



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: Gary Heidel, Acting Executive Director *Gary Heidel*

DATE: June 17, 2021

RE: The Michigan State Housing Development Authority's 2021 – 2022 Proposed Budget

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") approve the Authority's 2021-2022 Budget (the "Budget").

EXECUTIVE SUMMARY:

The Budget was developed with input from all divisions within the Authority, the review of prior years' experience and consideration of the uncertainty created by the COVID-19 pandemic. The Authority's Mission, Vision and Guiding Principles drive the creation of the Budget.

A few notable items include:

- Net interest income is up as loan balances are increasing. This is due to an increase in mortgage interest income from increasing mortgage balances. These gains will be partially offset by lower returns on investments and an increase on interest expenses on bonds, as bonds outstanding have increased over the past year. Net interest income is generated while the Authority is meeting its mission to provide quality affordable housing.
- Two federally-funded programs designed to help renters and homeowners will increase federal administration fees in excess of \$9 million. These additional fees will help to offset the increase in expenses to manage these new programs. These two programs will keep families housed during a very challenging time in our country by using data-driven decision making to put the residents of the state of Michigan first.
- HUD has modified the process for managing its properties, resulting in higher contract administration fees, which in turn resulted in an increase in technical contracts.

- Mortgage servicing fees continue to increase, primarily due to increased single-family mortgage balances and the anticipated higher cost of servicing delinquent loans as well as managing the Authority's single family forbearance agreements.
- The Authority is targeting a 1.00% return on net assets, bringing a budgeted increase in net assets of \$8.4 million. This strategy will assure financing resources in the near term and into the future.
- The Authority will provide \$10 million in grants for the 2021-22 fiscal year.

ADVANCING THE AUTHORITY'S MISSION:

The Authority's Budget was developed with consideration given to the Authority's Mission, Vision, and Guiding Principles. Below are a few examples.

People First

This Budget increases grant funds to help the Authority's partners and customers address unforeseen challenges caused by the COVID-19 pandemic.

The Authority generally awards grants to nonprofits and public bodies to support and invest in communities and neighborhoods to improve the quality of life of the people who live there. Over the years, Authority grants have funded, among other activities, matches for emergency shelter grants, neighborhood stabilization efforts, and housing enhancement in low to moderate income areas.

Diversity, Equity, and Inclusion

This Budget includes funding for contracts that will assist the Authority in the analysis of impediments to fair housing choices. These contracts and the commitment to the Authority's Equity & Engagement staff demonstrate the importance of diversity, equity and inclusion while allocating resources.

The Authority developed a \$10,000 down payment assistance single family home loan program in underserved areas in Michigan. The increase from \$7,500 to \$10,000 and maintaining the zero percent interest rate results in a reduction of net interest income. This budget accommodates this reduction in an effort to build equitable pathways to housing.

Decision Making

This Budget takes into consideration economic data and recent results to forecast net interest income. The COVID-19 pandemic has influenced a more conservative view of the upcoming years' production and reserves.

This Budget provides funding for a contract to bring a focus group together for the development of a statewide housing plan.

Partner Collaboration

This Budget includes funding for an IT project that will increase communication and efficiency between Authority staff and multifamily developers. The IT project should lead to a more efficient review and underwriting process for affordable multifamily housing.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

None.

Michigan State Housing Development Authority
2021-22 BUDGET
(000's Omitted)

	PROPOSED BUDGET 21-22		ESTIMATED 12 MONTH 20-21	BUDGET 20-21	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
Revenue:						
Net interest income	\$67,606	1	\$66,840	\$63,312	\$3,528	\$4,294
HCV/FSS fees	17,500	2	17,500	17,500	0	0
Fees - Other federal programs	13,580	3	5,995	4,200	1,795	9,380
Preservation fee income	100	4	1,650	2,291	(641)	(2,191)
LIHTC Fees	3,900	5	3,900	3,900	0	0
Contract Administration fees	12,000	6	10,750	8,415	2,335	3,585
Gain (loss) on retirement of bonds	1,350	7	4,948	1,560	3,388	(210)
Gain (loss) on sale of investments	0	8	0	0	0	0
Gain on sale of mortgages	960	9	960	960	0	0
Miscellaneous income	4,084	10	2,160	3,540	(1,380)	544
Total Revenue	\$121,080		\$114,703	\$105,678	\$9,025	\$15,402
Expenses:						
Operating Expenses:						
Salaries and fringes	\$42,754	11	\$31,475	\$33,890	(2,415)	8,864
Technical service contracts	7,273	12	6,132	5,743	389	1,530
General contracts	1,704	13	895	1,411	(516)	293
Rent, building depreciation and utilities	1,092	14	1,195	1,224	(29)	(132)
Building maint, equipment purchase & rental	792	19	792	954	(162)	(162)
Computer - INFORMATION TECHNOLOGY	10,042	15	5,565	6,985	(1,420)	3,057
State charges for Attorney General, Auditor						
General, Civil Service and admin	2,778	16	3,290	3,180	110	(402)
Travel	204	17	204	348	(144)	(144)
Telephone	480	17	480	228	252	252
Supplies, printing and postage	276	17	276	288	(12)	(12)
Advertising and publicity	2,350	20	1,125	1,450	(325)	900
HCV contracted agents	9,755	21	9,603	9,530	73	225
Memberships, subs., & research mat.	96	17	96	84	12	12
Authority sponsored conf.	180	18	110	240	(130)	(60)
Conference registration fees	108	17	108	96	12	12
Temporary support	90	22	100	36	64	54
Legal & insurance	480	23	480	480	0	0
Miscellaneous	372	17	372	444	(72)	(72)
Deferred loan origination costs	(2,375)	24	(2,210)	(1,380)	(830)	(995)
Total Operating expenses	78,451		60,088	65,231	(5,143)	13,220
Single Family & HIP Mortgage servicing/origination/FHA insurance fees	9,755	25	9,578	7,740	1,838	2,015
Costs of issuing & paying notes & bonds	2,900	26	3,175	2,700	475	200
Bond insurance, LOC & Liquidity fees	1,693	27	2,747	1,953	794	(260)
Provision for losses on Mort. loans	8,700	28	8,650	8,600	50	100
Rent Subsidies	450	29	360	540	(180)	(90)
Grants (Total \$10,031)	-	-	-	-	-	-
Homeless Program (Federal Matching)	5,502	30	5,502	5,502	0	0
NEP	2,000	30	2,000	2,000	0	0
Key-to-Own	150	30	150	150	0	0
Collaborative Grants	2,379	30	2,583	2,583	0	(204)
Homeownership Counseling	700	31	650	650	0	50
Total expenses	\$112,680		\$95,483	\$97,649	(\$2,166)	\$15,031
Net Increase in fund balance	\$8,400		\$19,220	\$8,029	\$11,191	\$371

Notes 1 - 31 - - See pages following

840,000 Estimated Net Assets	\$8,400	1.00% Return on Net Assets
	\$0	

NOTES

- (1) Net interest income is budgeted at \$67,606,000, which is \$4,294,000 more than was budgeted in FY 21. We anticipate lower rates earned on higher average balances for mortgage loans compared to FY 21. Lower interest rates received on lower average balances for investments are anticipated for FY 22. We anticipate bond interest expense to increase due to lower interest rates paid on higher bond balances in FY 22 over the budgeted amount in FY 21.

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	\$3,826,967,000	4.63 %	\$176,961,000
Investments	\$ 581,500,000	1.17 %	6,740,000
Interest expense on bonds	\$3,706,667,000	3.13 %	(116,095,000)
Net interest income			<u>\$ 67,606,000</u>

- (2) Housing Choice Voucher and Family Self Sufficiency Administration fees are expected to stay flat compared to the prior year's budget.
- (3) Represents funds available for administering other federal programs, including the HOME Program (\$1,700,000)*, CoC Program (\$30,000)*, ESG (\$550,000)*, Hardest-Hit Fund (\$1,200,000)*, the Housing Trust Fund Program (\$1,100,000)* and new Federal Funding Programs (\$9,000,000).
- (4) Budgeted amount includes preservation fees of \$0 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) Fees for administering the Low Income Housing Tax Credit Program.
- (6) Fees expected to be received for administering the HUD Section 8 Contract Administration Program.
- (7) 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 gain of \$1,350,000 for 2022.
- (8) We have projected no gain from the sale of other long-term investments.
- (9) Gain on the sale of securitized single-family loans and REO multi-family loans.
- (10) Budget amount of \$4,084,000 includes fees expected to be received from administering the Mortgage Credit Certificate program (\$100,000), administrative oversight fees to be received from developments that have prepaid their mortgage loans (\$100,000), late fee/prepayment penalties on mortgages (\$800,000), amortization of asset management fees (\$380,000), fees for the issuance of limited obligation bonds (\$750,000) and various smaller income items of (\$354,000), BMIR funds (\$1,600,000).
- (11) Budget requests by Division are as follows:

Positions Filled	Cost
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Executive:

Director's Office	5.0	\$ 501,036
Market Analysis & Research	4.0	301,236
Communications	4.0	289,292
Compliance, Fraud & Internal Audit	8.0	561,025
Equity & Engagement	4.0	352,809
Students & Co-ops	<u>0.7</u>	<u>21,000</u>

29.6 \$2,026,398

Fringes (75%) 1,519,799

TOTAL \$3,546,197

Operations:

Director's Office	1.0	\$115,383
Employee Services	2.9	204,285
Technical Support Services	11.0	852,342
Office Services	7.0	495,305
Human Resources	<u>3.0</u>	<u>242,688</u>

21.0 \$1,910,003

Fringes (75%) 1,432,502

TOTAL \$3,342,505

Finance:

Director's Office	2.0	\$ 235,046
Accounting & Investments	7.0	483,978
Single Family Servicing	3.8	220,969
Multi-Family Servicing	4.0	242,918
Audit	3.0	276,138
Operations – HVP	3.0	262,441
Students & Co-ops	<u>0.0</u>	<u>0</u>

22.8 \$1,721,490

Fringes (75%) 1,291,118

TOTAL \$3,012,608

Legal:

Director's Office	6.0	\$ 479,697
Staff Attorneys	9.0	948,954
Procurement	2.0	153,092
Students & Co-ops	<u>0.0</u>	<u>0</u>

16.7 \$1,581,743

Fringes (75%) 1,186,307

TOTAL \$2,768,050

(11) Budget requests by Division (continued)

Neighborhood Housing Initiatives:

Director's Office	0.0	\$0
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**Positions
Filled**

Cost

Southeast Michigan Outreach	5.0	478,632
Neighborhood Initiatives	7.0	582,615
Students & Co-ops	<u>0.0</u>	<u>0</u>
	12.0	\$1,061,247
Fringes (75%)		<u>795,935</u>
TOTAL		<u>\$1,857,182</u>
*Rental Assistance & Housing Solutions:		
Director's Office	3.0	\$288,228
Rent Assistance	26.6	1,981,742
Homeless Initiatives	10.0	749,801
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	41.7	\$3,082,771
Fringes (75%)		<u>2,312,078</u>
TOTAL		<u>\$5,394,849</u>
*Federally Funded		
Asset Management:		
Director's Office	1.0	\$118,202
Transactions	4.0	328,338
Small Scale Asset Management	5.0	378,680
Core Properties Intake	10.0	719,567
Operations	4.0	343,017
Contract Administration	9.0	709,189
Compliance Monitoring	10.0	743,954
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	45.1	\$3,403,947
Fringes (75%)		<u>2,552,960</u>
TOTAL		<u>\$5,956,907</u>
Homeownership:		
Director's Office	3.0	\$ 287,455
Single Family/MCC Operations	15.0	1,000,862
Business Development	7.0	535,990
Foreclosure Prevention *	4.0	280,377
Students & Co-ops	<u>0.0</u>	<u>0</u>
*Federally Funded		
	29.0	\$2,064,281
Fringes (75%)		<u>1,548,211</u>
TOTAL		<u>\$3,612,492</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Rental Development:		
Director's Office	3.0	\$287,455
Multi-family Development	6.0	494,814
Design and Construction Management	9.0	828,978

Environmental Quality	2.0	192,367
Low Income Housing Tax Credit	6.0	355,002
Students & Co-ops	<u>0.0</u>	<u>0</u>
	26.0	\$2,158,616
Fringes (75%)		<u>1,618,962</u>
TOTAL		<u>\$4,777,578</u>

Total Salaries July 1, 2021	<u>244.2</u>	<u>\$19,010,496</u>
Total Fringes July 1, 2021		<u>\$14,257,872</u>

General increase effective October 1, 2021 (2% of base wages)		499,026
General increase effective April 1, 2022 (1% of base wages)		83,171

\$33,850,565

Summary of Costs:

Projected salary cost of positions	\$33,850,565
Vacant positions salaries (20)	1,650,000
Vacant positions fringes	1,237,500
Unfilled Vacant Positions (20%)	(577,500)
Estimated sick and annual leave accrual	<u>60,000</u>

Total budgeted salaries and fringes 21-22 \$36,220,565

Estimating (60 of the 95) new Federally Funded Positions to be filled	3,733,344
Fringes for the 60 Federally Funded Positions	2,800,008

Total budgeted salaries and fringes 21-22 with new Federal Positions \$42,753,917

(12) Production-related Contracts:

	2021-22 Proposed Budget	2020-21 Budget
Multi-Family:		
Design Review	\$105,000	48,000
Marketing	15,000	13,000
Environmental and Technical Resources	<u>70,000</u>	<u>70,000</u>
Sub total	\$190,000	\$131,000
Contract Administration*:		
Asset Management	\$4,745,000	\$3,520,000
Consulting	55,000	50,000
TRACS Processing	<u>1,214,000</u>	<u>950,000</u>
Sub total	\$6,014,000	\$4,520,000
Single Family Foreclosure Services/Audit	273,000	250,000
Environmental Legal Matters	40,000	40,000
Capital Needs and Project Assessments	146,000	82,000

TRACS Processing	10,000	245,000
Contractual Tenant File Audits/Physical Inspections	<u>600,000</u>	<u>475,000</u>
Total	<u>\$7,273,000</u>	<u>\$5,743,000</u>

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

(13) General Contracts:

	<u>2021-22 Proposed Budget</u>	<u>2020-21 Budget</u>
Operations Contracts	\$ 42,000	\$153,000
Executive Contract	821,000	200,000
Legal Contracts	57,000	158,000
Housing Initiatives Contracts	9,000	275,000
Housing Voucher Program Contracts	590,000	462,000
Miscellaneous	<u>185,000</u>	<u>163,000</u>
	<u>\$1,704,000</u>	<u>\$1,411,000</u>

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

	<u>Proposed Budget</u>
Rent:	
GM Building	395,000
Depreciation on 735 E. Michigan Avenue:	\$ 525,000
Utilities:	
735 E. Michigan Avenue	<u>\$ 172,000</u>
Total	<u>\$1,092,000</u>

(15) Information Technology:

	<u>2021-22 Proposed Budget</u>	<u>2020-21 Budget</u>
Emphasys system	\$1,958,000	\$1,958,000
Agate	500,000	775,000
DTMB	3,600,000	3,437,000
Smaller Ongoing Commitments	2,304,000	0
New IT Projects	<u>1,680,000</u>	<u>815,000</u>
	<u>\$10,042,000</u>	<u>\$6,985,000</u>

(16) State Charges include:

Proposed

	<u>Budget 21-22</u>	<u>Budget 20-21</u>
Attorney General	\$1,200,000	\$1,200,000
Auditor General	126,000	120,000
Civil Service	600,000	600,000
DTMB Support	252,000	252,000
LEO Admin	600,000	1,008,000
	<u>\$2,778,000</u>	<u>\$3,180,000</u>

- (17) Prior year estimated actual amount.
- (18) Amount for Authority sponsored conferences.
- (19) Amount includes expense for building maintenance, office equipment and rental.
- (20) Advertising and publicity

**Proposed Budget
21-22**

Advertising

Campaign – Media/PR/Creative	\$1,800,000 ⁽¹⁾
Video Creation	250,000

**Misc. Advertising, Marketing,
Promotion & Outreach Items**

300,000

Total

\$2,350,000

(1) \$900,000 of these advertising dollars will promote two Federal programs. The expense will be reimbursed through Federal administrative fees.

- (21) Reflects similar utilization of agents and fees paid to agents.
- (22) Temporary clericals and laborers.
- (23) Budget amount includes \$335,000 of legal fees and \$145,000 for insurance premiums. Legal fees and insurance premiums expected to be higher in FY 21.
- (24) 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.
- (25) This is the breakdown of estimated Single Family/ HIP servicing, origination costs and FHA Insurance premiums. The Authority will assemble a team to investigate cost savings related to servicing fees.

	<u>21-22 Budget</u>	<u>20-21 Budget</u>
Single Family Servicing Fees -	\$6,000,000	\$6,000,000
HIP Servicing Fees -	105,000	105,000
Cost of Loan Origination (a) -	3,600,000	1,575,000

HIP Origination Fees -	5,000	10,000
HIP FHA Insurance Premiums -	<u>45,000</u>	<u>50,000</u>

Total	\$9,755,000	\$7,740,000
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(a) Amortization of Service release premium, Incentive premium and Origination Fee

- (26) Staying flat compared to last year's estimated actual is budgeted because the number of bonds being issued will be similar to prior year.
- (27) 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.
- (28) Assumes \$3,000,000 of write-offs and will increase current reserve balance by \$5,700,000.
- (29) 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 (\$80,000), (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 (\$260,000), and (3) (\$190,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$80,000).
- (30) Of the \$10,031,000, \$5,502,000 will be allocated to a number of programs that require a match in order for MSHDA to be eligible for Federal Funds. Sponsorships, in the amount of \$185,000, will be moved from Advertising to the Grants line item. The remaining \$4,344,000 Grant Funds will be allocated throughout the FY.
- (31) This counseling network is an ongoing responsibility of MSHDA with annual costs estimated at \$700,000.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**RESOLUTION APPROVING
2021-2022 BUDGET**

June 17, 2021

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 Acting Executive Director has recommended that the Authority approve the adoption of the 2021-2022 Budget as described in the accompanying memorandum; and

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

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

1. The Michigan State Housing Development Authority's 2021-2022 Budget is hereby adopted, subject to the terms of the accompanying memorandum.
2. The Executive Director and the Chief Financial Officer, or any person duly acting in such capacity, or either one of them acting alone, are hereby authorized to implement the 2021-2022 Budget.