

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

TSAHC Offices
2200 East Martin Luther King Jr. Blvd.
Austin, Texas 78702

Thursday,
August 20, 2015
9:15 a.m.

COMMITTEE MEMBERS:

GERRY EVENWEL
WILLIAM H. DIETZ, JR., Chair
DAVID LONG
MELINDA SMITH

I N D E X

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P R O C E E D I N G S

1
2 MR. DIETZ: Okay. Let's call the Audit
3 Committee meeting of the Texas State Affordable Housing
4 Corporation to order. It is 9:15 a.m. on August 20th.
5 And we will start with roll call. Bill Dietz, I am here.
6 Gerry Evenwel?

7 MR. EVENWEL: Here.

8 MR. DIETZ: David Long.

9 MR. LONG: Here.

10 MR. DIETZ: Melinda Smith.

11 MS. SMITH: Here.

12 MR. DIETZ: All right. We are all here. Is
13 there any public comment before we get started with the
14 Audit Committee meeting?

15 (No response.)

16 MR. DIETZ: No? Then we will move straight to
17 the action items. The first one is the presentation,
18 discussion and possible approval of the minutes of the
19 last Audit Committee meeting, that we had on December 11,
20 2014. Does anybody have any questions, corrections,
21 comments?

22 (No response.)

23 MR. LONG: I make a motion to approve the
24 minutes.

25 MR. EVENWEL: Second.

1 MR. DIETZ: Is there any public comment
2 regarding that motion?

3 (No response.)

4 MR. DIETZ: Hearing none, all in favor?

5 (A chorus of ayes.)

6 MR. DIETZ: Okay. The minutes of the Audit
7 Committee meeting held December 11, 2014, are approved.
8 The next item on our agenda is the presentation,
9 discussion and possible approval of the fiscal year 2016
10 operating budget. And Melinda, is that --

11 MS. SMITH: That is mine, I think.

12 MR. DIETZ: Great.

13 MS. SMITH: Good morning. It is a pleasure to
14 be here. My name is Melinda Smith. I am the Chief
15 Financial Officer. We are presenting the fiscal year 2016
16 operating budget.

17 Before we start talking about the individual
18 numbers, I did want to take a moment and explain how the
19 budget was put together. Nick Lawrence came up with a
20 nice form that we could give to all the program staff that
21 they could use to prepare the budget.

22 And each of the program managers prepared the
23 revenue and expense numbers that they felt like related to
24 their programs, and those were provided back to us. And
25 we compiled the budget based on their initial input. And

1 then looking at historical information and contracts and
2 that sort of thing. So the program staff had a huge part
3 to play in the preparation of the budget.

4 The second thing I wanted to point out is, the
5 budget is -- the front page is the overall operating
6 budget, the revenues and all the expenditures. And behind
7 it, I have a schedule for each of the revenue and expense
8 items, or at least most of them.

9 And I have rounded the numbers to the nearest
10 thousand dollars on the front page, here. So if you see a
11 number for the 2016 budget in one of the supporting
12 schedules that is not quite exactly the same number as you
13 have on the front page, it is because I just rounded it
14 up.

15 Overall, we have budgeted for 2016 \$5.9 million
16 in revenue. And \$5.4 million in expenditures, leaving us
17 with a projected budget profit of around \$505,000. Our
18 actual cash budget, our actual cash profit for the year
19 ending 2015 is projected to be \$466,669. Which is in the
20 second column on the front page.

21 If you turn to the first page, or the second
22 page of the budget, this is the budgeted servicing income.

23 It is the first revenue item listed on the front page.
24 This is primarily income that we receive.

25 We have the servicing rights for the Texas

1 Department of Housing and Community Affairs bond programs
2 52, 53 and 54. So we are projecting around \$50,000 in
3 income from those programs. We have had those for a very
4 long time. And they have just gradually, as the loans pay
5 off, the amount of revenue that we get decreases.

6 And then the other line items you see there are
7 the principal and interest received from the down payment
8 assistance loans that we made many years ago. And again,
9 those are -- it is a portfolio of small down payment
10 assistance loans. And those amounts will decline over
11 time. Overall, we expect to get around \$120,000 from
12 those portfolios.

13 On page 3 is our single-family income. We had
14 actual income of 3.5, almost \$3.6 million in 2015. And we
15 are budgeting 3.498 in 2016. This comes from our single-
16 family issuer fees from all the bond programs that we have
17 previously done; the bonds we have issued.

18 From our mortgage credit certificate program,
19 from our TBA program, which is one of the largest line
20 items, \$1.8 million from that. We are also budgeting some
21 income from the sale of the 2005 B and 2006 A bonds, or
22 actually, the mortgage-backed securities.

23 Then we are going to be paying off the bonds.
24 So we are expecting around \$225,000 from that in 2016.
25 And then we have DPA compliance fees, and lender

1 contributions. And again, overall, we are budgeting
2 around \$3.5 million in income.

3 And if you have any questions about a specific
4 line item, please let me know, and we will stop and talk
5 about it specifically. On page 4 is the multifamily
6 revenue. You can see all of the different names: Rainbow,
7 White Rock.

8 These are all our different multifamily bond
9 programs or multifamily transactions that we have done
10 over the last several years. And this income is generated
11 from the issuer fees. The asset oversight and compliance
12 fees that we generate from these programs. Total we are
13 expecting around \$410,000 in 2016.

14 On page 5, this is our lending program revenue.

15 These are the loans that we have made over the years.
16 The first two Bunker and Sagebrush are very, very old.
17 Fox Run, Willows, Rita Blanca, those are all newer loans
18 that we have made.

19 And this is the principal and interest that we
20 receive on these each year. And these come from just
21 simple contracted amounts. So we are budgeting a total of
22 \$288,000.

23 Page 6 is the ACT program. Dave Danenfelzer
24 runs this program. We have income from the sale of ACT
25 properties. We have a small amount of income budgeted

1 from the vet program.

2 We have one additional property left in that
3 program. That is why that income is only \$45,000. We
4 have a small amount of oil and gas royalties that we have
5 gained from some of the properties that we own.

6 And then the property demolition funds, which
7 that is the income that we receive when the properties are
8 donated to assist us, in just demolishing the house or
9 structure that exists there, if that is necessary. So we
10 have \$276,000 budgeted for that.

11 Page 7 is grants and donations. We are
12 expecting income from foundations and banks, corporations,
13 a little bit from some individuals, for a total of
14 \$740,000. We received \$585,000 in 2015.

15 And then on our federal grant, federal and
16 state grants, most of those programs are winding down.
17 The Neighborhood Stabilization Program, the NFMC, our
18 National Foreclosure Mitigation Counseling program has
19 been completed. That is why there is no income budgeted
20 for 2016. So from federal and state grants, we are
21 expecting around \$192,000.

22 And then finally, on page 8 is tenant income.
23 We are not going to be expecting any income from this
24 building. We had some tenants that are in the building
25 currently.

1 They will be moving down the street to 1910
2 MLK, which we had budgeted around \$45,000 from rental
3 income for that building. We recently purchased a 15-unit
4 multifamily apartment complex, Rollins-Martin. And we are
5 expecting around \$100,000 in income from that.

6 And then we have 13 single-family homes and one
7 duplex that we expect to receive \$212,000 in rental
8 income. So a total of \$357,000 in rental income. That is
9 certainly a number that has gone up over the last couple
10 of years. So that is -- that concludes the revenue.
11 Again, that all totals around \$5.9 million.

12 Page 9 begins our expenses. We are budgeting,
13 we have expended around \$2.1 million in salaries and
14 related benefits in 2015.

15 And we are budgeting \$2.3 million for 2016.
16 The increase results primarily from -- we have got one
17 position in there that is -- that we have budgeted for
18 2016 in the event that we need it, and an intern position
19 as well for a short period of time.

20 On page 10 are our professional fees. We have
21 a lot of professional fees for a variety of different
22 reasons. We are a small non-profit and so much of what we
23 do, we depend on professionals to assist us; legal fees,
24 of course, our accounting and auditing.

25 NOVA, for \$2,000, these are the folks that do

1 our retirement plan for us, the tax return and our annual
2 discrimination testing. RBC Capital Markets, they prepare
3 some debt service schedules that we need for the Bond
4 Review Board semi-annually.

5 Our information technology, 28,000. These are
6 the guys that keep our computers running, of course. And
7 all of our backup.

8 And then Patterson and Associates. They assist
9 us with our investments, and preparing our required
10 reports as is required by the Public Funds Investment Act.

11 And then First Southwest, they assist us with our -- the
12 financial advisors for our bond programs and other
13 transactions.

14 The \$44,000 is for our single-family loan
15 compliance software. This is software that we had to
16 purchase in order to run that program. And it was quite a
17 capital outlay in the first year that we had it. But then
18 annually, we just paid the maintenance and service fee.

19 And then we have a couple of smaller items.
20 Our transcription fee, which is Ms. Penny here. And asset
21 oversight compliance website.

22 They had started revamping the compliance
23 website in the prior year. And there is a little bit left
24 to do. So we have budgeted a little to complete that
25 work. Any questions on professional fees?

1 (No response.)

2 MS. SMITH: Page 11, these are the loans
3 payable that we have to Federal Home Loan Bank as well as
4 the equity investment loan that we received from Wells
5 Fargo. And then more recently, Texas Commerce Bank.

6 And we have a total of \$154,000 in principal
7 and interest. That again, these are just contracted
8 amounts that come directly from the note agreements; the
9 amounts that we will have to pay.

10 Page 12 is our travel and meal expense. We
11 have it broken down by program area. Depending on the
12 program, whether it is the multifamily oversight program,
13 they do onsite review compliance of the multifamily
14 properties, marketing and development.

15 Government relations, those guys are all over
16 the place all of the time. David could probably do a
17 better job of explaining everything that they do. The
18 Foundations Fund. We had a total of \$129,000 budgeted for
19 2016.

20 Page 13 is budgeted furniture equipment and
21 software. We are budgeting \$37,000. This includes buying
22 some furniture to outfit these offices that are currently
23 occupied by our tenant. And we don't have any furniture
24 to put in them. So we need to buy some furniture and
25 computer equipment for that. It also includes just

1 replacing computers as they break down and become old.
2 The telephone equipment is also to outfit these offices
3 that do not have telephones. They have telephones, but
4 they don't belong to us.

5 MR. DIETZ: The computer hardware expense in
6 2015; what was that?

7 MS. SMITH: We had intended to do this, this
8 coming year. But we ended up having to do it sooner. And
9 our server was really old. And it just died.

10 MR. DIETZ: You had to upgrade.

11 MR. LONG: It was anticipated to do it later,
12 but when they go down, we had to replace it.

13 MR. DIETZ: Yes.

14 MR. LONG: So it was an unexpected expense,
15 timing-wise. The expense was going to be taken. We just
16 had to take it sooner than later.

17 MR. DIETZ: Yes.

18 MS. SMITH: We had to completely redo it. And
19 so all of that has been pretty much taken care of.

20 MR. EVENWEL: So we have a server that
21 everybody has what they call a dumb terminal at their
22 desk?

23 MR. LONG: Say that again, Gerry?

24 MR. EVENWEL: We have a server for the whole
25 group. So everybody has a dumb terminal at their desk?

1 MR. LONG: We have multiple servers that we
2 use.

3 MS. SMITH: Yes.

4 MR. LONG: And everything links through those
5 servers. Yes.

6 MS. SMITH: Yes. And everybody has a desktop
7 computer. We have a few laptops for those folks that
8 travel. But most of us just have a desktop and monitor.

9 MR. LONG: So it is real important. And we
10 have, as you saw in the professional fees, we have a third
11 party company that maintains and services all of that for
12 us. And if we have to purchase new equipment, they work
13 with Nick to make sure that we get the right equipment at
14 the best price.

15 MS. SMITH: Yes. Nick does a fabulous job of
16 doing all of that. Page 14 is building maintenance. This
17 is primarily just keeping this building clean, and the
18 maintenance on it. The yard maintenance, the plumbing, et
19 cetera. And it also includes now 1910, down the street,
20 and any janitorial expense, except that we would have to
21 keep that property up too.

22 Page 15 is our insurance expense. The only
23 item that you see that is not budgeted for 2016 is the
24 ERISA bond that covers our retirement plan. But it is a
25 three-year policy. So we won't have to pay for it again

1 until 2018.

2 But this is our, you know, fire and extended
3 coverage for the buildings and officers and directors
4 liability. And it also covers all of the properties that
5 we own.

6 Page 16 is the marketing. Website design and
7 marketing for the individual programs, and the corporation
8 as a whole, and related printing materials. Producing our
9 annual report brochures, all of the information that is
10 circulated at all of our -- at the conventions, et cetera.

11 We have a booth.

12 MR. LONG: I would add on that, just real
13 quickly, we have really, really good staff who have
14 stepped out and become much more aggressive on our
15 marketing from a programmatic -- our website updates,
16 making sure that that is user friendly. That it is
17 achieving the highest level of usage and accessibility.

18 And they have done a really good job. But as
19 we expand those, and we get more aggressive in that, we
20 are going to see a higher expense there. I think it is
21 all for the best.

22 So rather than kind of reining that piece in, I
23 would rather have our marketing staff and our ability to
24 make sure our website is as clean as possible, so that we
25 can access -- we can have people accessing more

1 information on a real timely basis.

2 MS. SMITH: And they bring in all of those
3 donations that we have.

4 MR. LONG: Yes.

5 MS. SMITH: From all of those foundations and
6 corporations as well. Page 17 is just conference
7 registrations, continuing education, association dues and
8 fees. Just the regular stuff.

9 Page 18 is our program, budgeted program
10 expenditures. So each of the program areas submitted
11 these items with their budget for individual program
12 items, whether that is loaning money under the
13 multifamily -- single and multifamily direct lending. Or
14 providing Texas -- the home ownership trainings that we do
15 with TSHEP. And we have budgeted a total of \$1.5 million.

16 The 2.8 million that we budgeted, or that we
17 spent last year included the money that we spent to
18 purchase -- I think we purchased seven homes. Was it
19 seven during 2015. And we have completed the purchase of
20 all of those homes now. So we do not have any budgeted
21 for 2016.

22 And additionally, we have \$500,000 budgeted for
23 both the single-family direct lending program and the
24 multifamily direct lending program for 2016. Those are
25 loans that will be made through those programs. And that

1 about wraps it up. I would like to take the opportunity
2 to thank Nick Lawrence for helping me. He is the revenue
3 guy and a lot more than that. He helped me put the entire
4 budget together. And the program staff, they were the
5 ones who really did a lot of work to put this together.
6 And we really appreciate all their input.

7 MR. LONG: Mr. Dietz, would you like to ask any
8 questions on the numbers? I know we kind of -- we tend to
9 be very comfortable with what we are presenting, because
10 we have read through them a thousand times. But at the
11 same time, we don't want to assume that we aren't leaving
12 you with a question.

13 So if you have a question on them, or you feel
14 like there is a variance that you are not certain as to
15 why we projected that amount, we would love to have the
16 opportunity to explain it to you. Because I figure if we
17 can explain it to you, we can make sure that the Board
18 members at the full Board meeting have that consideration
19 as well.

20 MR. DIETZ: Nothing for me jumps out.

21 MR. LONG: Okay.

22 MR. EVENWEL: How is your 403(b) working?

23 MS. SMITH: Pardon?

24 MR. LONG: Up and down.

25 MR. EVENWEL: How is your 403(b) working?

1 MS. SMITH: Well, I think.

2 MR. LONG: We are happy with the plan. We are
3 happy with the opportunity and the company that we are
4 working with. I should say that, from my perspective, I
5 have had nobody complain to me.

6 The individual that is assigned to us, Ms.
7 Mahmoud, has -- I think she made herself rather available
8 to all the staff, so they could have individual meetings.
9 As well as gives us corporate access in terms of making
10 investment decisions and all that, so --

11 MS. SMITH: I will say that it is a little
12 different than it was when we had a 401(k). Insperity
13 handled it all. And now, we are actually the plan
14 administrators for this program. So there is a lot more
15 work that falls on us to do.

16 But as David said, Kelly is wonderful. And
17 Principal Financial is the corporation that handles this
18 for us. And they have been great. They are real easy to
19 work with.

20 MR. EVENWEL: Great.

21 MR. DIETZ: Well, what about the -- there
22 aren't any changes to this Tab 3. Or is that a separate
23 line -- action item?

24 MR. LONG: It is the second action item.

25 MR. DIETZ: Okay.

1 MR. LONG: It is a separate action item.

2 MR. DIETZ: Okay.

3 MR. LONG: So we would need to consider Tab
4 Item 2.

5 MR. DIETZ: Okay. Great. Is there a motion?

6 MR. EVENWEL: Move we approve it.

7 MR. DIETZ: Second. So all in favor? Or is
8 there any public comment?

9 (No response.)

10 MR. DIETZ: Just making sure, no public
11 comment?

12 (No response.)

13 MR. DIETZ: All in favor of approving the
14 fiscal year 2016 operating budget for presentation to the
15 board of directors, say aye.

16 (A chorus of ayes.)

17 MR. DIETZ: And it is approved for presentation
18 to the full board. So Tab 3 on our agenda here is the
19 presentation, discussion and possible approval of the
20 Audit Committee guidelines.

21 MS. SMITH: Yes. These are the Audit Committee
22 guidelines. And Mr. Evenwel actually, we didn't have any
23 changes originally. But he has pointed out a couple of
24 things that we should have changed.

25 MR. EVENWEL: Good changes. Yes.

1 MS. SMITH: If you look on page 3 of Tab 3,
2 under independent auditors, in the first paragraph, the
3 third line down, it is actually the second sentence. That
4 entire paragraph indicates that we would -- that the Audit
5 Committee needs to appoint the auditors annually.

6 And as Mr. Evenwel pointed out, we actually
7 hire the auditors for a three-year contract. So we would
8 like to propose that we take out the word "annually" in
9 that second sentence, so that, that way, if the Audit
10 Committee decided they wanted to change auditors, they
11 could.

12 But they don't have to appoint them every year.
13 We can do it by contract. Does that make sense?

14 MR. LONG: Did we state that correctly, Mr.
15 Evenwel?

16 MR. EVENWEL: Yes.

17 MR. LONG: Okay.

18 MS. SMITH: And then --

19 MR. LONG: Mr. Dietz, did you understand that?

20 MR. DIETZ: Just remove the one word.

21 MR. LONG: The one word, "annually". So it
22 would read auditors and appointing auditors, or approve
23 any discharge of auditors when circumstances warrant.

24 MR. DIETZ: Yes.

25 MR. LONG: Okay.

1 MS. SMITH: And then in the second paragraph,
2 under that same section, there is a word missing. And in
3 the second line down, independent auditors all significant
4 relationships they have with -- the word "with the
5 Corporation" is missing.

6 So we would like to insert that word in that
7 sentence. And then with those two changes, we would
8 request that the Committee approve the changes to the
9 Audit Committee guidelines, or that they be submitted to
10 the full Board for approval.

11 MR. DIETZ: Otherwise, this is the same as
12 we --

13 MS. SMITH: Yes, sir.

14 MR. DIETZ: We approve this annually.

15 MS. SMITH: Yes, sir.

16 MR. LONG: We didn't make any changes.

17 MS. SMITH: Yes, sir.

18 MR. LONG: That is correct.

19 MR. EVENWEL: I have a little question. On
20 page 1, where it talks about we are in charge of integrity
21 of the corporate budgeting process, which we just went
22 through, the auditors don't have to review the budgeting
23 process before we do?

24 MS. SMITH: No.

25 MR. EVENWEL: I mean, I didn't read that.

1 So --

2 MS. SMITH: Yes. No, they don't. They do look
3 at the budgeting process when they come to do their audit,
4 though.

5 MR. EVENWEL: Not at this time.

6 MR. LONG: Not as part of the budgeting
7 process.

8 MS. SMITH: Right.

9 MR. LONG: That is correct.

10 MR. EVENWEL: Never mind.

11 MR. LONG: No problem. Appreciate the
12 question.

13 MR. DIETZ: Any other comments, questions?

14 (No response.)

15 MR. DIETZ: None? I guess we would entertain a
16 motion to approve the Audit Committee guidelines with the
17 two referenced changes.

18 MR. EVENWEL: So moved.

19 MS. SMITH: I second.

20 MR. DIETZ: Is there any public comment?

21 (No response.)

22 MR. DIETZ: No? So all in favor of approval of
23 the Audit Committee guidelines with the two discussed
24 changes, please say aye.

25 (A chorus of ayes.)

1 MR. DIETZ: That is approved for approval to
2 the full Board. Is there any reason to go into closed
3 meeting?

4 MR. LONG: No, sir.

5 MR. DIETZ: No. So I think we are done. Any
6 other public comments? Is there anything else we need to
7 discuss in the Audit Committee meeting?

8 (No response.)

9 MR. DIETZ: No? Then we are adjourned at
10 9:44 a.m.

11 (Whereupon, at 9:44 a.m., the meeting was
12 concluded.)

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C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee
LOCATION: Austin, Texas
DATE: August 20, 2015

I do hereby certify that the foregoing pages, numbers 1 through 23, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas State Affordable Housing Corporation.

08/24/2015

(Transcriber) (Date)

On the Record Reporting
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