TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building
Room JHR 140
105 W. 15th Street
Austin, Texas

July 12, 2018
7:30 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member
ASUSENA RESENDIZ, Member
LEO VASQUEZ, Member
## AGENDA ITEM INDEX

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALL TO ORDER, ROLL CALL</td>
<td>3</td>
</tr>
<tr>
<td>CERTIFICATION OF QUORUM</td>
<td></td>
</tr>
<tr>
<td>ACTION ITEMS:</td>
<td></td>
</tr>
<tr>
<td>ITEM 1: Presentation, discussion, and possible action regarding items for</td>
<td>3</td>
</tr>
<tr>
<td>inclusion in Legislative Appropriations Request for fiscal years 2020-21</td>
<td></td>
</tr>
<tr>
<td>PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS</td>
<td>none</td>
</tr>
<tr>
<td>FOR WHICH THERE WERE POSTED AGENDA ITEMS</td>
<td></td>
</tr>
<tr>
<td>EXECUTIVE SESSION</td>
<td>none</td>
</tr>
<tr>
<td>OPEN SESSION</td>
<td>--</td>
</tr>
<tr>
<td>ADJOURN</td>
<td>22</td>
</tr>
</tbody>
</table>
MS. THOMASON: Good morning and welcome to the July 12 meeting of the TDHCA Audit and Finance Committee. We'll take roll.

Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz?

MS. RESÉNDIZ: Present.

MS. THOMASON: And then here, Leo Vasquez?

MR. VASQUEZ: Here.

MS. THOMASON: All right. So we don't have any minutes from our last meeting since it was just two short weeks ago, so we'll just get right into our agenda today. We don't have any audit items. So the first presentation -- I guess the only presentation -- will be from Michael Lyttle.

MR. LYTTLE: Good morning, Madame Chair and Committee members. Good to see you again. Thanks for being here.

For the record, my name is Michael Lyttle, and I'm the director of External Affairs for TDHCA. Item 1 is the presentation, discussion, and possible action regarding items for inclusion in the Legislative Appropriations Request for fiscal years 2020 and '21.

During this Committee's meeting on May 24,
staff brought forth policy-related elements for inclusion in the LAR for your approval, with the understanding that we would be bringing additional items to the Committee once we had instructions released to us from the Legislative Budget Board and the Office of the Governor for the LAR.

So on June 25, that happened. The Office of the Governor and the LBB released those instructions along with a policy letter that was given to State agencies. The letter directed agencies to include within their LAR a supplemental schedule detailing options for a 10 percent reduction in each agency's baseline general revenue using 2.5 percent reduction increments.

Today's staff is seeking your approval of the 10 percent option schedule as well as the administrator statement which serves as an introduction to the LAR and which, among other things, explains the Department's approach and how we developed that schedule.

Our deadline for submitting the LAR is August 3. So if you will allow me, I'll provide some key points on the proposed reduction schedule as outlined in the Committee action item.

TDHCA's general revenue reduction option schedule must identify 2.4 million in potential reductions over the biennium. The 2.5 percent increments translate
to three increments of $608,850 and then one for $608,847.

For reference, the majority of our GR is approximately -- or I should say, the majority of our GR, about 20.3 million of the base of 24.4 million, is programmatic funding associated with the State Housing Trust Fund and the Homeless Housing and Services Program, or what we call HHSP.

The next highest source of GR is approximately 3.7 million in what's called earned federal funds, which are those federal funds that can be applied to indirect administrative support and are characterized as GR, actually, in the General Appropriations Act.

The remaining GR reflects a modest amount that provides basic support to the Housing and Health Service Coordination Council, authority to collect up to $20,500 in fees associated with the Migrant Labor Farmworker Housing Program, inspection program, and authority to collect Texas Online fees, which are estimated at about $38,000.

So when determining how to equitably distribute the 2.4 million in potential reductions, staff sought to reduce impact on families and individuals who do benefit from our programs while ensuring continuation of statutorily required activities, as well as the preservation of our activities that are critical to us.
carrying out our mission.

Areas excluded from reductions on this basis included the Housing and Health Services Coordination Council, which was actually reduced in the previous session; migrant labor housing facility licensing and inspection fees; earned federal funds applied to information resource technology; and operating support and Texas Online fees.

Also excluded is the Housing Trust Fund support of Texas Bootstrap Program because statute requires us to provide a minimum of $3 million per year for that program.

So that leaves us with earned federal funds that are applied to central administration, which is about 3.2 million over the biennium, Housing Trust Fund-supported Amy Young Barrier Removal Program, which is 2.7 million over the biennium; NHHSP, which is funded about 10 million over the biennium.

These are all potential sources of the reduction. So as you will note, the first reduction that we have offered in the materials is a $98,878 reduction to our central administration funds. These funds are being -- the funds that are being reduced here are considered earned federal funds.

Staff feels that the Department can sustain a reduction of this order and still provide adequate support
for our federally funded programs. Thereafter, required
reduction for each increment are taken on a pro rata basis
between the Amy Young Program and HHSP.

So in other words, the reduction from each
program will be based on the proportion that each program
reflects of their combined biennial total funding. This
results in 28 percent of the remaining reduction being
taken from Amy Young, and 72 percent of the remaining
reduction being taken from HHSP.

As Amy Young is a Housing Trust Fund activity
and non-statutorily mandated, staff recommends giving
priority to the Amy Young reduction in each reduction
increment. With respect to impact, the reduction in
earned federal funds will decrease federal indirect
administrative funds available with things like
professional fees, travel, and other costs in support of
federal funds.

The reductions in Amy Young and HHSP, if our
general revenue is reduced by a full 10 percent, would
result in 27 fewer households served through Amy Young,
and 2,157 fewer persons served through HHSP. And there is
more -- we have more detail on these reductions, of
course, in the Board and Committee action item.

I also want to mention that there's been some
interest in the Agency including additional resources in
our LAR for the Migrant Labor Farmworker Housing Inspection Program. While we anticipate this task expanding in the near future, we're working with the Texas Workforce Commission to leverage their ongoing work in this area to mitigate costs.

We're also working with leadership and the LBB on moving the costs for this program from GR to what is called appropriated receipts, or AR. This is a more standard approach to how these types of fees are treated in our budget, such as what you would see if you look at the manufactured housing budget and how they treat those fees. So these fees that we anticipate collecting for this program and for our inspection work should cover the costs, and again, would be considered AR.

With that in mind, staff recommendation is for your approval to the full Board of the administrator statement, the 10 percent reduction schedule as well as approval to submit the LAR by the deadline and to report back to the full Board on any changes made after today, as a result of direction or guidance given to us by the Office of the Governor, and/or the LBB.

Thank you. Any questions?


MR. BRADEN: Is this 10 percent protection schedule, is this standard now? Is this part of your
request?

MR. LYTTLE: It has been a practice that we have employed or been asked to employ over the last several sessions, yes. So I hate to call it standard, but it certainly has been a trend as of the last few sessions.

MR. BRADEN: And how often have we actually been asked to reduce -- like actually the cuts have been put in place?

MR. LYTTLE: Last session, our cuts or reductions didn't end up being close to 10 percent, if I recall correctly. I want to say it was like something along the lines of 2 percent perhaps. And incidentally, if I'm misspeaking, I'd ask staff to come up and correct me on this.

But generally speaking, I think I can only remember one session in recent memory where we had a full 10 percent reduction, but I would -- David, is there anything that you want to add to that?

MR. CERVANTES: I would, just for clarification -- previous session -- David Cervantes, director of administration.

Previous session, two things occurred. When the policy letter came out, they asked us to move forward with an actual 4 percent reduction, and that was implemented last session, and then they followed it up
with a 10 percent reduction schedule to be included in the
LAR in the event that, you know, they would have a need to
reduce further.

So that's kind of the way it played out last
session. But I agree with Michael as far as it being the
standard: not necessarily, but we've seen it in play, the
10 percent reduction schedule, over at least the last
three sessions now.

So it's somewhat common now, at least as a
contingency.

MR. BRADEN: I was reading reports this morning
how Texas revenues are way up and, you know, barring trade
war, with the prices going up and sales going up, there
will be more revenue for the legislature than last time.
So I would hope they wouldn't implement this for our
agency.

MR. CERVANTES: Yeah, yeah, there's a few
things in play. You know, trade war is one. You know,
just oil production in general, you know, around the globe
and see what impact that will have, and of course
Comptroller Hegar is monitoring sales tax income as it
continues to play out through the year.

So we'll see how it all develops, but, yeah,
quite a few economic indicators still in play all the way
around, so --
MR. VASQUEZ: I'm sorry. Just to follow up on
Mr. Braden's question, to clarify, the State asks all the
agencies to provide these potential budget reductions,
not -- it's not saying that you are -- we are reducing
everything 10 percent.

It's just, if we were to, this is how --

MR. LYTTLE: That is correct. They ask all
state agencies. And again, this time, what they're asking
us to do is to do these reductions in 2.5 percent
increments. You know, they may decide to do a -- you
know, two of them, which would be 5 percent.

They may just do one. It may be zero. But
yeah, it's sort of a graduated approach to a full
10 percent --

MR. VASQUEZ: Right.

MR. LYTTLE: -- but again, it's a potential
reduction schedule. It's certainly not definite that that
will happen. And as David referenced earlier, too, I
don't know if you saw the news, but yesterday, the
Comptroller came out and indicated that there were
2.8 billion more available funds for the State this next
session, which will certainly help.

It's definitely going to be a very, very tight
budget session, but every little bit is going to help for
the State.
MR. VASQUEZ: And just one other following question. Can you clarify a little bit more on when we talk about earned federal funds? Are some of these potential cuts -- would it be us just effectively walking away from funds from the federal government that we could be using?

MR. CERVANTES: I can clarify. Some years back, there was a process of funds consolidation that took place, and when we make reference to earned federal funds, two things occur: either, like for example, state agencies, organizations, two things.

Interest that can be generated by funds that you have in the State Treasury, or applying an indirect cost rate that you apply, you bill the federal government, you bring these receipts in, and it's used for the indirect central administration business of support of federal programs.

But when funds consolidation took place -- this was many sessions back already -- those funds, as they have found their way into the State Treasury, they became part of the consolidation and now recognized as part of the general revenue that the State acknowledges as a general revenue component.

So to your question, are you relinquishing federal funds? No, you do not, but we're having to gauge
very carefully any general revenue that would default into the general revenue fund, because we're obviously not trying to create any disparity in the support of federal programs.

That's why in the write-up we're very careful to state that evaluating all of the funds -- which you know, we had 3.7. This would take us to 3.6 with a $98,000 reduction, but we're being very cautious as to, you know, not creating an effect on anything that would jeopardize the maximization of federal funding into the State, if that makes sense.

MR. VASQUEZ: Well, I think I heard you say two different things. The originating source of some of these funds --

MR. CERVANTES: Uh-huh.

MR. VASQUEZ: -- are from the federal government as the original source, even if it flows through the general revenue --

MR. CERVANTES: Uh-huh.

MR. VASQUEZ: -- as opposed to our state and local taxes funding general revenue.

MR. CERVANTES: The origination of the funds, there's no doubt it's from the federal sources and the federal grants that we have.

MR. VASQUEZ: Okay. So if the legislature
cuts -- makes these types of cuts our budget --

MR. CERVANTES: Uh-huh.

MR. VASQUEZ: -- they are -- they would be saying no thank you to the federal government on these funds, just spend them in other states. Don't spend it here.

MR. CERVANTES: No, not at all. The funds that make their way, as they make their way in, they lose their identity when they become our federal funds, but they're not lost to the State. They're placed in state funds or general revenue.

So the only difference is that, instead of -- for example, in this case here, $98,000, it would default to the general fund and the State would put it in play, if the savings in there for other state business, and apply this as necessary.

MR. VASQUEZ: I think Mr. Irvine wants to help jump in here as well.

MR. CERVANTES: By all means.

MR. IRVINE: This is Tim Irvine, executive director, and David can stay here to correct me as I mischaracterize things.

The way I understand it, which is probably oversimplified -- let's say you have $100 million federal grant, and let's just assume that, for the sake of simple
math, you can use 10 percent of that for administrative costs.

As you have an approved indirect cost rate, your charges to administrative costs can be made at that rate, pro rata, with actual utilization of funds. So let's assume hypothetically that your indirect cost rate is 50 percent.

That would mean that if you fully drew your grant, that you could charge 50 percent of your admin to indirect cost.

MR. CERVANTES: Fifty percent of direct salaries and wages --

MR. IRVINE: Yeah.

MR. CERVANTES: -- just to be clear.

MR. IRVINE: Right. So if -- the way I understand it, if you cannot use it for your indirect cost purposes, that does not alter or impact the overall amount of the grant. So the overall amount of the grant can still be utilized.

You just can't charge to the extent that it's been reduced by state law to indirect cost.

MR. BRADEN: Actually, I've got a follow-up on Leo's question. So a federal grant comes to the State for housing purposes --

MR. CERVANTES: Right.
MR. BRADEN: -- and because of this process, a percentage of that is cut, and you're saying the State gets to keep that money, even though it was earmarked for housing purposes when it came to the State?

MR. CERVANTES: The State and the way the State and the identification of earned federal funds allow the State to basically construe the funds that are being brought in as "earned federal funds" and be defined as general revenue.

And I will say this, that, you know, as an example, last session, you know, we went through a similar process on earned federal funds and proposing those, and we had discussions with LBB, other oversight agencies, in terms of just whether these funds should be in play or not, and during the process, you know, our proposal was placed.

They asked us to reconsider and give them a second option, just in the event that earned federal funds would not be considered. We did so, and then when it all played out, you know, through the whole legislative process, the earned federal funds were brought back in as an eligible source for reduction.

And it went back to, again, construing the funds, once they reach the Treasury, that earned federal funds can in effect be recognized as general fund. All
right? And so they were put in play.

But again, you know, I have to tell you, it's a balancing act, because you're not trying to in any way maximize the receipt of federal funds, and Article 9 of the general appropriations is very clear.

You know, the State is always advocating, you know, to pursue the full maximization of any federal grant that we get. So that was always mission number one for us, to make sure that there's not going to be any harm in terms of the administration.

But in this particular case, this particular pocket of funds, as we -- as Comptroller Hegar and his offices provide guidance, they say, you know, when you record these entries and you put them in the Treasury, they technically fall into accounts known as GR and federal funds.

And so when the State as a whole is balancing the budget, in respect to State funds, GR and federal funds are considered in the base at this time, to balance the budget. So we're not an HHSC or larger agency, but we do have a significant amount of federal funds, relatively speaking, and so I mean, we do get affected by, you know, obviously, trying to incorporate earned federal funds and balancing the administration of those types of funds. Yeah.
MR. VASQUEZ: Again, I don't think it's going to be an issue this year, this biennium, but --

MR. CERVANTES: Right.

MR. VASQUEZ: -- I just want to encourage you --

MR. CERVANTES: Uh-huh.

MR. VASQUEZ: -- and just the staff to -- when we're in front of the legislature --

MR. CERVANTES: Okay.

MR. VASQUEZ: -- making sure they understand that where the funds are coming from other sources -- not all of them, but you know --

MR. CERVANTES: Right.

MR. VASQUEZ: -- the majority of them --

MR. CERVANTES: Right.

MR. VASQUEZ: -- coming from federal funds. It's not just that we're taking away from --

MR. CERVANTES: Right.

MR. VASQUEZ: -- by the Department spending money in our budget to implement our programs, we're not taking away from schools and roads and things like that. I mean, it's --

MR. CERVANTES: Right.

MR. VASQUEZ: -- that as long as they keep that in mind. I doubt it's going to be an issue this year
but --

MR. CERVANTES: Right.

MR. VASQUEZ: -- reminding that that is the process --

MR. CERVANTES: Yeah, and --

MR. VASQUEZ: -- with our budget.

MR. CERVANTES: -- this conversation is very valid. I mean, I can tell you from experience, listening to many hearings, and you know, Ms. Parks and her testimony on many occasions, in terms of, you know, providing guidance and information to the legislature and what have you, the topic of earned federal funds comes up, in terms of the conversation we're having this morning.

It's just clarification on exactly what it is and how it's applied in State policy, and basically covering the costs of the State as a whole, in respect to the relationship of the federal government and the programs that we administer, you know, throughout the state for that matter.

And they're very careful in their communications, just as we are, in terms of managing the situation to make sure that all services are going to be provided in a maximized way, and that's why here -- it's basically a very conservative appeal to include a small portion in there, because we certainly don't want to -- we
don't want to put anything in play that would harm any
level of services, you know, as we go.

But it is a common conversation that takes
place, not only here -- I mean, your points are right on
target in terms of interest and understanding. Just the
definition alone strikes a lot of interest and
conversations as a whole.

So I hope that helps a little bit, put some
perspective on it.

MR. VASQUEZ: Great. Thanks, David.

MR. CERVANTES: Okay.

MS. THOMASON: Any more questions?

MS. RESÉNDIZ: I have one, and to expand on
what David mentioned.

Michael, will you remind me -- I don't remember
the exact amount, but there was a number that you
presented that we were going -- staff was going to
consider reducing -- again, I don't remember the number.

But just for clarity, what was that amount that
staff was looking at reducing as far as federal funds that
we were already accepting and that staff feels confident
that we were not going to -- do you know which part I'm
talking about?

MR. LYTTLE: Yes. That was the $98,000 figure.

MS. RESÉNDIZ: Okay.
MR. LYTTLE: Let's see here. Find it in my notes. Yeah, 98,878.

MS. RESÉNDIZ: Okay.

MR. LYTTLE: I should have listened to the accountant. Yeah, that was the amount $98,878.

MS. RESÉNDIZ: And just to educate me, how were those funds being used prior?

MR. LYTTLE: They're general administrative funds used for things like training, travel --

MS. RESÉNDIZ: Okay.

MR. LYTTLE: -- supplies, things of that sort, and we felt that, again, looking at it, that we could absorb that reduction and still maintain what we need to be doing to carry out our programs.

MS. RESÉNDIZ: Okay.

MR. LYTTLE: So --

MS. RESÉNDIZ: Okay. Very good. Thanks for the clarification.

MR. LYTTLE: Thanks.

MS. THOMASON: Thank you very much.

MR. LYTTLE: Thank you.

MS. THOMASON: Then I would like to have a motion to approve the LAR items that were presented by Michael for -- that's also for taking to the full Board. May I have a motion?
MR. VASQUEZ: Move to accept the Board's presentation and present it to the full Board.

MS. THOMASON: Okay. Second?

MR. BRADEN: Second.

MS. THOMASON: Okay. All in favor?

(A chorus of ayes.)

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: All right. Then, I guess that will conclude our meeting. It is 7:54. Thank you.

(Whereupon, at 7:54 a.m., the Audit and Finance Committee meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Audit and Finance Committee
LOCATION: Austin, Texas
DATE: July 12, 2018

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 Nancy H. King before the Texas Department of Housing and Community Affairs.

DATE: July 16, 2018

(Transcriber)

On the Record Reporting & Transcription, Inc.
7703 N. Lamar Blvd., Ste 515
Austin, Texas 78752