



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Earl J. Poleski, Executive Director 

DATE: For June 28, 2017

RE: The Michigan State Housing Development Authority's 2017 – 2018 Proposed Budget

Recommendation:

I recommend that the Michigan State Housing Development Authority (the "Authority") approve the Authority's 2017-2018 Budget (the "Budget").

Executive Summary:

At the June 7, 2017 Board Meeting, Authority staff submitted a draft of the Budget. The Budget was developed with input from all divisions within the Authority and the review of prior years' experience and with consideration of the Authority's policy and strategic goals.

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

A few notable items include:

- Net Interest Income is down despite the fact the loan balances are increasing. This is due to the prepayment of higher rate mortgages and low interest rates on the Authority's investments.
- Preservation Fee income continues to fall. As previously discussed, this resource will continue to fall in the coming years until it reaches zero.
- Salaries and Fringes are down, as a number of staff were transferred to the Michigan Strategic Fund last year in an effort to consolidate community development efforts.
- Mortgage Servicing Fees have increased due to the end of a long standing servicing contract, which had very favorable terms after the credit crisis of 2008.

Issues, Policy Considerations, and Related Actions:

The Authority's annual budget has a major impact on the direction of the agency. Once again, this Budget was 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 – this Budget will continue the growth of the Authority's assets and position its ability to withstand the potential loss or reduction of federal resources and well as the winding down of Preservation Fees.
- Veteran Homelessness – the Authority continues to support and create programs to help our veterans.
- Improving Operational Efficiencies for both external customers and Authority staff – the Authority's budget for IT spending has increased from \$3 million in the budget year ending in 2015 and \$5.6 million in the budget year ending in 2016 to \$6.2 million under this proposed Budget. Additionally, the Authority continues to begin and implement Lean Process Improvements.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

RESOLUTION APPROVING 2017 – 2018 BUDGET

June 28, 2017

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 2017 – 2018 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 2017 – 2018 Budget is hereby approved and adopted, subject to the terms of the accompanying memorandum.
2. The Executive Director and Chief Financial Officer are hereby authorized to implement respectively the 2017 – 2018 Budget.

Michigan State Housing Development Authority
PROPOSED 2017-18 BUDGET
(000's Omitted)

	PROPOSED BUDGET <u>17-18</u>		ESTIMATED 12 MONTH <u>16-17</u>	BUDGET <u>16-17</u>	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
Revenue:						
Net Interest Income	\$63,320	1	\$95,762	\$67,015	\$28,747	(\$3,695)
HCV/FSS fees	16,800	2	17,400	17,100	300	(300)
Fees - Other federal programs	2,700	3	4,200	4,090	110	(1,390)
Preservation fee income	4,500	4	22,350	6,375	15,975	(1,875)
Miscellaneous income	6,684	5	7,000	7,694	(694)	(1,010)
Gain (loss) on retirement of bonds	(300)	6	(1,425)	(300)	(1,125)	0
Gain (loss) on sale of investments	0	7	449	0	449	0
Gain on sale of mortgages	300	8	2,425	300	2,125	0
Contract Administration fees	<u>8,100</u>	9	<u>8,200</u>	<u>6,758</u>	<u>1,444</u>	<u>1,344</u>
Total Revenue	\$102,104		\$158,361	\$109,030	\$47,331	(\$6,928)
Expenses:						
Operating Expenses:						
Salaries and fringes	\$35,218	10	\$38,800	\$38,089	711	(871)
Technical service contracts	6,184	11	5,458	5,874	(216)	510
General contracts	1,138	12	1,235	1,197	38	(59)
Office rent and utilities	3,792	13	3,950	4,082	(112)	(270)
Computer	6,221	14	7,700	5,600	2,100	621
State charges for attorney general auditor general, civil service and admin	2,283	15	2,300	2,232	68	51
Travel	468	16	468	524	(56)	(56)
Telephone	300	16	300	300	0	0
Equipment purchase & rental	540	18	504	540	(36)	0
Supplies, printing and postage	324	18	324	380	(36)	(36)
Advertising and publicity	2,000	19	3,030	3,058	(28)	(1,058)
HCV contracted agents	8,700	20	9,000	9,000	0	(300)
Memberships, subs., & research mat.	72	16	72	112	(40)	(40)
Authority sponsored conf.	312	17	312	252	60	60
Conference registration fees	120	16	120	118	2	2
Temporary support	72	21	72	96	(24)	(24)
Legal & Insurance	225	22	465	225	240	0
Miscellaneous	240	16	240	240	0	0
Deferred loan origination costs	(935)	23	(1,155)	(920)	(535)	(315)
Total Operating expenses	67,274		71,195	69,059	2,136	(1,785)
Mortgage servicing fees - single family	5,295	24	2,900	2,681	219	2,614
Home Improvement servicing fees	90	25	90	90	0	0
DPA and Home Improvement loan origination fees	1,800	26	1,750	1,800	(50)	0
Home Improvement FHA Ins. premiums	90	27	90	100	(10)	(10)
Costs of issuing & paying notes & bonds	2,300	28	3,050	2,100	950	200
Bond Insurance, LOC & Liquidity fees	3,782	29	4,890	4,915	(25)	(1,133)
Provision for losses on Mort. loans	4,800	30	5,520	4,800	720	0
Rent Subsidies	660	31	720	840	(120)	(180)
Grants	7,563	32	41,920	11,920	30,000	(4,357)
Homeownership Counseling	<u>750</u>	33	<u>640</u>	<u>750</u>	<u>(110)</u>	<u>0</u>
Total expenses	\$94,404		\$132,765	\$99,055	\$33,710	(\$4,651)
Net Increase in fund balance	<u>\$7,700</u>		<u>\$23,596</u>	<u>\$9,975</u>	<u>\$13,621</u>	<u>(\$2,275)</u>

Notes 1 - 33 -- See pages following

NOTES

- (1) Net interest income is budgeted at \$63,320,000, which is \$3,695,000 less than was budgeted in FY 17. We anticipate lower rates earned on higher average balances for mortgage loans compared to FY 17. Lower interest rates received on lower average balances for investments are anticipated for FY 18. We anticipate bond interest expense to decrease due to lower interest rates paid on slightly higher bond balances in FY 18 over the budgeted amount in FY 17.

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	\$2,546,307,000	4.860 %	\$123,744,000
Investments	\$ 505,049,000	2.756 %	13,919,000
Interest expense on bonds	\$2,194,940,000	3.387 %	<u>(74,343,000)</u>
Net interest income			<u>\$ 63,320,000</u>

- (2) Housing Choice Voucher and Family Self Sufficiency Administration fees are expected to decrease compared to the prior year's budget.
- (3) Represents funds available for administering other federal programs, including the HOME Program (\$500,000), NMS Program (\$0), NSP Programs (\$0), SHPO (\$400,000) Hardest-Hit Fund (\$1,800,000) and the Housing Trust Fund Program (\$0).
- (4) Budgeted amount includes preservation fees of 4,400,000 from anticipated prepayments on multifamily loans and \$100,000 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 \$6,684,000 includes fees expected to be received from administering the Mortgage Credit Certificate program (\$101,000) and the Low Income Housing Tax Credit Program (\$3,850,000), administrative oversight fees to be received from developments that have prepaid their mortgage loans (\$800,000), SHPO fees (\$300,000), 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 (\$0) and various smaller income items of (\$267,000).
- (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 2018.
- (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:

	<u>Positions Filled</u>	<u>Cost</u>
Executive:		
Director's Office	5.0	\$ 515,381
Deputy Director's Office	1.0	137,140
Governmental and Media Affairs	8.9	629,879
Office Services	9.0	534,779
Human Resources	3.0	238,262
Procurement	3.0	242,897
Compliance, Fraud & Internal Audit	5.0	337,650
Operations	3.0	231,079
Students & Co-ops	<u>2.8</u>	<u>84,000</u>
	40.7	2,951,067
Fringes (75%)		<u>2,213,300</u>
TOTAL		<u>\$5,164,367</u>
Employee Services:		
Director's Office	5.0	\$ 419,187
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	5.7	440,187
Fringes (75%)		<u>330,140</u>
TOTAL		<u>\$770,327</u>
Technical Support Services:		
Director's Office	<u>10.0</u>	\$ 684,613
	10.0	684,613
Fringes (75%)		<u>513,460</u>
TOTAL		<u>\$1,198,073</u>
Finance:		
Director's Office	3.0	\$ 230,327
Accounting & Investments	8.7	641,029
Single Family Servicing	3.7	204,960
Multi-Family Servicing	2.9	175,077
Audit	4.0	308,210
Operations – HVP	3.0	214,876
Students & Co-ops	<u>2.8</u>	<u>84,000</u>
	28.1	1,858,479
Fringes (75%)		<u>1,393,859</u>
TOTAL		<u>\$3,252,338</u>
Legal:		
Director's Office	7.0	\$ 521,248
Staff Attorneys	8.0	704,303
Students & Co-ops	<u>2.1</u>	<u>52,000</u>
	17.1	1,277,551
Fringes (75%)		<u>958,163</u>
TOTAL		<u>\$2,235,714</u>

(10) Budget requests by Division (continued)

	Positions Filled	Cost
Housing Initiatives:		
Director's Office	1.0	\$ 92,728
Southeast Michigan Outreach	5.0	433,511
Neighborhood Initiatives	6.0	402,754
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	12.7	949,993
Fringes (75%)		<u>712,495</u>
TOTAL		<u>\$1,662,488</u>
*Rental Assistance & Housing Solutions:		
Director's Office	4.0	\$306,518
Rent Assistance	26.0	1,624,908
Homeless Initiatives	12.6	853,270
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	44.0	2,826,696
Fringes (75%)		<u>2,120,022</u>
TOTAL		<u>\$4,946,718</u>
*Federally Funded		
Asset Management:		
Director's Office	1.0	\$112,856
Transactions & Preservation	8.0	572,968
Core Operations Intake	10.0	676,115
Finance/Technology	4.0	297,582
Contract Administration/Operations Division	12.0	794,463
Students & Co-ops	<u>3.5</u>	<u>94,000</u>
	38.5	2,547,984
Fringes (75%)		<u>1,910,988</u>
TOTAL		<u>\$4,458,972</u>
Homeownership:		
Director's Office	2.0	\$ 164,848
Single Family/MCC	10.0	634,961
Marketing	8.0	539,832
Foreclosure Prevention *	7.0	379,807
Students & Co-ops *	<u>0.0</u>	<u>0</u>
*Federally Funded		
	27.0	1,719,448
Fringes (75%)		<u>1,289,586</u>
TOTAL		<u>\$3,009,034</u>

(10) Budget requests by Division (continued)

	Positions Filled	Cost
Rental Development:		
Director's Office	9.0	\$686,952
Multi-family Development	6.0	464,664
EEO and Construction Disbursements	5.0	377,155
Design and Construction Management	7.0	575,557
Low Income Housing Tax Credit	14.0	922,604
Students & Co-ops	<u>1.4</u>	<u>31,000</u>
	42.4	\$3,057,932
Fringes (75%)		<u>\$2,293,449</u>
TOTAL		<u>\$5,351,381</u>
SHPO & Archaeology:		
Director's Office	15.0	\$1,075,550
Students & Co-ops	<u>2.8</u>	<u>84,000</u>
	17.8	1,159,550
Fringes (75%)		<u>869,663</u>
TOTAL		<u>\$2,029,213</u>
Total Salaries July 1, 2017	<u>284.0</u>	<u>\$19,473,500</u>
Total Fringes July 1, 2017		<u>\$14,605,125</u>
General increase effective October 1, 2017 (3% of base wages)		766,769
		<u>\$34,845,394</u>
Summary of Costs:		
Projected salary cost of positions		\$34,845,394
Vacant positions salaries (13.00)		893,058
Vacant positions fringes		669,794
Unfilled Vacant Positions (80%)		(1,250,282)
Estimated sick and annual leave accrual		<u>60,000</u>
Total budgeted salaries and fringes 17-18		<u>\$35,217,964</u>

(11) Production-related Contracts:

	2017-18 Proposed <u>Budget</u>	2016-17 <u>Budget</u>
Multi-Family:		
Design Review	\$240,000	540,000
Environmental and Technical Resources	<u>70,000</u>	<u>90,000</u>
Sub total	\$310,000	\$630,000
Contract Administration*:		
Asset Management	\$3,540,000	\$2,569,000
Consulting	20,000	18,000
TRACS Processing	<u>787,000</u>	<u>790,000</u>
Sub total	\$4,347,000	\$3,377,000
Links to Homeownership	46,000	46,000
Single Family Foreclosure Services	260,000	260,000
Environmental Legal Matters	10,000	40,000
Capital Needs and Project Assessments	235,000	275,000
TRACS Processing	370,000	413,000
Contractual Tenant File Audits/Physical Inspections	<u>606,000</u>	<u>633,000</u>
Total	<u>\$6,184,000</u>	<u>\$5,674,000</u>

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

(12) General Contracts:

	2017-18 Proposed <u>Budget</u>	2016-17 <u>Budget</u>
Executive Contracts	\$29,000	\$23,000
Legal Contracts	60,000	100,000
Housing Initiatives Contracts	130,000	155,000
Housing Voucher Program Contracts	204,000	208,000
SHPO Contracts	535,000	531,000
Miscellaneous	<u>180,000</u>	<u>180,000</u>
	<u>\$1,138,000</u>	<u>\$1,197,000</u>

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

	<u>Proposed Budget</u>
Rent:	
735 E. Michigan Avenue	\$ 2,700,000
GM Building	500,000
Romney Building (H4HH) *	<u>122,000</u>
	\$3,322,000
Taxes:	
735 E. Michigan Avenue	\$ 278,000
800 Jerome	\$ 4,000
Utilities:	
735 E. Michigan Avenue	<u>\$ 188,000</u>
Total	<u>\$3,792,000</u>

* Federally Funded

(14) Budget amount includes depreciation and servicing on Emphasys system (\$1,955,000), servicing on Agate system (\$745,000), general computer related costs through DTMB (\$3,125,000) and a number of Strategic IT investments (\$396,000).

(15) State Charges include:

	<u>Proposed Budget 17-18</u>	<u>Budget 16-17</u>
Attorney General	\$785,000 (A)	\$780,000
Auditor General	120,000 (B)	112,000
Civil Service	670,000 (C)	630,000
DTMB Support	312,000 (D)	352,000
TED Admin	396,000	358,000
	<u>\$2,283,000</u>	<u>\$2,232,000</u>

(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 (needs updating)

**Proposed Budget
17-18**

Advertising	
Print Ads	\$15,000
Campaign - Media	600,000
Campaign - Creative	300,000
Video Ads	250,000
Sponsorships	270,000
Miscellaneous	150,000
Various Advertising, Promotion & Outreach Items	<u>415,000</u>
Total	<u>\$2,000,000</u>

- (20) Reflects similar utilization of agents and 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 18.
- (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 change in servicer. The fees for the new servicer are significantly higher. Also contributing to the increase is a small increase in the amount of loans being serviced. There will be a small increase to the amortization of the service release fee.
- (25) Servicing fees are expected to stay flat compared with FY 17.
- (26) Origination fees will increase due to more loans being originated than the estimated actual in 2017.
- (27) Insurance premiums are expected to stay flat in FY 18.
- (28) A decrease over last year's estimated actual due to less 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 \$2,400,000 of write-offs and will increase current reserve balance by \$2,400,000.

- (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 (\$100,000), (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 (\$380,000), and (3) (\$400,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$220,000).
- (32) Of the \$7,563,000, \$5,300,000 will be allocated to a number of programs that require a match in order for MSHDA to be eligible for Federal Funds. The remaining Grant Funds will be allocated throughout the FY.
- (33) This network is an ongoing responsibility of MSHDA with annual costs estimated at \$750,000.