



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 *AH*

DATE: June 27, 2019

RE: The Michigan State Housing Development Authority's 2019 – 2020 Proposed Budget

Recommendation:

I recommend that the Michigan State Housing Development Authority (the "Authority") approve the Authority's 2019-2020 Budget (the "Budget").

Executive Summary:

The Budget was presented to the Authority at the May 2019 meeting. No additional comments were provided by Authority members to staff; therefore, no modifications have been made to the Budget presented for the June 2019 meeting.

The Budget was developed with input from all divisions within the Authority, the review of prior years' experience and consideration of the Authority's current and future policy considerations.

A few notable items include:

- Net Interest Income is up as loan balances are increasing. This is due to an increase in both mortgage interest income as well as investment income, and from increasing mortgage balances and higher returns on investments. These gains will be partially offset by an increase in bond interest expenses, as bond rates and balances have increased over the past year.
- As previously discussed, Preservation fee income continues to approach zero.
- Mortgage Servicing Fees continue to increase, primarily due to increased single-family mortgage balances.
- The Authority is targeting a 1.25% return on Net Assets, bringing a budgeted increase in Net Assets of \$10.0 million.
- By targeting a 1.25% increase in Net Assets, the Authority can provide \$9.4 million in grants for the 2019-20 fiscal year.

Issues, Policy Considerations, and Related Actions:

Approval of the proposed 2019-2020 budget allows for continuation of some of the Authority's existing policy objectives as well as the opportunity to start working on new policies. In particular, the Authority recently completed a Michigan Homeownership Study and a Statewide Housing Needs Assessment, both of which will help to provide a framework for determining where the Authority may focus its efforts going forward. There are several components of this budget that will allow the Authority to begin to accomplish some of the objectives identified in these studies, including:

- An increase in available funding for multi-family rental developments to potentially create units for households earning less than 50% of the area median income, for affordable senior housing, and for housing in rural areas.
- Funding availability for some of the Authority's smaller, more neighborhood-focused programs, which can be used to target rural areas and assist with homeowner rehabilitation activities.
- Funding to ensure the state is also receiving critical federal matching dollars, which, when combined with the Authority's funding commitment, are used to assist the neediest residents with some of the lowest incomes across the state.

DRAFT

**Michigan State Housing Development Authority
PROPOSED 2019-20 BUDGET
(000's Omitted)**

	PROPOSED BUDGET 19-20		ESTIMATED 12 MONTH 18-19	BUDGET 18-19	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
Revenue:						
Net interest income	\$61,169	1	\$60,905	\$59,421	\$1,484	\$1,748
HCV/FSS fees	17,500	2	17,400	16,500	900	1,000
Fees - Other federal programs	5,500	3	5,950	4,685	1,265	815
Preservation fee income	550	4	5,000	5,800	(800)	(5,250)
LIHTC Fees	3,900	5	3,650	4,400	(750)	(500)
Contract Administration fees	8,200	6	8,200	8,000	200	200
Gain (loss) on retirement of bonds	200	7	1,225	(300)	1,525	500
Gain (loss) on sale of investments	0	8	1	0	1	0
Gain on sale of mortgages	400	9	1,300	200	1,100	200
Miscellaneous income	7,212	10	3,150	5,500	(2,350)	1,712
Total Revenue	\$104,631		\$106,781	\$104,206	\$2,575	\$425
Expenses:						
Operating Expenses:						
Salaries and fringes	\$35,188	11	\$34,800	\$34,267	533	921
Technical service contracts	5,520	12	5,000	5,452	(452)	68
General contracts	1,420	13	750	1,214	(464)	206
Rent, building depreciation and utilities	1,248	14	1,370	1,536	(166)	(288)
Buiding maint, equipment purchase & rental	1,080	19	920	1,051	(131)	29
Computer	7,131	15	7,050	7,100	(50)	31
State charges for Attorney General, Auditor General, Civil Service and admin	3,456	16	3,000	3,030	(30)	426
Travel	360	17	360	420	(60)	(60)
Telephone	252	17	252	240	12	12
Supplies, printing and postage	408	17	408	360	48	48
Advertising and publicity	1,450	20	1,565	1,565	0	(115)
HCV contracted agents	9,530	21	8,900	8,600	300	930
Memberships, subs., & research mat.	144	17	96	96	0	48
Authority sponsored conf.	312	18	312	312	0	0
Conference registration fees	96	17	96	108	(12)	(12)
Temporary support	36	22	24	48	(24)	(12)
Legal & insurance	420	23	420	240	180	180
Miscellaneous	276	17	276	252	24	24
Deferred loan origination costs	<u>(1,380)</u>	24	<u>(1,335)</u>	<u>(1,620)</u>	<u>285</u>	<u>240</u>
Total Operating expenses	66,947		64,264	64,271	(7)	2,676
Single Family & HIP Mortgage servicing/origination/FHA insurance fees	6,720	25	6,500	6,230	270	490
Costs of issuing & paying notes & bonds	2,700	26	2,750	2,400	350	300
Bond insurance, LOC & Liquidity fees	2,806	27	3,350	3,342	8	(536)
Provision for losses on Mort. loans	4,800	28	6,070	4,680	1,390	120
Rent Subsidies	660	29	720	720	0	(60)
Grants	9,360	30	10,263	10,263	0	(903)
Homeownership Counseling	<u>600</u>	31	<u>730</u>	<u>600</u>	<u>130</u>	<u>0</u>
Total expenses	\$94,593		\$94,647	\$92,506	\$2,141	\$2,087
Net Increase in fund balance	\$10,038		\$12,134	\$11,700	\$434	(\$1,662)

Notes 1 - 31 -- See pages following

NOTES

- (1) Net interest income is budgeted at \$61,169,000, which is \$1,748,000 more than was budgeted in FY 19. We anticipate lower rates earned on higher average balances for mortgage loans compared to FY 19. Higher interest rates received on higher average balances for investments are anticipated for FY 20. We anticipate bond interest expense to increase due to higher interest rates paid on higher bond balances in FY 20 over the budgeted amount in FY 19.

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	\$3,213,562,000	4.811 %	\$154,592,000
Investments	\$ 495,778,000	2.612 %	12,951,000
Interest expense on bonds	\$3,004,167,000	3.541 %	(106,374,000)
Net interest income			<u>\$ 61,169,000</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 (\$1,400,000), CoC Program (\$80,000), Section 811 Program (\$85,000), SHPO (\$1,900,000) Hardest-Hit Fund (\$1,500,000) and the Housing Trust Fund Program (\$535,000).
- (4) Budgeted amount includes preservation fees of 450,000 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 \$200,000 for 2020.
- (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 \$7,212,000 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 (\$150,000), 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 (\$4,365,000) and various smaller income items of (\$481,000).

(11) Budget requests by Division are as follows:

	Positions Filled	Cost
Executive:		
Director's Office	3.0	\$ 274,3843
Deputy Director's Office	0.0	0
Governmental and Media Affairs	5.9	411,453
Compliance, Fraud & Internal Audit	6.0	417,120
Employee Services	3.0	273,298
Students & Co-ops	<u>1.4</u>	<u>42,000</u>
	19.3	\$1,418,714
Fringes (75%)		<u>1,064,036</u>
TOTAL		<u>\$2,482,750</u>
Operations:		
Director's Office	3.0	\$ 250,289
Technical Support Services	9.0	648,742
Office Services	8.0	532,148
Human Resources	<u>4.0</u>	<u>309,943</u>
	24.0	\$1,741,122
Fringes (75%)		<u>1,305,842</u>
TOTAL		<u>\$3,046,964</u>
Finance:		
Director's Office	4.0	\$ 333,454
Accounting & Investments	5.0	361,600
Single Family Servicing	4.8	263,769
Multi-Family Servicing	2.0	118,390
Audit	4.0	297,624
Operations – HVP	3.0	244,985
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	23.5	\$1,640,822
Fringes (75%)		<u>1,230,617</u>
TOTAL		<u>\$2,871,439</u>
Legal:		
Director's Office	6.0	\$ 504,753
Staff Attorneys	6.0	555,909
Procurement	3.0	250,769
Students & Co-ops	<u>0.7</u>	<u>21,000</u>
	15.7	\$1,332,431
Fringes (75%)		<u>999,323</u>
TOTAL		<u>\$2,331,754</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Housing Initiatives:		
Director's Office	2.0	\$185,018
Southeast Michigan Outreach	5.0	459,318
Neighborhood Initiatives	5.0	385,633
Students & Co-ops	<u>0.7</u>	<u>10,000</u>
	12.7	\$1,039,969
Fringes (75%)		<u>779,977</u>
TOTAL		<u>\$1,819,946</u>
*Rental Assistance & Housing Solutions:		
Director's Office	4.0	\$343,184
Rent Assistance	30.0	2,092,698
Homeless Initiatives	9.6	709,598
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	45.7	\$3,208,480
Fringes (75%)		<u>2,406,360</u>
TOTAL		<u>\$5,614,840</u>
*Federally Funded		
Asset Management:		
Director's Office	1.0	\$122,712
Transactions & Preservation	7.0	547,327
Core Operations Intake	10.0	708,751
Finance/Technology	4.0	320,988
Contract Administration/Operations Division	11.0	807,116
Compliance Monitoring	7.0	471,178
Students & Co-ops	<u>2.1</u>	<u>52,000</u>
	42.1	\$3,030,072
Fringes (75%)		<u>2,272,554</u>
TOTAL		<u>\$5,302,626</u>
Homeownership:		
Director's Office	2.0	\$ 171,654
Single Family/MCC	15.0	1,000,820
Marketing	8.0	574,832
Foreclosure Prevention *	5.0	259,705
Students & Co-ops *	<u>0.0</u>	<u>0</u>
	30.0	\$2,006,692
Fringes (75%)		<u>1,505,019</u>
TOTAL		<u>\$3,511,711</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Rental Development:		
Director's Office	7.0	\$590,612
Multi-family Development	6.0	481,576
EEO and Construction Disbursements	5.0	404,508
Design and Construction Management	6.0	550,376
Low Income Housing Tax Credit	6.0	372,207
Students & Co-ops	<u>1.4</u>	<u>31,000</u>
	31.4	\$2,430,279
Fringes (75%)		<u>1,822,709</u>
TOTAL		<u>\$4,252,988</u>
SHPO & Archaeology:		
Director's Office	14.0	\$1,082,085
Students & Co-ops	<u>2.1</u>	<u>63,000</u>
	16.1	\$1,145,085
Fringes (75%)		<u>858,814</u>
TOTAL		<u>\$2,003,899</u>
Total Salaries July 1, 2019	<u>260.5</u>	<u>\$18,993,666</u>
Total Fringes July 1, 2019		<u>\$14,245,250</u>
General increase effective October 1, 2019 (2% of base wages)		498,584
(2% lump sum)		379,873
		<u>\$34,117,373</u>
Summary of Costs:		
Projected salary cost of positions		\$34,117,373
Vacant positions salaries (21.00)		1,444,416
Vacant positions fringes		1,083,312
Unfilled Vacant Positions (60%)		(1,516,637)
Estimated sick and annual leave accrual		<u>60,000</u>
Total budgeted salaries and fringes 19-20		<u>\$35,188,464</u>

As of April 15, 2019, the Authority had 253 FTEs. This budget assumes an average FTE count of 262, excluding students.

(12) Production-related Contracts:

	2019-20 Proposed Budget	2018-19 Budget
Multi-Family:		
Design Review	\$25,000	35,000
Environmental and Technical Resources	<u>70,000</u>	<u>70,000</u>
Sub total	\$95,000	\$105,000
Contract Administration*:		
Asset Management	\$3,215,000	\$3,428,000
Consulting	50,000	20,000
TRACS Processing	<u>815,000</u>	<u>787,000</u>
Sub total	\$4,080,000	\$4,235,000
Links to Homeownership	0	41,000
Single Family Foreclosure Services	250,000	250,000
Environmental Legal Matters	40,000	40,000
Capital Needs and Project Assessments	123,000	65,000
TRACS Processing	440,000	370,000
Contractual Tenant File Audits/Physical Inspections	<u>492,000</u>	<u>346,000</u>
Total	<u>\$5,520,000</u>	<u>\$5,452,000</u>

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

(13) General Contracts:

	2019-20 Proposed Budget	2018-19 Budget
Operations Contracts	\$100,000	\$155,000
Executive Contract	250,000	0
Legal Contracts	191,000	115,000
Housing Initiatives Contracts	280,000	40,000
Housing Voucher Program Contracts	229,000	269,000
SHPO Contracts	257,000	435,000
Miscellaneous	<u>113,000</u>	<u>200,000</u>
	<u>\$1,420,000</u>	<u>\$1,214,000</u>

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

	<u>Proposed Budget</u>
Rent:	
GM Building	392,000
Historical Library	37,000
Romney Building (H4HH) *	<u>99,000</u>
	\$528,000
 Depreciation on 735 E. Michigan Avenue:	 \$ 525,000
 Utilities:	
735 E. Michigan Avenue	<u>\$ 195,000</u>
 Total	 <u>\$1,248,000</u>

* Federally Funded

(15) Computer:

	<u>2019-20 Proposed Budget</u>	<u>2018-19 Budget</u>
Emphasys system	\$1,900,000	\$1,600,000
Agate	775,000	775,000
DTMB	3,205,000	3,125,000
Smaller Ongoing Commitments	351,000	789,500
New IT Projects	<u>900,000</u>	<u>810,500</u>
	\$7,131,000	\$7,250,000

(16) State Charges include:

	<u>Proposed Budget 19-20</u>	<u>Budget 18-19</u>
Attorney General	\$1,200,000	\$804,000
Auditor General	120,000	120,000
Civil Service	636,000	660,000
DTMB Support	240,000	216,000
TED Admin	1,260,000	1,230,000
	<u>\$3,456,000</u>	<u>\$3,030,000</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 (needs updating)

	Proposed Budget
	<u>19-20</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 \$340,000 of legal fees and \$80,000 for insurance premiums. Legal fees and insurance premiums expected to be higher in FY 20.

(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.

	19-20	18-19
	<u>Budget</u>	<u>Budget</u>
Single Family Servicing Fees -	\$5,000,000	\$4,500,000
HIP Servicing Fees -	125,000	145,000
Cost of Loan Origination (a) -	1,530,000	1,480,000
HIP Origination Fees -	15,000	20,000
HIP FHA Insurance Premiums -	<u>50,000</u>	<u>85,000</u>
Total	\$6,720,000	\$6,230,000

(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 \$2,000,000 of write-offs and will increase current reserve balance by \$2,800,000.

(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 (\$320,000), and (3) (\$300,000) for small size and security loans which are being expensed as paid due to the uncertainty of repayment. Excess subsidy repayments are estimated at (\$60,000).

- (30) Of the \$9,360,000, \$5,321,000 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 \$3,854,000 Grant Funds will be allocated throughout the FY.
- (31) This counseling network is an ongoing responsibility of MSHDA with annual costs estimated at \$600,000.