TEXAS STATE AFFORDABLE HOUSING CORPORATION

AUDIT COMMITTEE MEETING

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

Thursday,
August 16, 2018
9:00 a.m.

COMMITTEE MEMBERS:

JERRY ROMERO, Chair
LORI COBOS
DAVID LONG
MELINDA SMITH

I N D E X

P R O C E E D I N G S

MR. ROMERO: Today is August 16, 2016 [sic]. It is now 9:06. We are starting the Audit Committee meeting for the Texas State Affordable Housing Corporation. We'll do the roll call. Jerry Romero, present. Lori Cobos?

MS. COBOS: Present.

MR. ROMERO: David Long?

(No response.)

MR. ROMERO: Melinda Smith?

MS. SMITH: Present.

MR. ROMERO: Present. We do have a quorum, as far as the Committee is concerned. Is there any public comment?

(No response.)

MR. ROMERO: Good. All right, then. Let's go ahead and move into the Tab Item 1, which is "Presentation, Discussion and Possible Approval of Minutes of the Audit Committee Meeting held on December 14, 2017." I know that both Lori and I were not in attendance in that meeting, so the minutes are new to us.

MS. COBOS: Jerry, we may want to return back to this item. I know -- I had a discussion with David Long about some proposed changes to the minutes, and he was going to make them redlined, so you'd be able to see

them before we approve them, and I'm --

MR. ROMERO: Do you know --

MS. COBOS: -- not sure they've been circulated.

MS. TAYLOR: I have a copy.

MS. COBOS: Okay.

MS. TAYLOR: David gave it to me yesterday.

MR. ROMERO: Okay. Can we get some copies, then?

MS. TAYLOR: So this is the only copy I have.

MS. SMITH: I have a copy. Do you need a copy --

MS. TAYLOR: Do you have a copy?

MS. SMITH: -- of the redline?

MS. TAYLOR: Yeah. Here you go.

MS. COBOS: Thanks.

MS. TAYLOR: That should --

MS. COBOS: Thank you so much.

MS. TAYLOR: -- reflect your changes. That --

MS. COBOS: Okay. So these are the redline? I don't want to take up too much time on these proposed changes. The majority of them were just clarification, grammatical and additional languages to help explain the discussion.

I'm new to the Board, so I just want to be able

to have some understanding -- I want to make sure I'm understanding how the discussion went back -- or have to refer back to the minutes in the future, and then for review purposes for others in the future.

I know that the transcripts are posted in detail, and I think, overall, the minutes reflected a good summary. It's just primarily clarification, grammatical, and additional explanation.

MR. ROMERO: Anything else besides your changes?

MS. COBOS: No.

MR. ROMERO: So we have reviewed the minutes as presented. There were some recommended changes that are now reflected in this copy, so they'll be accepted into the -- changes will be accepted into the minutes. With that, I'll entertain a motion to approve the minutes with the amended changes.

MS. COBOS: Second.

MR. LONG: I'll move.

MR. ROMERO: You move?

MR. LONG: Yeah.

MR. ROMERO: Seconded. All in favor, aye?

(A chorus of ayes).

MR. ROMERO: Any opposed?

(No response.)

MR. ROMERO: The motion carries. All righty. That takes care of that point. Now, we're going to Tab Item No. 2, which is the "Presentation, Discussion and Approval of the Audit Committee Guidelines."

MR. LONG: Audit Committee Guidelines?

MR. ROMERO: Oh, I'm sorry. That's from the previous minutes. I'm sorry.

MS. SMITH: Scared me there.

MR. LONG: And so we don't have any guidelines to review.

MR. ROMERO: "Presentation, Discussion and Possible Approval of the Fiscal Year 2019 Operating Budget."

MS. SMITH: Good morning.

MR. ROMERO: Good morning.

MS. SMITH: A pleasure to be here. My name is Melinda Smith. I'm the chief financial officer. We are presenting the fiscal year 2019 operating budget. Everybody, I think, has a packet that was sent out with the workbook, and it begins with an overall summary of the budget.

We're budgeting $15.8 million in revenue, 15.6 in expenditures, so we have a small excess of $271,000. We've tried to put the detail, as much as possible, on the supplemental schedules following the main budget. If you

turn to Exhibit A-1, this is our servicing revenue, and please -- and I know you will -- feel free to ask questions as we go along.

This represents the income that we get from a very old agreement we have with the Texas Department of Housing and Community Affairs, their bond programs, three of their bond programs, and it's also the income that we receive on a small portfolio of down payment assistance loans that we have had on the books for many, many years.

The balances in both of those programs are declining over time. So is the income. On page 3 is Exhibit A-2. This is the Single Family Program revenue. The first line is our single family issuer fees. That's from our old bond programs. We receive an issuer fee from each one of those bond programs.

So that's a contractual number. Federal Home Loan Bank advances -- we're not budgeting any this year. We had 2.5 million last year that was related to providing down payment assistance loans. The Corporation made a decision in January of this year not to front those down payment assistance loans any longer, and so that's why we do not have anything budgeted for 2019.

The third line is the mortgage credit certificate fees. That's a fee per loan. And then the fourth one is our TBA Program income. It's a very, very

large number. That's the majority of our income -- comes from our TBA Program.

We've had a significant increase in loan volume in the past few years, particularly in the past year, which has resulted in an increase in our revenue. However, the market has caused us to not be able to make quite as much money on the pools that we are selling, even though our loan volume is really high.

So we're budgeted a smaller amount than what we had received in 2018. We received 8 million, and we're budgeting 6.5 million. The next line is our single family loan compliance fees. Again, that's a -- just a fee per loan, $200 per loan.

We also have lender and homebuyer trainings, and lender contributions. We receive $500 per lender for each of our programs, the MCC Program and the Down Payment Assistance Program. So overall, we have $9.5, $9.6 million budgeted from our Single Family Program.

MR. ROMERO: So Melinda, on this one here, if you actually normalize the budget -- because everything that happened with the Federal Home Loan Bank, it all happened within a year's time, didn't it, more or less --

MS. SMITH: Pretty much.

MR. ROMERO: -- as far as the advances and so forth?

MS. SMITH: We had $2 million outstanding of balance at the beginning of the year that we had already borrowed, and then we paid off the entire thing. Isn't that right? During --

MR. LAWRENCE: Yes.

MR. ROMERO: Yeah.

MS. SMITH: -- 2018.

MR. ROMERO: So if you had taken that 2 million out of that 2018 budget, you would be at about $8 million total revenue in the Single Family revenue category?

MR. LAWRENCE: Yes.

MR. ROMERO: So you're projecting a slight increase, and that's probably all coming from the TBA Program? Am I correct in my assumption?

MS. SMITH: Say that again. I'm sorry.

MR. ROMERO: I said, you're projecting the slight increase over what the budget would have been in 2018, if you had taken out that 2 million?

MS. SMITH: Right.

MR. ROMERO: That would have put you at about 8 million in change?

MS. SMITH: Overall.

MR. ROMERO: This 2019 budget is 9-1/2, and most of that's coming from the TBA Program?

MR. LONG: And related programs, such as the

MCC-related and the TBA Program.

MR. ROMERO: Okay.

MS. COBOS: I'm just kind of -- just for background purposes, on the Federal Home Loan Bank advance, I understand what the Corporation was doing with respect to using that, but what was the reason for using it?

MR. LONG: Cash flow.

MS. COBOS: Okay.

MR. LONG: It really was cash flow. Ms. Cobos, what we do is, we have a flow of funds that comes in, but we have to advance at closing all of the down payment assistance for each of the loans. Yeah. When we were doing it previously, which we were funding directly to each closing, we were wiring funds, and then there was a delay till those loans were pooled, and then we got our money back at the settlement of the pools.

And so that money would flow back in, and we were finding ourselves with such high volume. We were advancing more money to wiring than we were actually getting back in a timely manner. Even though the net, when it got done, was a great revenue stream.

But if you kept up the model, we were advancing more money because our program was growing so significantly. We needed to borrow some liquidity

position to enable -- to keep up with the demand for the program and the DPA we were funding.

MR. ROMERO: You might want to expand a little bit on why we had such high volume. We changed the provider and our volumes -- what -- almost tripled.

MR. LONG: Yeah. We used to be as -- through April of -- through March of last year, we were with a master servicer -- it was U.S. Bank. They provided our master servicing. They did the servicing of the loans after they were closed under the current model program that we're doing.

We had needed some changes in the industry that we're moving along -- there were overlays to the loan requirements. The structuring of the servicing was causing us to be somewhat impeded in our ability to do what we wanted to do in the market, and so we started shopping for a master servicer change.

We ended up with an organization we currently use which is Lakeview Loan Servicing. Lakeview Loan Servicing, in addition to becoming our master servicer, also afforded us the ability to have them do our -- what they call TBA administration or pricing of our pools every day, setting our mortgage rates every day.

And by doing that, we got a much-reduced cost related to the program by having them -- their

administration cost was reduced significantly to us. So we had a greater spread on the loan volume.

But because of the overall reduced overlays on the loan program, as well as the increased -- their reduced cost, we were able to manage our rates better, offer a better product, and the lenders were very appreciative of that, and basically felt that Lakeview Loan Servicing was a good master servicer to work with.

And while that probably all sounds a little convoluted, it really just -- the change from having a two-party, where we had -- Raymond James was our TBA administrator. They were doing all the pricing every day, and then we had U.S. Bank, which was the master servicer.

When we went to a single provider, which was Lakeview, doing both the administration and the servicing, we found it to be not only more cost-effective for us, but also I think we were able to offer a better product, and as a result of that, our demand has gone through the roof, literally five-fold.

So we've seen not only an increase in volume, but with that, goes the increase in revenue streams to go with it.

MS. COBOS: And when you say, increase in volume and demand, you're talking about what specifically?

MR. LONG: Well, I'll give you an example. In

2000 [sic] -- before started working with Lakeview, our annual volume was between $200 and $225 million, give or take, and in the last -- the 12-month window from the time we started with Lakeview to April 2017 to March 2018, we did $1 billion in volume, loan volume.

MS. SMITH: Loan --

MR. LONG: True loans closed.

MR. ROMERO: So these are actually mortgages that we provide down payment assistance.

MS. COBOS: Okay.

MR. LONG: So basically, four to five times the loan-closing volume that we had done previously, and we continue to see that volume since March 2018, when we did our first full year with them, we continue to see that volume consistently either increase or month over month stay consistent.

About 140 to 160 million in volume a month. Now, that's right now in the high-buying season.

MR. ROMERO: Yeah.

MR. LONG: That may drop off. We actually anticipate with rate changes in the market, as Melinda pointed out, the spread between our fee structure allowing us to make less on each loan. We're anticipating a little bit less revenue, but that also might impact the volume of the loans as well.

But even if it was to drop off 20 or 30 percent, we'd still be three times what we were doing before.

MS. COBOS: Okay.

MR. LONG: Jerry, did that answer your --

MR. ROMERO: Uh-huh. Let me make sure there's no other questions?

MS. COBOS: I don't have any more questions right now.

MR. ROMERO: Okay.

MS. SMITH: On page 4, Exhibit A-3 is our budgeted Multifamily Program income. For the most part, this represents individual contractual agreements with various nonprofit organizations or other organizations where we've done a bond deal, and then we do the ongoing asset oversight compliance for each of these.

Way down toward the bottom, we have a line called new programs for $285,000. What that represents -- there are five programs that are bond deals that are in the pipeline right now. I have their names, if you're interested in those.

And associated with each of those will be an issuer fee and asset oversight fee and some closing fees. One of those, we're anticipating that we'll receive $100,000 in this upcoming year, and so that puts the

others at around 46,000, 46,500 apiece.

And then next year, those will fall into the individual --

MR. ROMERO: Compliance schedule.

MS. SMITH: -- portfolio.

MR. LONG: They'll be broken out. Yes.

MS. SMITH: On page 5 are the lending program revenues --

MS. COBOS: Oh.

MR. ROMERO: Hold on, Melinda.

MR. LONG: Just a second.

MS. SMITH: I'm sorry.

MS. COBOS: Yeah. Just to better understand, kind of -- so these are properties that you've entered into a contract with a nonprofit and TSAHC conducts certain functions, as you just explained, compliance and asset oversight.

Can you give me an example? Like, for instance, the Woodside Village, where we budgeted 9,890, and then it dropped down to 4,228, and then 4,313 from one year to the next. Like, what is driving that, sort of -- 50 percent --

MR. LAWRENCE: All right. Sorry. Nick Lawrence, comptroller. That one was where they had a short term bond and they paid it off early, so we didn't

get to issue a fee.

MR. ROMERO: And there's a typo on there. It should be 2018 actual. I know you --

MS. SMITH: Yes. I apologize. You're also going to see two words that say "done" on one of these pages. I had a little accident with my copy function on my computer. I thought I had corrected it.

MS. COBOS: So it's just driven by -- the number changes are driven by the collection of the fees?

MR. LONG: Correct.

MS. COBOS: Okay.

MR. ROMERO: I think the biggest change on this -- I mean, if you look at it year over year is that 285 is projected both because there's some real good certainty that those will close, so that will be additional revenue for 2019.

MS. COBOS: Okay. So that's how we get from the 500,000 --

MR. ROMERO: Right.

MS. COBOS: -- to the seven -- okay. That's all. Thank you.

MS. SMITH: On page 5 is budgeted lending program revenue. Again, these are contractual agreements for the most part, where we've made loans to nonprofit organizations to be glued to build multifamily and single

family homes.

The one that jumps out at you probably more than anything is the Texas Housing Impact Fund revolving loan fund. Let's see here. Yes. The amount that we have in 2009 includes a $2 million repayment for a loan that we made to build the Chicon property, which is right down the street from us here.

And the 655,000 in 2018 is lower than what we had budgeted, simply because we have less activity. We had anticipated that we would revolve more loans during the year, and that was not the case. We simply did not make the number of loans that we had anticipated --

MR. ROMERO: So again, on --

MS. SMITH: -- so we didn't get the repayments.

MR. ROMERO: -- on that Impact Fund, if you normalize it to about that big $2 million, we're going to -- we're actually proposing a slightly less budget than the prior year?

MS. SMITH: Correct.

MR. LAWRENCE: Correct, yeah. Because right now, we just have legacy, and you know, a little bit unbroken.

MR. ROMERO: David, for Lori's information, can you explain how that Chicon deal worked and how it is that we're going to get that 2 million back?

MR. LONG: Essentially, we were a part of a funding for the condominium complex that was built up the street. It's a mixed-use. It's -- the first floor is industrial, or I should say, commercial --

MR. ROMERO: Commercial.

MR. LONG: -- and then the second and third floors are residential for lower income. And we were just a part of the funding group. The way that worked was -- is that as the units and the commercial sites were sold, that the injections of cash -- the different providers would be paid back, and we are in line to receive our money back this year.

We had anticipated getting it back sooner than that, but there were obviously, as with everything -- there were delays in the construction activities, getting permits from the City of Austin, things that didn't initially change the project, but slowed things down a little bit.

And so what we have now is the 2 million out of that 2 million 405 being reimbursed is coming from monies that we anticipated being part of it last year and some of it next -- this coming year. So now we're going to see it all this year, and it's anticipated we will receive all of those funds back.

In fact, the ironic thing about this is that

the -- originally, and they started off when the funding source came in -- they said, well, we'd like to see you 50 pre-sold, and then 75 percent pre-sold.

It ended up being -- having to be 100 percent pre-sold before they would fund, and so all the units were sold. Some of their commercial -- excuse me -- some of the retail space has not been finalized yet, that I'm aware of, but once that's all done, it will -- we will get reimbursed 100 percent.

But the units are -- were 100 percent sold. So we just have to close on all of those and make sure all those funds start to come back.

MS. COBOS: Is our repayment of the 2 million contingent on the commercial property being sold as well?

MR. LONG: Some of it will be. Yes. I don't know exactly what percentage, because I don't know what they'll sell for, but the idea would be that it would be a combination of all that. Ours will most likely come from majority of the commercial sites being sold.

MR. ROMERO: And that 2 million is the net amount of the loans we're also collecting interest on?

MR. LONG: Yes, correct. That does have an interest rate attached to it, so it would be making -- being made whole, both principal and interest accrued.

MS. COBOS: Okay. And so that 2 million is

being reflected here?

MR. ROMERO: Right.

MR. LONG: Yes.

MS. COBOS: Okay.

MR. ROMERO: And will be received in fiscal year 2019.

MS. COBOS: Okay.

MS. SMITH: Page 7 is budgeted grants, donations and other awards. We have --

MR. ROMERO: Melinda, we missed one.

MS. SMITH: Pardon?

MR. ROMERO: We missed one, the ACT.

MS. SMITH: Did I skip something? I'm sorry.

MS. TAYLOR: Page 7.

MR. LONG: Page 6.

MR. ROMERO: Page -- yeah.

MS. SMITH: Oh, my. I don't have it in my -- okay. This is the budget act and THIF Program income. We had property sales of 200,000 -- 234,000 in 2018. A small amount of oil and gas royalties, and that was pretty much it, and we're budgeting roughly the same amount for 2019.

The demolition -- property demolition funds usually come when properties are donated, but we have not received donated properties like we have in the past, so we're not budgeting any funds from that. Page 5, Lending

Program revenue.

Whoops -- skipping back and forth on it. I apologize. Grants, donations and other awards on page 7. We had budgeted $652,000 last year, and we received 640,000, and we're budgeting 720,000 for 2019. The primary difference or oddity in this is that we had anticipated receiving some low interest rate loans from some financial institutions in 2018.

We didn't receive that, but what we did receive were some wonderful grants in the amount of $600,000. 500,000 from -- is it One Star?

MR. LONG: Rebuild --

MS. TAYLOR: Rebuild Texas.

MR. LONG: -- Rebuild Texas.

MS. SMITH: Or Rebuild Texas. And 100,000 from the Meadows Foundation.

MR. ROMERO: So Rebuild Texas is actually two different grants, 250 apiece. Right?

MR. LONG: It's --

MS. SMITH: Yes.

MR. LONG: -- one grant award. They just gave it to us in two separate --

MR. ROMERO: Two -- okay.

MR. LONG: -- amounts.

MS. SMITH: Right. So for 2019, we're

budgeting 720,000. Again, flipped 162 from foundations and 547,000 from financial institutions and corporations.

MR. ROMERO: Go ahead.

MS. COBOS: So -- and just to better understand -- so budgeted from foundations -- we budgeted 5,000. Got significantly more, 600,000, and then it drops down to 162,000. You might have already explained this, but just so I could wrap my mind around that significant decrease.

MR. ROMERO: The -- if I could take a shot at this -- the 2018 budget, when it was first put together, they were counting on $5,000 in actual grants and contributions from foundations. The 600,000, which is those three grants, one for the Meadows, and that combined --

MS. COBOS: Okay.

MR. ROMERO: -- one from --

MR. LONG: HEART. Rebuild Texas.

MR. ROMERO: -- Rebuild was something that was new to us. It wasn't planned at the time, and it came to the Corporation, and Janie and staff got right on it, and were able to secure the additional dollars.

MS. COBOS: Okay. And --

MR. ROMERO: That's the reason it wasn't budgeted for 2018.

MS. COBOS: Okay. I got it. Sorry about that. Yeah. And you guys just walked through all that. My mind is multitasking here but --

MR. ROMERO: That's okay.

MR. LONG: That's okay.

MS. SMITH: That's okay.

MS. COBOS: Rebuild Texas and Meadows, and that was for the HEART Program?

MR. LONG: Yes.

MS. COBOS: Okay.

MS. SMITH: On the lower half of the page, these are federal and state grants. We have participated in the Neighborhood Stabilization Program, a federal grant, for the last several years, and that program grant is actually ending in 2019.

So this will probably be the last -- well, we may get a little more --

MR. LONG: One more --

MS. SMITH: -- from it.

MR. LONG: -- yeah.

MS. SMITH: But probably the last major piece of income that we will receive from that grant. Additionally, we were receiving some funds from -- for our Homebuyer Education Program, but we are no longer contracting with the Texas Department of Housing and

Community Affairs for that purpose, so we're raising the money ourselves and -- to fund our education programs.

MR. ROMERO: So why didn't we budget any for the Texas Financial Education Endowment for 2019?

MS. TAYLOR: Do you want me to answer that?

MS. SMITH: What was the question?

MR. ROMERO: 2019, we didn't budget anything for Texas Financial Education?

MS. SMITH: That's correct.

MR. LONG: Why?

MR. ROMERO: Why?

MS. SMITH: I'm assuming because staff didn't think they would receive any.

MR. ROMERO: What is this? What is -- is this the one that you all applied to Wells Fargo and other organizations? That's not the same thing?

MR. LONG: No.

MS. TAYLOR: Do you want me to --

MR. LONG: No.

MR. ROMERO: Okay.

MR. LONG: Yeah. Janie, why don't you come up and give input on that?

MS. TAYLOR: Janie Taylor, executive vice-president. So this is an endowment that was created by several State agencies that worked -- like, the Banking --

the Department of Banking and Finance, and it was administered by them.

And we had received funding on it, but they two-year grants. It's a two-year cycle, and we received funding with a grant the first two years that they had the actual grant program. We applied again the third round, and we were not awarded.

So because it's a two-year grant --

MR. ROMERO: Yeah.

MS. TAYLOR: -- you know, we're not going to have that grant.

MR. ROMERO: Similar to our foundations fund? Similar to our --

MS. TAYLOR: Yes, that's correct.

MR. ROMERO: -- foundations fund?

MR. LONG: Correct.

MS. TAYLOR: And this went towards our Homebuyer and Financial Education Program.

MR. ROMERO: So the monies you do get from Wells Fargo and other organizations, they're still going to be used for those finances?

MS. TAYLOR: Yeah.

MR. LONG: Most definitely. Yeah.

MR. ROMERO: Okay.

MR. LONG: Because we have our own program we

created.

MS. SMITH: Thank you, Janie.

MS. COBOS: So -- okay. So was there a reason we didn't get the money?

MR. ROMERO: It's a two-year cycle, and they -- what they -- just like we have --

MR. LONG: It's a competitive award.

MR. ROMERO: -- our Texas Foundation Fund, and when you fund an organization for two years, you want to, kind of, like, refresh the pot and bring some new organizations in --

MR. LONG: We were --

MR. ROMERO: -- and then we just happened to be at the end of our two-year --

MS. COBOS: Makes it --

MR. LONG: -- right, and we were awarded two different times, so it wasn't like we weren't ever successful. It's just --

MS. COBOS: Yeah.

MR. LONG: -- they decided to look elsewhere.

MR. ROMERO: Yeah.

MS. COBOS: Okay.

MS. SMITH: All right. On page 9 is investment revenue.

MR. LONG: Page 8.

MS. SMITH: Page -- oh, I'm sorry.

MR. LONG: Page 7.

MS. SMITH: Okay. Boy, I'm -- I am really missing stuff today, aren't I? I taped them all together, stapled them all together before I came in here, and I left some out. Okay. Page 8. This is our rental income, tenant rental income from 1910 MLK, which is the building down the street that we have leased out to three different tenants, and then rent from our multifamily property, Rollins Martin.

We have 15 units there that we lease. And then we have a number of single family homes that we lease to individuals and families -- or families. And so this is the income from that. It's all contractual, so the amounts are --

MR. ROMERO: Yeah. Pretty stable.

MS. SMITH: -- easy to budget.

MR. ROMERO: Any questions here?

MS. COBOS: No.

MR. ROMERO: Okay.

MS. COBOS: Thank you.

MR. ROMERO: All right.

MS. SMITH: Okay. Now, moving on to our investment revenue. This is the income that we earn on our funds that we have available for investment. We made

significantly more in 2018 than we had budgeted, and we are assuming that we will make more in 2019 for a couple of reasons. The rates are better and we're able to just simply earn more, and we have more funds to invest, as opposed to using them on our Down Payment Assistance Program.

The second line item, our mortgage-backed securities -- these are securities that were in our bond programs, and when those programs had optional redemptions, we could pay the bonds off, and we also purchased some of the mortgage-backed securities.

Some of them just fell out the bottom to us, and then others, we actually purchased and are holding as investments. We get the principal and the interest off of those, those securities.

MR. ROMERO: Do you anticipate it will be than $1 million? I mean, I know you put a million for 2019, but you do think it will be a little bit more?

MR. LAWRENCE: It's all depending on, you know, pay-offs.

MR. ROMERO: Okay.

MR. LAWRENCE: There's really, you know, no way to know, plus the balance is dwindling so --

MR. ROMERO: Right. It's going down.

MR. LAWRENCE: -- I believe a million is about

right.

MR. ROMERO: Okay.

MS. SMITH: Okay. The next page is salaries. I'm going to borrow yours, David, if you don't mind. Thank you. 2018, we had budgeted 2.7 million. We actually spent around 2.6 million, and we're budgeting 2.9 for 2019, and the increase represents the addition of three positions and two interns for a period of time.

We don't have the interns in there for a full year. I believe it's six months.

MR. ROMERO: Decrease in salaries in 2018 -- was that because of the fluctuation in employees that came and went?

MR. LONG: Exactly. We added -- we -- you know, we -- every year, the Board authorizes in our budget -- we typically have a position or two plus the interns, and sometimes those are not brought in for a full year, obviously, and when they are brought in, that will scale up, depending on whether we bring somebody in nine months into the year or six months into the year --

MR. ROMERO: Okay.

MR. LONG: -- and whether or not we bring on the interns as well. So those expenses float a little bit, just because we don't know when we'll bring on new employees, and -- or whether we bring on a new employee.

Sometime we don't, even though you budget and allow for it, that the Board authorizes us, we may not. In this case, we do know that we are looking to add new employees, because of the increased volume in single family, as well as the projections we have on some new contracts and business we're working on.

So we budgeted for the three, as Melinda mentioned, plus the two interns, which we try and bring in, just to help get through some peak times. Any other questions?

MS. COBOS: What is the background on the overhead?

MS. SMITH: That is what we pay. That includes our FICA tax and the Medicare match that we have to pay. It also includes an administrative fee that we pay to Insperity, that we are -- they help us with a number of things, but primarily our health insurance, and that's where the majority of that cost goes, is to pay for the health insurance for staff in that overhead.

MS. COBOS: Great.

MS. SMITH: All right. Next page is program expenditures. A number of items on this particular page. The first line is our Single Family TBA and DPA Program. We did not have a great deal of expenditures in 2018, and the reason we didn't -- we had anticipated that we would

continue to front the DPA, the Down Payment Assistance, but then in January, as we mentioned before, we decided not to do that anymore.

So we didn't end up having the expenditures related to that that we thought we would. In 2019, however, we're budgeting $2 million. One million will go to a project in the Valley for some single family. Right, Holmes?

MR. ROMERO: Mi Casita?

MR. LONG: Single family homes, but that -- I don't know that that's necessarily built in there. That will come down here in the lending section.

MS. SMITH: Oh, you're right. You're so -- I'm so sorry.

MR. LONG: Under the Single Family TBA/DPA, that will come in $1 million we're committing, asking the Board to commit, toward down payment assistance that we want to use --

MS. SMITH: Right.

MR. LONG: -- to help leverage borrowers, and the additional cost would also come from our anticipating that the bond market is going to come around, and currently we use the TBA model, which is a relatively inexpensive way to issue mortgage financing.

The bond model, unfortunately, is a little bit

more expensive, with the reimbursement or fee structure allowing us to get compensated on the back side, and those typically run a lot more expensive, anywhere between 300- and $500,000 in issuance.

So we're budgeting maybe one or two or those deals being done this year as well. And that all is contingent upon what we're hearing from our financial advisors, as well as what we're seeing in the market, and so we anticipate being able to do some single family bond issuances as well.

So that's why you see that significant change back up for 2019 to $2 million.

MS. SMITH: The cost associated with the purchase of the mortgage-backed securities -- in 2018, it was $6.3 million. That was the pay-off of our bonds and the purchase of the mortgage-backed securities that we spoke about a few minutes ago.

Once those -- it was the 2007B and the 2007D Bond Programs. We do not anticipate doing anything like that in 2019.

MR. LAWRENCE: Also that was the pay-off of $4.5 million in FHLB advances.

MS. SMITH: Yes, yes.

MR. ROMERO: Okay.

MS. SMITH: Thank you, Nick.

MR. ROMERO: That's what I was going to ask.

MS. SMITH: Single family rental home acquisition and expenses -- we sold a home in 2018, and that's why we have the negative budgeted amount. The 500,000 represents the purchase of -- is it two single family homes?

MR. LONG: Depending on pricing, two to three homes in single family.

MR. ROMERO: That's a continued purchase and rental?

MR. LONG: Yeah, right. We would continue to find higher opportunity areas and make those available to much lower income individuals who normally couldn't afford to live in those communities.

MR. ROMERO: So that budgeted number for income on single family potentially could go up if you find some new units. Correct?

MR. LONG: You mean, if we add units?

MR. ROMERO: On the income -- yeah --

MR. LONG: Yeah. If we add units, then we'd have greater rental income. Exactly.

MR. ROMERO: So the budgeted number is based on what we have right now as far as our inventory.

MR. LAWRENCE: The budgeted number is based on adding two rental units.

MR. LONG: Oh, it does have -- add two in there?

MR. ROMERO: Okay, good.

MR. LAWRENCE: Yeah.

MR. LONG: Thank you.

MR. ROMERO: Good. That helps.

MR. LONG: Thank you, Nick.

MS. SMITH: The next line item is the office building acquisition and related expenses. Of course, that's contingent on the Board's approval, but we went ahead and included it. We felt like it was appropriate since we were considering doing it, to include it in the budget.

Then we have rental program expenses, our ACT and THIF Program expenses. Single family direct lending -- that includes the project I mentioned earlier in the Valley.

MR. LONG: A million dollars for that Mi Casita product.

MS. SMITH: Right.

MR. ROMERO: Right. Can we go back --

MS. SMITH: And then the other million dollars --

MR. ROMERO: -- real quick, Melinda, to the rental program?

MS. SMITH: Pardon?

MR. ROMERO: Can we go back to the rental program?

MS. SMITH: Yes.

MR. ROMERO: Is that part of the fire that we had in that one unit, for the reason the expenses were higher than the budget?

MR. LONG: Uh-huh.

MR. ROMERO: Okay.

MR. LONG: And with any year, you just never know exactly whether we're going to have to replace an air conditioning unit, fix a roof, whatever, and as we go through them, a lot of these houses, you know -- for the first couple of years, we were stabilizing and having a full -- having ownership of the product for a full year.

I think we're now kind of into that, and so we can better estimate what we think the expenses will be on all the portfolio, plus when you have, even as Nick said, adding two additional ones, we can kind of project on those properties what that expense might be.

MR. ROMERO: So that's my next question. The one for 2019, the 170, that assumes two additional properties, Nick?

MR. LAWRENCE: Yes.

MR. ROMERO: Okay.

MS. COBOS: So the fire is accounted for in the 127?

MR. ROMERO: Yeah.

MR. LAWRENCE: Yes.

MR. LONG: Yes.

MS. COBOS: Okay.

MR. ROMERO: We didn't -- that's not the one we sold. Right?

MR. LONG: Pardon?

MR. ROMERO: That's not the one we sold?

MR. LAWRENCE: No.

MR. LONG: No. We kept it and actually I got -- in the president's report today at the Board meeting, I'll announce that we actually have a new tenant in there.

MR. ROMERO: Good.

MS. SMITH: Then we have our Texas Lender and Homebuyer Education Program. That's the expense associated with the Education Program. And then we have some -- just other program expenses, and then a little bit related to our federal and state grant.

MR. ROMERO: Any questions?

MS. COBOS: No.

MR. ROMERO: Okay.

MS. SMITH: All right. The next line item is

professional services. We have a number of professionals that assist us. We have some attorneys, our annual audit expense and tax return. We have an organization that helps us with our retirement plan.

They prepare our 5500 tax return. We have an information technology consultant that assists us with the backup of our computers and just general technology. We have a couple of financial advisors, one that assists us with just our -- the investment of our funds, our unrestricted funds, and then also -- and I should have changed that.

I apologize.

MR. LONG: It should be Hilltop. Yeah.

MS. SMITH: And then a financial advisor that helps us with our program.

MR. LONG: Where that's listed and it says, First Southwestern Company, that's now -- they've actually merged and have a new name.

MR. ROMERO: Hilltop.

MR. LONG: It's called Hilltop --

MS. SMITH: Hilltop.

MR. LONG: -- Securities.

MS. SMITH: I think I changed it in the footnote and didn't change it up above. RBC Capital Markets, they prepare some debt service schedules for us,

and that's a contractual amount. And then we have -- our compliance work requires that we have some fairly sophisticated software through a company called Emphasis -- or that's the name of the software, in any case.

And then our transcription fees for the wonderful court reporter. And then we have other consulting services.

MR. ROMERO: What was the big hit in 2018 on consulting services? You had budgeted 2,200, but we spent 10,007?

MR. LAWRENCE: We paid not a small amount, but semi-small, for the CDFI application --

MR. ROMERO: Oh.

MR. LAWRENCE: -- and then we also paid another amount for that Capital Magnet Fund for a consultant for that.

MR. ROMERO: Okay.

MS. COBOS: What are those applications?

MR. LONG: The CDFI Fund -- the Corporation has a co-relationship on a company called Texas Community Capital, TSAHC, and TACDC, Texas Association of CDCs -- have a co-board membership on that organization's board. We got engaged with them so -- the idea that they would become a CDFI, and as a result of becoming a CDFI, we'd be

able to leverage access to some additional funds for our programs.

We paid a consultant to help us kind of establish some parameters and some guidelines on how to better become a CDFI, what we needed to do to improve our status of trying to -- our ability to become a CDFI, and then we also paid them a little bit of money to turn in an application for a CDFI grant.

MR. ROMERO: So CDFI is the program with the Treasury, and if we were to have certification as a CDFI, every time we get a grant, they will match us with like terms, so if we got $100,000 grant, we'd get 100,000 from CDFI.

If we had an equity investment for $1 million, they'd match us with an equity investment for $1 million. So it really does give us an opportunity to leverage our dollars to really expand our programs.

MS. COBOS: This is the federal Treasury?

MR. ROMERO: Uh-huh, the U.S. Treasury.

MR. LONG: Yeah.

MS. COBOS: What on the IT drove about a $10,000 increase?

MR. LAWRENCE: So we have about $50,000 worth of servers and they are getting older, and they require much more maintenance, and they have an extended warranty

that we have to pay for now because there's a three-year warranty.

The extended warranty, I believe it runs about 4- or $5,000, so that's why.

MR. ROMERO: Should we be looking at creating a replacement fund, so that we can identify all of our technology and figure how -- every year how much has to be replaced, so that we stay on top of it?

MR. LAWRENCE: We have regular meetings with our IT consultants, and so we keep track of everything, the computers that need to be replaced. We know when the servers are going to have to be replaced and all that. Yeah.

MR. ROMERO: But -- so can we develop a schedule so we're not taking a huge hit any one year?

MR. LAWRENCE: Well, you're going to have to pay for them all at once, so --

MR. ROMERO: Okay.

MR. LAWRENCE: -- not really.

MR. ROMERO: Okay.

MR. LAWRENCE: I mean, we look forward and we know, you know, how much we're going to have to pay each year.

MS. COBOS: Legal fees -- I know we're looking at an RFP for general counsel. I mean, they seem to be

growing over time. That's due -- by just -- what is that a result of?

MR. LONG: I think, partly, you know, we've had some additional work done this year with Legal in terms of helping us develop some new programs that we're working on for single family. We've had them work with us. The Board approved us moving forward recently with legal counsel assisting us in creating LLCs in relationship to ownership of our properties.

Those types of activities continue to be something that we are using to not only enhance the programs, but also to enhance our protections and making sure that we're meeting any standards that may or may not protect us from liability situations.

And so we've seen that grow, but it's something that we think is reasonable and appropriate, given what we've been working on.

MR. ROMERO: There's a potential for that to go up as well, if we start seeing more and more activity on the bond side. Right?

MR. LONG: Exactly. I mean, typically, the bond deals will be -- the costs for those will be rolled into --

MR. ROMERO: Uh-huh.

MR. LONG: -- into the bond deals themselves,

but we would probably see additional activity related to review and approval.

MR. ROMERO: Right.

MS. COBOS: So TSAHC doesn't have any lawyers on staff?

MR. LONG: We have no lawyers on staff that we pay directly from a staff standpoint.

MS. COBOS: Okay. That's all I have for now.

MR. LONG: Okay. All right.

MS. SMITH: All right. B-4 is principal and interest on notes payable. The Corporation, working with the Federal Home Loan Bank, has made a number of loans. All of these are related to -- or most of these are related to --

MR. ROMERO: Multifamily.

MS. SMITH: Pardon?

MR. ROMERO: The multifamily projects.

MS. SMITH: Yes, exactly. So there's a corresponding receivable that acts as the collateral for these notes. Additionally, we have a couple of PRI-type loans from Texas Community Bank and Texas Community Development Corporation.

And then we have a line of credit with Frost Bank that we utilized briefly during 2018 for down payment assistance. We're not anticipating that we will need that

in 2019, and that's why there's nothing budgeted for that. Also, the Wells Fargo note was -- for 1,071,000 was paid off in 2018.

That was also an equity investment loan that we got at a reduced rate.

MR. ROMERO: And for what? Twelve years?

MR. LONG: Had it for 12 years. That's right. Mr. Romero was very helpful in allowing the Corporation to become an awardee of that PRI program related -- or EQ2, whichever you want to call it, and we had it for a 10-year term with a two-year extension, which we did get, and then it had to be paid off at that point in time.

So what you see here is the actual pay-off of that EQ2 at the end of its term of 12 years.

MS. SMITH: How many times did we revolve that, Nick? Do you remember?

MR. LAWRENCE: Oh, boy, I think it was about five --

MR. ROMERO: Yeah, almost six.

MR. LAWRENCE: -- point zero --

MR. LONG: Almost six.

MR. LAWRENCE: -- yes.

MR. ROMERO: Almost six times.

MS. SMITH: We got a lot of values --

MR. LONG: We got a value out of that over

time.

MR. ROMERO: Any questions?

MS. COBOS: And this one's paid off? Is that what's going on here?

MR. ROMERO: So this one, we -- this is that one that we're using for DPA assistance. We're no longer going to use it, so this is what was being charged while we had outstanding balances, so we will not use -- there won't be any cost.

MS. COBOS: Okay.

MS. SMITH: All right. Marketing expenses on page 14. Is that correct? Yes. These are just the regular marketing-related expenditures, website maintenance and design, and then advertising for our programs, corporate and program marketing and advertising, printing.

And then we have some service contracts with some organizations that assist us or assist Katie and her staff with keeping up with the legislature, and also -- well, doing a number of things. So our total budget had been 154,000.

We actually expended 141-, and we're budgeting 152,000 for 2019. Additionally, we act as sponsor for a number of organizations throughout the year. We budgeted 20,000 last year and spent 15,860, and we have budgeted

20,000 again for 2019.

MR. ROMERO: Can you explain the big jump in the corporate program marketing and advertising?

MS. SMITH: In the what? I'm sorry?

MR. LAWRENCE: Yes. Let's see. We've got an increase in social media ads. We've got an increase in promo items. We're attending many more trade shows, so we've got an expense in the fees for attending those. So think it's just an increase in advertising overall.

MR. ROMERO: Overall in all programs?

MR. LAWRENCE: Yes. That also includes $30,000 of Google ads.

MR. ROMERO: Okay. Any questions?

MS. COBOS: No.

MR. ROMERO: Are you sure?

MS. COBOS: I don't. Yeah. It's good.

MS. SMITH: All right. Exhibit B-6, this is our insurance expense. Overall, it hasn't increased tremendously over the budget. We did have an increase in the cost over the previous year. For one thing, we added in an umbrella policy that we didn't have before, that cost us $11,600 in 2018.

And we also had an increase in the cost of our vacant properties. We've since changed the policy on that, and anticipate that the cost is going to be much

lower in the future. We had everything on a reporting policy, which is much more expensive, but it allows us to add and take away properties, pretty much at whim.

By removing our single family rental homes from that policy and putting them on a regular insurance liability policy, we were able to save quite a bit of money. We --

MR. ROMERO: The umbrella policy, what exactly does that cover? I mean, I understand umbrella concept --

MS. SMITH: What is that?

MR. LONG: The umbrella policy.

MR. ROMERO: The umbrella policy, what's the coverage on that?

MS. SMITH: It's liability, primarily.

MR. ROMERO: Is that over and above the general liability and stuff?

MS. SMITH: Uh-huh.

MR. ROMERO: Okay. Why did you all feel the need to get it? I'm just trying to understand, you know, was there something out there that cautioned you to go out and get this?

MS. SMITH: Nothing other than our insurance agent had suggested that we might --

MR. ROMERO: The coverages were not --

MS. SMITH: -- do that, that he felt like we

should --

MR. ROMERO: Okay.

MS. SMITH: -- and we had never had one, and I feel much better knowing that we have that coverage. And it covers the Board and all the staff.

MR. LONG: Given the scope of properties we own now, in terms of --

MS. SMITH: Yeah.

MR. LONG: -- all the different tenants and everything, we just felt like it was a good coverage.

MR. ROMERO: Just in case.

MS. SMITH: Thank you, David.

MR. LONG: And we met with our insurance agent several times as we went through the process of trying to determine best liability coverages and where we needed insurance changes, and in some instances, as saw, they helped us reduce our rates in the vacant property lot liability, that section down there.

But also felt that the umbrella policy would be a great additional liability coverage for us, to have across the board.

MS. SMITH: We also added some cyber security insurance during the year to cover us for computer issues. We're not at risk like a lot of other entities are, but nevertheless, there is personal information on the

computer system, and we deal with people's loans.

So we felt like that was important.

MR. ROMERO: Any questions

MS. COBOS: No.

MR. ROMERO: Okay.

MS. SMITH: Travel and meals are next. We had budgeted, overall, 107,000. We expended 98-, and we're budgeting 125- for the new year. The majority of that increase comes in our single family programs, and multifamily oversight and rental will -- is a large increase also.

We do have a new program that we've recently contracted for to review -- do compliance work, and I'm not sure the name of the entity. Janie might be able to tell us, but -- and we also just have some additional on-site visits that need to be made during 2019.

We also had some that we had scheduled for 2018, and they didn't occur and they are getting pushed into 2019, so that was part of the increase as well. But staff is really very good about going through and calculating every single place they plan to go, how much it's going to cost to get there and back, and they're very frugal and they're very good about detailing in their budget requests what they're requesting, what they need.

MS. COBOS: I think that all makes sense. As

you're trying to grow your programs, to have more cost in travel and being more proactive and getting out there with the programs. So I don't have any questions.

MR. ROMERO: Without having to have the discussion with David in regards to his different projects that he was going to work on, that 24,000 for multifamily, that's including anything that might come online that he's bringing in for --

MR. LAWRENCE: David Danenfelzer would be included in ACT and lending programs.

MR. ROMERO: Okay.

MR. LAWRENCE: Yeah.

MR. ROMERO: And compliance and oversight would be where?

MR. LAWRENCE: Multifamily oversight --

MS. SMITH: Multifamily.

MR. LAWRENCE: -- rental programs.

MR. ROMERO: Okay. That's the one. Okay.

MR. LAWRENCE: Yeah.

MR. ROMERO: So why is it so high for the single family, the 41.9?

MR. LAWRENCE: They're planning to do much more travel to lenders' offices around the state this year.

MR. ROMERO: Oh, to promote the programs?

MR. LAWRENCE: Yes.

MR. ROMERO: Okay. Got it.

MS. COBOS: Well, actually, can you explain the marketing, fundraising and government relations? Is this basically just outreach to the legislature, kind of educational-type outreach?

MR. LAWRENCE: Sure. They're -- yeah, they travel to legislators around the state, potential funders, and then this also includes if Katie and Laura went to a trade show and did some additional marketing to try and grow our programs.

MR. ROMERO: Foundations Fund? Are you familiar with that?

MS. COBOS: Not necessarily. No.

MR. ROMERO: Okay. Foundations Fund is a program of ours. It's a fund that we created to fund other nonprofits that are housing related, and I'm assuming that that's whenever we make an award, and you go down there and visit with the legislator and with the nonprofit and make them check presentations --

MR. LONG: They give you a pretty good release about it, once they complete the project, and/or do a check presentation. That's correct.

MR. ROMERO: And the Texas Community Capital is that organization that David mentioned earlier where we're partners with TACDC --

MR. LONG: Uh-huh.

MR. ROMERO: -- and that's the organization we're trying to use to be -- get certified as CDFI. And then, David, you and Michael travel on the Council for Homelessness. Right?

MR. LONG: That's correct.

MR. ROMERO: That's a Governor-appointed --

MR. LONG: It's a Governor-acknowledged -- yeah.

MR. ROMERO: Okay.

MS. COBOS: Thank you for that.

MR. ROMERO: Sure.

MS. SMITH: All right. The next line item is budgeted furniture, equipment and software. We have -- we had budgeted 32,000 for the year. We expended 30.5, and we have budgeted around 31,000 for 2019. This includes all the computers that need to be replaced, monitors, anything associated with that, like that software -- desks, chairs, anything that we might purchase like that.

We do lease two of our copiers, and our -- one of them is our large copier.

MR. ROMERO: You might want to expend some money on chairs for that topside table.

MR. LONG: Wow.

MR. LAWRENCE: We'll put --

MR. ROMERO: The one outside of your office. They don't work. Two of them don't work.

MR. LONG: They work fine for everybody else.

MR. ROMERO: Yeah, but when I sit in there, my knees are up in the air. Any questions here?

MS. COBOS: No.

MS. SMITH: Okay. Budgeted building maintenance. This is the utilities, lawn care, our janitorial service and miscellaneous repairs and maintenance. The primary thing in this that is significantly different, under miscellaneous repairs and maintenance, we had included money to upgrade the kitchen and fix the carpeting and some of the flooring.

We've got some significant rolls in the carpet, and we've had a couple of people, including myself, trip on them --

MR. ROMERO: Tripping, yeah.

MS. SMITH: -- and fall down, so we were going to try and get those fixed.

MR. ROMERO: And I had a conversation with David and Melinda prior to this meeting, because I had a lot of questions myself on the budget, and in the future, things like this, where you have an anomaly of 41,000 versus the smaller amounts, they're going to start footnoting, so we have more detail as to why it's being

done.

MS. SMITH: Yes. We will do that.

MS. COBOS: That will definitely be helpful.

MR. LONG: Okay. You've got it.

MS. SMITH: All righty. The next page is professional dues, conferences and training. We had budgeted 27,000. We expended 24,000 roughly, and we are budgeting 43,000 for the new year. And primarily, we just have some additional requests for continuing education and conferences.

We also have more people. So that's the --

MS. COBOS: So conference registration is just by -- it's really just an effort by TSAHC to get out and promote --

MR. LONG: That, as --

MS. COBOS: -- the organization and programs and --

MR. LONG: That, as well as to make sure staff have an opportunity to attend some of the things where they might be able to network and garner information from other mutual partners in the industry.

MS. COBOS: Absolutely.

MR. ROMERO: And I'm assuming the continuing education is related to the job?

MR. LONG: That's correct.

MS. SMITH: Correct, yes.

MR. ROMERO: Okay. Just want to make sure.

MR. LONG: Yeah. We're not paying for anybody to go get a master's degree or anything like that.

MS. COBOS: Okay.

MS. SMITH: Okay. The last page is communication expense. This is our internet, our backup internet. We have a system to -- in case the current internet goes down, we can immediately back up, which I have to credit Nick with coming up with all of that.

And that's to secure the Compliance Program and the TBA Program. They can't afford to be down, and so hopefully, they never will be again. And then phones. So we expended $22,000, and we are anticipating that we will only expend 15,000.

We also changed our phone system during the year to a voice-over platform, instead of the old one we had, and again, I have to credit Nick with that.

MR. LAWRENCE: And we were able to save significant money by pre-paying for a year instead of paying monthly.

MS. SMITH: And before, we were having to wait for the company, the phone company, to come out and assist us with just making minor changes, and now we can do all of that ourselves. I did not prepare schedules for, you

know, printing publications and freight.

I can in the future, if you would like. The same was true of bank fees, and those were primarily down payment assistance wire fees that we paid for in 2018. That's why that number is so high, compared to what we're budgeting for 2019.

We expended 47,877, and we're only budgeting 20,000 for 2019 under bank fees. And that's because we're not making those down payment assistance wires anymore. So our overall budget, again, is 5.8 million in revenue and 5.6 in expenditures, and we're asking the Audit Committee to approve the budget --

MR. ROMERO: Five or 15?

MR. LONG: I mean, 15.

MR. ROMERO: Fifteen.

MR. LONG: Yeah, got it.

MR. ROMERO: Okay. I was trying to look for that five. I said, I don't see it. It's 15 million?

MS. SMITH: Pardon?

MR. ROMERO: Projected.

MS. SMITH: Yes.

MR. ROMERO: You said five million. I'm sorry.

MS. SMITH: Oh, I'm sorry.

MR. ROMERO: Five million dollars --

MS. SMITH: So we're asking the Audit Committee

to recommend the budget to the Board for approval.

MS. COBOS: So when we go into the regular Board meeting and provide a recommendation, and there are potential questions with respect to how do we go from 5.5 million to 271,000 projected for 2019, what would be, maybe, the top highlights as to why we are -- I know we went through it, but just to kind of recap, what are the top reasons for having a smaller margin?

MS. SMITH: I think primarily -- pardon?

MR. LONG: I would say two things. Building acquisition, which was at 3.3 million, which we added in, which was not a line item last year, and then I would also suggest to you that the change in --

MR. ROMERO: The single family.

MR. LONG: -- single family --

MS. SMITH: Yeah, that's what I was going to say.

MR. LONG: -- income stream that's there, so the higher expense of 3.3 million, and then a reduction in income at the top on the Single Family Program. Those two net out to probably the biggest difference. And again, since these --

MS. SMITH: As we --

MR. LONG: -- are just projections, again, the acquisition of a building could change. The income stream

on the Single Family Program could be much greater than it is, as you can see it was for 2018, where we budgeted 10 million and ended up with almost -- a little over 13.6 million in revenue stream --

MS. SMITH: Right.

MR. LONG: -- so we could have the same variance in there as well, where we end up with proposing almost $9-1/2 million in revenue. It could be over that. But we also -- as I mentioned to Mr. Romero and Ms. Cobos is -- I always like to make sure that our revenue streams are not overstated and we don't try and artificially understate our expenses.

MR. ROMERO: David, where's the $3 million in the budget?

MS. SMITH: Do what?

MR. ROMERO: For the building?

MS. SMITH: Oh, it's in program expenses.

MR. ROMERO: Okay.

MR. LONG: That jump there, Jerry, from 3.3 to 10 --

MR. ROMERO: Yeah. Just to get --

MR. LONG: -- that's it.

MR. ROMERO: -- I just wanted to make sure that, you know, we're able to answer that.

MR. LONG: Yeah, yeah.

MR. ROMERO: You all will be here but --

MR. LONG: Yes, yes, sir.

MR. ROMERO: -- we can cover the highlights.

MR. LONG: That's where it's at. But those are the two biggest items that probably make up probably 95 percent of that change.

MS. SMITH: I agree.

MR. ROMERO: And overall, year over year, do you happen to know what percentage of change on budget it is, from '18 to '19, proposed?

MR. LONG: Say that again. When you --

MR. ROMERO: What's the percentage change? Is it a 10 percent, or 9 percent, 8 percent, from 2018 to 2019? Do you have any idea?

MS. SMITH: Oh, I hadn't calculated that --

MR. ROMERO: I was just wondering.

MS. SMITH: -- but I certainly can and give it to you.

MR. ROMERO: It's not quite 10 percent. Right?

MR. LAWRENCE: It looks like -- yeah -- between five and 10.

MR. ROMERO: Okay.

MS. COBOS: So in the Single Family Program revenue reduction, that's primarily driven by the fact that TSAHC's not going to get the Federal Home Loan Bank

advance that we got the last couple of years, because we're not relying on them anymore --

MR. LAWRENCE: Correct.

MS. COBOS: -- so that knocks off about --

MR. ROMERO: No, I don't think that's it. I think --

MR. LONG: No, I think it's more that we're just trying to --

MR. ROMERO: I think you're normalizing the --

MR. LONG: We're normalizing what we've been seeing in growth --

MS. SMITH: Right.

MR. LONG: -- and trying to normalize it out, rather than --

MS. COBOS: Okay.

MR. LONG: -- projecting it up. It's not a reduction in the -- it's not anything to do with the Federal Home Bank --

MR. ROMERO: I think also the interest rate environment -- you probably have a reduction because of that.

MR. LONG: As I said before, I think there's some additional costs that we anticipate incurring related to that, which will be related to -- if we issue bonds, versus what we do now. That, and the interest rate

environment going up, potentially a slowdown in the housing market as we come out of the buying season, and just a normalization of those across the whole year.

MR. ROMERO: I think from a revenue standpoint, they're being conservative, just to ensure that, you know, you're not overstating and come back and not meet all the -- your projections.

MR. LONG: As I said before, I'd rather understate revenue and overstate expenses, rather than the other way around and find out that we're upside down at the end of the year.

MR. ROMERO: I'm just glad you're paying for directors and officers insurance.

MR. LONG: And we have -- now have an overriding umbrella --

MR. ROMERO: An umbrella, yeah.

MR. LONG: -- policy for you.

MR. ROMERO: Any other questions? Do you feel comfortable with it?

MS. COBOS: I do.

MR. LONG: Okay.

MS. COBOS: I just want to make sure that we have -- and you guys will be here for the full Board meeting, but I just wanted to make sure we had some highlights, to kind of recap why --

MR. LONG: Certainly.

MS. COBOS: -- why we have a difference in margin --

MR. LONG: You bet.

MS. COBOS: -- in case you have questions, and --

MR. LONG: Well, certainly, Nick and Melinda and Betsy spent an enormous amount of time putting the budget and stuff together, and working on it, and they will all be here for the Board meeting as well --

MS. COBOS: Nice.

MR. LONG: -- so we want to make sure that the Board has -- the full Board has an opportunity to hear and see. Obviously, we go into much greater detail in this meeting than we normally do in the Board meeting, but we'll leave that direction up to --

MS. SMITH: Yeah. We have to do it again --

MR. LONG: -- you guys in terms of how you want to present the budget at the Board meeting, and we'll go from there.

MS. COBOS: Okay.

MR. ROMERO: And the other Board members did receive the budget, so they've had an opportunity to review it themselves.

MS. COBOS: Did -- but they only received the

first page. Right?

MR. LONG: They got both packets.

MS. COBOS: Okay. They got both packets?

MR. LONG: Yes.

MS. COBOS: Okay. Great.

MR. LONG: Yeah, they have both packets as well.

MS. COBOS: Okay. Thank you for your hard work on putting together the packet. I think this was --

MS. SMITH: Thank you. Thank you so much.

MS. COBOS: -- good information.

MR. ROMERO: Anything else, other than taking action on this item?

MR. LONG: No.

MR. ROMERO: Okay. That being said, then I'll entertain a motion to make a recommendation to the full Board of approval of the proposed fiscal year 2019 operating budget.

MR. LONG: We'd ask that one of you make that motion.

MR. ROMERO: Do you want to make a motion?

MS. COBOS: I will make a motion for the Audit Committee to recommend approval of the fiscal year 2019 budget.

MR. ROMERO: Is there a second?

MR. LONG: I'll second.

MR. ROMERO: We have a second. All in favor?

(A chorus of ayes).

MR. ROMERO: Any opposed?

(No response.)

MR. ROMERO: Any public comment?

(No response.)

MS. SMITH: Thank you.

MR. ROMERO: All right. Motion carries. Thank you all very much.

MS. SMITH: Thank you so much.

MR. LAWRENCE: Thank you.

MR. ROMERO: I think that concludes --

MS. COBOS: Thank you.

MR. ROMERO: -- our meeting. So that we can go ahead and move -- be prepared for the Board meeting. It is 10:17.

(Whereupon, at 10:17 a.m., the Audit Committee meeting was adjourned.)

C E R T I F I C A T E

MEETING OF: TSAHC Audit Committee

LOCATION: Austin, Texas

DATE: August 16, 2018

I do hereby certify that the foregoing pages, numbers 1 through 64, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Elizabeth Stoddard before the Texas State Affordable Housing Corporation.

DATE: August 20, 2018

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(Transcriber)

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