AUDIT AND FINANCE COMMITTEE MEETING
June 29, 2017

Sharon Thomason, Chair

Paul A. Braden, Member

Asusena Reséndiz, Member

Leo Vasquez, III, Member

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT AND FINANCE COMMITTEE MEETING

AGENDA
8:00 AM
JUNE 29, 2017

JOHN H. REGAN BUILDING
JHR 140, 105 W 15TH STREET
AUSTIN, TEXAS 78701

CALL TO ORDER, ROLL CALL,	Sharon Thomason, **Chair**
CERTIFICATION OF QUORUM	Sharon Thomason, **Chair**

The Audit and Finance Committee of the Governing Board of the Texas Department of Housing and Community Affairs will meet to consider and may act on any of the following:	
ITEM 1: Presentation, discussion, and possible action to Approve Audit Committee Minutes Summary for January 26, 2017	Mark Scott Director of Internal Audit
REPORT ITEMS:	Mark Scott Director of Internal Audit
1. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT: REVIEW OF THE LOW INCOME HOUSING TAX CREDIT PROGRAM (LIHTC)	
2. DISCUSSION OF RECENT INTERNAL AUDIT AND CONSULTING ACTIVITY	
3. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY	
ITEM 2: Presentation, discussion, and possible action on the FY 2018 Operating Budget	Ernie Palacios Director
ITEM 3: Presentation, discussion, and possible action on the FY 2018 Housing Finance Division Budget.	Ernie Palacios Director

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551 and under Tex. Gov't Code, §2306.039.

1. Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek

the advice of its attorney about pending or contemplated litigation or a settlement offer.

3. Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.
4. Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at *www.tdhca.state.tx.us* or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512.475-3813 and request the information.

Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two (2) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Annette Cornier 512-475-3803 at least three (3) days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Annette Cornier al siguiente número 512-475-3803 por lo menos tres días antes de la junta para hacer los preparativos apropiados

NOTICE AS TO HANDGUN PROHIBITION DURING THE OPEN MEETING OF A GOVERNMENTAL ENTITY IN THIS ROOM ON THIS DATE:

Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun.

De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta.

Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly.

De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista.

NONE OF THESE RESTRICTIONS EXTEND BEYOND THIS ROOM ON THIS DATE AND DURING THE MEETING OF THE AUDIT COMMITTEE OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS.

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AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

JUNE 29, 2017

Presentation, discussion and possible action on Audit Committee Meeting Minutes Summary for January 26, 2017.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for January 26, 2017 are hereby approved as presented.

MINUTES OF THE AUDIT COMMITTEE

OF THE GOVERNING BOARD OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

On Thursday, January 26, 2017, at 8:00 a.m. the meeting of the Audit Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the William B. Travis Building, Room 1-111 at 1701 Congress Avenue, Austin, Texas. Leslie Bingham Escareño presided over the meeting, and Mark Scott served as secretary. Committee members Leslie Bingham Escareño, Tom Gann, and J.B Goodwin were in attendance and represented a quorum for the committee meeting.

The minutes of the October 13, 2016, meeting of the Committee were adopted as presented.

Ms. Bingham Escareño started the meeting by introducing Mr. J.B Goodwin as a new member of the Audit Committee.

Mr. Scott presented the State Auditor's Office ("SAO") audit report on TDHCA Financial Statements for discussion and possible action. He stated that this is an annual audit conducted by SAO every year that looks at the agency's basic financial statements, as well as the financial statements for the Revenue Bond Program Enterprise Fund. The Public Investment Act requires the audit of the Bond Program and the Department's basic financial statements to be audited annually as part of the "statewide audit." The audit of the Department's basic financial statements is required by the Single Audit Act. The SAO audits the state's financial statements, and KPMG audits compliance with federal program regulations. The TDHCA financial statement audit is done as a standalone report because of the bonds and the compliance testing required by the Public Investment Act. State Auditor's staff members were in attendance to present the audit report.

Ms. Eckford introduced herself as being the audit manager with the SAO for this particular engagement for the financial statements of the Department. She also introduced her colleague, Mr. Philip Stringer, who presented the audit report.

Mr. Stringer stated that SAO issued several reports as part of this audit, and on December 20, 2016, expressing an unmodified opinion on the Department's fiscal year 2016 financial statements, the revenue Bond Program Enterprise Fund financial statements, and the computation of unencumbered fund balances of the Housing Finance Division. A report was also issued on compliance with the Public Funds Investment Act on the same day.

Mr. Stringer also discussed two previous reports that SAO issued on September 6th and September 28th of 2016 in regard to financial data schedule and its electronic submission.

With no questions from the committee members the SAO's report was approved.

Item number 3, presentation, discussion, and possible action to approve the updated Internal Audit Charter.

Mr. Scott provided background to the Internal Audit Charter, its requirements for periodic reviews and approval by senior management and the Board, and the revisions that have been made to the charter. He then indicated that the Board would be asked to approve the updated charter. The Committee voted to have the IA Charter presented to the full Board for approval.

Report item number 1; Presentation and discussion of the internal audit review of the Compliance Monitoring section of the Compliance Division (Multifamily). Mr. Scott explained that the scope of this audit was limited to Multifamily part of the Compliance Division due to the fact that subrecipent monitoring .is audited annually by KPMG, and that Mr. Scott also provides consultation on the single audits with respect to the subrecipent monitoring. Mr. Goodwin asked for clarification in regard to finding related to "time worked." Mr. Scott explained federal programs requirements for employees in regard to their time recording. With no other questions regarding this report Ms. Bingham Escareño moved to next report item.

Report item number 2; self-assessment report for the peer review. Mr. Scott said that the self-assessment is a required part of the Peer review process. For the self-assessment IA used the checklist from Internal Audit Standards, which included the analysis of the organizational structure of the Internal Audit, internal processes, scope areas that are covered by Internal Audit and operations of the office. Main items noted were lack of comprehensive information and technology ("IT") review for each audit. An Internal Audit of IT is included in this year's audit plan.

Report item number 3; Mr Scott gave an update on the status of procuring an external peer review team. With no questions from the members of the committee moved to item number 4, status of Net Claim contract.

Mr. Scott shared his thought on Net Claim contract, concerning its cost and time commitment from staff, and also its overall results. The base cost of the contract is $5000 plus any monthly overages based on the number of calls. The advantage of the service is that it provides an opportunity for the public and beneficiaries of the programs to file complaints against TDHCA staff and management. The disadvantage of this service is how it has been advertised and promoted in the past. IA receives up to 4 complaints per day, however, most of them don't relate to any of TDHCA properties and are out of TDHCA's jurisdiction, or don't relate to fraud, waste and abuse. Mr. Scott added that Mr. Irvine has suggested discussing this matter with the Audit Committee before making any decision on whether to continue or discontinue the contract.

Mr. Irvine said that he thought this decision is in staff's purview, and the cost of the program is not an issue, but he was concerned about the way it distracts from people's time. He thinks that it might make sense to explore other options that would provide avenues for public input and for legitimate complaints.

Ms. Bingham Escareño said that she appreciated the Department staff bringing this item to the Committee, and thinks it is a great communication tool and asked the committee if they would agree to Mr. Scott and Management continuing to research other options that would accomplish the same goal before discontinuing this contract.

Mr. Pender added that the vendor is changing the terms of the contract for next year (September 2017). They are going to be much more onerous by putting us into a category that we may or may not fit into according to their definition.

Mr. Scott gave an update on the recent internal audit and consulting activities. He said that Audit of Tax Credit program is underway, which will be followed by comprehensive audit of IT. He also indicated IA staff was starting on the procurement process of Peer Review. On the external audit side Mr. Scott said that the SAO and KPMG are finishing up their 2016 statewide audit. As mentioned earlier the TDHCA financial statement piece was issued in December 2016, and the federal compliance piece for this year covered LIHEAP, the energy assistance program, and the report will be issued in couple of months. Audit of the HOME program's compliance with the Davis-Bacon Act will be conducted by HUD. That concluded Mr Scott's report on Internal and External audit activities.

Special request item; Discussion of Board Report Item "Report on Anonymous allegation of a cover-up in Hidalgo County."

Mr. Scott said that this is an item that came up through an anonymous email and that Mr. Irvine wanted to discuss. Mr. Irvine shared his thought on this claim and discussed different options available for employees to express their concerns or complains in an appropriate way before going public. He then provided some details relating to the case which involved Hidalgo County and what was done to by TDHCA staff. He rejected the accusations in the email and defended the decision that was made by a group of management including him, the head of the program, the head of the compliance area, and the Legal Division. He added that the agency (Hidalgo County) is doing a great job now, serving low income Texans and keeping good files. No questions by Committee members in regard to this case.

Next Mr. Irvine asked to circle back to an earlier item in regard to audit of financial statements. He stated that they discovered one small technical error after the fact. He proposed that management issue an unaudited correction to that effect. He also said that this public statement is because this is a central disclosure document and we want the public to know exactly what staff and the Department were doing.

Mr. Cervantes introduced himself as Chief Financial Officer, and followed up on Mr. Irvine's comment. He said that one of the things on which staff has been having preliminary discussions with the auditors is the disclosure in Note 5 of the audited financial statements and there is supplementary information that is included in Schedule 1F at the back of the financial statements.

Ms. Patricia Murphy, Chief of Compliance, provided clarification on non-material errors that were omitted from the report in the case of Hidalgo County which did not affect the eligibility of the recipients. She confirmed that there were no findings omitted from the report.

With no other business on the agenda and no need for executive session Ms. Bingham Escareño asked to adjourn. Mr. Goodwin moved to adjourn, and Mr. Gann second the motion.

Ms. Bingham Escareño thanked both Mr. Gann and Mr. Goodwin and adjourned the meeting at 8:33 a.m.

_______________________________ Sharon Thomason, Chair

_______________________________ Mark Scott, Audit Committee Secretary

Report Items

R1

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

An Internal Audit of the Low Income Housing Tax Credit (LIHTC) program

Audit Report # 17-004

Executive Summary

The Office of Internal Audit (OIA) reviewed the LIHTC program administered by TDHCA, from the application process through the issuance of the Form 8609 that investors receive to take credits against their tax liabilities. Based on the fieldwork performed, OIA concludes that the Low Income Housing Tax Credit Program processes are generally performed accurately and according to applicable rules; However, the following opportunities for improvement were identified.

Findings

- Our audit indicated that opportunity for improvement exists within The Multifamily Finance Division to strengthen and improve its internal policies and procedures, and to achieve a higher standard of consistency as it relates to Standard Operating Procedures (SOP) and filing procedure.

Recommendations

- The Division should develop Standard Operating Procedures (SOPs)
- Management should implement a filing system that includes consistent sub-files and verification of posted information.

Response:
Management agreed with our recommendations.
Detailed responses are included in the body of the audit report.

Responsible Area:
MultiFamily Division Director

Objective, Scope and Methodology

Based upon our risk assessment and other factors, we selected the LIHTC Program, specifically the application process and the issuance of tax credits, for detailed testing and analytical procedures. This audit was identified in the Fiscal Year 2017 Annual Audit Plan and included the objectives to evaluate and explain the LIHTC Program and to evaluate the administrative and internal control procedures related to the program.

The audit covered activities and processes in place during the period of September 1, 2015, through February 28, 2017, with emphasis on identification of requirements of the LIHTC Program and internal controls related to the tax credit program. We selected and reviewed a random sample from 2016 allocation records. We also reviewed the IRS form 8610 that was submitted to the Internal Revenue Service ("IRS") to report allocation activity for 2016 allocation for the period, along with 9 of the 8609 forms that were issued to investors and submitted to the IRS . OIA summarized the results in the Report # 17-004 that follows.

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

6/5/2017
Date Signed

June 5th, 2017

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

RE: REVIEW OF THE LOW-INCOME HOUSING TAX CREDIT ("LIHTC") PROGRAM

TO: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "Review of the LIHTC Program." This audit was identified in the Fiscal Year 2017 Annual Audit Plan and included the objectives to evaluate and explain the LIHTC Program and to evaluate the administrative and internal control procedures related to the program.

A- AUDIT SCOPE AND METHODOLOGY

The audit covered activities and processes in place during the period of September 1, 2015, through February 28, 2017, with emphasis on identification of requirements of the LIHTC Program and internal controls related to the tax credit program. Based upon our risk assessment and other factors, we selected the LIHTC Program, specifically the application process and the issuance of tax credits, for detailed testing and analytical procedures. Due to the complexity of the LIHTC Program, two of the analytical procedures were to reconcile the requirements of the U. S. Internal Revenue Code to the Texas Administrative Code ("TAC") for Fiscal Year 2016, and second to reconcile the TAC to the Multifamily Finance Division ("MFD") Review Checklist for 9% LIHTC applications. The audit was conducted in accordance with applicable audit standards including the *International Standards for the Professional Practice of Internal Auditing.*

We reviewed the LIHTC program administered by TDHCA, from the application process through the issuance of the Form 8609 that investors receive to take credits against their tax liabilities. We selected and reviewed a random sample from 2016 allocation records. We also reviewed the IRS form 8610 that was submitted to the Internal Revenue Service ("IRS") to report allocation activity for 2016 allocation for the period along with 9 of the 8609 forms that were issued to investors and submitted to the IRS. In addition, we visited several properties that were financed by tax credits issued by TDHCA. We found that the tax credit program is well run and achieves the purpose of facilitating affordable housing.

B-Introduction

The TDHCA LIHTC Program is one of the primary means of directing private capital toward the development and preservation of affordable rental housing for low-income households. Tax credits are awarded to eligible participants to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. Investors in qualified affordable multifamily residential developments can use the LIHTCs as a dollar-for-dollar reduction of their federal income tax liability. There are two types of Tax Credits: Competitive (9%) and Non-Competitive (4%).

The 9% Housing Tax Credit is highly competitive and awarded based on a Regional Allocation Formula ("RAF") with additional set asides for developments at risk of losing affordability and subsidy, developments financed through USDA, and those with nonprofit organizations in control positions in their ownership structures. Applications are scored and ranked within their region, each region including urban and rural sub regions, or set-aside in accordance with applicable state and federal laws, chiefly the Qualified Allocation Plan ("QAP").

The Non-Competitive (4%) Housing Tax Credit program is coupled with the Multifamily Bond Program when the bonds finance at least 50% of the cost of the land and buildings in the Development. There are a variety of bond issuers in the State (including TDHCA) from which to select, with some limitations on the location of the development.

The tax credit program is jointly administered by the U. S. Department of the Treasury and TDHCA. TDHCA is responsible for identifying the state's housing needs, allocating credit to qualifying projects that meet the state's QAP criteria, monitoring the operation of developments that were awarded housing tax credits for ongoing compliance with Internal Revenue Code ("IRC") §42, and reporting any noncompliance to the IRS. The IRS compliance responsibilities include processing information submitted by state agencies and developers and evaluating noncompliance for tax audit purposes. TDHCA, through its Compliance Monitoring Division, monitors properties and when it identifies uncorrected noncompliance with federal requirements, it reports this to the IRS using IRS Form 8823. Allocation of Low-Income Housing Credits submitted by the state agencies are reconciled and processed by the IRS. Forms 8609 submitted by developers are matched to the state agencies' submissions and processed by the IRS.

C-Financial Analysis

The IRC §42 Low Income Housing Credit Program was enacted by Congress as part of the Tax Reform Act of 1986 to encourage new construction and rehabilitation of existing buildings used to provide low-income rental housing for households with income at or below specified income levels. This program provides tax incentives for investors to make equity investments. In exchange for funding for projects, investors receive tax credits and other tax benefits associated with ownership of the project, such as losses and depreciation. Credits are claimed over a ten year period. The other tax benefits remain available as long as the ownership structure continues. These tax benefits, plus the possibility of cash proceeds from the eventual sale of the project, represent the investors' return on investment.

Most of TDHCA's housing activities are financed by federal tax credit allocations. In 2016 the federal government allocated tax credits for TDHCA amounting to $63,356,000, which can be redeemed for each of ten years, producing potential credits of $633,560,000. Tax credits are typically redeemed starting two years from the date of awards as described further below. One advantage of the tax credit program that benefits the state is that the equity generated by the credits to finance housing development activity does not require appropriation of state funds. At the federal level, the cost of building is deferred until after construction, at the time when tax credits are redeemed / claimed.

As part of our financial analysis of the program, we conducted various analytical procedures as reasonableness tests [1]. These tests included comparing tax credits awarded, as computed from TDHCA records, to an estimate of tax credits redeemed / claimed by investors, as computed from Government Accountability Office ("GAO") records that were available for 2014. We also compared estimates of the Internal Rate of Return ("IRR") on tax credit deals to other financial products. We conducted these analytical procedures to facilitate understanding of the costs and benefits of the program.

We compared the credits awarded estimate from 2016 ($63,356,000 * 10) or $633,560,000, as computed from TDHCA records, to an estimate of tax credits claimed, that we computed from GAO records. The cost to the federal government is in the form of forgone tax revenue when the tax credits are redeemed. A 2015 federal GAO report stated that the LIHTC program on a national basis "cost an estimated $8 billion in forgone revenue in 2014." (GAO-15-330) Texas had approximately 8.433 percent of the population that year, so $674.6 million for 2014 would be a reasonable estimate of tax credits redeemed attributable to Texas LIHTC projects. By comparison federal expenditures in Texas, in fiscal year 2014, for the Medicaid Cluster was $19.38 billion, for the SNAP Cluster (food stamps) was $5.6 billion, and for the School Breakfast Program and National School Lunch Program the amounts were $514.4 million and $1.47 billion, respectively. This information is presented to provide context.

Each year TDHCA receives an allotment of tax credits from the federal government. These are awarded by TDHCA to organizations that compete for them by developing project proposals which are scored as described in the "Testing of Applications" section of this report.

The investors in the projects include Limited Liability Partnerships ("LLPs"), or other go-between entities that are able to make the benefits associated with the credits available to their investors. The return on investment comes in the form of future reductions in taxes which flow through the entity to the individual investors.

The tax credits amount to 9% of the eligible costs (not including land costs), or "basis," of the building project. Historically in certain areas known as qualified census tracts ("QCTs",) characterized by high levels of poverty, and in difficult to develop areas ("DDAs"), TDCHA was able to provide a 30% basis boost, allowing an investor to obtain and claim credits based on 130% of their computed basis in the development. Following the enactment of the Housing and Economic Recovery act of 2008, TDHCA is granted discretion to utilize a "basis boost" for other areas for the 9% transactions. The example below is a representation of the return on a $2 million eligible basis.

[1] A reasonableness test is an auditing procedure that examines the validity of accounting information. For example, an auditor could compare a reported ending inventory balance to the amount of storage space in a company's warehouse, to see if the reported amount of inventory could fit in there. Or, a reported receivable balance is compare to the trend line of receivables for the past few years to see if the balance is reasonable. Another reasonableness test is to compare a company's gross margin percentage to the same percentage for other companies in the same industry.

Table 1

LIHTC Example	If using Conventional financing (9% LIHTC)
Total Development Costs	$2,200,000
Less ineligible costs, including land	-$200,000
Eligible Basis (Total LIHTC eligible costs)	$2,000,000
Application Fraction	100%
Qualified basis (Eligible basis X Applicable fraction)	$2,000,000
Applicable percentage (AFR)	9%
Annual credit before basis boost	$180,000
Basis boosts (30%)	$2,600,000
Annual credit after basis boost	$234,000
Total Credit (Annual Credit * 10)	$2,340,000

In this example, the internal rate of return ("IRR") to the tax credit investor is 2.141 % on the $2 million eligible basis, assuming that the project will receive the tax credits, or Form 8609, two years from the date the project starts (See Appendix A). This analysis only covers the return on investment based on the tax credit. For the purpose of context as to what the investors are getting for their money there are other benefits that accrue to the owners. The one-year Treasury bill (T-bill) rate on 3/8/2017 was 1.03%. A year before that it was .66%. The before interest tax rate on the 10-year T-bill was 2.42% as of 2/21/2017. Similar investment alternatives may be relevant to tax-credit market. The private sector investment firms that manage the tax credit syndication process develop proprietary IRR models which they use to determine the price at which they will invest in tax credit assisted developments which they syndicate to the ultimate passive investors. The price at which credits syndicate is typically expressed in terms of the price paid for a dollar of credits, *e.g.*, $.92 or $1.02. Over the life of the LIHTC program this price has fluctuated significantly , drifting as low as $.60 in the economic crisis of 2008 to as high as $1.10 in recent years. It is currently undergoing some uncertainty as the possibility of federal tax reform legislation and the prospect of a lower marginal tax rate have posed IRR modeling challenges to syndicators. The competition for the tax credits is robust, and there is a well developed system for awarding the credits. This information and the information on IRR is presented for the context of reasonableness as to the return to investors.

D-Administration and Information system controls over LIHTC program

The LIHTC program basically follows TDHCA administrative policies and procedures. This includes the basics of human resource management and information technology management. Some administrative policies would need to be division-specific to align with best practices. For example, appendix D indicates Standard Operating Procedures ("SOPs") that were not available at the time of our audit.

As part of audit planning, we utilized a standard internal control questionnaire. According to management of the MFD the preparation of SOPs was in progress at that time. SOPs are important because they facilitate communication, provide consistency and quality control, help increase productivity, facilitate cross training, are utilized in the employee performance evaluation process, support peer accountability and coaching, help create a safer work environment, and provide staff with the consistent guidance to do things right.

Finding Item Number	Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
17-004.01	The division should develop a Standard Operating Procedures (SOP)	December 29, 2017	Marni Holloway

Management respond

The Multifamily Finance Division accepts this finding and will update the Division's Standard Operating Procedures (SOP) prior to December 29, 2017

E-REA's role in LIHTC program

The Real Estate Analysis ("REA") Division is responsible for analyzing the feasibility of proposed multifamily housing activities and preparing a credit underwriting analysis report that will be used by the Executive Award Review Advisory Committee ("EARAC" in making award recommendations and the TDHCA Governing Board in decision making with the goal of assisting as many Texans as possible by providing no more financing than necessary based on an independent analysis of the development's feasibility.

After the initial selection process by MFD the REA Division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments.

F-Testing of Applications

For the time period 2016, Internal Audit randomly selected a sample of LIHTC applications received during this period. The sample included three applications that were recommended for approval and three applications that were not recommended for approval by the TDHCA Governing Board. The items selected were the first five percent of applicable applications returned on the random sample generation. Each application was tested to verify:

- application was received by end of day on March 1, 2016;
- scoring points on review checklist were properly carried forward to all proper documentation;
- application fee was properly computed and payment was received by end of day on March 1, 2016;
- multifamily staff properly followed the procedures for collecting application fees;
- commitment fee was properly paid by the due date;
- proper execution of Set-Aside and Region Allocations, Review Checklist, Scoring Notice, and Commitment Notice;

- proper calculations of credits to be awarded; and
- appropriate documentation was uploaded to the TDHCA web site.

Our testing did not find any errors related to the attributes above. We did note however that there were various filing errors which we have communicated to management.

Applications that were not recommended for Board approval and award either did not score high enough or there were no available funds remaining in the applicable category or set-aside.

We analyzed the Review Checklist by comparing it to the Texas Administrative Code (TAC) to assure completeness. The Review Checklist included all appropriate TAC attributes.

Finding Item Number	Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
17-004.02	Management should implement a filing system that includes consistent sub-files and verification of posted information	December 29, 2017	Marni Holloway

Management respond

The Multifamily finance Division accepts this finding and will include a management sampling process in the SOP as described above. Due to the volume of documents included in application files and limited resources available to perform reviews, a sample of priority applications only will be performed periodically during the Competitive LIHTC cycle starting in 2018. Files will be reviewed for accuracy & legibility of documents added by staff during the review process.

G-Building and Construction of the Low-Income Housing

After the tax credits are awarded the developers have until the end of the second year following award to complete the construction of the building project and have it placed in service (for the 9% tax credit).

As part of our audit, we wanted to view the end product of the tax credit activity. We visited four tax-credit properties that had been financed by TDHCA-issued tax credits, without any pre-set criteria in mind but rather just to observe the conditions of the buildings. We drove by the buildings and through the parking areas, but did not go inside any of the buildings. We went in the middle of the day.

The first place we visited was next to a community center. From the outside the building seemed well maintained. Teenagers were playing basketball at the Middle School next to the property. The second site visited was in the older part of the city we were in. We communicated what we observed to TDHCA management. Our third visit was to a complex of apparently well-kept two-story buildings. The units were very compact. The last complex we toured was on the east side of town. There was a long driveway leading up to the apartments, and the road was very bumpy and the ground was uneven.

H-Cost Certification and Department's issuance of IRS form 8609

After completing the project (which has different deadlines depending on whether it is a 4% or 9% Tax Credit Property) the developers submit a packet to TDHCA that includes a certified report by an Independent auditor who has reviewed the developer's eligible costs and financial records. Asset management is responsible for reviewing the Cost Certification packet and making recommendations to the Department's Executive Director for final approval.

A copy of the signed IRS form 8609 for each building is forwarded to Multifamily Finance division (MF), and the original is sent to the developer. Each year TDHCA prepares a Form 8610 for the IRS. This form reports all of the tax credits that were awarded for the year, which will be carried forward. The time between the award and the issuance of an 8609, the actual tax credit, varies. The 8609s are only issued after the buildings are in service and the costs have been certified. TDHCA does not track the forms 8609s after that.

I-Annual reporting to IRS (IRS form 8610)

IRC §42 requires state agencies to submit annual reports to the IRS identifying the annual credit amount allocated to each building for the year, sufficient information to identify each building and the developer with respect thereto, and other information needed for the administration of the program.

The annual report is made by submitting IRS Form 8610, annual Low-Income Housing Credit Agencies Report, along with copies of the Forms 8609 issued that year and Schedule A (Form 8610), documenting credit carryover allocations, to the IRS by February 28th of the following year. (Appendix B)

J-Testing of IRS Forms

MFD's records indicated that during 2016 TDHCA approved and issued 8609s for fifty eight of 9% tax credit properties and three for the 4% tax credit. We reviewed and tested a total of nine forms, which included six from 9% tax credit and all of 4% tax credits, for compliance with applicable rules and regulations in regard to the approval process. We found that the Asset Management Division, in conjunction with MFD and Compliance Monitoring Division, has followed all the applicable steps and requirements prior to issuing IRS form 8609 in the selected sample. The requirements included completion of the project within the set time frame as stated in the Carryover letter, receiving a certified report from independent auditors in regard to the developer's financial records and costs, and clearance by Compliance Monitoring Division through their physical inspection of the property.

K-Role of Compliance Monitoring division during Compliance period and issuance of IRS form 8823 when applicable

Treas. Reg § 1.4-5 provides authority for the state agency to report to the IRS that a building is no longer in compliance with the IRC §42 program on Form 8823 (Low-Income Housing Credit Agencies Report of Noncompliance or Building Disposition).

The Compliance Monitoring Division at TDHCA has an important role in the LIHTC program, and is tasked with physical inspection of every property prior to approval and issuance of IRS form 8609. It is responsible for monitoring the property throughout the compliance period once every three years. Compliance Division is also tasked with submitting IRS form 8823 in case of property's non-compliance during the fifteen year compliance period.

L-Tracking of Tax Credit

The Form 8609, that TDHCA issues, will include a BIN number that is the unique identifier, for tax purposes, for a building. Once the building is built, and cost and basis have been verified, TDHCA issues the Form 8609 to the applicant. At the end of the year, copies of all original 8609s for that year are sent to the IRS.

TDHCA prepares a Form 8610 for the IRS. This form reports all of the tax credits that were awarded for a year, which will be carried forward. The time between the award and the issuance of an 8609, the actual tax credit, varies. The 8609s are only issued after the buildings are ready to be occupied and the costs have been certified.

Once the Form 8609 is issued by TDHCA to the applicant, a syndicator will then distribute shares of the tax credits to Limited Liability Partnerships (LLPs).

OIA consulted with TDHCA's outside legal counsel on various issues related to this audit. TDHCA may want to consider discussing with the staff of the Texas State Securities Board whether the information contained in 8609 forms are relevant to any laws enforced, or actions regulated, by the TSSB.

M-Registration and tracking of Syndicators

This was the first comprehensive internal audit of the LIHTC at TDHCA.

At the federal level, several Governmental Accountability Office ("GAO") reports have been issued recently, which highlight the complexity of the program. Senator Chuck Grassley said on March 2, 2017, "The fact that the GAO needed to issue a separate explanation of the role of syndicators shows you just how complex this program has become." The reports were critical of communication between HUD and the IRS. Further reports by the GAO are forthcoming.

OIA extends our sincere appreciation to management and staff of the Multifamily Finance and Asset Management Divisions for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

cc: Tim Irvine, Executive Director
Marni Holloway, Director of Multifamily Finance
Raquel Morales, Director of Asset Management

Appendix A

CALCULATE STUFF (/)
www.calculatestuff.com

Home (/) Contact (/contact-us) Login (/users/sign_in)

IRR Calculator

Initial Investment

$	2000000.00

Cash Flow

Year 1 - $	0
Year 2 - $	0
Year 3 - $	234000
Year 4 - $	234000
Year 5 - $	234000
Year 6 - $	234000
Year 7 - $	234000
Year 8 - $	234000
Year 9 - $	234000
Year 10 - $	234000
Year 11 - $	234000
Year 12 - $	234000

Add Year | Calculate

(https://www.facebook.com/sharer/sharer.php?u=https://www.calculatestuff.com/financial/irr-calculator)

(https://twitter.com/intent/tweet?text=https://www.calculatestuff.com/financial/irr-calculator)

(https://plus.google.com/share?url=https://www.calculatestuff.com/financial/irr-calculator)

2.141%

Internal Rate of Return

Latest Calculators

Straight Line Depreciation Calculator (/business/straight-line-depreciation-calculator)

Age Calculator (/miscellaneous/age-calculator)

Percent To Decimal Calculator (/conversions/percent-to-decimal-calculator)

Decimal To Percent Calculator (/conversions/decimal-to-percent-calculator)

Decimal To Fraction Calculator (/conversions/decimal-to-fraction-calculator)

Popular Calculators

Mortgage Calculator (/financial/mortgage-calculator)

Auto Loan Calculator (/financial/auto-loan-calculator)

BMI Calculator (/health/bmi-calculator)

Compound Interest Calculator (/financial/compound-interest-calculator)

Ovulation Calculator (/health/ovulation-calculator)

Resources

Calculator Widgets (/widgets)

Car Finance Tools (/apps/car-finance-tools)

FAQ (/faq)

Appendix B

SCHEDULE A (Form 8610)
(Rev. January 2016)
Department of the Treasury
Internal Revenue Service

Carryover Allocation of Low-Income Housing Credit

▶ Attach to Form 8610.
▶ Information about Schedule A (Form 8610) and its instructions is at *www.irs.gov/form8610.*

OMB No. 1545-0990

Name of housing credit agency		Employer identification number of agency
Address of housing credit agency	Check box if housing credit agency granted carryover allocation relief under Rev. Proc. 2014-49 . . . ▶ ☐	Check box if amended carryover allocation . . . ▶ ☐ FOR IRS USE ONLY
1a Name of **building owner** receiving carryover allocation	2 Taxpayer identification number of **building owner** (include dash or dashes)	
1b Address of **building owner** receiving carryover allocation		

3a Check if the carryover allocation is: ▶ ☐ building based or ▶ ☐ project based

b If the carryover allocation is subject to the nonprofit set-aside under section 42(h)(5), you must check "Yes." Otherwise, you must check "No" . . . . ☐ Yes ☐ No

4 Date of carryover allocation ▶ ____________

5	Amount of carryover allocation	**5**	
6	If a binding agreement (see instructions) was entered into, enter the maximum applicable credit percentage for:		
a	Acquisition cost	**6a**	%
b	Rehabilitation expenses	**6b**	%
c	New construction expenses	**6c**	%

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

State housing credit agencies use Schedule A (Form 8610) to report carryover allocations.

Major Disaster Declarations

If a housing credit agency has granted any project relief for carryover allocations discussed in section 6 of Rev. Proc. 2014-49, 2014-37 I.R.B. 535, the agency must attach to Form 8610 a copy of the Schedule A (Form 8610) for the projects for which it has approved relief. These attached copies of Schedule A (Form 8610) must have the box checked that indicates the housing credit agency granted carryover allocation relief under Rev. Proc. 2014-49. The housing credit agency should only include Schedules A (Form 8610) for projects receiving approval of the carryover allocation relief since the agency last filed Form 8610. The information from these particular Schedules A (Form 8610) is not included on any line in Part I or Part II of Form 8610.

Specific Instructions

Line 4

Enter the date of allocation. This is the date the authorized official of the state housing agency signs and dates the carryover allocation document.

Line 5

Enter the amount of carryover allocation. If you checked the "building based" box on line 3a, enter the amount of credit allocated to the building under section 42(h)(1)(E). If you checked the "project based" box on line 3a, enter the amount of credit allocated to all the buildings in the project under section 42(h)(1)(F).

Lines 6a, b, and c

Complete these lines only if both of the following apply.

- There is a binding agreement between the housing credit agency and the building owner for a specific housing credit dollar amount.
- An election is made to use an applicable percentage for a month other than the month in which the property is placed in service.

See Regulations sections 1.42-6 and 1.42-8 for requirements that must be met.

The applicable percentage cannot be less than 9% for any building that (1) is not federally subsidized and (2) is placed in service after July 30, 2008. See section 42(b)(2) and Notice 2008-106, 2008-49 I.R.B. 1239.

Form **8609** (Rev. December 2016) Department of the Treasury Internal Revenue Service

Low-Income Housing Credit Allocation and Certification

▶ **Information about Form 8609 and its separate instructions is at *www.irs.gov/form8609.***

OMB No. 1545-0988

Part I **Allocation of Credit**

Check if: ☐ Addition to Qualified Basis ☐ Amended Form

A Address of **building** (do not use P.O. box) (see instructions)

B Name and address of **housing credit agency**

C Name, address, and TIN of **building owner** receiving allocation

TIN ▶

D Employer identification number of agency

E Building identification number (BIN)

1a	Date of allocation ▶ ________ **b** Maximum housing credit dollar amount allowable .	**1b**	
2	Maximum applicable credit percentage allowable (see instructions)	**2**	%
3a	Maximum qualified basis	**3a**	
b	Check here ▶ ☐ if the eligible basis used in the computation of line 3a was increased under the high-cost area provisions of section 42(d)(5)(B). Enter the percentage to which the eligible basis was increased (see instructions)	**3b**	1 ___ ___ %
4	Percentage of the aggregate basis financed by tax-exempt bonds. (If zero, enter -0-.) . . .	**4**	%
5	Date building placed in service . . . . ▶ ________		

6 Check the boxes that describe the allocation for the building (check those that apply):

a ☐ Newly constructed and federally subsidized **b** ☐ Newly constructed and **not** federally subsidized **c** ☐ Existing building

d ☐ Sec. 42(e) rehabilitation expenditures federally subsidized **e** ☐ Sec. 42(e) rehabilitation expenditures **not** federally subsidized

f ☐ Allocation subject to nonprofit set-aside under sec. 42(h)(5)

Signature of Authorized Housing Credit Agency Official—Completed by Housing Credit Agency Only

Under penalties of perjury, I declare that the allocation made is in compliance with the requirements of section 42 of the Internal Revenue Code, and that I have examined this form and to the best of my knowledge and belief, the information is true, correct, and complete.

▶ Signature of authorized official ▶ Name (please type or print) ▶ Date

Part II **First-Year Certification**—Completed by Building Owners with respect to the First Year of the Credit Period

7	Eligible basis of building (see instructions)	**7**	
8a	Original qualified basis of the building at close of first year of credit period	**8a**	
b	Are you treating this building as part of a multiple building project for purposes of section 42 (see instructions)?	☐ Yes	☐ No
9a	If box 6a or box 6d is checked, do you elect to reduce eligible basis under section 42(i)(2)(B)?	☐ Yes	☐ No
b	For market-rate units above the average quality standards of low-income units in the building, do you elect to reduce eligible basis by disproportionate costs of non-low-income units under section 42(d)(3)(B)? . ▶	☐ Yes	☐ No

10 Check the appropriate box for each election.

Caution: *Once made, the following elections are irrevocable.*

a Elect to begin credit period the first year after the building is placed in service (section 42(f)(1)) ▶ ☐ Yes ☐ No

b Elect **not** to treat large partnership as taxpayer (section 42(j)(5)) . . . . ▶ ☐ Yes

c Elect minimum set-aside requirement (section 42(g)) (see instructions) ☐ 20-50 ☐ 40-60 ☐ 25-60 (N.Y.C. only)

d Elect deep rent skewed project (section 142(d)(4)(B)) (see instructions) . . . . ☐ 15-40

Under penalties of perjury, I declare that I have examined this form and accompanying attachments, and to the best of my knowledge and belief, they are true, correct, and complete.

▶ Signature ▶ Taxpayer identification number ▶ Date

▶ Name (please type or print) ▶ First year of the credit period

R2

ORAL PRESENTATION

R3

ORAL PRESENTATION

2

BOARD ACTION REQUEST

FINANCIAL ADMINISTRATION DIVISION

JUNE 29, 2017

Presentation, discussion, and possible action on the FY 2018 Operating Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the "Department" or "TDHCA") is required to approve a FY 2018 Operating Budget; and

WHEREAS, the Department is required to submit the budget to the Governor's Office and the Legislative Budget Board ("LBB");

NOW, therefore, it is hereby

RESOLVED, that the FY 2018 Operating Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the Governor's Office and the LBB.

BACKGROUND

In accordance with Tex. Gov't Code Chapter 2306, TDHCA is charged with preparing an operating budget for Board adoption on or before September 1 of each fiscal year. The budget includes operational expenses distributed among the Department's divisions. It does not include federal or state program funds that pass through to subrecipients except for administrative funds used by the Department associated with those federal or state funds that are retained and reflected in the budget. In addition, in accordance with internal auditing standards and the Board's internal audit charter, the budget includes the Internal Audit Division's annual operating budget.

The FY 2018 Internal Operating Budget, which the Board is considering, corresponds to the first year of the General Appropriations Act ("GAA") passed by the 85th Texas Legislature. In total, this budget provides for expenditures and associated revenues of $27,795,908 or a $1,514,934 (5.8%) increase over the prior year budget. Seventy-six percent of the increase is attributed to the Capital Budget approved by the Legislature. The other significant item affecting the increase is funding of additional FTEs in the areas of Affirmatively Furthering Fair Housing, Cyber Security, Section 811, and Compliance Monitoring.

The budget reflects 312 FTEs (64 are related to the Manufactured Housing Division) which is one less than appropriated.

Additionally, the Housing Finance Division budget, which is funded with fees generated from the Department's bond program, Housing Tax Credit Fees, Asset Management Fees and Compliance, increased by $940,518 or 5.8%. This increase is primarily Capital Budget and new FTEs mentioned above.

For a complete explanation of the aforementioned budget categories and details, please see the accompanying Comparison Report.

TEXAS DEPT. OF HOUSING AND COMMUNITY AFFAIRS
FY 2018 Operating Budget
Comparison Report
June 29, 2017

This Comparison Report provides an explanation of any significant changes to cost categories.

In total, this FY 2018 Operating Budget is $27,795,908 or a $1,514,934 (5.8%) increase over the prior year budget. Below are the highlights of the FY 2018 Budget. Please refer to the "Comparison by Expense Object" schedule on Page 3.

1. **Salaries/Wages and Payroll Related Costs.** These two line items represent 80.6% of the total operating budget.

   The budget reflects 312 FTEs.

   The Salaries and Wages line item increased by $551,525 which includes a 1.0% allowance for salary growth of $172,285. This total increase of 3.1% from 2017 is primarily due to the addition of eight new FTE's (two of which are temporary positions) and the reduction of 2 FTEs. New FTEs are attributed to Affirmatively Furthering Fair Housing ("AFFH"), Cyber Security Capital Projects, and Compliance Monitoring. The two decreased FTEs are a Neighborhood Specialization Program ("NSP") position and a Compliance position.

   Payroll related costs increased $132,366. The increase in payroll related costs is proportional to the increase in salaries.

2. **Professional Fees**. Professional Fees and Services decreased $331,086 or 21.3%. The majority of the decrease can be attributed to a decrease of outside legal counsel services and elimination of research and analytical projects due to the 4% reduction mandated by the legislature in the 2018/2019 LAR.

3. **Communication and Utilities.** Communication and utilities is increasing $58,869 or 19.8%. There are new contracts in FY18 relating to information systems and agency cell phone contracts have increased.

4. **Temporary Help.** Temporary Help increased $9,860 or 11%. The increase in this category is primarily due to additional translation services necessary for agency publications.

5. **Furniture and Equipment.** Included in this category is the Legislature's approval of the Department's Legacy Systems Modernization Project as it relates to non-capital expenses such as update and replacement of end-user computers and operational software upgrades, including a Microsoft Office upgrade, server operating system upgrades, and additional database server software licenses. The benefits of these planned

purchases include increased security, better performance for end-user computers, and the ability to provide continued support for TDHCA's enterprise systems, such as the Central Database Systems, PeopleSoft Financials, MITAS, and the Manufactured Housing System.

This line item decreased $101,267 or 59.5% due to an anticipated decrease in non-capital expenditures of $79,200 related to an extended cycle for replacing agency computers. There was a decrease in budget for the Compliance Physical Inspections section of $18,400. This section purchased new tablets in 2017 needed to support the current software used. This purchase has been completed and the additional amount will not be needed in 2018.

6. **Capital Outlay.** This category is also included in the Department's Legacy System Modernization Project as it relates to capital expenses such as server hardware upgrades and network equipment enhancements, to ensure systems remain supported by vendors and security and reliability remain at high levels. This section also includes the People Soft financials Centralized Accounting and Payroll/Personnel System ("CAPPS") upgrade of $400,000, the Cyber Security Project of $100,000, and a new software needed by the Community Affairs division costing $600,000. Capital Outlay increased $1,108,000 due to the items mentioned above in the agency's LAR. These items will only be included in the first year of the biennium.

Comparison by Expense Object

	2017 Budget (a)	2018 Budget (b)	Variance (b-a)	Percentage Change	
Salaries and Wages	$ 17,515,953	$ 18,067,478	$ 551,525	3.1%	
Payroll Related Costs	4,203,829	4,336,195	132,366	3.1%	
Travel In-State	493,104	493,732	628	0.1%	
Travel Out-of-State	125,394	125,394	-	0.0%	
Professional Fees	1,552,104	1,221,018	(331,086)	-21.3%	*
Material and Supplies	282,754	258,913	(23,841)	-8.4%	
Repairs/Maintenance	552,800	643,953	91,153	16.5%	*
Printing and Reproduction	15,572	16,747	1,175	7.5%	
Rentals and Leases	176,823	162,969	(13,854)	-7.8%	
Membership Fees	84,437	84,232	(205)	-0.2%	
Staff Development	149,250	141,250	(8,000)	-5.4%	
Insurance/Employee Bonds	394,762	397,524	2,762	0.7%	
Employee Tuition	7,500	2,500	(5,000)	-66.7%	
Advertising	85,150	85,150	-	0.0%	
Freight/Delivery	27,750	25,550	(2,200)	-7.9%	
Temporary Help	90,000	99,860	9,860	11.0%	
Furniture and Equipment	170,200	68,933	(101,267)	-59.5%	*
Communication and Utilities	297,866	356,735	58,869	19.8%	
Capital Outlay	32,000	1,183,929	1,151,929	3599.8%	*
State Office of Risk Management	23,725	23,846	121	0.5%	
Total Department	**$ 26,280,974**	**$ 27,795,908**	**$ 1,514,934**	**5.8%**	

** Budget categories that include Capital Budget items*

	2017	2018	Variance	Percentage Change
FTE's	**306**	**312**	**6**	
Method of Finance:				
GR-General Revenue	$ 1,028,965	$ 820,752	$ (208,213)	-20.2%
GR-Earned Federal Funds	2,055,788	2,089,809	34,021	1.7%
Federal Funds-Non-HERA	5,917,108	6,733,690	816,582	13.8%
Federal Funds-Neighborhood Stabilization Prgm (HERA)	165,902	101,133	(64,769)	-39.0%
Appropriated Receipts - Housing Finance	16,230,639	17,171,157	940,518	5.8%
Appropriated Receipts - Manufact. Housing	511,856	512,113	257	0.1%
Interagency Contracts	370,716	367,254	(3,462)	-0.9%
Total, Method of Finance	**$ 26,280,974**	**$ 27,795,908**	**$ 1,514,934**	**5.8%**

Note: Appropriated Receipts - Housing Finance include Bond Administration Fees, Housing Tax Credit Fees, Asset Management Fees and Compliance Fees.

Method of Finance

The 2018 Budget includes the following sources:

General Revenue

State appropriated funds including Housing Trust Fund, Housing and Health Services Coordinating Council, Homeless Housing and Services Program and funding for Migrant Labor Housing initiative.

Earned Federal Funds - Federal funds appropriated for indirect costs associated with administering federal funds.

Federal Funds

Federal Funds-Non-HERA - Core federal programs such as Community Services Block Grant, Emergency Solutions Grant, HOME, U.S. Dept. of Energy ("DOE"), Section 8 Housing, Section 811 PRA Program, National Housing Trust Fund, and Low Income Home Energy Assistance Program.

Neighborhood Stabilization Program - Federally appropriated funds specifically designated for HERA-NSP.

Appropriated Receipts - Housing Finance ("HF"):

Bond Admin Fees - Appropriated receipts associated with our Single Family and Multifamily bond programs such as application fees, issuance fees, and administration fees.

Low Income Housing Tax Credit Fees – Appropriated receipts associated with our housing tax credit program such as application fees and commitment fees.

Compliance Fees **-** Fees assessed to multifamily developers for the purpose of ensuring long-term compliance.

Asset Oversight Fees - Fees assessed to TCAP and Exchange property developers for the purpose of safeguarding the Department's financial interest in their properties.

Appropriated Receipts (MH) - Manufactured Housing Division fees generated through inspecting, licensing and titling activities.

Interagency Contracts - Contract with the Texas Department of Agriculture for the Office of Colonia Initiatives ("OCI") Self-Help Center's operation and administration, contract with the Texas Department of Aging and Disabilities ("DADS") for the Money Follows the Person program, and a contract with the Texas Department of State Health Services ("DSHS") for Home and Community-Based Services-Adult Mental Health Program ("HCBS-AMH"), a program that supports individuals with mental illnesses.

FISCAL YEAR 2018
OPERATING BUDGET

(September 1, 2017 through August 31, 2018)

June 29, 2017

Prepared by the Financial Administration Division

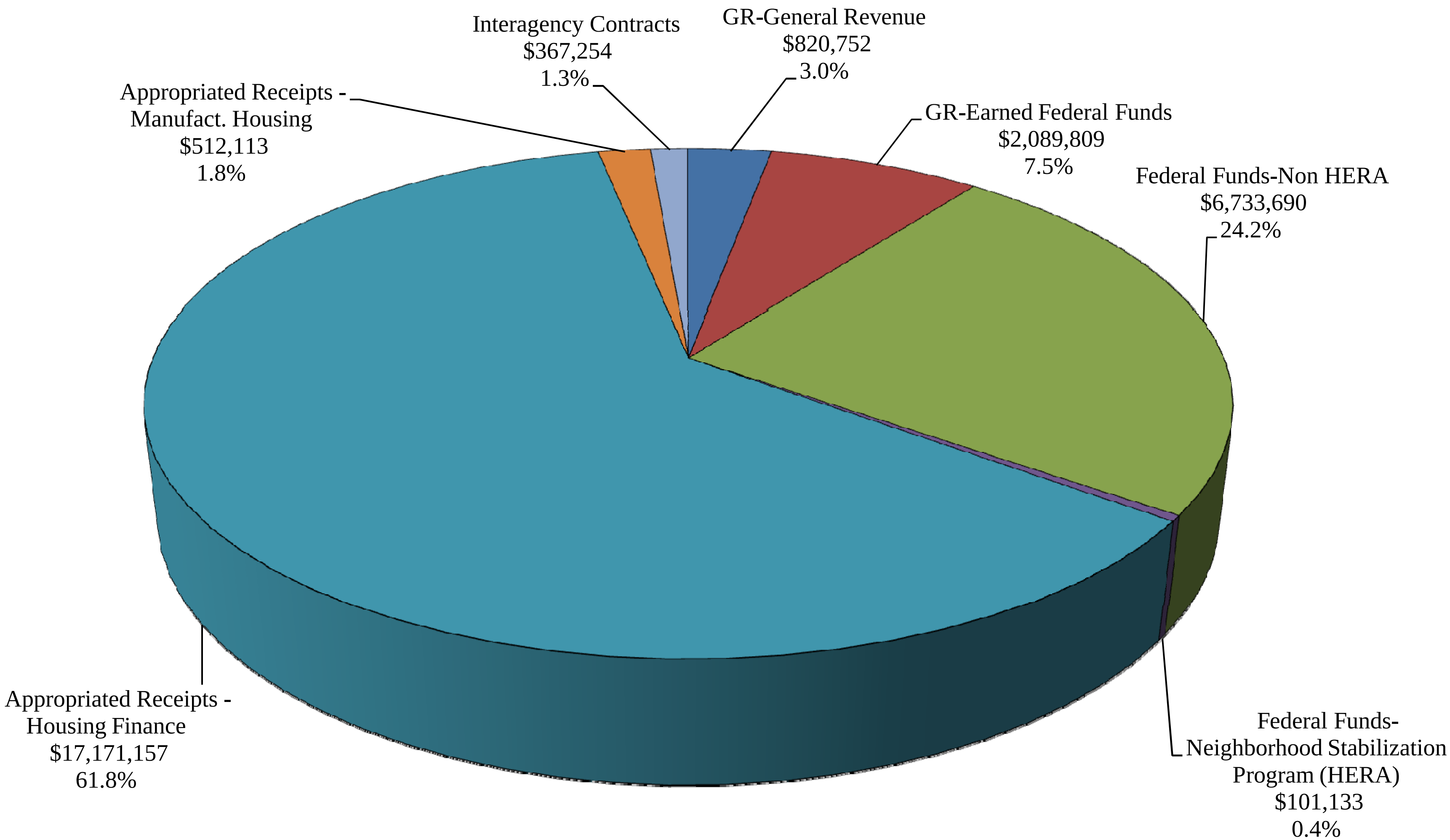
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
FY-2018 OPERATING BUDGET

T A B L E O F C O N T E N T S

Method of Finance Chart 1
Agency Wide – By Method of Finance 2
Comparison by Division 3

* * * * * * * * * * * * * * *

Texas Department of Housing and Community Affairs
FY 2018 Method of Finance



Total Budget: $27,795,908

Comparison by Division

	2017 Budget (b)	2018 Budget (b)	Variance (b-a)	Percentage Change	2017 Budget (d)	2018 Budget (e)	Variance (e-d)
Executive Administration:							
Executive Office	246,580	258,424	11,844	4.8%	1.0	1.0	0.0
Board	69,600	74,600	5,000	7.2%	-	-	-
Legal Services	1,135,851	1,103,671	(32,180)	-2.8%	10.0	10.0	0.0
Internal Audit	301,730	294,301	(7,429)	-2.5%	3.0	3.0	0.0
External Affairs	531,110	532,573	1,463	0.3%	5.0	5.0	0.0
Total, Executive Administration	**2,284,871**	**2,263,569**	**(21,301)**	**7.0%**	**19**	**19**	**-**
Human Resources	327,860	321,587	(6,273)	-1.9%	4.0	4.0	0.0
Real Estate Analysis	887,279	739,834	(147,445)	-16.6%	10.0	9.0	(1.0)
Asset Management	894,388	893,593	(795)	-0.1%	11.0	11.0	0.0
Multifamily Finance	1,065,295	1,074,311	9,016	0.8%	13.0	13.0	0.0
Fair Housing, Data Management and Reporting Division:							
Fair Housing, Data Management and Reporting - Admin	756,131	1,017,618	261,487	34.6%	7.0	10.0	3.0
Housing Resource Center	613,172	402,935	(210,238)	-34.3%	5.0	5.0	0.0
Office of Colonia Initiatives/HTF	717,709	785,875	68,166	9.5%	8.0	9.0	1.0
Loan Servicing	665,999	678,425	12,426	1.9%	8.0	8.0	0.0
Program Services	879,839	717,760	(162,079)	-18.4%	12.0	10.0	(2.0)
Community Affairs - Program Administration	927,464	807,558	(119,905)	-12.9%	8.0	7.0	(1.0)
Community Affairs - Fiscal	755,105	695,572	(59,533)	-7.9%	9.0	8.0	(1.0)
Section 8	335,811	328,297	(7,514)	-2.2%	5.0	5.0	0.0
Total, Fair Housing, Data Management and Reporting Division	**5,651,231**	**5,434,040**	**(217,191)**	**-29.8%**	**62**	**62**	**-**
Financial Administration:							
Chief Financial Officer	277,403	275,978	(1,425)	-0.5%	2.0	2.0	0.0
Accounting	1,635,494	1,868,872	233,378	14.3%	19.0	19.0	0.0
Financial Services	582,181	342,803	(239,378)	-41.1%	4.0	4.0	0.0
Purchasing and Facilities Management	578,468	571,147	(7,321)	-1.3%	8.0	8.0	0.0
Total, Financial Administration	**3,073,546**	**3,058,800**	**(14,746)**	**-28.6%**	**33**	**33**	**-**
Single Family Programs							
Single Family Programs Director	-	146,633	146,633	-	0.0	1.0	1.0
HOME Program	775,177	906,098	130,921	16.9%	10.0	12.0	2.0
Bond Finance	564,006	563,503	(503)	-0.1%	5.0	5.0	0.0
Texas Homeownership Program	544,960	553,776	8,815	1.6%	4.0	4.0	0.0
Information Systems	1,711,042	1,877,867	166,825	9.7%	20.0	22.0	2.0
Total, Single Family Programs Division	**3,595,185**	**4,047,877**	**452,692**	**28.2%**	**39**	**44**	**5**
Compliance Division							
Compliance - Administration	497,794	489,802	(7,992)	-1.6%	5.0	5.0	0.0
Physical Inspections	1,381,088	1,379,994	(1,094)	-0.1%	15.0	15.0	0.0
Contract Monitoring	508,987	467,647	(41,340)	-8.1%	6.0	6.0	0.0
Compliance Monitoring	1,208,943	1,406,391	197,449	16.3%	17.0	19.0	2.0
Community Affairs Monitoring	505,478	538,993	33,515	6.6%	8.0	8.0	0.0
Total, Compliance	**4,102,290**	**4,282,827**	**180,538**	**13.2%**	**51**	**53**	**2**
Capital Budget	195,200	1,343,274	1,148,074	588.2%			
Payroll Related Costs	4,203,829	4,336,195	132,366	3.1%			
Manufactured Housing (FTEs)					**64.0**	**64.0**	**0.0**
Total, Department	**$ 26,280,974**	**$ 27,795,908**	**$ 1,514,934**	**5.8%**	**306**	**312**	**6**

Agency Wide - By Method of Finance

September 1, 2017 thru August 31, 2018

Budget Categories	**General Revenue**	**Federal Funds**	**Appropriated Receipts**	**Interagency Contract**	**MH Appropriated Receipts**	**Total**
Salaries	1,994,607	4,110,605	11,318,189	239,127	404,952	18,067,478
Payroll Related Costs	549,960	1,033,981	2,597,675	57,390	97,188	4,336,195
Travel In-State	32,301	156,528	262,999	41,904	-	493,732
Travel Out-of-State	4,640	42,300	78,454	-	-	125,394
Professional Fees	61,872	343,596	815,549	-	-	1,221,018
Materials/Supplies	37,018	42,292	177,477	2,126	-	258,913
Repairs/Maintenance	80,316	60,914	502,722	-	-	643,953
Printing and Reproduction	1,641	3,453	11,453	200	-	16,747
Rental/Lease	21,223	34,134	106,113	1,500	-	162,969
Membership Dues	1,889	21,793	60,550	-	-	84,232
Staff Development	16,287	42,450	80,513	2,000	-	141,250
Insurance/Employee Bonds	52,935	64,943	264,575	5,097	9,973	397,524
Employee Tuition	728	-	1,772	-	-	2,500
Advertising	38	1,500	83,613	-	-	85,150
Freight/Delivery	3,104	760	21,686	-	-	25,550
Temporary Help	10,462	10,634	68,654	10,110	-	99,860
Furniture/Equipment	2,226	10,250	50,657	5,800	-	68,933
Communications/Utilities	34,756	70,607	249,372	2,000	-	356,735
Capital Outlay	-	781,846	402,083	-	-	1,183,929
State Office of Risk Management	4,558	2,238	17,051	-	-	23,846
Total	**2,910,561**	**6,834,823**	**17,171,157**	**367,254**	**512,113**	**27,795,908**
Budget by Method of Finance, 2017	3,084,753	6,083,010	16,230,639	370,716	511,856	26,280,974
Variance from 2017	(174,192)	751,813	940,518	(3,462)	257	1,514,934

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BOARD ACTION REQUEST

FINANCIAL ADMINISTRATION DIVISION

JUNE 29, 2017

Presentation, discussion, and possible action on the FY 2018 Housing Finance Division Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the "Department" or "TDHCA") is required to approve a FY 2018 Housing Finance Division Budget; and

WHEREAS, the Department is required to submit the budget to the Governor's Office and the Legislative Budget Board ("LBB");

NOW, therefore, it is hereby

RESOLVED, that the FY 2018 Housing Finance Division Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the Governor's Office and the LBB.

BACKGROUND

In accordance with Tex. Gov't Code §2306.113 the Department shall create a separate annual budget for the Housing Finance Division to certify the housing program fee revenue that supports the Department. While at the time the statute was created such a division existed, the duties associated with the Housing Finance Division have been spread among multiple divisions in the agency as reorganizations to improve efficiency have occurred. This budget is a subset of the whole operating budget and shows the Housing Finance revenues also known as Appropriated Receipts that support the operating budget.

The FY 2018 Housing Finance Division Budget, which the Board is considering, is $17.2 million. The Housing Finance Budget complies with the provisions of the General Appropriations Act ("GAA").

In addition, in accordance with Tex. Gov't Code §§2306.117 and 2306.118, the Department incurs operational and nonoperational expenses in carrying out the functions of the Housing Finance Division. These types of expenses may be paid only from revenues or funds provided under this Chapter. The revenue and funds of the Department received by or payable through the programs and functions of the housing finance division, other than funds necessary for the operation of the housing finance division and appropriated funds, shall be administered outside the treasury with the Texas Treasury Safekeeping Trust Company.

FISCAL YEAR 2018
HOUSING FINANCE DIVISION BUDGET

(September 1, 2017 through August 31, 2018)

June 29, 2017

Prepared by the Financial Administration Division

Housing Finance Budget Appropriated Receipts

September 1, 2017 thru August 31, 2018

Budget Categories	Executive Administration	Multifamily Allocation	Fair Housing, Data Management, and Reporting	Financial Administration	Asset Management	Compliance	Real Estate Analysis	Single Family Programs, Information Systems	Capital Budget	Payroll Related Costs	Total
Salaries	1,674,565	903,641	1,582,543	1,435,197	813,408	1,983,415	664,448	2,260,973			11,318,189
Payroll Related Costs	-	-	-	-	-	-	-	-		2,597,675	2,597,675
Travel In-State	50,500	10,000	25,000	6,099	5,000	141,200	5,000	20,200			262,999
Travel Out-of-State	30,594	6,000	7,000	5,685	2,000	5,900	2,000	19,275			78,454
Professional Fees	120,205	2,083	4,191	247,773	1,763	355,232	6,442	54,572	23,287		815,549
Materials/Supplies	24,290	12,964	15,925	35,725	9,085	30,411	11,206	37,872			177,477
Repairs/Maintenance	33,070	21,150	92,518	94,555	17,473	55,423	14,296	75,949	98,288		502,722
Printing and Reproduction	2,222	1,000	486	1,438	-	223	-	6,085			11,453
Rental/Lease	8,387	10,827	7,164	14,928	3,738	10,415	2,649	48,005			106,113
Membership Dues	50,000	425	1,325	1,691	617	5,722	-	770			60,550
Staff Development	14,000	6,000	15,654	15,185	5,000	6,675	2,000	16,000			80,513
Insurance/Employee Bonds	34,083	19,701	41,263	44,060	17,701	45,638	14,467	47,662			264,575
Employee Tuition	-	-	-	772	-	-	1,000	-			1,772
Advertising	1,500	-	-	113	-	-	-	82,000			83,613
Freight/Delivery	2,900	250	4,430	8,585	2,500	15	-	3,005			21,686
Temporary Help	33,473	9,135	4,748	6,648	1,552	5,052	1,270	6,776			68,654
Furniture/Equipment	3,500	600	2,703	3,221	600	4,550	700	5,000	29,783		50,657
Communications/Utilities	36,589	16,208	38,498	29,140	12,099	35,761	13,490	67,588			249,372
Capital Outlay	-	-	-	-	-	-	-	-	402,083		402,083
State Office of Risk Management	1,923	1,250	1,615	4,529	1,058	3,067	865	2,743			17,051
Total	**2,121,800**	**1,021,233**	**1,845,063**	**1,955,343**	**893,593**	**2,688,700**	**739,834**	**2,754,477**	**553,441**	**2,597,675**	**17,171,157**