committee recommend approval of the additional contribution of \$42,000,000 to the Virginia Housing Fund for fiscal year 2005 and the allocation of such additional contribution to the single family SPARC program. This motion was seconded by Commissioner Ceasar and was approved by the affirmative vote of each of the members of the Committee present at the meeting, except for Commissioner McConnell who abstained and disqualified himself from participating in this matter due to a potential conflict of interest by reason of his position as Executive Director of the Wise County Redevelopment and Housing Authority.

Mr. Chandler next presented a report on the applications received by the Authority for allocation of 2005 federal low income housing tax credits.

There being no further business, the meeting was adjourned at approximately 10:45 a.m.

Minutes of the Meeting of the Audit/Operations Committee Held on March 15, 2005

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on March 15, 2005 at the National Conference Center, 18980 Upper Belmont Place, Lansdowne, Virginia.

Committee Members Present John P. McCann, Chirman
Douglas R. Fahl
Jody M. Wagner
Edward L. McCoy
Gerald W. Hopkins

Other Commissioners Present William P. Shelton
Joan D. Gifford
Charles McConnell

Others Present Susan F. Dewey, Executive Director
Arthur N. Bowen, III, Managing Director of Finance & Administration
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Judson McKellar, General Counsel
Herbert A. Hill, Managing Director of Policy, Planning & Communications
Barbara Blankenship, Human Resources Manager
Ron Reger, Managing Director of Information Services
Maria Barrow, Sr. Executive Assistant

Meeting Called to Order The meeting was called to order at 9:10 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 unless noted in the minutes below. Some of the members of the Programs Committee joined the first part of the meeting to hear the presentation on VHDA benefits.

Order of the Meeting Commissioner McCann asked that the order of the meeting be revised to allow for discussion of the Benefits Presentation for those members of the Programs Committee who have joined this portion of the Audit/Operations Committee.

Human Resources (Benefits Overview) Tammy Taylor introduced Barbara Blankenship who recapped the presentation made at the January Audit/Operations Committee meeting. Barbara then discussed the retirement and health care benefits currently available to VHDA associates and that we are in preparation of the RFP for the 2006 benefits and what plans might be offered to associates in that plan. She explained the various aspects of the Cafeteria Benefits Plan. Tammy and Barbara responded to the questions posed by Commissioners McCann, Hopkins and Wagner regarding the pricing and structure

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**Human
Resources
(Benefits
Overview)**
(cont'd)

aspects of the health care benefits. Commissioner McCann asked the staff to return to the Committee with a report comparing a modified cafeteria plan vs. a true cafeteria plan. Commissioner Hopkins suggested an option such as profit-sharing in the development of the benefits plan. Commissioner McCann suggested that Commissioner Hopkins assist staff in their preparation of the 2006 benefits.

Tammy explained that the project team is still analyzing PTO. Commissioner McCann asked Tammy to return to the Audit/Operations Committee when they are closer to a recommendation to management, which will likely be in May.

Barbara then described VHDA's Retirement Plan now offered by Vanguard and the graphs and charts detailing the staff participation in the various plans. In response to a question by Commissioner Wagner, Art Bowen explained how we structure the averages as we do. Commissioner McCann asked Art to bring an annual report to the Committee on the one, three and five-year performance of the plans.

At 10 a.m., Commissioners Gifford, Shelton and McConnell left to attend the Programs Committee meeting.

**Human
Resources
(Preliminary
Compensation
Trends for Next
Year)**

Tammy distributed the paper describing the Compensation Trends for Next Year. She and Barbara explained the structure and process of the performance management system. After a discussion, the Committee authorized VHDA staff to budget a merit pool of approximately \$1,270,303 (4%).

**Approval of
Minutes**

Commissioner Fahl moved approval of the minutes of the meeting of the Audit/Operations Committee held on January 19, 2005. Commissioner Hopkins seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

**Internal Audit
Presentation**

The General Auditor reported on the Audits that were in progress and gave a status report and timeline for completion of audit issues that were not completely resolved: Rewrite of the Retiree Health Care Plan and Cash Management Practices in the Single Family Loan Administration department. Commissioners Fahl and McCann expressed concern about the status of the Audit Schedule and the lack of a revised plan indicating how Audit intends to address delays that have put production behind schedule. After some discussion, Commissioner McCann asked the General Auditor to return to the Audit/Operations Committee in a couple of months with a revised Audit Schedule.

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Bond Resolutions

Art Bowen presented a memorandum and a series resolution for the sale and issuance of single family bonds and a memorandum and resolution for the sale and issuance of multi-family bonds. A motion to recommend approval by the Board of the resolution entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" and of the resolution entitled "Bond Limitations Resolution" was made by Commissioner Wagner and seconded by Commissioner Hopkins. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Update on Accounting and Investments Studies

Art then described the results of the study on the Accounting department. He stated that the consultants had provided in an electronic format a set of accounting Policies and Procedures, which staff will now maintain. He described the revised reporting structure within the Accounting department and informed the Committee that staff will work with IS in investigating and if necessary securing a successor to the current G/L accounting system. Commissioner McCann recommended that Art return to the Board regarding the timing and budget for acquisition of the G/L accounting system.

Art reported on the recommendations by investment practices consultant IFS on our Investments activities. Art is following up on the recommendations to make our Investment process a more formal one, using investment performance measures and benchmarking and upgrading our current investment software. Susan Dewey thanked Commissioner McCann for the assistance he gave to staff in this process. Commissioner McCann asked Art to return to the Committee on an annual basis with a report on benchmarking.

Adjournment

There being no further business, Commissioner McCann adjourned the meeting at 10:55 a.m.

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

John P. McCann
Chairman