



# MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

## M E M O R A N D U M

**TO:** Authority Members

**FROM:** Kevin Elsenheimer, Executive Director *Kevin Elsenheimer*

**DATE:** June 22, 2016

**RE:** The Michigan State Housing Development Authority's 2016 - 2017 Proposed Budget

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### **Recommendation:**

I recommend that the Michigan State Housing Development Authority (the "Authority") approve the Authority's 2016 – 2017 Budget (the "Budget").

### **Executive Summary:**

At the May 25, 2016 Board Meeting, Authority staff submitted a draft of the Budget. The Budget was developed with input from all divisions within the Authority and prior years' experience and with consideration of the Authority's policy goals.

Authority members have had an opportunity to review the Budget over the past couple of weeks. Authority member comments during this review time and throughout the year have also had an impact on the Budget.

A few notable Budget items include:

- \$6,472,000 expected decrease in preservation fee income, due to the fact that most refinancing's of multi-family mortgages with excess reserve balances have taken place and this revenue source should continue to shrink; and
- A decrease in salaries and wages resulting from the Authority transferring a number of Community Development programs and associated staff to the Michigan Strategic Fund's Collaborative Community Development division.

### **Issues, Policy Considerations, and Related Actions:**

The Authority's annual budget has a major impact on the direction of the agency. This Budget is therefore developed with consideration for the Authority's Strategic Plan. Strategic Plan goals that are addressed in the Budget include the following:

- Ensuring the Authority's Future through Financial Solvency—over the prior 10-year period the Authority developed a budget that produced a 1% return, after expenses, on its Net Assets. Last year this return was raised to 1.25%, and this proposed budget is expected to yield a 1.33% return on Net Assets.
- Providing a Roof for Every Homeless Veteran in Michigan—this year's proposed budget will set aside a portion of its available grant dollars to meet this objective.
- Improving Operational Efficiencies for Both Customers and Staff—this proposed budget will increase IT spending by \$2.6 million, taking computer related expenses from \$3 million to \$5.6 million for the fiscal year ending June 30, 2017.

**Michigan State Housing Development Authority**  
**PROPOSED 2016-17 BUDGET**  
(000's Omitted)

	PROPOSED BUDGET <u>16-17</u>		ESTIMATED 12 MONTH <u>15-16</u>	BUDGET <u>15-16</u>	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
<b>Revenue:</b>						
Net interest income	\$67,015	1	\$81,000	\$66,346	(\$5,346)	\$669
HCV/FSS fees	17,100	2	17,300	15,500	1,800	1,600
Fees - Other federal programs	4,090	3	3,000	3,960	(960)	130
Preservation fee income	6,375	4	19,000	12,847	6,153	(6,472)
Miscellaneous income	7,694	5	7,900	7,152	748	542
Gain (loss) on retirement of bonds	(300)	6	(150)	(300)	150	0
Gain (loss) on sale of investments	0	7	5	0	5	0
Gain on sale of mortgages	300	8	300	400	(100)	(100)
Contract Administration fees	<u>6,756</u>	9	<u>6,756</u>	<u>6,756</u>	<u>0</u>	<u>0</u>
<b>Total Revenue</b>	<b>\$109,030</b>		<b>\$115,111</b>	<b>\$112,661</b>	<b>\$2,450</b>	<b>(\$3,631)</b>
<b>Expenses:</b>						
<b>Operating Expenses:</b>						
Salaries and fringes	\$36,089	10	\$38,600	\$38,617	(17)	(2,528)
Technical service contracts	5,674	11	4,542	5,753	(1,211)	(79)
General contracts	1,197	12	952	1,587	(635)	(390)
Office rent and utilities	4,062	13	4,050	4,188	(138)	(126)
Computer	5,600	14	3,000	3,000	0	2,600
State charges for attorney general auditor general, civil service and admin	2,232	15	2,350	2,288	62	(56)
Travel	524	16	456	524	(68)	0
Telephone	300	16	300	336	(36)	(36)
Equipment purchase & rental	540	18	540	384	156	156
Supplies, printing and postage	360	16	360	300	60	60
Advertising and publicity	3,058	19	3,000	3,596	(596)	(538)
HCV contracted agents	9,000	20	8,650	8,300	350	700
Memberships, subs., & research mat.	112	16	108	108	0	4
Authority sponsored conf.	252	17	175	252	(77)	0
Conference registration fees	118	16	96	108	(12)	10
Temporary support	96	21	96	96	0	0
Legal & insurance	225	22	180	180	0	45
Miscellaneous	240	16	240	2,688	(2,448)	(2,448)
Deferred loan origination costs	<u>(620)</u>	23	<u>(940)</u>	<u>(910)</u>	<u>(30)</u>	<u>290</u>
<b>Total Operating expenses</b>	<b>69,059</b>		<b>66,755</b>	<b>71,395</b>	<b>(4,640)</b>	<b>(2,336)</b>
Mortgage servicing fees - single family	2,681	24	2,525	2,278	247	403
Home Improvement servicing fees	90	25	90	108	(18)	(18)
DPA and Home Improvement loan origination fees	1,800	26	1,800	1,212	588	588
Home Improvement FHA Ins. premiums	100	27	100	120	(20)	(20)
Costs of issuing & paying notes & bonds	2,100	28	1,950	1,500	450	600
Bond insurance, LOC & Liquidity fees	4,915	29	5,100	5,900	(800)	(985)
Provision for losses on Mort. loans	4,800	30	8,000	4,800	3,200	0
Rent Subsidies	840	31	(720)	960	(1,680)	(120)
Grants	11,920	32	14,263	14,263	0	(2,343)
Homeownership Counseling	<u>750</u>	33	<u>300</u>	<u>750</u>	<u>(450)</u>	<u>0</u>
<b>Total expenses</b>	<b>\$99,055</b>		<b>\$100,163</b>	<b>\$103,286</b>	<b>(\$3,123)</b>	<b>(\$4,231)</b>
<b>Net Increase in fund balance</b>	<b>\$9,975</b>		<b>\$14,948</b>	<b>\$9,375</b>	<b>\$5,573</b>	<b>\$600</b>

Notes 1 - 32 -- See pages following

**NOTES**

- (1) Net interest income is budgeted at \$67,015,000, which is \$669,000 more than was budgeted in FY 16. We anticipate lower rates earned on higher average balances for mortgage loans compared to FY 16. We also plan to realize \$7,632,000 of deferred interest from MSHDA's 1999 ABCD Rental Housing bond indenture. Lower interest rates received on higher average balances for investments are anticipated for FY 17. We anticipate bond interest expense to increase due to lower interest rates paid on higher bond balances in FY 17 over the budgeted amount in FY 16.

The components of interest income are estimated as follows:

	<u>Average Balance</u>	<u>Average Rate</u>	<u>Budget Amount</u>
Interest income:			
Mortgage loans	\$2,359,327,000	4.915 %	\$115,953,000
Deferred Mortgage Interest Investments	\$ 581,817,000	3.713 %	\$7,632,000 21,601,000
Interest expense on bonds	\$2,132,621,000	3.665 %	( 78,171,000)
Net interest income			<u>\$ 67,015,000</u>

- (2) Housing Choice Voucher and Family Self Sufficiency Administration fees are expected to increase compared to the prior year's budget.
- (3) Represents funds available for administering other federal programs, including the HOME Program (\$1,200,000), NMS Program (\$240,000), NSP Programs (\$0), SHPO (\$500,000) Hardest-Hit Fund (\$1,800,000) and the Housing Trust Fund Program (\$350,000).
- (4) Budgeted amount includes preservation fees of 4,875,000 from anticipated prepayments on multifamily loans and \$1,500,000 of funds received from the required annual payments from projects surplus cash. The amount of preservation fee income could vary significantly from the budgeted amount. It is based on large payments from a small number of projects that are anticipated to prepay their multi-family loan. Actual prepayments may not take place or may exceed our expectations.
- (5) Budget amount of \$7,694,000 includes fees expected to be received from administering the Mortgage Credit Certificate program (\$271,000) and the Low Income Housing Tax Credit Program (\$3,100,000), administrative oversight fees to be received from developments that have prepaid their mortgage loans (\$900,000), SHPO fees (\$400,000), late fee/prepayment penalties on mortgages (\$1,000,000), amortization of asset management fees (\$366,000), fees for the issuance of limited obligation bonds (\$0), gain on sale of MF property (\$1,500,000) and various smaller income items of (\$157,000).
- (6) Whether a bond retirement results in a gain or loss depends on the interest rate of the bond called relative to the average rate on the issue from which the bond is being called. We are budgeting a loss of \$300,000 for 2017.
- (7) We have projected no gain from the sale of other long-term investments.
- (8) Gain on the sale of securitized single family loans.
- (9) Fees expected to be received for administering the HUD Section 8 Contract Administration Program.

(10) Budget requests by Division are as follows:

	<b>Positions Filled</b>	<b>Cost</b>
<b>Executive:</b>		
Director's Office	4.0	\$ 427,560
Deputy Director's Office	4.0	440,046
Governmental and Media Affairs	9.9	694,860
Office Services	8.0	452,344
Human Resources	1.0	91,809
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	27.6	2,127,619
Fringes (75%)		<u>1,595,714</u>
TOTAL		<u>\$3,723,333</u>
<b>Employee Services:</b>		
Director's Office	<u>5.0</u>	\$ 415,011
	5.0	415,011
Fringes (75%)		<u>311,258</u>
TOTAL		<u>\$726,269</u>
<b>Technical Support Services:</b>		
Director's Office	<u>9.0</u>	\$ 649,493
	9.0	649,493
Fringes (75%)		<u>487,120</u>
TOTAL		<u>\$1,136,613</u>
<b>Finance:</b>		
Director's Office	3.0	\$ 228,511
Accounting & Investments	8.8	646,095
Single Family Servicing	3.7	203,035
Multi-Family Servicing	2.9	173,329
Audit	3.0	242,145
Operations – HVP	3.0	224,042
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	25.8	1,759,157
Fringes (75%)		<u>1,319,368</u>
TOTAL		<u>\$3,078,525</u>
<b>Legal:</b>		
Director's Office	9.0	\$ 654,839
Staff Attorneys	6.0	594,078
Students & Co-ops	<u>2.1</u>	<u>50,000</u>
	17.1	1,298,917
Fringes (75%)		<u>974,188</u>
TOTAL		<u>\$2,273,105</u>

(9) Budget requests by Division (continued)

	<b>Positions Filled</b>	<b>Cost</b>
<b>Housing Initiatives:</b>		
Director's Office	10.0	\$ 728,503
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	11.4	770,503
Fringes (75%)		<u>577,877</u>
TOTAL		<u>\$1,348,380</u>
<b>*Rental Assistance &amp; Housing Solutions:</b>		
Director's Office	3.0	\$250,518
Rent Assistance	28.0	1,820,694
Homeless Initiatives	11.6	778,916
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	44.0	2,892,128
Fringes (75%)		<u>2,169,096</u>
TOTAL		<u>\$5,061,224</u>
<b>*Federally Funded</b>		
<b>Asset Management:</b>		
Director's Office	2.0	\$172,740
Transactions & Preservation	8.0	549,457
Core Operations Intake	11.0	734,057
Finance/Technology	4.0	301,403
Contract Administration/Operations Division	13.0	853,407
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	40.1	2,674,064
Fringes (75%)		<u>2,005,548</u>
TOTAL		<u>\$4,679,612</u>
<b>Homeownership:</b>		
Director's Office	2.0	\$ 172,740
Single Family/MCC	10.0	666,510
Marketing	10.0	664,235
Foreclosure Prevention *	7.0	409,519
Students & Co-ops *	<u>1.4</u>	<u>42,000</u>
	30.4	1,955,004
Fringes (75%)		<u>1,466,253</u>
TOTAL		<u>\$3,421,257</u>

(9) Budget requests by Division (continued)

	<b>Positions Filled</b>	<b>Cost</b>
<b>Rental Development:</b>		
Director's Office	11.0	\$864,390
Multi-family Development	9.0	624,103
EEO and Construction Disbursements	5.0	383,545
Design and Construction Management	8.0	613,266
Low Income Housing Tax Credit	15.0	1,058,825
Students & Co-ops	<u>2.8</u>	<u>58,000</u>
	50.8	\$3,602,129
Fringes (75%)		<u>\$2,701,597</u>
TOTAL		<u>\$6,303,726</u>
<b>SHPO &amp; Archaeology:</b>		
Director's Office	16.0	\$1,125,223
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	18.1	1,188,223
Fringes (75%)		<u>891,167</u>
TOTAL		<u>\$2,079,390</u>
<b>Collaborative Community Development (only 3 months):</b>		
Director's Office (27 employees)	6.5	\$493,849
Students & Co-ops	<u>0.0</u>	<u>0</u>
	6.5	496,849
Fringes (75%)		<u>370,387</u>
TOTAL		<u>\$864,236</u>
Total Salaries July 1, 2016	<u>285.8</u>	<u>\$19,826,097</u>
Total Fringes July 1, 2016		<u>\$14,869,573</u>
General increase effective October 1, 2016 (1% of base wages)		253,736
1.5% lump sum payment October 1, 2016		408,913
		<u>\$35,358,319</u>
<b>Summary of Costs:</b>		
Projected salary cost of positions		\$35,358,319
Vacant positions salaries (25.25)		1,914,811
Vacant positions fringes		1,436,108
Unfilled Vacant Positions (80%)		(2,680,735)
Estimated sick and annual leave accrual		<u>60,000</u>
Total budgeted salaries and fringes 16-17		<u>\$36,088,503</u>

(11) Production-related Contracts:

	<b>2016-17 Proposed Budget</b>	<b>2015-16 Budget</b>
Multi-Family:		
Design Review	\$540,000	480,000
Environmental and Technical Resources	<u>90,000</u>	<u>100,000</u>
Sub total	\$630,000	\$580,000
Contract Administration*:		
Asset Management	\$2,569,000	\$2,500,000
Consulting	18,000	20,000
TRACS Processing	<u>790,000</u>	<u>789,000</u>
Sub total	\$3,377,000	\$3,309,000
Links to Homeownership	46,000	123,000
Pre-purchase Inspections	0	140,000
Single Family Foreclosure Services	260,000	250,000
Environmental Legal Matters	40,000	40,000
Capital Needs and Project Assessments	275,000	350,000
TRACS Processing	413,000	407,000
Contractual Tenant File Audits/Physical Inspections	<u>633,000</u>	<u>554,000</u>
Total	<u>\$5,674,000</u>	<u>\$5,753,000</u>

\*Additional contracts required for HUD Section 8 Contract Administration Program.

(12) General Contracts:

	<b>2016-17 Proposed Budget</b>	<b>2015-16 Budget</b>
Executive Contracts	\$23,000	\$0
Legal Contracts	100,000	310,000
Housing Initiatives Contracts	155,000	200,000
Downtown & Community Services Contracts	0	290,000
Housing Voucher Program Contracts	208,000	190,000
SHPO Contracts	531,000	467,000
Miscellaneous	<u>180,000</u>	<u>130,000</u>
	<u>\$1,197,000</u>	<u>\$1,587,000</u>

(13) Office rent and utility charges by location are as follows:

	<b><u>Proposed Budget</u></b>
<b>Rent:</b>	
735 E. Michigan Avenue	\$ 2,500,000
GM Building	800,000
Library Historical Center (SHPO) – only 3 months	35,000
Romney Building (H4HH) *	<u>122,000</u>
	<b>\$3,457,000</b>
<b>Taxes:</b>	
735 E. Michigan Avenue	\$ 271,000
800 Jerome	\$ 4,000
Office Remodeling	\$150,000
<b>Utilities:</b>	
735 E. Michigan Avenue	<u>\$ 180,000</u>
<b>Total</b>	<b><u>\$4,062,000</u></b>

\* Federally Funded

(14) Budget amount includes depreciation and servicing on Emphasys system (\$1,250,000), servicing on Agate system (\$650,000), general computer related costs (\$1,700,000) and a number of Strategic IT investments TBD (\$2,000,000).

(15) State Charges include:

	<b><u>Proposed Budget 16-17</u></b>	<b><u>Budget 15-16</u></b>
Attorney General	\$780,000 (A)	\$750,000
Auditor General	112,000 (B)	108,000
Civil Service	630,000 (C)	660,000
DTMB Support	352,000 (D)	420,000
TED Admin	358,000	350,000
	<b><u>\$2,232,000</u></b>	<b><u>\$2,288,000</u></b>

(A) Per Attorney General

(B) Per Auditor General

(C) Per Civil Service (1.75% of salaries & fringes)

(D) Per DTMB

(16) Prior year estimated actual amount.

(17) Amount for Authority sponsored conferences.

(18) Amount includes expense for office equipment and rental.

(19) Advertising and publicity

**Proposed Budget**

16-17

<b>Advertising</b>	
Print Ads	\$15,000
Campaign - Media	1,000,000
Campaign - Creative	500,000
Video Ads	450,000
<b>Sponsorships</b>	550,000
<b>Miscellaneous</b>	143,000
<b>Legal Notice Advertising</b>	
<b>(TEFRA, HOME, CDBG and Environmental)</b>	250,000
<b>Printing</b>	<u>150,000</u>
<b>Total</b>	<b><u>\$3,058,000</u></b>

- (20) Reflects similar utilization of agents and higher fees paid to agents.
- (21) Temporary clericals and laborers.
- (22) Budget amount includes \$150,000 of legal fees and \$75,000 for insurance premiums. Legal fees and insurance premiums expected to be flat in FY 17.
- (23) Represents the direct costs of originating multi-family loans. Pursuant to generally accepted accounting principles, the cost of making loans is deferred and amortized against interest income over the term of the loans. The increase represents an increase in the production of new loans.
- (24) An increase in fees is expected due to a small increase in the amount of loans being serviced. There will be a small increase the amortization of the service release fee.
- (25) Servicing fees are expected to stay flat compared with FY 16.
- (26) Origination fees will stay flat due to a similar number of loans being originated.
- (27) Insurance premiums are expected to stay flat in FY 17.
- (28) An increase over last year's estimated actual due to more bonds anticipated being issued.
- (29) A decrease over last year's estimated actual is budgeted because the number of bonds with liquidity facilities has decreased and so have the fees.
- (30) Assumes \$5,000,000 of write-offs and will decrease current reserve balance by \$200,000.

- (31) represents estimated expenditures for the Authority's rent subsidy programs that (1) provide up to a \$300 per unit per year subsidy for the total number of units in a project under the prior multi-family program (\$200,000), (2) provide a subsidy of up to \$400 per unit for each unit in a development under our taxable program so that some of the units can be afforded by very low income tenants who would otherwise be paying more than 40% of their income for rent (\$420,000), and (3) (\$320,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$100,000).
- (32) Budgeted Authority grants are \$3,000,000 (CCD Grant), \$5,000,000 (Fed Match Grant), \$1,500,000 (Detroit Loan Program) and \$2,420,000 (Strategic Homeless Veteran Grants and other grants TBD).
- (33) This network is an ongoing responsibility of MSHDA with annual costs estimated at \$750,000.

**MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY**

**RESOLUTION APPROVING  
2016-2017 BUDGET**

**June 22, 2016**

WHEREAS, the fiscal year of the Michigan State Housing Development Authority (the "Authority") is twelve (12) calendar months commencing with the first day of July and ending the last day of the following June per Article IV of the Authority's Bylaws; and

WHEREAS, the Executive Director has recommended that the Authority approve the adoption of the 2016-2017 Budget as described in the accompanying Memorandum; and

WHEREAS, the Authority concurs in the recommendation of the Executive Director.

NOW, THEREFORE, Be It Resolved by the Michigan State Housing Development Authority as follows:

1. The Michigan State Housing Development Authority's 2016-2017 Budget is hereby adopted, subject to the terms of the accompanying Memorandum.
2. The Executive Director and the Chief Financial Officer are hereby authorized to implement the 2016-2017 Budget.