



MSHDA

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

M E M O R A N D U M

TO: Authority Members

FROM: ^{For} Earl J. Poleski, Executive Director 

DATE: June 27, 2018

RE: The Michigan State Housing Development Authority's 2018 – 2019 Proposed Budget

Recommendation:

I recommend that the Michigan State Housing Development Authority (the "Authority") approve the Authority's 2018-2019 Budget (the "Budget").

Executive Summary:

At the May 23, 2018 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:

- Total revenue is budgeted to be up by 1.5% of Net Assets. Net Interest Income is down despite the fact the loan balances are increasing. This is due to the prepayment of higher rate mortgages and a lower balance of the Authority's investments. Investments were liquidated to reduce future liabilities. Greater federal program administrative fees and enhanced tracking and accounting for administrative costs across the Authority is anticipated to increase Authority revenues.
- As previously discussed, Preservation fee income while increasing this year will fall in the coming years until it reaches zero.
- Overall operational expenses are budgeted to decrease by nearly 4% as a result of increased efficiencies, enhanced internal controls and for reviewing and monitoring existing staffing capacities and resources to assist with future personnel needs.
- Mortgage Servicing Fees continue to increase and as such a team has been created to look for more cost-effective alternatives.

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 – Historically, the Authority has targeted a 1% return on its Net Assets. When appropriate, the Authority has increased the return. This budget is pushing the return to 1.5% in an effort to help offset future declining preservation fee revenues and replenish the Mortgage Resource Fund, which has been used to provide "soft" second mortgages to make multi-family developments feasible.
- Homelessness – The Authority continues to support and create programs to help take care of Michigan's homeless. This budget will increase grants through reductions in operational expenditures to ensure that the majority of resources in the grants budget can be used to leverage Federal resources to combat homelessness.
- Improving Operational Efficiencies for both external customers and our Authority staff – The Authority's budget for IT spending had begun at \$3 million in the budget year ending 2015, and increased each year, including this year, to \$7.1 million. This is the most the Authority has ever budgeted for IT projects. Additionally, the Authority continues to implement IT and customer service related Lean Process Improvements as outlined in its strategic plan.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**RESOLUTION APPROVING
2018-2019 BUDGET**

June 27, 2018

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 2018-2019 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 2018-2019 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 2018-2019 Budget.

Michigan State Housing Development Authority
PROPOSED 2018-19 BUDGET
(000's Omitted)

	PROPOSED BUDGET 18-19		8 MONTH ACTUAL	ESTIMATED 12 MONTH 17-18	ESTIMATED BUDGET 17-18	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
Revenue:							
Net interest income	\$59,421	1	\$52,535	\$59,500	\$63,320	(\$3,820)	(\$3,899)
HCV/FSS fees	16,500	2	6,208	16,400	16,800	(400)	(300)
Fees - Other federal programs	4,685	3	1,657	3,000	2,700	300	1,985
Preservation fee income	5,800	4	4,033	3,300	4,500	(1,200)	1,300
LIHTC Fees	4,400	5	4,827	4,200	0	4,200	4,400
Contract Administration fees	8,000	6	4,184	8,030	8,100	(70)	(100)
Gain (loss) on retirement of bonds	(300)	7	653	350	(300)	650	0
Gain (loss) on sale of investments	0	8	2,103	(950)	0	(950)	0
Gain on sale of mortgages	200	9	200	200	300	(100)	(100)
Miscellaneous income	5,500	10	4,827	3,300	6,684	(3,384)	(1,184)
Total Revenue	\$104,206		\$81,027	\$97,330	\$102,104	(\$4,774)	\$2,102
Expenses:							
Operating Expenses:							
Salaries and fringes	\$34,267	11	11,577	\$34,400	\$35,218	(818)	(951)
Technical service contracts	5,452	12	3,282	4,900	6,184	(1,284)	(732)
General contracts	1,214	13	620	800	1,138	(338)	76
Rent, building depreciation and utilities	1,536	14	2,237	3,890	3,792	98	(2,256)
Building maint, equipment purchase & rental	1,051	19	187	372	540	(168)	511
Computer	7,100	15	415	5,800	6,221	(421)	879
State charges for Attorney General, Auditor							
General, Civil Service and admin	3,030	16	1,379	2,260	2,283	(23)	747
Travel	420	17	305	420	468	(48)	(48)
Telephone	240	17	289	240	300	(60)	(60)
Supplies, printing and postage	360	17	183	312	324	(12)	36
Advertising and publicity	1,565	20	156	1,750	2,000	(250)	(435)
HCV contracted agents	8,600	21	3,374	8,680	8,700	(20)	(100)
Memberships, subs., & research mat.	96	17	71	96	72	24	24
Authority sponsored conf.	312	18	178	215	312	(97)	0
Conference registration fees	108	17	100	108	120	(12)	(12)
Temporary support	48	22	52	48	72	(24)	(24)
Legal & insurance	240	23	192	235	225	10	15
Miscellaneous	252	17	73	802	240	562	12
Deferred loan origination costs	<u>(1,620)</u>	24	<u>(480)</u>	<u>(830)</u>	<u>(935)</u>	<u>105</u>	<u>(685)</u>
Total Operating expenses	64,271		24,190	64,498	67,274	(2,776)	(3,003)
Single Family & HIP Mortgage servicing/origination/FHA insurance fees	6,230	25	1,439	6,360	5,295	1,065	935
Costs of issuing & paying notes & bonds	2,400	26	1,221	2,415	2,300	115	100
Bond insurance, LOC & Liquidity fees	3,342	27	884	3,750	3,782	(32)	(440)
Provision for losses on Mort. loans	4,680	28	1,000	1,120	4,800	(3,680)	(120)
Rent Subsidies	720	29	1,488	750	660	90	60
Grants	10,263	30	4,077	8,063	7,563	500	2,700
Homeownership Counseling	<u>600</u>	31	<u>19</u>	<u>725</u>	<u>750</u>	<u>(25)</u>	<u>(150)</u>
Total expenses	<u>\$92,506</u>		<u>\$34,318</u>	<u>\$87,681</u>	<u>\$92,424</u>	<u>(\$4,743)</u>	<u>\$82</u>
Net Increase in fund balance	<u>\$11,700</u>		<u>\$46,709</u>	<u>\$9,649</u>	<u>\$9,680</u>	<u>(\$31)</u>	<u>\$2,020</u>

Notes 1 - 31 - - See pages following

NOTES

- (1) Net interest income is budgeted at \$59,421,000, which is \$3,899,000 less than was budgeted in FY 18. We anticipate higher rates earned on higher average balances for mortgage loans compared to FY 18. Lower interest rates received on lower average balances for investments are anticipated for FY 19. We anticipate bond interest expense to increase due to higher interest rates paid on higher bond balances in FY 19 over the budgeted amount in FY 18.

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	\$2,679,183,000	4.868 %	\$130,418,000
Investments	\$ 479,397,000	2.391 %	11,463,000
Interest expense on bonds	\$2,383,025,000	3.460 %	(<u>82,460,000</u>)
Net interest income			<u>\$ 59,421,000</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 (\$1,500,000), CoC Program (\$80,000), Section 811 Program (\$75,000), SHPO (\$1,000,000) Hardest-Hit Fund (\$1,200,000) and the Housing Trust Fund Program (\$830,000).
- (4) Budgeted amount includes preservation fees of 5,700,000 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. This line item is new this fiscal year; previously LIHTC was a part of Miscellaneous Income.
- (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 loss of \$300,000 for 2018.
- (8) We have projected no gain from the sale of other long-term investments.
- (9) Gain on the sale of securitized single family loans.
- (10) Budget amount of \$5,500,000 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 (\$750,000), 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), recognition of Below Market Interest Rate Program (\$2,500,000) and various smaller income items of (\$484,000). The LIHTC Fees now has its own line item.

(11) Budget requests by Division are as follows:

	Positions Filled	Cost
Executive:		
Director's Office	4.0	\$ 429,314
Compliance, Fraud & Internal Audit	6.0	438,313
Students & Co-ops	<u>0.0</u>	<u>0</u>
	10.0	867,627
Fringes (75%)		<u>650,720</u>
TOTAL		<u>\$1,518,347</u>
Finance:		
Director of Finance Office	3.0	\$ 241,289
Accounting & Investments	6.7	454,981
Single Family Servicing	3.8	218,918
Multi-Family Servicing	2.9	180,338
Audit	3.0	229,764
Operations – HVP	3.0	224,857
Director of Homeownership Office	2.0	165,829
Single Family/MCC	12.0	763,519
Marketing	8.0	559,772
Foreclosure Prevention *	5.0	281,964
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	50.8	3,363,231
Fringes (75%)		<u>2,522,423</u>
TOTAL		<u>\$5,885,654</u>
Legal:		
Director's Office	7.0	\$ 545,135
Staff Attorneys	7.0	673,046
Students & Co-ops	<u>0.0</u>	<u>0</u>
	14.0	1,218,181
Fringes (75%)		<u>913,636</u>
TOTAL		<u>\$2,131,817</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Housing People:		
Director of RAHS Office	4.0	\$325,102
Rent Assistance	29.0	1,933,634
Homeless Initiatives	11.6	826,429
Director of Asset Management Office	1.0	116,239
Transactions & Preservation	10.0	722,072
Core Operations Intake	9.0	656,425
Finance/Technology	4.0	310,402
Contract Administration/Operations Division	13.0	901,912
Compliance Monitoring	6.0	436,559
Students & Co-ops	<u>4.2</u>	<u>115,000</u>
	91.8	6,343,774
Fringes (75%)		<u>4,757,838</u>
TOTAL		<u>\$11,101,612</u>
Housing Place:		
Director's Office	4.0	\$380,914
Southeast Michigan Outreach	5.0	446,519
Neighborhood Initiatives	6.0	421,358
Director's Office	8.0	628,112
Multi-family Development	7.0	545,386
Design and Construction Management	6.0	520,580
EEO and Construction Disbursements	5.0	392,711
Low Income Housing Tax Credit	5.0	320,090
Director of SHPO Office	15.0	1,111,964
Students & Co-ops	<u>2.8</u>	<u>62,000</u>
	63.8	4,829,634
Fringes (75%)		<u>3,622,226</u>
TOTAL		<u>\$8,451,860</u>
Operations:		
Director's Office	1.0	\$117,471
Governmental and Media Affairs	8.9	654,737
Office Services	8.0	506,089
Human Resources	4.0	287,643
Procurement	3.0	251,291
Operations	3.0	243,356
Employee Services	4.0	353,853
Technical Support Services	11.0	778,720
Students & Co-ops	<u>2.8</u>	<u>84,000</u>
	45.7	3,277,160
Fringes (75%)		<u>2,457,870</u>
TOTAL		<u>\$5,735,030</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Total Salaries July 1, 2018	<u>276.1</u>	<u>\$19,899,617</u>
Total Fringes July 1, 2018		<u>\$14,924,713</u>
General increase effective October 1, 2018 (2% of base wages)		522,365
		<u>\$35,346,695</u>
Summary of Costs:		
Projected salary cost of positions		\$35,346,695
Vacant positions salaries (18.90)		1,029,034
Vacant positions fringes		771,776
Unfilled Vacant Positions (80%)		(1,440,648)
Attrition		(1,500,000)
Estimated sick and annual leave accrual		<u>60,000</u>
Total budgeted salaries and fringes 18-19		<u>\$34,266,857</u>

(12) Production-related Contracts:

	2018-19 Proposed Budget	2017-18 Budget
Multi-Family:		
Design Review	\$35,000	240,000
Environmental and Technical Resources	<u>70,000</u>	<u>70,000</u>
Sub total	\$105,000	\$310,000
Contract Administration*:		
Asset Management	\$3,428,000	\$3,540,000
Consulting	20,000	20,000
TRACS Processing	<u>787,000</u>	<u>787,000</u>
Sub total	\$4,235,000	\$4,347,000
Links to Homeownership	41,000	46,000
Single Family Foreclosure Services	250,000	260,000
Environmental Legal Matters	40,000	10,000
Capital Needs and Project Assessments	65,000	235,000
TRACS Processing	370,000	370,000
Contractual Tenant File Audits/Physical Inspections	<u>346,000</u>	<u>606,000</u>
Total	<u>\$5,452,000</u>	<u>\$6,184,000</u>

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

(13) General Contracts:

	<u>2018-19 Proposed Budget</u>	<u>2017-18 Budget</u>
Operations Contracts	\$155,000	\$29,000
Legal Contracts	115,000	60,000
Housing Initiatives Contracts	40,000	130,000
Housing Voucher Program Contracts	269,000	204,000
SHPO Contracts	435,000	535,000
Miscellaneous	<u>200,000</u>	<u>180,000</u>
	<u>\$1,214,000</u>	<u>\$1,138,000</u>

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

	<u>Proposed Budget</u>
Rent:	
GM Building	405,000
Romney Building (H4HH) *	<u>130,000</u>
	\$535,000
Depreciation on 735 E. Michigan Avenue:	\$ 525,000
Taxes:	
735 E. Michigan Avenue	\$ 280,000
800 Jerome	\$ 4,000
Utilities:	
735 E. Michigan Avenue	<u>\$ 192,000</u>
Total	<u>\$1,536,000</u>

* Federally Funded

(15) Computer:

	<u>2018-19 Proposed Budget</u>	<u>2017-18 Budget</u>
Emphasys system	\$1,600,000	\$1,955,000
Agate	775,000	745,000
DTMB	3,125,000	3,125,000
Projects Underway	789,500	396,000
New IT Projects	<u>810,500</u>	<u>0</u>
	\$7,250,000	\$6,221,000

(16) State Charges are expected to be \$3,030,000, based on input by the various departments.

(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 (needs updating)

		Proposed Budget
		<u>18-19</u>
Advertising		
Campaign – Media & Creative		900,000
Video Ads		250,000
Miscellaneous		75,000
Various Advertising, Promotion & Outreach Items		<u>340,000</u>
Total		<u>\$1,565,000</u>

- (21) Reflects similar utilization of agents and fees paid to agents.
- (22) Temporary clericals and laborers.
- (23) Budget amount includes \$160,000 of legal fees and \$80,000 for insurance premiums. Legal fees and insurance premiums expected to be slightly higher in FY 19.
- (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. The increase represents an increase in the production of new 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.

	18-19	17-18
	<u>Budget</u>	<u>Budget</u>
Single Family Servicing Fees -	\$4,500,000	\$5,295,000
HIP Servicing Fees -	145,000	90,000
Cost of Loan Origination (a) -	1,480,000	1,780,000
HIP Origination Fees -	20,000	20,000
HIP FHA Insurance Premiums -	<u>85,000</u>	<u>90,000</u>
Total	\$6,230,000	\$7,275,000

(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 \$1,980,000 of write-offs and will increase current reserve balance by \$2,700,000.

- (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 (\$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 (\$350,000), and (3) (\$360,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$90,000).
- (30) Of the \$10,263,000, \$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. Sponsorships, in the amount of \$185,000, will be moved from Advertising to the Grants line item. The remaining \$4,778,000 Grant Funds will be allocated throughout the FY.
- (31) This network is an ongoing responsibility of MSHDA with annual costs estimated at \$600,000. Staff anticipate the lower counseling costs based on creating a more efficient delivery system, possibly web based. Researching a new delivery system will begin immediately.