



M E M O R A N D U M

TO: Authority Members

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

DATE: ~~June 16, 2022~~ **JUNE 21, 2022**

RE: The Michigan State Housing Development Authority's 2022 – 2023 Proposed Budget

RECOMMENDATION:

I recommend that the Michigan State Housing Development Authority (the "Authority") review and comment on the Authority's 2022-2023 Budget (the "Budget").

EXECUTIVE SUMMARY:

The Budget was developed with input from all divisions within the Authority, the review of prior years' experience, with consideration of the uncertainty created by the COVID pandemic and the unprecedented amount of Federal Resources to be administered by the Authority. The Authority's annual budget was developed with consideration given to the Authority's Strategic and Operational Plans.

A few notable items include:

- Net Interest Income is down as higher rate mortgages are refinancing and being modified to lower rate mortgages. This was due to the lower interest rate environment experienced in the prior fiscal year and single-family mortgages (approximately \$85 million) being modified into lower rate mortgages, due to an FHA requirement. These reductions will be partially offset by higher returns on investments. Net Interest Income is generated while the Authority is meeting its Mission to provide quality affordable housing.
- Salaries and Fringes have increased (\$3.2 million) due to the administration of Federal resources. At the conclusion of these temporary programs, it is expected that Salaries and Fringes will decrease.
- Mortgage Servicing Fees continue to increase, primarily due to increased single-family mortgage balances and the anticipated higher cost of servicing delinquent loans and loan modifications as borrowers come out of their forbearance agreements.
- The Authority is targeting a 1.00% return on Net Assets, bringing a budgeted increase in Net Assets of \$8.5 million.
- By targeting a 1.00% increase in Net Assets, the Authority can provide \$10.2 million in grants for the 2022-23 fiscal year.

Michigan State Housing Development Authority
2022-23 BUDGET
(000's Omitted)

	PROPOSED BUDGET 22-23		ESTIMATED 12 MONTH 21-22	BUDGET 21-22	12 MONTH ESTIMATED VS. BUDGET	BUDGET INCREASE (DECREASE)
Revenue:						
Net interest income	\$62,957	1	\$61,739	\$67,606	(\$5,867)	(\$4,649)
HCV/FSS fees	17,700	2	17,740	17,500	240	200
Fees - Other federal programs	14,053	3	13,425	13,580	(155)	473
Preservation fee income	100	4	125	100	25	0
LIHTC Fees	4,100	5	4,985	3,900	1,085	200
Contract Administration fees	12,500	6	12,500	12,000	500	500
Gain (loss) on retirement of bonds	2,500	7	1,775	1,350	425	1,150
Gain (loss) on sale of investments	0	8	0	0	0	0
Gain on sale of mortgages	950	9	1,096	960	136	(10)
Miscellaneous income	7,940	10	14,200	4,084	10,116	3,856
Total Revenue	\$122,800		\$127,585	\$121,080	\$6,505	\$1,720
Expenses:						
Operating Expenses:						
Salaries and fringes	\$45,996	11	\$42,474	\$42,754	(280)	3,242
Technical service contracts	7,525	12	6,871	7,273	(402)	252
General contracts	1,355	13	1,240	1,704	(464)	(349)
Rent, building depreciation and utilities	1,116	14	1,104	1,092	12	24
Buiding maint, equipment purchase & rental	660	19	645	792	(147)	(132)
Information Technology	8,606	15	4,875	10,042	(5,167)	(1,436)
State charges for Attorney General, Auditor						
General, Civil Service and admin	2,657	16	2,861	2,778	83	(121)
Travel	156	17	156	204	(48)	(48)
Telephone	324	17	324	480	(156)	(156)
Supplies, printing and postage	312	17	312	276	36	36
Advertising and publicity	1,950	20	2,065	2,350	(285)	(400)
HCV contracted agents	9,740	21	9,710	9,755	(45)	(15)
Memberships, subs., & research mat.	96	17	96	96	0	0
Authority sponsored conf.	180	18	180	180	0	0
Conference registration fees	108	17	108	108	0	0
Temporary support	480	22	135	90	45	390
Legal & insurance	450	23	480	480	0	(30)
Miscellaneous	840	17	840	372	468	468
Deferred loan origination costs	<u>(2,625)</u>	24	<u>(2,290)</u>	<u>(2,375)</u>	<u>85</u>	<u>(250)</u>
Total Operating expenses	79,926		72,186	78,451	(6,265)	1,475
Single Family & HIP Mortgage servicing/origination/FHA insurance	11,152	25	13,750	9,755	3,995	1,397
Costs of issuing & paying notes & bonds	3,050	26	2,940	2,900	40	150
Bond insurance, LOC & Liquidity fees	1,744	27	1,675	1,693	(18)	51
Provision for losses on Mort. loans	7,200	28	10,850	8,700	2,150	(1,500)
Rent Subsidies	240	29	(100)	450	(550)	(210)
Grants (Total \$10,188)						
Homeless Program (Federal Matching)	5,600	30	5,502	5,502	0	98
NEP	2,000	30	2,000	2,000	0	0
Key-to-Own	150	30	150	150	0	0
Collaborative Grants	2,438	30	2,379	2,379	0	59
Homeownership Counseling	<u>750</u>	31	<u>1,090</u>	<u>700</u>	<u>390</u>	<u>50</u>
Total expenses	\$114,250		\$112,422	\$112,680	(\$258)	\$1,570
Net Increase in fund balance	<u>\$8,550</u>		<u>\$15,163</u>	<u>\$8,400</u>	<u>\$6,763</u>	<u>\$150</u>

Notes 1 - 31 -- See pages following

NOTES

- (1) Net interest income is budgeted at \$62,957,000, which is \$4,649,000 less than was budgeted in FY 22. We anticipate lower rates earned on slightly higher average balances for mortgage loans compared to FY 22. Higher interest rates received on higher average balances for investments are anticipated for FY 23. We anticipate bond interest expense to increase due to higher interest rates paid on higher bond balances in FY 23 over the budgeted amount in FY 22.

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	\$3,856,497,000	4.50 %	\$173,548,000
Investments	\$ 904,069,000	1.27 %	11,495,000
Interest expense on bonds	\$3,767,760,000	3.24 %	<u>(122,086,000)</u>
Net interest income			<u>\$ 62,957,000</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 (\$3,600,000), Hardest-Hit Fund (\$300,000)*, the Housing Trust Fund Program (\$1,500,000) and new Federal Funding Programs (\$8,653,000).
- (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 \$2,500,000 for 2023.
- (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 \$7,940,000 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 (\$130,000), late fee/prepayment penalties on mortgages (\$1,500,000), amortization of asset management fees (\$380,000), fees for the issuance of limited obligation bonds (\$1,000,000) and various smaller income items of (\$330,000), BMIR funds (\$4,500,000).

(11) Budget requests by Division are as follows:

	Positions Filled	Cost
Executive:		
Director's Office	4.0	\$ 434,283
Communications	5.0	376,028
Compliance, Fraud & Internal Audit	8.0	606,272
Equity & Engagement	4.0	372,604
Market Analysis & Research	4.0	324,809
Southeast Michigan Outreach	3.0	281,692
Students & Co-ops	<u>0.0</u>	<u>0</u>
	28.0	\$2,395,688
Fringes (75%)		<u>1,796,766</u>
TOTAL		<u>\$4,192,454</u>
Operations:		
Director's Office	1.9	\$179,445
Technical Support Services	12.0	969,792
Office Services	7.0	520,173
Employee Services	2.0	157,686
Human Resources	3.0	262,399
Students & Co-ops	<u>0.7</u>	<u>24,000</u>
	26.6	\$2,113,495
Fringes (75%)		<u>1,585,121</u>
TOTAL		<u>\$3,698,616</u>
Finance:		
Director's Office	2.0	\$ 242,145
Accounting & Investments	6.0	451,300
Single Family Servicing	3.8	227,667
Multi-Family Servicing	3.0	183,264
Audit	4.0	367,008
Operations – HVP	3.0	270,354
Students & Co-ops	<u>0.0</u>	<u>0</u>
	21.8	\$1,741,738
Fringes (75%)		<u>1,306,304</u>
TOTAL		<u>\$3,048,042</u>
Legal:		
Director's Office	6.0	\$ 496,986
Staff Attorneys	9.0	1,019,717
Procurement	1.0	86,067
Students & Co-ops	<u>0.7</u>	<u>24,000</u>
	16.7	\$1,626,770
Fringes (75%)		<u>1,220,078</u>
TOTAL		<u>\$2,846,848</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Neighborhood Housing Initiatives:		
Director's Office	1.0	\$147,288
Neighborhood Initiatives	9.0	767,611
Students & Co-ops	<u>0.0</u>	<u>0</u>
	10.0	\$914,899
Fringes (75%)		<u>686,174</u>
TOTAL		<u>\$1,601,073</u>
Rental Assistance & Housing Solutions:		
Director's Office*	2.0	\$269,081
Rent Assistance*	27.6	1,987,793
Homeless Initiatives	11.0	866,812
CERA*	29.0	1,527,372
Students & Co-ops*	<u>0.7</u>	<u>24,000</u>
	70.3	\$4,675,058
Fringes (75%)		<u>3,506,294</u>
TOTAL		<u>\$8,181,352</u>
*Federally Funded		
Asset Management:		
Director's Office	4.0	\$339,446
Transactions	6.0	488,655
Small Scale Asset Management	5.0	402,295
Core Properties Intake	8.0	644,378
Operations	4.0	325,749
Contract Administration	9.0	712,718
Compliance Monitoring	9.0	695,763
Students & Co-ops	<u>0.7</u>	<u>24,000</u>
	45.7	\$3,633,004
Fringes (75%)		<u>2,724,753</u>
TOTAL		<u>\$6,357,757</u>

(11) Budget requests by Division (continued)

	Positions Filled	Cost
Homeownership:		
Director's Office	7.0	\$ 486,629
Single Family/MCC Operations	14.0	948,975
Business Development	6.0	477,672
MIHAF*	47.0	2,200,439
Students & Co-ops	<u>0.0</u>	<u>0</u>
	74.0	\$4,113,715
Fringes (75%)		<u>3,085,286</u>
TOTAL		<u>\$7,199,001</u>

*Federally Funded

Rental Development:		
Director's Office	4.0	\$361,704
Multi-family Development	6.0	512,395
Construction Design & EEO	8.0	753,851
Environmental Quality	2.0	198,172
Low Income Housing Tax Credit	7.0	444,389
Students & Co-ops	<u>0.0</u>	<u>0</u>
	27.0	\$2,270,511
Fringes (75%)		<u>1,702,883</u>
TOTAL		<u>\$3,973,394</u>

Total Salaries July 1, 2022	<u>320.1</u>	<u>\$23,484,878</u>
Total Fringes July 1, 2022		<u>\$17,613,659</u>

General increase effective October 1, 2022 (5% of base wages)		1,541,195
General increase effective April 1, 2023 (1% of base wages)		102,746
		<u>\$42,742,478</u>

Summary of Costs:

Projected salary cost of positions		\$42,742,478
Vacant positions salaries (23)		1,936,892
Vacant positions fringes		1,452,668
Unfilled Vacant Positions (40%)		(1,355,824)
Estimated sick and annual leave accrual		<u>60,000</u>
Total budgeted salaries and fringes 22-23		<u>\$44,836,214</u>
Estimating 15 new Federally Funded Positions to be filled		662,730
Fringes for the 15 Federally Funded Positions		497,048
Total budgeted salaries and fringes 22-23 with new Federal Positions		<u>\$45,995,992</u>

(12) Production-related Contracts:

	<u>2022-23 Proposed Budget</u>	<u>2021-22 Budget</u>
Multi-Family:		
Design Review	\$53,000	105,000
Marketing	21,000	15,000
Environmental and Technical Resources	<u>50,000</u>	<u>70,000</u>
Subtotal	\$124,000	\$190,000
Contract Administration*:		
Asset Management	\$4,822,000	\$4,745,000
Consulting	55,000	55,000
TRACS Processing	<u>1,224,000</u>	<u>1,214,000</u>
Subtotal	\$6,101,000	\$6,014,000
Single Family Foreclosure Services/Audit	500,000	273,000
Environmental Legal Matters	40,000	40,000
Capital Needs and Project Assessments	200,000	146,000
TRACS Processing	23,000	10,000
Contractual Tenant File Audits/Physical Inspections	<u>537,000</u>	<u>600,000</u>
Total	<u>\$7,525,000</u>	<u>\$7,273,000</u>

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

(13) General Contracts:

	<u>2022-23 Proposed Budget</u>	<u>2021-22 Budget</u>
Operations Contracts	\$ 55,000	\$ 42,000
Executive Contract	575,000	821,000
Legal Contracts	66,000	57,000
Housing Initiatives Contracts	7,000	9,000
Housing Voucher Program Contracts	335,000	590,000
Miscellaneous	<u>317,000</u>	<u>185,000</u>
	<u>\$1,355,000</u>	<u>\$1,704,000</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>\$ 196,000</u>
 Total	 <u>\$1,116,000</u>

(15) Information Technology:

	<u>2022-23 Proposed Budget</u>	<u>2021-22 Budget</u>
Emphasys system	\$2,100,000	\$1,958,000
Agate	600,000	500,000
DTMB (includes various licenses & equipment)	4,116,000	3,600,000
Ongoing Commitments	940,000	2,304,000
New IT Projects	<u>850,000</u>	<u>1,680,000</u>
	<u>\$8,606,000</u>	<u>\$10,042,000</u>

(16) State Charges include:

	<u>Proposed Budget 22-23</u>	<u>Budget 21-22</u>
Attorney General	\$1,200,000	\$1,200,000
Auditor General	200,000	126,000
Civil Service	732,000	600,000
DTMB Support	225,000	252,000
LEO Admin	<u>300,000</u>	<u>600,000</u>
	<u>\$2,657,000</u>	<u>\$2,778,000</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
22-23

Advertising

Campaign – Media/PR/Creative	\$1,400,000 ⁽¹⁾
Video Creation	250,000

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

300,000

Total

\$1,950,000

(1) \$500,000 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 \$350,000 of legal fees and \$100,000 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.

	22-23 <u>Budget</u>	21-22 <u>Budget</u>
Single Family Servicing Fees -	\$7,800,000	\$6,000,000
Cost of Loan Origination (a) -	3,200,000	3,550,000
HUD Risk Sharing -	48,000	50,000
HIP Servicing Fee -	64,000	105,000
HIP Origination Fees -	4,000	5,000
HIP FHA Insurance Premiums -	<u>36,000</u>	<u>45,000</u>
Total	\$11,152,000	\$9,755,000

(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) An increase over last year's estimated actual is budgeted because the number of bonds with liquidity facilities has decreased, but the fees have increased.

(28) Assumes \$1,000,000 of write-offs and will increase current reserve balance by \$6,200,000.

- (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 (\$40,000), (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) (\$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 (\$290,000).
- (30) Of the \$10,188,000, \$5,600,000 will be allocated to a number of programs that require a match in order for MSHDA to be eligible for Federal Funds. The remaining \$4,588,000 Grant Funds will be allocated throughout the FY.
- (31) This counseling network is an ongoing responsibility of MSHDA with annual costs estimated at \$750,000.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

**RESOLUTION APPROVING
2022-2023 BUDGET**

June 16, 2022 JUNE 21, 2022

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 pursuant to Article IV of the Authority's Bylaws; and

WHEREAS, the Acting Executive Director has recommended that the Authority approve the adoption of the 2022-2023 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 2022-2023 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 2022-2023 Budget.