



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 25, 2020

RE: The Michigan State Housing Development Authority's 2020 – 2021 Proposed Budget

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") review and comment on the Authority's 2020-2021 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 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 and higher returns on investments. 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.
- Salaries and Fringes have decreased (\$1.2 million) due to the State Historic Preservation Office ("SHPO") transferring to Michigan Strategic Fund and the impact of the current State hiring freeze.
- Mortgage Servicing Fees continue to increase, primarily due to increased single-family mortgage balances and the anticipated higher cost of servicing delinquent loans.
- Provision for losses on mortgage loans have been increased (\$3.8 million) to take into consideration the economic impact of the COVID pandemic.
- The Authority is targeting a 1.00% return on Net Assets, bringing a budgeted increase in Net Assets of \$8.0 million.

- By targeting a 1.00% increase in Net Assets, the Authority can provide \$10.2 million in grants for the 2020-21 fiscal year.

ADVANCING THE MISSION AND MUNICIPAL OR COMMUNITY IMPACT/SUPPORT:

The Authority's annual budget was developed with consideration given to the Authority's Mission, Vision, and Guiding Principles and community impact/support. Below are a few examples.

People First

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.

Diversity, Equity, and Inclusion

This Budget includes funding for contracts that will assist the Authority in the analysis of impediments to fair housing choices.

Decision Making

This Budget takes into consideration economic data and recent results to forecast Net Interest Income during a time of very little visibility. The COVID pandemic has influenced a more conservative view of the upcoming year's production and reserves.

Partner Collaboration

This Budget increases Grant funds in an effort for the Authority to better assist our partners and customers address the unknown caused by the COVID pandemic.

The Authority generally awards grants to nonprofits and public bodies to support and impact communities and neighborhoods. Over the years, Authority grants have funded, among other activities, matches for emergency shelter grants, neighborhood stabilization efforts, and housing enhancements in low to moderate income areas.

ISSUES, POLICY CONSIDERATIONS, AND RELATED ACTIONS:

None.

**Michigan State Housing Development Authority
PROPOSED 2020-21 BUDGET
(000's Omitted)**

DRAFT

	PROPOSED BUDGET 20-21		ESTIMATED 12 MONTH 19-20	BUDGET 19-20	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)	
Revenue:							
Net interest income	\$63,312	1	\$62,155	\$61,169	\$986	\$2,143	3000, 4000 & 8020
HCV/FSS fees	17,500	2	17,600	17,500	100	0	070-3050-435
Fees - Other federal programs	4,200	3	5,550	5,500	50	(1,300)	070-3050-(270-292), 650, 655, 855 & 890
Preservation fee income	2,291	4	3,250	550	2,700	1,741	093-6010
LHHC Fees	3,900	5	4,965	3,900	1,065	0	3110
Contract Administration fees	8,415	6	8,510	8,200	310	215	070-3050-445
Gain (loss) on retirement of bonds	1,560	7	2,645	200	2,445	1,360	4200
Gain (loss) on sale of investments	0	8	35	0	35	0	4100
Gain on sale of mortgages	960	9	1,120	400	720	560	4400
Miscellaneous income	3,540	10	7,350	7,212	138	(3,672)	3040, 3100, 4300, 6020 & 6100
Total Revenue	\$105,678		\$113,180	\$104,631	\$8,549	\$1,047	
Expenses:							
Operating Expenses:							
Salaries and fringes	\$33,890	11	\$34,526	\$35,188	(662)	(1,298)	(7010 - 7030)
Technical service contracts	5,743	12	5,702	5,520	182	223	7040
General contracts	1,411	13	619	1,420	(801)	(9)	7050
Rent, building depreciation and utilities	1,224	14	1,204	1,248	(44)	(24)	7120
Building maint, equipment purchase & rental	954	19	831	1,080	(249)	(126)	7140, 7290, 7300 & 7320
Computer	6,985	15	5,670	7,131	(1,461)	(146)	7130
State charges for Attorney General, Auditor							
General, Civil Service and admin	3,180	16	3,250	3,456	(206)	(276)	7150
Travel	348	17	348	360	(12)	(12)	7080
Telephone	228	17	228	252	(24)	(24)	7070
Supplies, printing and postage	288	17	288	408	(120)	(120)	7060 & 7100
Advertising and publicity	1,450	20	1,528	1,450	78	0	(7210 - 7230) & 7270
HCV contracted agents	9,530	21	9,444	9,530	(86)	0	7350
Memberships, subs., & research mat.	84	17	84	144	(60)	(60)	7180
Authority sponsored conf.	240	18	240	312	(72)	(72)	7110
Conference registration fees	96	17	96	96	0	0	7160
Temporary support	36	22	30	36	(6)	0	7200
Legal & insurance	480	23	460	420	40	60	7240 & 7260
Miscellaneous	444	17	3,744	276	3,468	168	7090, 7170, 7190 & 8040
Deferred loan origination costs	(1,380)	24	(1,125)	(1,380)	255	0	7800
Total Operating expenses	65,231		67,167	66,947	220	(1,716)	
Single Family & HIP Mortgage servicing/origination/FHA insurance fees	7,740	25	7,172	6,720	452	1,020	9200, 9300 & 9350 (200 & 035)
Costs of issuing & paying notes & bonds	2,700	26	3,175	2,700	475	0	(7500 - 7540)
Bond insurance, LOC & Liquidity fees	1,953	27	2,747	2,806	(59)	(853)	9330
Provision for losses on Mort. loans	8,600	28	10,140	4,800	5,340	3,800	9500
Rent Subsidies	540	29	(720)	660	(1,380)	(120)	(7700 - 7720)
Grants	10,235	30	9,360	9,360	0	875	9600
Homeownership Counseling	650	31	695	600	95	50	7330
Total expenses	\$97,649		\$99,736	\$94,593	\$5,143	\$3,056	
Net Increase in fund balance	\$8,029		\$13,444	\$10,038	\$3,406	(\$2,009)	

Notes 1 - 31 -- See pages following

802,900 Estimated Net Assets	<u>\$8,029</u>	1.00% Return on Net Assets
	\$0	

				SALARIES			
				MONTHLY	WITH		
MONTH	DAYS			SALARIES	LONGEVITY	\$34,485.28	
July	23	8.78%				\$3,027.33	
Aug	22	8.40%				\$2,895.71	
Sept	21	8.02%				\$2,764.09	
Oct	23	8.78%				\$3,149.64	
Nov	21	8.02%				\$2,944.37	
Dec	22	8.40%				\$2,953.62	
Jan	23	8.78%				\$3,087.88	
Feb	20	7.63%				\$2,685.11	
Mar	22	8.40%				\$2,953.62	
Apr	22	8.40%				\$2,953.62	
May	21	8.02%				\$2,819.37	
June	22	8.40%				\$2,953.62	
TOTAL	262	100.00%		\$0.00	\$0.00	\$35,188.00	35188
	Budget Total			\$35,983.00			
	October Longevity			<u>\$125.00</u>			
				\$35,858.00			

INTEREST INCOME

MONTH	MORTGAGE LOANS	INVESTMENTS	INTEREST EXPENSE	INTEREST INCOME
July	12,058	1,248	8,529	4,777
Aug	12,212	1,152	8,529	4,835
Sept	12,374	1,095	8,948	4,521
Oct	12,529	1,018	8,766	4,781
Nov	12,691	969	8,766	4,894
Dec	12,832	1,108	8,376	5,564
Jan	12,927	1,046	8,785	5,188
Feb	13,109	1,161	9,108	5,162
Mar	13,245	1,064	9,108	5,201
Apr	13,393	1,011	8,926	5,478
May	13,537	995	9,335	5,197
June	13,685	1,084	9,198	5,571
TOTAL	154,592	12,951	106,374	61,169

- (1) Net interest income is budgeted at \$63,312,000, which is \$2,143,000 more than was budgeted in FY 20. We anticipate lower rates earned on higher average balances for mortgage loans compared to FY 20. Lower interest rates received on higher average balances for investments are anticipated for FY 21. We anticipate bond interest expense to increase due to lower interest rates paid on higher bond balances in FY 21 over the budgeted amount in FY 20.

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	\$3,594,017,000	4.683 %	\$168,294,000
Investments	\$ 698,300,000	1.526 %	10,653,000
Interest expense on bonds	\$3,366,668,000	3.435 %	<u>(115,635,000)</u>
Net interest income			<u>\$ 63,312,000</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* (\$1,600,000), CoC Program* (\$60,000), Section 811 Program* (\$80,000), ESG* (\$260,000), Hardest-Hit Fund* (\$1,500,000) and the Housing Trust Fund Program (\$700,000).
- (4) Budgeted amount includes preservation fees of 2,191,000 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) 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 \$1,560,000 for 2021.
- (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 \$3,540,000 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 (\$500,000)*, late fee/prepayment penalties on mortgages (\$1,000,000)*, amortization of asset management fees (\$380,000)*, fees for the issuance of limited obligation bonds (\$0), recognition of Below Market Interest Rate Program (\$1,129,000) and various smaller income items of (\$431,000).
- (11) Budget requests by Division are as follows:

Positions	
<u>Filled</u>	<u>Cost</u>

Executive:		
Director's Office	3.0	\$ 287,371
Deputy Director's Office	0.0	0
Governmental and Media Affairs	5.9	386,217
Compliance, Fraud & Internal Audit	9.0	608,130
Employee Services	3.0	278,769
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	22.3	\$1,602,487
Fringes (75%)		<u>1,201,865</u>
TOTAL		<u>\$2,804,352</u>
Operations:		
Director's Office	4.0	\$ 370,056
Technical Support Services	9.0	665,174
Office Services	8.0	550,272
Human Resources	<u>4.0</u>	<u>326,208</u>
	25.0	\$1,911,710
Fringes (75%)		<u>1,433,783</u>
TOTAL		<u>\$3,345,493</u>
Finance:		
Director's Office	2.0	\$ 228,156
Accounting & Investments	7.0	453,910
Single Family Servicing	3.8	211,147
Multi-Family Servicing	4.0	226,840
Audit	3.0	268,057
Operations – HVP	3.0	254,736
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	24.9	\$1,705,846
Fringes (75%)		<u>1,279,385</u>
TOTAL		<u>\$2,985,231</u>
Legal:		
Director's Office	7.0	\$ 569,293
Staff Attorneys	7.0	689,332
Procurement	2.0	148,624
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	16.7	\$1,428,249
Fringes (75%)		<u>1,071,187</u>
TOTAL		<u>\$2,499,436</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Housing Initiatives:		
Director's Office	1.0	\$99,347

Southeast Michigan Outreach	6.0	538,892
Neighborhood Initiatives	6.0	484,437
Students & Co-ops	<u>1.4</u>	<u>31,000</u>
	14.4	\$1,153,676
Fringes (75%)		<u>865,257</u>
TOTAL		<u>\$2,018,933</u>

***Rental Assistance & Housing Solutions:**

Director's Office	4.0	\$379,139
Rent Assistance	28.6	2,057,098
Homeless Initiatives	9.0	639,346
Students & Co-ops	<u>2.8</u>	<u>84,000</u>
	44.4	\$3,159,583
Fringes (75%)		<u>2,369,687</u>
TOTAL		<u>\$5,529,270</u>

*Federally Funded

Asset Management:

Director's Office	1.0	\$125,176
Transactions & Preservation	8.0	617,756
Core Operations Intake	9.0	636,234
Finance/Technology	4.0	322,366
Contract Administration/Operations Division	11.0	783,063
Compliance Monitoring	8.0	581,863
Students & Co-ops	<u>3.5</u>	<u>94,000</u>
	44.5	\$3,160,458
Fringes (75%)		<u>2,370,344</u>
TOTAL		<u>\$5,530,802</u>

Homeownership:

Director's Office	2.0	\$ 177,250
Single Family/MCC	16.0	1,046,151
Marketing	8.0	590,069
Foreclosure Prevention *	5.0	274,593
Students & Co-ops *	<u>0.0</u>	<u>0</u>

*Federally Funded

	31.0	\$2,088,063
Fringes (75%)		<u>1,566,047</u>
TOTAL		<u>\$3,654,110</u>

(11) Budget requests by Division (continued)

	<u>Positions Filled</u>	<u>Cost</u>
Rental Development:		
Director's Office	6.0	\$435,432
Multi-family Development	6.0	504,732
Design and Construction Management	5.0	472,974
EEO and Construction Disbursements	5.0	417,057
Environmental Quality	2.0	186,709

Low Income Housing Tax Credit	6.0	376,466
Students & Co-ops	<u>0.7</u>	<u>10,000</u>
	30.7	\$2,403,370
Fringes (75%)		<u>1,802,528</u>
TOTAL		<u>\$4,205,898</u>
Total Salaries July 1, 2020	<u>253.9</u>	<u>\$18,613,442</u>
Total Fringes July 1, 2020		<u>\$13,960,083</u>
General increase effective October 1, 2020 (2% of base wages)		488,603
General increase effective April 1, 2021 (1% of base wages)		81,434
		<u>\$33,143,562</u>

Summary of Costs:

Projected salary cost of positions	\$33,143,562
Vacant positions salaries (24)	1,961,977
Vacant positions fringes	1,471,483
Unfilled Vacant Positions (80%)	(2,746,768)
Estimated sick and annual leave accrual	<u>60,000</u>
Total budgeted salaries and fringes 20-21	<u>\$33,890,254</u>

(12) Production-related Contracts:

	<u>2020-21 Proposed Budget</u>	<u>2019-20 Budget</u>
Multi-Family:		
Design Review	\$48,000	25,000
Marketing	13,000	0
Environmental and Technical Resources	<u>70,000</u>	<u>70,000</u>
Sub total	\$131,000	\$95,000
Contract Administration*:		
Asset Management	\$3,520,000	\$3,215,000
Consulting	50,000	50,000
TRACS Processing	<u>950,000</u>	<u>815,000</u>
Sub total	\$4,520,000	\$4,080,000
Single Family Foreclosure Services	250,000	250,000
Environmental Legal Matters	40,000	40,000
Capital Needs and Project Assessments	82,000	123,000
TRACS Processing	245,000	440,000
Contractual Tenant File Audits/Physical Inspections	<u>475,000</u>	<u>492,000</u>
Total	<u>\$5,743,000</u>	<u>\$5,520,000</u>

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

(13)	General Contracts:		
		<u>2020-21 Proposed</u>	<u>2019-20</u>
		<u>Budget</u>	<u>Budget</u>
	Operations Contracts	\$ 153,000	\$100,000
	Executive Contract	200,000	250,000
	Legal Contracts	158,000	191,000
	Housing Initiatives Contracts	275,000	280,000
	Housing Voucher Program Contracts	462,000	229,000
	SHPO Contracts	0	257,000
	Miscellaneous	<u>163,000</u>	<u>113,000</u>
		<u>\$1,411,000</u>	<u>\$1,420,000</u>

(14)	Office rent and utility charges by location are as follows:	
		<u>Proposed</u>
		<u>Budget</u>
	Rent:	
	GM Building	384,000
	Romney Building (H4HH) *	<u>102,000</u>
		\$486,000
	Depreciation on 735 E. Michigan Avenue:	\$ 525,000
	Utilities:	
	735 E. Michigan Avenue	<u>\$ 213,000</u>
	Total	<u>\$1,224,000</u>
	* Federally Funded	

(15)	Computer:		
		<u>2020-21 Proposed</u>	<u>2019-20</u>
		<u>Budget</u>	<u>Budget</u>
	Emphasys system	\$1,958,000	\$1,900,000
	Agate	775,000	775,000
	DTMB	3,437,000	3,205,000
	Smaller Ongoing Commitments	0	351,000
	New IT Projects	<u>815,000</u>	<u>900,000</u>
		\$6,985,000	\$7,131,000

(16)	State Charges include:		
		Proposed	
		Budget	Budget

	<u>20-21</u>	<u>19-20</u>
Attorney General	\$1,200,000	\$1,200,000
Auditor General	120,000	120,000
*Civil Service	600,000	636,000
*DTMB Support	252,000	240,000
*TED Admin	1,008,000	1,260,000
	<u>\$3,180,000</u>	<u>\$3,456,000</u>

(17) Prior year estimated actual amount. Miscellaneous Expenses had a one time fee of \$3,300,000 for SHPO transition. Without that transaction, the estimated actual would be \$444,000.

(18) Amount for Authority sponsored conferences.

(19) Amount includes expense for building maintenance, office equipment and rental.

(20) Advertising and publicity (needs updating)

	Proposed Budget <u>20-21</u>
Advertising	
Campaign – Media/PR/Creative	900,000
Video Creation	250,000
Misc. Advertising, Marketing, Promotion & Outreach Items	
	<u>300,000</u>
Total	<u>\$1,450,000</u>

(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>20-21</u> <u>Budget</u>	<u>19-20</u> <u>Budget</u>
Single Family Servicing Fees -	\$6,000,000	\$5,000,000
HIP Servicing Fees -	105,000	125,000
Cost of Loan Origination (a) -	1,575,000	1,530,000
HIP Origination Fees -	10,000	15,000

HIP FHA Insurance Premiums -	<u>50,000</u>	<u>50,000</u>
Total	\$7,740,000	\$6,720,000

(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 \$5,000,000 of write-offs and will increase current reserve balance by \$3,600,000.
- (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 (\$90,000), (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 (\$300,000), and (3) (\$220,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$70,000).
- (30) Of the \$10,235,000, \$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 \$4,548,000 Grant Funds will be allocated throughout the FY.
- (31) This counseling network is an ongoing responsibility of MSHDA with annual costs estimated at \$650,000.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**RESOLUTION APPROVING
2020-2021 BUDGET**

June 25, 2020

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 2020-2021 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 2020-2021 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 authorized to act in either of the foregoing capacities, each are hereby authorized to implement the 2020-2021 Budget.