

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 RESÉNDIZ, Member  
LEO VASQUEZ, Member

*ON THE RECORD REPORTING  
(512) 450-0342*

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
ACTION ITEMS:	
ITEM 1: Presentation, discussion, and possible action regarding items for inclusion in Legislative Appropriations Request for fiscal years 2020-21	3
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS	none
EXECUTIVE SESSION	none
OPEN SESSION	--
ADJOURN	22

1                   P R O C E E D I N G S

2                   MS. THOMASON: Good morning and welcome to the  
3 July 12 meeting of the TDHCA Audit and Finance Committee.  
4 We'll take roll.

5                   Paul Braden?

6                   MR. BRADEN: Here.

7                   MS. THOMASON: Asusena Reséndiz?

8                   MS. RESÉNDIZ: Present.

9                   MS. THOMASON: And then here, Leo Vasquez?

10                  MR. VASQUEZ: Here.

11                  MS. THOMASON: All right. So we don't have any  
12 minutes from our last meeting since it was just two short  
13 weeks ago, so we'll just get right into our agenda today.

14                  We don't have any audit items. So the first  
15 presentation -- I guess the only presentation -- will be  
16 from Michael Lyttle.

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

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

25                  During this Committee's meeting on May 24,

1 staff brought forth policy-related elements for inclusion  
2 in the LAR for your approval, with the understanding that  
3 we would be bringing additional items to the Committee  
4 once we had instructions released to us from the  
5 Legislative Budget Board and the Office of the Governor  
6 for the LAR.

7 So on June 25, that happened. The Office of  
8 the Governor and the LBB released those instructions along  
9 with a policy letter that was given to State agencies.  
10 The letter directed agencies to include within their LAR a  
11 supplemental schedule detailing options for a 10 percent  
12 reduction in each agency's baseline general revenue using  
13 2.5 percent reduction increments.

14 Today's staff is seeking your approval of the  
15 10 percent option schedule as well as the administrator  
16 statement which serves as an introduction to the LAR and  
17 which, among other things, explains the Department's  
18 approach and how we developed that schedule.

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

23 TDHCA's general revenue reduction option  
24 schedule must identify 2.4 million in potential reductions  
25 over the biennium. The 2.5 percent increments translate

1 to three increments of \$608,850 and then one for \$608,847.

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

8 The next highest source of GR is approximately  
9 3.7 million in what's called earned federal funds, which  
10 are those federal funds that can be applied to indirect  
11 administrative support and are characterized as GR,  
12 actually, in the General Appropriations Act.

13 The remaining GR reflects a modest amount that  
14 provides basic support to the Housing and Health Service  
15 Coordination Council, authority to collect up to \$20,500  
16 in fees associated with the Migrant Labor Farmworker  
17 Housing Program, inspection program, and authority to  
18 collect Texas Online fees, which are estimated at about  
19 \$38,000.

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

1 carrying out our mission.

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

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

12                  So that leaves us with earned federal funds that are  
13 applied to central administration, which is about  
14 3.2 million over the biennium, Housing Trust Fund-  
15 supported Amy Young Barrier Removal Program, which is  
16 2.7 million over the biennium; NHHSP, which is funded  
17 about 10 million over the biennium.

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

24                  Staff feels that the Department can sustain a  
25 reduction of this order and still provide adequate support

1 for our federally funded programs. Thereafter, required  
2 reduction for each increment are taken on a pro rata basis  
3 between the Amy Young Program and HHSP.

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

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

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

24 I also want to mention that there's been some  
25 interest in the Agency including additional resources in

1 our LAR for the Migrant Labor Farmworker Housing  
2 Inspection Program. While we anticipate this task  
3 expanding in the near future, we're working with the Texas  
4 Workforce Commission to leverage their ongoing work in  
5 this area to mitigate costs.

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

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

22 Thank you. Any questions?

23 MS. THOMASON: Question? Okay.

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

1 request?

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

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

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

15 But generally speaking, I think I can only  
16 remember one session in recent memory where we had a full  
17 10 percent reduction, but I would -- David, is there  
18 anything that you want to add to that?

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

22 Previous session, two things occurred. When  
23 the policy letter came out, they asked us to move forward  
24 with an actual 4 percent reduction, and that was  
25 implemented last session, and then they followed it up

1       with a 10 percent reduction schedule to be included in the  
2       LAR in the event that, you know, they would have a need to  
3       reduce further.

4                   So that's kind of the way it played out last  
5       session. But I agree with Michael as far as it being the  
6       standard: not necessarily, but we've seen it in play, the  
7       10 percent reduction schedule, over at least the last  
8       three sessions now.

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

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

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

23                  So we'll see how it all develops, but, yeah,  
24       quite a few economic indicators still in play all the way  
25       around, so --

1                   MR. VASQUEZ: I'm sorry. Just to follow up on  
2 Mr. Braden's question, to clarify, the State asks all the  
3 agencies to provide these potential budget reductions,  
4 not -- it's not saying that you are -- we are reducing  
5 everything 10 percent.

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

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

12                  They may just do one. It may be zero. But  
13 yeah, it's sort of a graduated approach to a full  
14 10 percent --

15                  MR. VASQUEZ: Right.

16                  MR. LYTTLE: -- but again, it's a potential  
17 reduction schedule. It's certainly not definite that that  
18 will happen. And as David referenced earlier, too, I  
19 don't know if you saw the news, but yesterday, the  
20 Comptroller came out and indicated that there were  
21 2.8 billion more available funds for the State this next  
22 session, which will certainly help.

23                  It's definitely going to be a very, very tight  
24 budget session, but every little bit is going to help for  
25 the State.

1                   MR. VASQUEZ: And just one other following  
2 question. Can you clarify a little bit more on when we  
3 talk about earned federal funds? Are some of these  
4 potential cuts -- would it be us just effectively walking  
5 away from funds from the federal government that we could  
6 be using?

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

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

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

24                  So to your question, are you relinquishing  
25 federal funds? No, you do not, but we're having to gauge

1 very carefully any general revenue that would default into  
2 the general revenue fund, because we're obviously not  
3 trying to create any disparity in the support of federal  
4 programs.

5 That's why in the write-up we're very careful  
6 to state that evaluating all of the funds -- which you  
7 know, we had 3.7. This would take us to 3.6 with a  
8 \$98,000 reduction, but we're being very cautious as to,  
9 you know, not creating an effect on anything that would  
10 jeopardize the maximization of federal funding into the  
11 State, if that makes sense.

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

15 MR. CERVANTES: Uh-huh.

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

19 MR. CERVANTES: Uh-huh.

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

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

25 MR. VASQUEZ: Okay. So if the legislature

1           cuts -- makes these types of cuts our budget --

2           MR. CERVANTES: Uh-huh.

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

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

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

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

19          MR. CERVANTES: By all means.

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

23          The way I understand it, which is probably  
24          oversimplified -- let's say you have \$100 million federal  
25          grant, and let's just assume that, for the sake of simple

1       math, you can use 10 percent of that for administrative  
2       costs.

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

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

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

13                MR. IRVINE: Yeah.

14                MR. CERVANTES: -- just to be clear.

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

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

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

25                MR. CERVANTES: Right.

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

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

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

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

23                  And it went back to, again, construing the  
24 funds, once they reach the Treasury, that earned federal  
25 funds can in effect be recognized as general fund. All

1 right? And so they were put in play.

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

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

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

17               And so when the State as a whole is balancing  
18 the budget, in respect to State funds, GR and federal  
19 funds are considered in the base at this time, to balance  
20 the budget. So we're not an HHSC or larger agency, but we  
21 do have a significant amount of federal funds, relatively  
22 speaking, and so I mean, we do get affected by, you know,  
23 obviously, trying to incorporate earned federal funds and  
24 balancing the administration of those types of funds.

25 Yeah.

1                   MR. VASQUEZ: Again, I don't think it's going  
2 to be an issue this year, this biennium, but --

3                   MR. CERVANTES: Right.

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

6                   MR. CERVANTES: Uh-huh.

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

9                   MR. CERVANTES: Okay.

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

13                  MR. CERVANTES: Right.

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

15                  MR. CERVANTES: Right.

16                  MR. VASQUEZ: -- coming from federal funds.

17 It's not just that we're taking away from --

18                  MR. CERVANTES: Right.

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

23                  MR. CERVANTES: Right.

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

1 but --

2 MR. CERVANTES: Right.

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

5 MR. CERVANTES: Yeah, and --

6 MR. VASQUEZ: -- with our budget.

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

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

20 And they're very careful in their  
21 communications, just as we are, in terms of managing the  
22 situation to make sure that all services are going to be  
23 provided in a maximized way, and that's why here -- it's  
24 basically a very conservative appeal to include a small  
25 portion in there, because we certainly don't want to -- we

1       don't want to put anything in play that would harm any  
2       level of services, you know, as we go.

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

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

10                MR. VASQUEZ: Great. Thanks, David.

11                MR. CERVANTES: Okay.

12                MS. THOMASON: Any more questions?

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

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

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

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

25                MS. RESÉNDIZ: Okay.

1                   MR. LYTTLE: Let's see here. Find it in my  
2 notes. Yeah, 98,878.

3                   MS. RESÉNDIZ: Okay.

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

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

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

10                  MS. RESÉNDIZ: Okay.

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

15                  MS. RESÉNDIZ: Okay.

16                  MR. LYTTLE: So --

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

19                  MR. LYTTLE: Thanks.

20                  MS. THOMASON: Thank you very much.

21                  MR. LYTTLE: Thank you.

22                  MS. THOMASON: Then I would like to have a  
23 motion to approve the LAR items that were presented by  
24 Michael for -- that's also for taking to the full Board.  
25 May I have a motion?

1                   MR. VASQUEZ: Move to accept the Board's  
2 presentation and present it to the full Board.

3                   MS. THOMASON: Okay. Second?

4                   MR. BRADEN: Second.

5                   MS. THOMASON: Okay. All in favor?

6                   (A chorus of ayes.)

7                   MS. THOMASON: Any opposed?

8                   (No response.)

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

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

1                   C E R T I F I C A T E

2

3 MEETING OF:       TDHCA Audit and Finance Committee

4 LOCATION:          Austin, Texas

5 DATE:              July 12, 2018

6                   I do hereby certify that the foregoing pages,  
7 numbers 1 through 23, inclusive, are the true, accurate,  
8 and complete transcript prepared from the verbal recording  
9 made by electronic recording by Nancy H. King before the  
10 Texas Department of Housing and Community Affairs.

11                   DATE: July 16, 2018

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17                   \_\_\_\_\_  
18                   (Transcriber)

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