MINUTES
of the
FIFTH MEETING
of the
MORTGAGE FINANCE AUTHORITY ACT
OVERSIGHT COMMITTEE

September 30, 2010
Mortgage Finance Authority
Albuquerque, New Mexico

The fifth meeting of the Mortgage Finance Authority (MFA) Act Oversight Committee was called to order by Senator Nancy Rodriguez, vice chair, at 10:15 a.m. on Thursday, September 30, 2010, at the office of the MFA in Albuquerque, New Mexico.

Present
Sen. Nancy Rodriguez, Vice Chair
Sen. Mark Boitano
Rep. Ernest H. Chavez
Sen. Eric G. Griego
Rep. Joni Marie Gutierrez

Absent
Rep. Jose A. Campos, Chair
Rep. Janice E. Arnold-Jones
Sen. Cisco McSorley

Advisory Members
Sen. Rod Adair
Rep. Thomas A. Anderson
Rep. Andrew J. Barreras
Rep. Roberto "Bobby" J. Gonzales
Rep. Sandra D. Jeff
Rep. James Roger Madalena
Sen. Richard C. Martinez
Sen. Gerald Ortiz y Pino
Rep. Dennis J. Roch
Rep. Benjamin H. Rodefer
Sen. Sander Rue

Staff
Kim Bannerman, Staff Attorney, Legislative Council Service (LCS)
Claudia Armijo, LCS

Guests
The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

<u>Thursday, September 30</u>

Senator Rodriguez welcomed committee members and guests to the meeting, and the members introduced themselves. She advised the members that the meeting was being webcast. Consequently, she asked that they keep side conversations to a minimum.

MFA Internal Cost-Saving Measures

Joseph Montoya, deputy director of programs for the MFA, spoke to the members regarding cost-saving measures implemented by the MFA. He explained that the MFA has been hit hard by the housing crisis. He said that in the spring of 2009, the MFA management began looking at organization-wide cost-saving initiatives. He specified that the work was conducted not only by senior management and the strategic management team, but by every MFA employee. Suggestions were compiled, reviewed and implemented if appropriate. He advised the committee that the MFA continues work in this area, and he shared a list of some of the cost savings that have been implemented during the last 18 months. The cost-saving measures include the following:

1) implementation of videoconferencing technology; the use of videoconferencing resulted in savings not only to the MFA travel budget, but in the budgets of the subgrantees as well;

2) switching to a state cell phone contract, which resulted in the MFA benefiting from state negotiated savings;

3) using free public meeting rooms when such rooms meet the needs of any particular MFA activity;

4) implementing an organization-wide double-sided printing preference on appropriate documents;

5) implementing policies to reduce energy costs, including changing out inefficient light bulbs, installing motion detector lighting in the restrooms and workrooms and replacing older appliances with Energy Star-rated models;

6) reducing the costs associated with the security guard by making a 50% reduction in security guard hours (having the guard work two days instead of four);

7) eliminating plant care and maintenance services;

8) recycling supplies;

9) developing and implementing a new monitoring plan between asset management and community development that provides for shared resources resulting in travel savings;

10) reducing internal audit hours by 10%;

11) reducing outside mailings by using email lists and the web site for communication;

12) solidifying tax-exempt status with the health care provider, which eliminates gross receipts taxes on related services; and

13) identifying a new, less expensive vendor for paper products.

The MFA estimates that the cost-savings initiatives will save approximately $60,000 annually.

Gina Hickman, deputy director of finance and administration for the MFA, continued the discussion about the MFA's internal cost-saving measures by addressing the new issue bond program (NIBP). She advised the members that the U.S. Treasury is providing assistance to housing finance authorities (HFAs) across the country for single and multifamily bond issuance in the form of purchasing bonds at below-market rates. The MFA requested and received a single-family allocation of $1.5 million. Through the program, the MFA was able to escrow the allocation with no negative carry and will be rolling out the program over the next 12 to 15 months. For each rollout, the U.S. Treasury will purchase a maximum of 60% of each bond issue, with the remaining 40% sold to the public. The U.S. Treasury portion rate will be set at the 10-year treasury +60 basis points. The MFA is currently locked in at a rate of 3.07%. This low rate is allowing the MFA to offer below-market mortgage rates in its first-time home buyers program. Ms. Hickman explained that this improves the economics related to the MFA's first-time home buyers program and has a positive impact on the state's general fund revenues and expenses as well. The NIBP grant will continue through December 31, 2011. Ms. Hickman directed the members to a summary of the NIBP expenses.

Ms. Hickman also discussed the MFA's general fund expense budget versus its actual expenses for fiscal years 2006 through 2011. She noted that the MFA instills a culture to continually find ways to conserve and save, which has resulted in actual expenses consistently being less than the expense budget projections.

Some committee members asked for clarification regarding the dates through which the first-time home buyers program is valid. There was a general discussion involving whether the first-time home buyers program is valid for single-family units as well as multiunits. Ms. Hickman explained that any allocations from the program for multiunits have already been allocated.

MFA Budget Overview

Yvonne Segovia, MFA controller, along with Ms. Hickman, discussed the MFA's budget with the committee. Ms. Segovia began by explaining that the MFA's general fund budget for fiscal year 2010-2011 is around $14 million, which is an increase of approximately $1.5 million from the previous fiscal year. She noted that all of the MFA's revenues are derived from self-sustaining activities, such as administration of bonds and federal housing programs and interest income from loans and investments. She noted that the MFA's expenses for fiscal year 2010-2011 are projected to be around $12.6 million, an increase of $3.7 million, or 41%, over fiscal year 2010's projected expenses.

She continued by explaining that the revenue increase this fiscal year was primarily a result of an increase in the federal American Recovery and Reinvestment Act of 2009 (ARRA) grant funds for the weatherization assistance program, which was used for training and technical assistance. She explained that the MFA's budget increase reflects staffing increases that include: (1) a part-time (75%) program manager position to support tribal housing initiatives; (2) a program specialist to support ARRA programs; (3) a lending coordinator; and (4) a database programmer. Ms. Segovia noted that the staffing increases in the budget are substantially offset by the elimination of the director of program administration position and the elimination of the regional housing coordinator position.

Ms. Segovia told the members that the MFA has budgeted for an increase in payroll taxes and employee benefits. She attributes the increase primarily as a result of increased health care and dental insurance costs. She noted that the health insurance premiums did not increase; the increased costs are due to additional MFA staff and in the selected health care options made by employees. Ms. Segovia highlighted various other aspects of the MFA budget and referred the members to the handout for more in-depth and detailed information.

When asked if the MFA administers any state funds, Ms. Segovia explained that the MFA administers the state trust fund dollars. However, she specified that although the funds are administered by the MFA, the money does not flow through the MFA budget. Some members inquired about MFA funds that are managed by the State Investment Council (SIC). Ms. Hickman stated that the MFA board supports investing with the SIC because the board members like the SIC's allocations for long-term investments. She clarified that the MFA's short-term and indexed investments are not handled through the SIC. Lastly, Ms. Segovia reminded the members that the MFA is not a state agency; therefore, its employees are not part of the Public Employees Retirement Association. Rather, MFA employees participate in a 401(k) program, whereby the MFA contributes 5% of an employee's salary with matches that could be as high as 11%.

MFA Organizational Review and Update — Comparison to Similar Entities in Other States

Jay Czar, the MFA's executive director, and Erin Quinn, senior policy and program advisor for the MFA, spoke to the members about the MFA as it compares to similar agencies in other states. Ms. Quinn reminded the members that the information is being provided as a result of a request made by some of the committee members at the previous MFA meeting held earlier in September. Next, she directed the members' attention to the handout and a graph depicting the "Year-Over-Year Growth Rate" of all HFAs and the MFA. She explained that she developed the graph using information compiled from a nationwide HFAs survey. She cautioned that the information does not compare "apples to apples" because HFAs differ greatly in size, programs and statutory duties and responsibilities. Ms. Quinn explained that most HFAs experienced growth in their respective budgets of about 69.99% per employee, while the MFA's growth rate was negative 1.88%.

There was a discussion regarding the overall value of the information provided by the graph. Members noted that the information is not specific enough to truly ascertain how the MFA compares to similar HFAs. Ms. Quinn told the members that additional administrative and budget information was provided in the handout in the pages immediately following the graph. She advised them that the data included was the raw data she used when developing the graph. She additionally advised the members that some of the HFAs included in the information are actual state agencies, unlike the MFA, that, although statutorily created, is not a state agency. Lastly, Ms. Quinn explained the difficulties she experienced when trying to compare the MFA to other HFAs. She told the members that there was so much information that it could take months to compile it in a useful, meaningful manner.

Ms. Quinn next directed the members' attention to the MFA organizational chart included in the handout. She explained that HFAs can vary significantly in their characteristics, including their age, size, relationship to state government, program authority and administration. HFAs administer a range of federal affordable housing programs. They also run a variety of community and economic development programs, including job training, weatherization and low-income heating cost assistance. HFAs often contribute to the supply of affordable housing by providing technical assistance, capacity building and other program support to nonprofit housing providers in their respective states. Most HFAs play a lead role in developing their states' consolidated plans, which is a requirement for participation in federal housing programs. Many HFAs also administer state funds provided through annual appropriations, dedicated revenues and other sources.

Ms. Quinn provided a brief history of the inceptions of HFAs, telling the members that the State of New York was the first to establish a statewide housing agency in 1939. Other states soon followed, and by 1987, 47 more states, Puerto Rico, the U.S. Virgin Islands and the District of Columbia had all established HFAs.

Most HFAs are governed by a board of directors consisting of five to 19 members who are usually appointed by the state's governor or serve ex officio by virtue of occupying a position in state government. Some state legislatures appoint board members. In 2008, HFAs' operating budgets ranged from $2.9 million to more than $115 million. The vast differences in the size of the HFAs' budgets reflect, in part, differences in state size, population, programs administered and the extent to which the HFAs use outside contractors to perform some of their work. The average annual budget for HFAs in 2008 was $25.6 million.

Ms. Quinn told the members that the HFAs staff sizes range from 25 to 940 full-time employees. The average staff size has grown from 72 in 1987 to 159 in 2008, reflecting an increase in HFAs' responsibilities. She added that there are significant differences in the volume of program activity among HFAs. Those differences are reflected in the amount of the outstanding bonds issued, ranging from $15 million to $9.2 billion. Outstanding HFA bonds totaled $120 billion in 2008, an $11 billion increase above total HFA bond debt in 2007. Referring to Table 12 of the handout, Ms. Quinn stated that HFAs administered $10.6 billion of the $15.4 billion in combined bond proceeds and state appropriations dedicated for affordable housing in 2008. HFAs administered 28 of the 41 state trust funds operating in 2008 to support affordable housing.

Proposals for Audit Review of Conflict-of-Interest Procedures

Marjorie Martin, general counsel for the MFA, and Ms. Hickman addressed the members regarding the possibility of the MFA contracting services for an outside audit of its conflict-of-interest procedures. Committee members requested this information at a previous meeting. Ms. Hickman explained that she had contacted the law firm of Sheehan & Sheehan P.A. and had received from the firm a letter containing an estimate of $3,880 to $5,160 in fees to perform the audit. A copy of the letter was provided in the handout. Also included in the members' handouts is a copy of a letter from Wayne Brown, partner in the firm of Moss Adams LLP, the firm that currently performs internal audits for the MFA. The letter contained an estimate of between $20,000 and $25,000 in fees associated with the Moss Adams firm performing an audit of the MFA's bylaws, rules and regulations, code of conduct and policies and procedures. Ms. Hickman noted that she had contacted the University of New Mexico (UNM) regarding a student-conducted study of the issue, but she was informed that it is not possible at this time.

There was a discussion about the possibility of contracting for services for the external audit. The members decided to hold over the topic for the next meeting and to consider contacting both UNM and New Mexico State University if the audit is revisited.

Prior to adjournment, it was noted that the November 3, 2010 meeting will begin at 9:00 a.m. and will be held at the Hotel Albuquerque.

Adjournment

There being no further business before the committee, the fifth meeting of the MFA Act Oversight Committee for the 2010 interim adjourned at 12:20 p.m.