

CREDIT UNION COMMISSION MEETING MINUTES

**Credit Union Department Building
914 East Anderson Lane, Austin, Texas
March 10, 2023**

A. CALL TO ORDER -- Chair Jim Minge called the meeting to order at 9:01 a.m. in the conference room of the Credit Union Department Building, Austin, Texas, pursuant to Chapter 551 of the Texas Government Code, and declared that a quorum was present. Other members present included Liz Bayless, David Bleazard, Karyn Brownlee, Beckie Stockstill Cobb, Sherri Merket, David Shurtz and Kay Swan. The Chair introduced general counsel Nancy Elmilady, who will serve as legal counsel for the commission at the meeting. Representing the Department staff were Commissioner Michael S. Riepen, Deputy Commissioner Robert W. Etheridge, Director of Information and Technology Joel Arevalo, and Executive Assistant Isabel Velasquez. Chair Minge appointed Isabel Velasquez as Recording Secretary. The Chair inquired and the Commissioner confirmed that the notice of the meeting was properly posted with the Secretary of State (**February 24, 2023 TRD#2023001159**).

B. MINUTES OF PREVIOUS MEETINGS (November 4, 2022) -- The Chair referred the members to the draft minutes of the previous meeting included in the agenda packet and asked for any proposed edits. Hearing none, the Chair asked for a motion to approve the minutes. Mrs. Cobb moved for approval of the minutes of November 4, 2022, as presented. Mr. Bleazard seconded the motion, and the Commission carried the motion unanimously.

C. DEPARTMENT'S FY 2023 BUDGET AND FINANCIAL PERFORMANCE – Commissioner Riepen reported that in 2022 the Commission adopted a strategic plan for Fiscal Years 2023-2027. The \$5.0 million FY 2023 budget approved by the Commission in June 2022 includes the maintenance and operating and capital improvement budget in support of the Strategic Plan. At the end of the five months total expenditures were \$354,541 or approximately 17% less

than budgeted projections of \$1,691,462. Almost all expense categories performed below budgeted levels. Due to personnel vacancies, total personnel expenses accounted for about 50 percent of the budget variance. Other below budget items include travel related savings as well as several expense categories under other operating expenses.

After a brief discussion, the Commission took no action.

D. DEPARTMENT'S FY 2024 GENERAL BUDGET ASSUMPTIONS AND PARAMETERS. Commissioner Riepen explained that the Finance Code, Section 16.003 gives the Commission the responsibility for approving the Department's budget each year. Since the budget must be adopted at the July meeting, staff is seeking approval of guidelines for developing the FY 2024 budget. Mr. Riepen briefly highlighted the following budget items:

#7 Merit Increases – staff is proposing the increase of merit increase awards to 4 percent from 3 percent of total salaries for those positions due in part to higher inflation.

#11 Out-of-State Travel – staff is proposing lowering the annual budget from \$30,000 to \$25,000 as it is anticipated the Department will have less out of state travel. Furthermore, we are proposing having one category which includes the Commissioner and the rest of the department rather than having two separate categories.

#12 Commission Travel – staff is proposing budgeting less travel expense for the Commission as we are moving from four meetings to three meetings. We try to operate in a prudent fiscal manner and reduce expenses where we can, and if we need to potentially increase expenses due to higher inflation or other factors, we can do that.

After a short discussion, Ms. Merket moved that the Commission adopt the proposed budget assumptions and parameters for FY 2024 as recommended by staff. Mrs. Brownlee seconded the motion, and the motion was unanimously adopted.

E. STATE CREDIT UNION SYSTEM - Deputy Commissioner Etheridge briefly indicated that the financial performance of Texas charters in 2022 remained strong and our industry remains safe and sound. Most Texas charters continue to experience positive financial trends including strong earnings performance and sound asset quality ratios. The strong earnings performance coupled with a modest rise in regulated assets resulted in a significant strengthening of net worth ratios for Texas chartered credit unions in 2022. At year-end we had 170 regulated Texas credit unions, down five from the previous year. The regulated assets for those 170 credit unions was \$57 billion, reflecting an increase of just \$8 billion or 1.5 percent during the last twelve months. The unemployment rate declined to 3.9 percent at month-end December 2022, down from 5 percent twelve months earlier. Furthermore, over 650,000 new jobs were added in Texas in 2022 and the unemployment rates for three of our four metropolitan areas remain below the national average of 3.5 percent.

Commissioner Riepen noted that inflation remains stubbornly high and further interest rate increases are expected, increasing the chance of a recession. However, credit unions are in good shape financially to handle a weaker economy and potentially higher delinquency and loan losses in 2023.

After a brief discussion of some of the key financial trends, no formal action was taken by the Commission.

F. STATE AUDITOR’S OFFICE REPORT ON THE SELF-REPORTED IMPLEMENTATION OF SUNSET ADVISORY COMMISSION MANAGEMENT ACTIONS, SAO REPORT NO. 23-017 – General Counsel Elmilady provided a summary of the objective of the State Auditor’s Office project reporting on the implementation status of the management actions included in the Sunset Advisory Commission’s Report to the 87th Legislature. The scope of this project included eleven entities to which the Sunset Advisory Commission directed management actions in its report to the 87th Legislature. The Department provided their self-reported implementation statuses for non-statutory recommendations (management actions) included in the Sunset Advisory Commission Report to the 87th Legislature. Furthermore, Chapter 1 of the State Auditor’s Office report contains the implementation status as determined by the State Auditor’s Office report which contains the implementation status as determined by the State Auditor’s Office for selected management actions; and Chapter 2 contains the Department’s self-reported status of the management actions are reported to the State Auditor’s Office in September 2022. Ms. Elmilady highlighted pages 2, 7, 11, 19-25 and 47 where the report referenced the Department.

After a brief discussion, the Commission took no action.

F. COMMISSION POLICY MANUAL REVIEW UPDATES, AND PROPOSED EDITS – Chairman Minge reported that Committee Chair Bleazard would be conveying to the Commission the recommendations on the Commission policy manual. Mr. Minge thanked the two groups, especially Ms. Elmilady for the incredible amount of work and help she provided the Committee to get us to this point with policy changes.

Chair Bleazard thanked the members of the Committee who spent a substantial amount of time and effort bringing wonderful changes to the policy manual. Mr. Bleazard explained he would not be recommending at this time adopting this document because of the substantial changes being recommended by

the Committee. He reported the Committee is anticipating having another policy manual meeting before the next commission meeting and asked the Commissioner and General Counsel to coordinate the next Committee meeting. Furthermore, Mr. Bleazard thanked Mrs. Brownlee for adding a number of changes in the latter part of this document that reflects the changes from the previous Commissioner Evaluation Committee meeting.

After some discussion, the Commission took no action.

H. DISCUSSION, CONSIDERATION, AND POTENTIAL ACTION REGARDING THE AWARD OF THE INTERNAL AUDITING SERVICES CONTRACT

Committee Chair Swan reported that it has been an 18-month process and a couple of RFQs. She thanked the full staff and Ms. Elmilady for getting us through this process. She was happy to report that there is a recommendation on the table today. Mrs. Swan reported for full transparency to any respondents as well as the Commissioner and Deputy Commissioner having no knowledge of the proposals or the respondents. Only the Audit Evaluation Committee members had the information, only to be given the information of the respondents at our March 9th Audit Committee meeting. Chair Swan asked the Commission to take a few minutes to look through the evaluation and come up with any questions they may have.

After a short discussion, Mr. Bleazard moved to adopt the Audit Committee's recommendation of the Respondent (Weaver and Tidwell, L.L.P) to award the contract for conducting internal auditing services of the CUD as a result of the RFQ 469-23-001 solicitation, subject to successful completion of any final contract drafting, negotiation, and final execution; and to recommend that staff have the authority to draft and work on the contract and the Commissioner to execute said contract. Mrs. Brownlee seconded the motion, and the motion was unanimously adopted.

I. DEPARTMENT’S ANNUAL RISK ASSESSMENT REPORT FOR FY 2023 AS REQUIRED BY SECTION 2102.004, GOVERNMENT CODE –

Commissioner Riepen reported that Section 2102.03 of the Texas Government Code requires state agencies which meet certain requirements to conduct a formal risk assessment each year and submit the assessment to the State Auditor’s Office. The Department has completed the internal audit risk review and has prepared the required written assessment of the risks for submission to the State Auditor’s Office.

After a brief discussion, Mrs. Bayless moved that the Commission approve the Department’s Internal Risk Assessment Report FY 2023 and authorize its submission to the State Auditor’s Office. Mrs. Swan seconded the motion, and the motion was unanimously adopted.

J. RULEMAKING MATTERS

Adoption of Rule Review of 7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003, 91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015 and Re-adoption of Rules. Commissioner Riepen reported that Section 2001.039, Texas Government Code, requires that a state agency review and consider for re-adoption each rule not later than the fourth anniversary of the date on which the rule took effect and every four years after that date. At its February 2020 meeting, the Commission approved a plan which establishes a date for the required review for each of the affected rules. In accordance with that plan, staff has reviewed **7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003, 91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015.**

Notice of the review and a request for comments on the rules in these chapters were published in the December 9, 2022, issue of the *Texas Register*. No comments were received regarding the review.

After a short discussion, Mrs. Cobb moved that the Commission find that the reasons for adopting **7 TAC, Part 6, Chapter 91, Subchapter K §§91.2000, 91.2001, 91.2002, 91.2003, 91.2004, 91.2005, and 91.206 and Subchapter O §§91.6001, 91.6002, 91.6003, 91.6004, 91.6005, 91.6006, 91.6007, 91.6008, 91.6009, 91.6010, 91.6011, 91.6012, 91.6013, 91.6014, and 91.6015** continue to exist and that the Commission adopt these rules. Ms. Merket seconded the motion, and the motion carried unanimously.

K. LITIGATION UPDATE REGARDING PENDING LITIGATION - General Counsel Elmilady reported to the Commission that since the last meeting report, there have been no significant pleadings filed.

L. LEGISLATIVE ISSUES – Commissioner Riepen briefly reported that today was the last day to file bills, and it is still too early to determine what bills will get passed and in what form. There are several bills that have been introduced which will potentially affect credit unions, and other bills which will potentially impact the Department. Mr. Riepen outlined a few bills relating to home equity closings, credit scoring and lending decisions, prohibiting auto dealers from imposing restrictions on the purchase of a motor vehicle, and several others.

After some discussion, the Commission took no action.

M. SAGE ACT! DATABASE CONVERSION PROJECT – Director of Information and Technology Joel Arevalo reported that by way of background, the Department has a SAGE ACT! database that is not supported, which we looked at updating or migrating from about three years ago. Since we were not going in the right direction, our previous Commissioner started to develop a new database in

another platform, but that project was not completed prior to his departure. We have now reached out to the Department of Information Resources (DIR) and have solicited a request for a migration of our two databases. The Department has worked with DIR and selected vendors to create a DIR Team. The proposed solution by the DIR Team is to migrate the Sage ACT! database and the Access database that was incomplete into one solution. Mr. Arevalo reported that we are currently in the process of discovery (planning phases). We will continue to work to find the most cost-effective solution for our project, with the goal of having the DIR Team perform the conversion and management of the database and provide the Department with staff training and support.

➤ **Commission member David Bleazard** stated that having an IT background, he fully supported the efforts by the Department to find a new database solution for our Sage ACT! database, and that he believes this will be for the betterment of the Department and the credit unions in the State of Texas. Mr. Bleazard thanked Mr. Arevalo and stated that if the Commission can assist the Department in any way on this project, please reach out to him.

➤ **Chair Minge** also thanked Mr. Arevalo for everything he is doing on this project.

➤ **Commissioner Riepen** reported that working with DIR is very beneficial as they have IT expertise and can find the best cost effective and long-term solution for the Department, while also overseeing the conversion project to ensure its' success. He thanked Mr. Arevalo and everybody else's efforts on this project and feels it will be good for the Department moving forward.

After some discussion, the Commission took no action.

N. AGENDA ITEMS, ARRANGEMENTS, AND DATES. Chair Minge reminded everyone that the next regular meeting of the Commission has been tentatively scheduled for Friday, July 14, 2023, at 9:00 a.m., in Austin. Mr. Minge inquired if anyone had any suggested agenda items for our July 14th meeting. Mr.

Shurtz replied that he did not have any agenda items to include; however, he asked if it would be possible to change the date of the meeting. He stated he will be out of town for a few weeks in July and asked if the Commission would consider having the meeting on the first Friday of August or another alternative date. Chair Minge asked that Ms. Velasquez coordinate alternative dates that would work best for the Commission as well as for staff and get back to them.

ADJOURNMENT – There being no further business for the Credit Union Commission, Chair Minge adjourned the meeting at 9:54 a.m.

Jim Minge
Chairman

Isabel Velasquez
Recording Secretary

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