

TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,
September 14, 2017
9:25 a.m.

COMMITTEE MEMBERS:

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

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	--
ACTION ITEMS IN OPEN MEETING:	
Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 15, 2016.	3/22
Tab 2 Presentation, Discussion and Possible Approval of the Fiscal Year 2018 Operating Budget.	4
CLOSED SESSION	--
OPEN SESSION	--
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P R O C E E D I N G S

1
2 MR. DIETZ: We'll call the Texas State
3 Affordable Housing Corporation Audit Committee meeting to
4 order at 9:25 a.m., on September 14, 2017.

5 To start with, is there any public comment?

6 (No response.)

7 MR. DIETZ: There's no public comment, so we're
8 going to go on to the action items.

9 MR. LONG: Mr. Dietz, you need to do roll call.

10 MR. DIETZ: Okay. Bill Dietz, I am here.

11 David Long?

12 MR. LONG: Here.

13 MR. DIETZ: And Melinda Smith?

14 MS. SMITH: Here.

15 MR. DIETZ: That's all the members of the Audit
16 Committee here, and Gerry Evenwel is absent.

17 Now we'll go on to the action items. The first
18 is: Presentation, discussion and possible approval of the
19 minutes of the Audit Committee meeting held on December
20 15, 2016. Any questions or comments or corrections to the
21 minutes?

22 (No response.)

23 MS. SMITH: I make a motion to approve the
24 minutes.

25 MR. DIETZ: And I'll second it. All in favor?

1 (A chorus of ayes.)

2 MR. DIETZ: The minutes of the Audit Committee
3 meeting held on December 15 are approved.

4 So the second item is presentation, discussion
5 and possible approval of the fiscal year 2018 operating
6 budget. Melinda.

7 MS. SMITH: Good morning. My name is Melinda
8 Smith, and I'm the chief financial officer.

9 We're presenting the 2018 operating budget. If
10 you'll refer to the budget, we have the 2017 budget and
11 then our actual results for 2017, and then the projected
12 budget for 2018 on the first page, and you can see that
13 we've budgeted \$1,041,000 profit for 2018. And I can go
14 over each one of the individual revenue and expenditure
15 items, if you would like.

16 On the second page of the budget is the
17 servicing revenue. This represents the income that we
18 receive from our down payment assistance portfolio. It's
19 a small portfolio of loans that the Corporation made many,
20 many years ago, and we're still receiving payments on that
21 portfolio.

22 In addition, we have income that comes in from
23 our contract with the Texas Department of Housing and
24 Community Affairs to service their bond programs 52, 53
25 and 54. So the total projected income for the servicing

1 for the year is \$138,000.

2 MR. LONG: Mr. Dietz, I would note on the
3 servicing revenue also that those are all established,
4 closed transactional things, so we are going to continue
5 to see this decline over time as the balances and the
6 loans pay off.

7 We're not adding any new portfolio or loans to
8 those programs, so those just continue to be listed as
9 carryforward that we've had for years and we just continue
10 to show them. As the balances decline on the loans, so
11 will the anticipated revenue.

12 MS. SMITH: On page 3 is the single family
13 income, single family program revenue. We have issuer
14 fees from our bond programs, we have income from our
15 mortgage credit certificate program, our TBA program, and
16 then our lender and homebuyer and trainings and then
17 lender contributions, and we're estimating a total cash
18 income of \$10 million from those programs this year.

19 MR. DIETZ: So the TBA program was the big
20 increase.

21 MS. SMITH: Right.

22 MR. LONG: That's correct. And again, what
23 we've done there is we took the percentages in terms of
24 how that program has fluctuated throughout the year and
25 applied the same percentage changes, seasonal changes, if

1 you will, to the current volumes that we're experiencing
2 and just kind of mapped it out that way.

3 Obviously, we have a very short, much shorter
4 period of time with our current servicer, our new
5 servicer, Lakeview. As a result we're trying to estimate
6 that the volume will continue at the higher levels that it
7 is, so we've tried to just kind of margin those up and
8 down as the seasonality, such as November, December,
9 January, February, are typically slower months.

10 But in doing all of that, even with the volume,
11 and it's still showing some changes throughout the year
12 for seasonality, we still show a rather large increase in
13 income stream from that program.

14 MR. DIETZ: And also, the DPA compliance fees
15 is pretty significant.

16 MR. LONG: And that's, again, the more loans we
17 do, the more compliance fees we have, because internally
18 we manage that, so it's in direct correlation.

19 I need to make a comment. It's my
20 understanding, and something that's been brought to my
21 attention, we need to have Mr. Romero and have him be part
22 of the meeting to make sure that we have two Board members
23 here. So we can go back and do that and get him in here,
24 if that's okay with you, sir.

25 MR. DIETZ: Yes.

1 MR. LONG: So if we can just pause the meeting
2 for a second, and if you don't mind, bring him in.

3 (Off the record to bring in Mr. Romero.)

4 MR. DIETZ: I'm just going to note for the
5 record that in Mr. Evenwel's absence, Mr. Romero, Board
6 member, has joined the meeting at this point.

7 MS. SMITH: Would you like for me to start
8 over?

9 MR. LONG: Mr. Romero, do you need us to start
10 completely over, or can we just continue from page 3?

11 MR. ROMERO: Start where you're at.

12 MR. LONG: Page 3.

13 MS. SMITH: Page 3 was the single family
14 revenue and we had completed going over that.

15 MR. LONG: Mr. Dietz, did you have any further
16 questions on those items, the compliance and the TBA
17 program?

18 MR. DIETZ: No. For Mr. Romero's benefit, I
19 just noted that the TBA program and the DPA compliance
20 fees both reflected substantial increases, and those are
21 directly correlated with each other, so that's why they're
22 both up, and that's where the significant increase is in
23 our revenue.

24 MR. LONG: Correct.

25 MS. SMITH: Page 4 is our multifamily program

1 revenue. All of this income, or the majority of it, comes
2 from contractual agreements that we have with multifamily
3 properties to do compliance and monitoring, and issuer
4 fees we also receive from these properties.

5 And the income, again, is based on contractual
6 agreements, so it's pretty much set in stone; there's
7 really not a lot of estimating that goes on, and we're
8 projecting a total of \$483,000 in income from those
9 properties.

10 On page 5 this is the lending program. This is
11 a cash basis budget that we're looking at, so we have in
12 here all of the principal and interest that we will
13 receive on all of our notes receivable and these are from
14 our direct lending program, loans that we've made through
15 the Loan Committee to different nonprofits to develop
16 properties around the state, single and multifamily. And
17 the total income we're projecting from those programs is
18 \$2.1 million.

19 On page 6 is the ACT program, and then also
20 some miscellaneous income. We're projecting \$160,000 from
21 those programs.

22 MR. ROMERO: The oil and gas royalties, is that
23 from the property up in Fort Worth?

24 MR. LONG: Fort Worth.

25 MS. SMITH: On page 7 we have grants, donations

1 and other awards. We're projecting \$652,000 from
2 foundations, banks and individuals, primarily the majority
3 of it is from banks. And then we also have federal and
4 state grants of \$169,000, and that represents the NSP
5 program, the Neighborhood Stabilization Program, and then
6 some miscellaneous programs.

7 On page 8 we have our tenant rent income, and
8 this is the income that we receive from leasing the space
9 down the street at 1910 MLK and from our 15-unit
10 multifamily property, Rollins Martin, and then the largest
11 sum comes from our single family rental homes, so there's
12 a total of \$490,000 in rental income projected.

13 On page 9 this is our investment income. Just
14 from our general investments we're expecting around
15 \$40,000, and then from the mortgage-backed securities that
16 we've purchased through the redemption of several of our
17 bond issues, we're estimating around a million dollars, so
18 \$1,040,000.

19 On page 10 we are moving into the expenditures
20 and the first page here is salaries, and we're budgeting
21 \$2.7 million. It was \$2.56- last year. We have a couple
22 of vacant positions that we've budgeted for in here, as
23 well as for an intern for the new year.

24 MR. LONG: Is that what makes up the
25 difference?

1 MS. SMITH: Yes.

2 MR. LONG: And I will tell both the Board
3 members that traditionally Melinda and I work through the
4 budget and we tend to add a position or two. We don't
5 know that those will be paid out from day one.

6 Obviously, they're not, because we haven't
7 hired anybody already this year, pending the Board's
8 approval on this, but the logic is that if we had need for
9 hiring a new staff, we wouldn't have to wait to fill that
10 position, the Board is already approving that in this
11 budget essentially, so it just gives us a little
12 flexibility.

13 Obviously, we would not go over the budget on
14 that side of the table, but we do want the Board to know
15 that we do budget in there a little bit extra staffing
16 needs just in case the opportunity and/or the need arises
17 within the demand for our programs.

18 MR. DIETZ: And that overhead 403(b) number is
19 just a derivation of that number?

20 MR. LONG: Yes, exactly.

21 MS. SMITH: Also, our health insurance is
22 included in here and there's a percentage increase for
23 that too.

24 MR. ROMERO: In the overhead?

25 MS. SMITH: Yes.

1 MR. LONG: Yes.

2 MS. SMITH: On page 11 are our program
3 expenditures, the first being the single family
4 TBA/DPA/MCC programs for \$2 million. Then we budgeted
5 some income for the purchase of some additional mortgage-
6 backed securities and to just replace some investments
7 that we have had. The third line item is a negative, the
8 single family rental home purchases and expense. That's
9 actually we sold one of our single family homes in
10 September and that actually fell in this fiscal year, and
11 so that's why that's a negative in the program expenses.

12 Rental program lawn and utilities, that's just
13 to maintain all of the single family properties that we
14 have and our multifamily. Multifamily oversight and
15 rental program, that's the compliance that is done on all
16 the properties, the bond properties that our compliance
17 monitoring staff reviews.

18 MR. LAWRENCE: And also just maintenance.

19 MS. SMITH: And maintenance.

20 The ACT program, we've budgeted \$410,000 there.
21 And, Nick, what is that?

22 MR. LAWRENCE: \$200,000 is ACT acquisitions,
23 \$200- is using PRI that we've already received, and then a
24 small amount for demolition.

25 MR. LONG: PRI being program related investment

1 that we would receive from one of the financial
2 institutions.

3 MR. ROMERO: What's the budget item for that,
4 in 2017, what was the actual budgeted dollar amount?

5 MS. SMITH: I'm sorry?

6 MR. ROMERO: For ACT, what was the actual 2017
7 budget number?

8 MS. SMITH: Oh, we obviously didn't have
9 anything budgeted there, Jerry.

10 MR. ROMERO: And so the actual is \$74,000 but
11 it's going to go up to \$410- based on what you actually
12 get.

13 MR. LONG: And that comes, Mr. Romero, from the
14 fact that we've received additional funding, and so now
15 we're looking at utilizing those resources to expand the
16 program.

17 MR. ROMERO: So back up to the purchase of the
18 mortgage securities, \$3.4 million in expenditures for
19 2018, and why such a big change again?

20 MS. SMITH: Because of the income we're having
21 from the TBA program, it gives us the ability to purchase
22 additional mortgage-backed securities and also gives us
23 the ability to replace some of the investments.

24 MR. ROMERO: So the \$3.4 million is going to be
25 an expenditure but it's actually an investment.

1 MS. SMITH: Exactly.

2 MR. LONG: That's correct.

3 MS. SMITH: And this is a cash basis budget.

4 MR. LONG: Exactly. Since it's a cash basis,
5 we have to show you all the outflows as well the inflows,
6 so if you look at the difference between the two, that's
7 the net.

8 MS. SMITH: Let's see, where were we? Single
9 family direct lending, single and multifamily direct
10 lending programs, again, those are the programs that Dave
11 Danenfelzer manages, and we're budgeting \$2.9 million in
12 those programs.

13 Nick, can you give Jerry and Bill some detail?

14 MR. LAWRENCE: Sure. So last year we were
15 reporting the net activity, this year we've been asked to
16 report the total outgoing and incoming funds on that
17 program, so that's why you see a big difference for this
18 year. According to Dave Danenfelzer, that's what we
19 expect to see going out. We'll also see a lot coming back
20 in too, as they revolve.

21 MS. SMITH: Then we have the Texas lender and
22 homebuyer education program that the Corporation is
23 working on developing and we're estimating \$115,000, and
24 then other program expenditures of \$20,000, so total \$8.9
25 million in program expenses.

1 On page 12 we have professional fees, and these
2 are all of the fees that you're probably familiar with,
3 our legal fees, our accounting and auditing, we have a
4 small amount for our retirement plan which that really
5 covers preparing the tax return and doing the annual
6 compliance that has to be done for the IRS. Then we have
7 information technology, that's all of our servers and we
8 have a consulting company that assists us with all of
9 that.

10 MR. ROMERO: A question on that. Do we have
11 some kind of a long-term plan for replacement of
12 equipment?

13 MR. LAWRENCE: Yes.

14 MR. ROMERO: Did you include it in that?

15 MR. LAWRENCE: Yes.

16 MS. SMITH: We have \$18,000 budgeted for
17 Patterson & Associates. They help us with the company's
18 investments and they also prepare our quarterly and
19 monthly investment reports, and they also prepare our GASB
20 and cash.

21 I'm so sorry, David, I failed to do that.

22 MR. LONG: That's okay. I just was scratching
23 it out.

24 MS. SMITH: And David had asked me to change
25 that and I missed it, I apologize. But we have \$36,000

1 budgeted for Hilltop, \$5,000 for RBC Capital Markets
2 that's just for some debt service schedules that the Bond
3 Review Board requires. And then single family compliance
4 software, that's for our loan compliance work that Tim
5 Almquist does, that's the software system that they
6 utilize.

7 MR. ROMERO: Is that a licensing fee?

8 MR. LAWRENCE: Yes. Like a maintenance
9 agreement.

10 MS. SMITH: Then the transcription fees is for
11 our court reporting, and then just some miscellaneous
12 other consulting services, and we have some fees that we
13 have to pay to Fannie Mae and Ginnie Mae, and then some
14 miscellaneous other small amounts.

15 MR. ROMERO: Real quick on the compliance
16 software, is that something that we go out and look at
17 bidding through other services if it's available, or is
18 that a sole source?

19 MR. LONG: Once we determined it, it was a sole
20 source because we had to make a decision, and they then
21 link into all the other things that we do with our master
22 servicer, so all that has to be coordinated and dealt with
23 through the IT systems.

24 MR. ROMERO: But is this company the only one
25 that provides that kind of software?

1 MR. LAWRENCE: Well, we did look at a bunch of
2 other companies at the time, and we had to make a sizable
3 investment at the time, and so this is just the annual fee
4 that they charge, it goes up every year a little bit.

5 MR. ROMERO: So when will we go out and try to
6 rebid this contract at some point in time?

7 MR. LAWRENCE: When our current software is
8 obsolete.

9 MR. ROMERO: So they don't give you updates on
10 the software?

11 MR. LONG: They do. That's what the
12 maintenance upgrade pays for is us to get those annually.

13 MR. ROMERO: Okay.

14 MS. SMITH: So our total professional fees are
15 \$378,379.

16 On page 13, these are the budgeted principal
17 and interest payments going out of the Corporation on our
18 notes payable to Federal Home Loan Bank and Wells Fargo.
19 The big difference between the current and the prior years
20 is the Wells Fargo note, which is due this coming May.

21 MR. LONG: And I think, Mr. Dietz, we should
22 have Wells Fargo grant that money to us -- not that
23 anybody from Wells Fargo is present, but it would be
24 helpful if we had that kind of support from Wells Fargo.

25 (General talking and laughter.)

1 MS. SMITH: On page 14 is our marketing
2 expenditures. The overall increase here is relative to
3 the redesign of the website that they're planning for this
4 coming year. Everything else is pretty much the same.

5 On page 15 we have our insurance expense. This
6 is just the general stuff that we're required to keep:
7 general liability on the buildings; auto insurance; our
8 mortgage bankers bond which is required for us to maintain
9 our Ginnie Mae and Fannie Mae sole servicer status; the
10 ERISA bond is for our 403(b) retirement plan; officers and
11 directors, we all know what that is; the errors and
12 omissions insurance covers the single family compliance
13 program; and then the vacant property/lots is all the
14 properties that we own through NSP or the ACT program.

15 MR. ROMERO: So a couple of questions. The
16 directors and officers and errors and omissions, do you
17 guys review the coverages on these to ensure because of
18 the differences in volumes and so on? So we're covered
19 there?

20 MS. SMITH: Yes. We really took considerable
21 time this year going over it with our agent. All the
22 insurance has gotten so complicated and you just have to
23 buy different insurance for everything. We were kind of
24 worried about that, so we sat down on several occasions
25 and had gone over it in detail with them.

1 On page 16 is our travel budget. These are
2 based purely on what was requested by the individual
3 division directors and then historical expenditures for
4 each of the program areas, and overall, the budget is
5 lower than it was last year, \$107,000. We had \$112-
6 budgeted last year, and we only spent \$83,000. We were
7 pretty much on the low side on all our budget categories
8 this year; everybody was holding the expenses down, it was
9 great.

10 On page 17 is our budgeted furniture, equipment
11 and software. This is just to replace obsolete equipment
12 or purchase software or hardware that the Corporation
13 needs to run the programs or just general operations.
14 Furniture and equipment, those are just miscellaneous
15 items like chairs and desks. And then our office
16 equipment lease is we have a big copier, multi-functional
17 copy machine, a couple of them, that we lease.

18 MR. ROMERO: So that computer hardware, that
19 includes the Board of Directors iPads?

20 MR. LONG: No.

21 (General laughter.)

22 MS. SMITH: Building maintenance, this is just
23 our utilities, lawn care, janitorial service, pretty self-
24 explanatory.

25 MR. ROMERO: Speaking of janitorial real quick,

1 just to get off topic, what happened with the leak that
2 you guys had?

3 MR. LONG: The what?

4 MR. ROMERO: Didn't you guys have a leak or
5 something? Did that get taken care of?

6 MR. LONG: At 1910 or here?

7 MR. ROMERO: I don't know where it was. In the
8 storage closet.

9 MR. LONG: Yes, that was taken care of. What
10 it was is the hot water heater exploded and we had the hot
11 water heater replaced and re-plumbed to make sure it was
12 with code, and then Jesse was able to go back and re-
13 sheetrock and do everything we needed to have done to get
14 the unit back and complete.

15 When you said leak, I apologize, I was confused
16 as to what you were talking about. It was the hot water
17 heater actually had one of the pipes burst and it just
18 showered the whole room for we don't know how long it had
19 been doing it, and we had to have it replaced and the
20 cleaned out, drained and then had some sheetrock we had to
21 redo.

22 MS. SMITH: And the next to last page is
23 professional dues, conferences and training, and that's
24 just what it says. These are the conferences that program
25 staff attend each year, and then we have some

1 certifications that the Corporation pays for a few people,
2 and the budget is a little bit lower than last year.

3 And then finally on page 20 you have our
4 communication expenses which is the internet, telephone,
5 our backup internet system, which I'd like to thank Nick
6 for. He's done a tremendous amount of work getting all of
7 that set up so that if one goes down, the other one comes
8 back up instantly, which is something we really have to
9 have with our loan compliance program.

10 MR. ROMERO: Is it offsite or is it a cloud
11 service?

12 MR. LAWRENCE: Both of the pipes come into our
13 server closet.

14 MR. LONG: Mr. Dietz, that would be the
15 conclusion of the presentation of the 2018 operating
16 budget for the Corporation. Do you have any questions
17 that you feel you might be getting from the Board when we
18 present this to the Board, or do you have any thoughts on
19 any of the items specifically that you have concerns
20 about?

21 MR. DIETZ: No.

22 Jerry, do you have any additional questions or
23 comments?

24 MR. ROMERO: No. It looks pretty
25 straightforward. You guys are covering everything that

1 needs to be covered.

2 MS. SMITH: I would like to take the
3 opportunity, I didn't do it at the beginning, to thank the
4 division directors for all the work that they did. They
5 really put the budget together and gave it to Nick and I
6 for each of their areas, so we could not have done this
7 without their help. And then Betsy and Nick did a
8 tremendous amount of work assisting in putting all this
9 detail together, and I just want to say thank you to
10 everybody involved.

11 MR. LONG: I would make sure Melinda is
12 included in that. There's a lot of time and effort that
13 goes into making sure Melinda, Nick and Betsy have all the
14 information and that all that stuff comes together in the
15 report you see in front of you, and I think it really does
16 reflect all the time that they put into it. So hopefully
17 you feel like we've done a good enough job presenting what
18 we think will be our operating needs going forward from
19 here.

20 MR. DIETZ: He's not here, but I know Mr.
21 Evenwel did have an opportunity to review it and didn't
22 have any questions or comments, really, and he's
23 extraordinarily detail oriented, as we all know.

24 If there aren't any additional comments or
25 questions.

1 MR. ROMERO: I have just one last question, and
2 I probably know the answer, but the shortfall for 2017
3 actual?

4 MR. LONG: On a cash based budget, Mr. Romero,
5 money out, money back, all of that is related to DPA. If
6 we had waited a month, it could have been a completely
7 different number, we just don't have the opportunity to
8 reflect it. It is what it is.

9 MR. ROMERO: That's good.

10 MR. DIETZ: All right. We would entertain a
11 motion to approve the 2018 operating budget.

12 MR. ROMERO: I'll move to approve as presented.

13 MR. DIETZ: I'll second.

14 MR. LONG: And for public comment on that, I
15 might add that what we're approving is the committee is
16 recommending it to the Board for consideration.

17 MR. DIETZ: Yes. So it has been moved and
18 seconded that we approve the fiscal year 2018 operating
19 budget for presentation to the full Board of Directors at
20 the meeting later this morning. All in favor?

21 (A chorus of ayes.)

22 MR. DIETZ: Any opposed?

23 (No response.)

24 MR. DIETZ: Okay. So the 2018 operating budget
25 is approved by the Audit Committee.

1 Is there any reason to go into closed meeting?

2 MR. LONG: No, sir.

3 MR. DIETZ: We did vote on tab item 1, the
4 approval of the minutes, before Mr. Romero joined us. Do
5 we need to go back and re-approve that?

6 MR. LONG: Yes. Mr. Gehrig is here as counsel,
7 and he would suggest we do that again, so if we want to
8 re-vote on that.

9 MR. DIETZ: Okay. So let's go back to tab item
10 1 which is the approval of the minutes of the Audit
11 Committee held on December 15, 2016.

12 And, Mr. Romero, we reviewed that, but if you
13 wouldn't mind reviewing that.

14 MS. SMITH: I make the motion to approve the
15 minutes.

16 MR. DIETZ: Is there any discussion or public
17 comment about the minutes from December?

18 (No response.)

19 MR. DIETZ: I will second. So it's been moved
20 and seconded that we approve the minutes of the Audit
21 Committee meeting held on December 15, 2016. All in
22 favor?

23 (A chorus of ayes.)

24 MR. DIETZ: Any opposed?

25 (No response.)

1 MR. DIETZ: So that motion passes as well.

2 So with that, I don't think there are any
3 additional agenda items or anything else to discuss.

4 MR. LONG: No, sir.

5 MR. DIETZ: Then we will adjourn at 9:56 a.m.

6 (Whereupon, at 9:56 a.m., the meeting was
7 adjourned.)

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C E R T I F I C A T E

IN RE: TSAHC Board Audit Committee

LOCATION: Austin, Texas

DATE: September 14, 2017

I do hereby certify that the foregoing pages, numbers 1 through 25, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas State Affordable Housing Corporation.

(Transcriber) 9/19/2017
(Date)

On the Record Reporting
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