RESOLUTION 10-07

CALHFA OPERATING BUDGET

FISCAL YEAR 2010/2011

WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2010/2011 fiscal year;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The operating budget attached hereto is hereby approved for operations of the California Housing Finance Agency Fund for fiscal year 2010/2011.

I hereby certify that this is a true and correct copy of Resolution 10-07 adopted at a duly constituted meeting of the Board of the Agency held on May 12, 2010, in Burbank, California.

ATTEST: ____________________
Secretary

Attachment

State of California

MEMORANDUM

To: **Board of Directors** **Date:** May 12, 2010

From: L. Steven Spears, Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: **Agenda Item 5 -- Board Resolution 10 – 07: OPERATING BUDGET FOR FY 2010/11**

Assumptions and Overview

Provided for your approval is the proposed operating budget for Fiscal Year 2010-11. Our objective is to provide a meaningful and effective budget in the face an enormous increase in workload in Loan Servicing and Single Family Portfolio Management due to increases in borrower defaults, workouts, loan modifications, foreclosures and short sales. In addition, with new federal funding provided by the HFA Initiative, the Agency will begin lending again in both the Homeownership and Multifamily Divisions. Other activities such as the MHSA program and the TCAP assistance to the Tax Credit Allocation Committee will carry on into FY 2010-11 providing an even greater workload for the Multifamily Asset Management Division.

With much uncertainty still surrounding the California real estate markets and the global credit markets, we cannot be certain of the level of lending activity. As a result, our budget must be flexible to meet any unexpected changes and yet met our Agency's goal.

As discussed in the update to the Two Year Business Plan, CalHFA has identified five Strategic Priorities for the Agency:

1. Maintain ratings and manage capital structure and liquidity;
2. Aggressively engage in loss mitigation activities and manage our single family and multifamily loan portfolios;
3. Initiate new lending programs;
4. Renew and strengthen old business partnerships; and
5. Explore new business models and new revenue-generating business opportunities.

With these priorities in mind, we have considered two possible budgeting scenarios for FY 2010-11:

Scenario 1: Baseline activities and very modest lending activities: The first priority in this baseline scenario is to resolve the Agency's backlog of delinquent loans and REO properties. We anticipate an increased workload for the Loan Servicing Division as activity increases for workout plans, loan modifications, short sales and, unfortunately, foreclosures. The Agency anticipates an increasing inventory of REO properties as a result of these activities and we are recommending increased staffing levels there as well. To support those activities, positions have been added in Fiscal Services (accounting) and IT (systems support). We will also be implementing the federal assistance program. In this scenario, we have assumed a smaller warehouse credit facility which would result in only a modest level of lending volume. For the

Multifamily Division, we assume continued MHSA and TCAP activity and conduit financing to take advantage of the NIBP. Asset Management Division's workload will actually increase as TCAP properties come on line over the next year. We will be strategically filling our vacancies with limited term and permanent employees and also hire temporary employees as workload demands.

Scenario 2: Baseline Scenario 1 activities with a higher level of lending activity: This scenario assumes all of the loss mitigation and portfolio management activities in Scenario 1. The same level of activity for the Multifamily and Asset Management Divisions is assumed. In Scenario 2, however, we assume greater success in obtaining warehouse credit financing and a higher level of lending activity in the Homeownership Division.

In these two scenarios, we make the assumption that a great deal of effort will continue to be placed on the following activities: 1) improving CalHFA's Loan Servicing Division; 2) keeping borrowers in their homes through counseling and work on loan modifications; 3) management of single family REOs; 4) and management of multi-family properties.

Summary

The proposed operating budget for Fiscal Year 2010-11 is $48.3 million; a .8% increase over the $47.9 million budget the Board adopted for FY 2009-10. We have again broken the budget into two parts, the "Baseline Budget" and the "Strategic Projects Contracts." This will provide Board members with a better understanding of the day to day costs (baseline operating expenses) versus the one-time Strategic Projects. (A summary page is included for your review as Attachment 1 to this memorandum.)

However, this does not present the entire picture. The projected *actual* expenditure number for FY 2009-10 is $40.5 million; a $7.4 million reduction in spending and 15.5% below budget.
Most of the reduction is spending can be explained by three factors: 1) 3 day furloughs (as opposed to the 2 day furlough originally planned by the Governor; 2) higher personnel vacancies during the year and greater use of temp employees – these two factors reduced expenditures by $4.7 million. The third factor was the reduction in spending on Strategic Projects as priorities were adjusted to deal with growing delinquencies and loss mitigation efforts. This resulted in $2.5 million in costs that will be shifted to FY 2010-11 and future years as these projects are completed.

The FY 2010-11 operating budget represents a substantial increase in spending over FY 2009-10 actual spending. The proposed budget of $48.3 million represents a $7.8 million or 19% increase in costs for the new year. Again, these proposed increases can be explained by activities that mirror the priorities discussed above.

First, personnel costs represent $7.0 million (net of cost reduction from reduced use of temp employees) of the increase. Most of the increased personnel costs are associated with the end of the state furlough program and the Agency's plan to reduce vacancies (through 35 hires) to aggressively manage loss mitigation activities and REO management. Second, Strategic Projects will return to schedule and several major projects will be completed during FY 2010-11. This will result in increased costs of $3.2 million. Finally, the Agency's overhead charge from the State of California (as computed by the Department of Finance) is scheduled to increase by almost $600,000.

These additional costs are offset by a reduction in costs of 1) a substantial reduction in facilities costs due to rent savings in the new Sacrament office location ($1.3 million savings) and 2) an $800,000 due largely to a reduction in budgeted legal costs and 3) reimbursement from Hardest Hit Funds for approximately $1 million of Agency expenses related to this federally funded program.

FY 2010/11 Detailed Review:

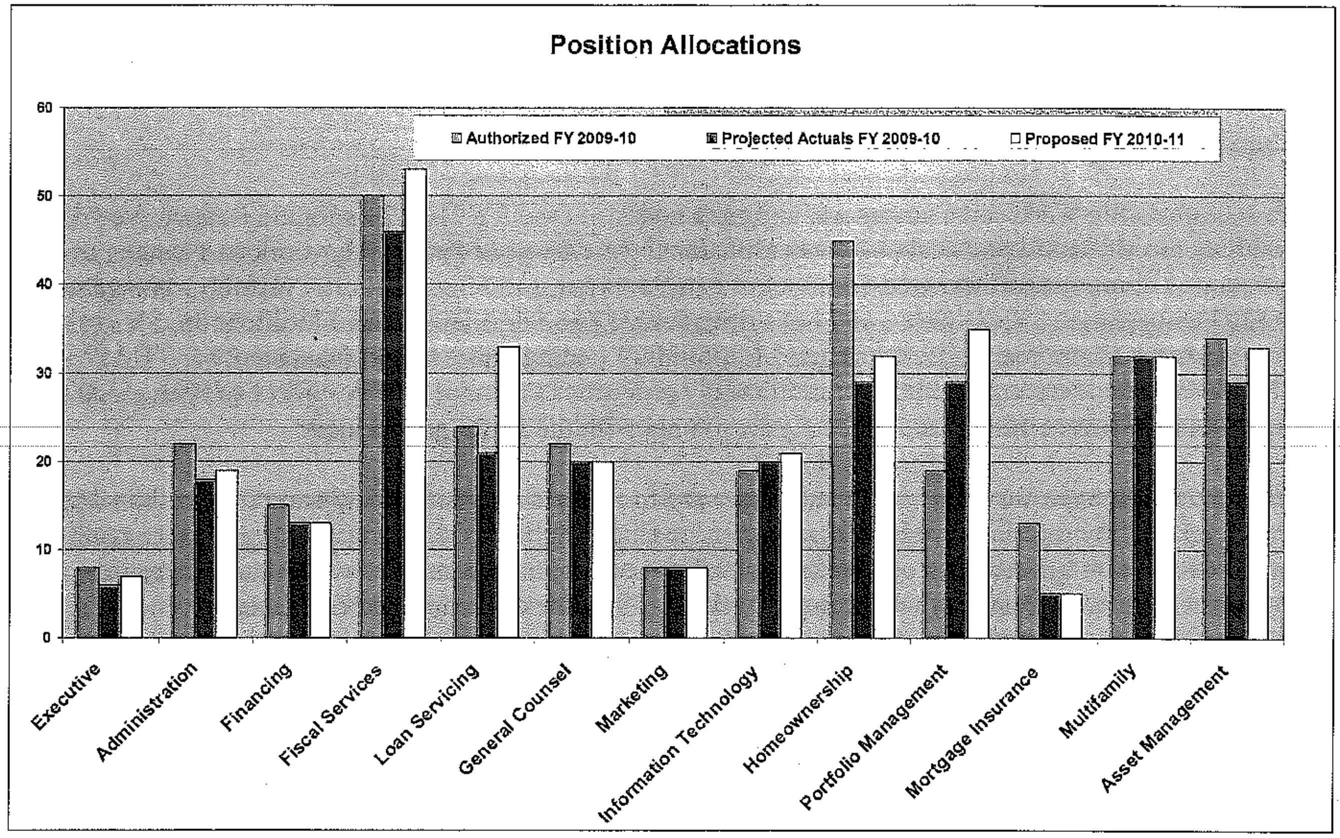
Shifting Workload and Monitoring Expenses:

To accommodate workload changes and program needs in the FY 2010/11 operating budget, we will continue to shift staff and dollars between Divisions. As discussed above, the workload changes and new programs accommodate increased activity in Loan Servicing and Single Family Portfolio Management (REO management, Short Sales, and Loss Mitigation); Loan Servicing (Loan Modification, Short Sales, Foreclosure, Claims and Collections) and Multifamily Lending and Asset Management for TCAP projects, MHSA and an increasing number of multifamily properties to manage. Every effort has been made to utilize qualified staff from other areas of the Agency to help with the shifting workload.

During the past year, we have hired temporary staff to provide immediate help and relief to the added workload. In the meantime, we held exams (per the Civil Service system) to develop a pool of qualified candidates to hire limited term or permanent employees. Upon assessing the workload, we are in a position to make significant headway to resolve our backlog. Since we concentrated on the exam process and hired appropriate management personnel, we are now in the position to hire limited term and permanent employees and reduce the temporary help staff as appropriate.

Proposed staffing:

- Executive may fill the Chief Deputy Director position. This is a Governor appointed position.
- Administration has requested a contracts position. This position will help coordinate, consolidate, develop, implement, and follow up on contract deliverables.
- Financing will stay status quo.
- Fiscal Services needs positions for increase workload in REO claims, Bond Administration, Financial Reporting, and Accounting Systems.
- Loan Servicing Division needs positions to handle the backlog of REO, short sales, foreclosure, and loan modification. This year we moved Loan Servicing to a better location and added supervisory positions. Our objective is to slowly convert 20 temporary help positions to limited term.
- General Counsel will stay status quo.
- Marketing will stay status quo.
- Information Technology may fill the CIO position. This is a Governor appointed position.
- Homeownership may fill the Director position. This is a Governor appointed position. Homeownership would like to fill critical vacancies for the Lender Administrations/ Relations/Recertification Unit.
- Portfolio Management would like to fill for additional workload in the following area: Audit the Loan Servicing portfolio; REO Unit; and support staff.
- Mortgage Insurance will stay status quo.
- Multifamily will stay status quo.
- Asset Management would like to fill for additional workload in TCAC, PBCA, MHSA, NIBP and the Agency's Multifamily existing portfolio of loans.



When the FY 2009-10 budget was presented to the Board in July 2009, we indicated that we expected to be operating at 271 (of 311 authorized) positions by the end of the fiscal year. The plan was to use temporary employees and shift employees from other divisions to meet workload demands.

We are on target with 275 employees and plan to fill 35 vacancies through the course of FY 2010-11. These new employees will meet loss mitigation workload demand in loan servicing and single family portfolio management. Additional employees are also needed in the accounting area to meet the back office demands of REO management and other loss mitigation efforts. Finally, additional employees are needed to meet retirements and planned workload increases in multifamily Asset Management.

Proposal by line item:

Personal Services

- Salaries and Wages ($22,509,000 and 311 permanent positions).

The 2010-11 FY budget is $320,000 over current year's budget. For FY 2009-10 we had approximately 40 vacancies for a majority of the year. For the 2010-11 FY we plan to fill all vacancies as rapidly as possible.

- Furlough/Vacancies (-$963,000).

For FY 2009-10 we had $4,729,000 in furlough reductions. The furlough is expected to end on June 30, 2010 per the Governors Executive Order. For FY 2010-11 we are projecting a vacancy reduction due to attrition, retirements, separations, and delays in hires.

- Temporary Help ($1,225,000).

Temporary Help budgeted for FY 2009-10 was $1,322,000 and the projected actual expenditures are $1,539,000. The FY 2010-11 budget will be reduced because we plan to replace the temporary help positions with limited term and permanent employees. Due to workload management, it will not be possible to completely eliminate the temporary help costs.

- Overtime ($179,000).

For FY 2009-10, the majority of overtime was incurred by Loan Servicing, Portfolio Management and the West Sacramento move. We plan to increase the overtime budget due to utilizing our own staff verses hiring additional staff.

- Staff Benefits ($7,878,000).

Our current actual staff benefit rate is 35% and we plan to use the same percentage for next year. Next year's Staff Benefits will increase due to the projected filling of all vacancies. The staff benefits rate is set by the Department of Finance.

Operating Expenses

- General Expense ($712,000).

Next year's budget is reduced by $91,000 based on current year's projected expenditures.

- Communication ($538,000).

Next year's budget is reduced by $71,000 based on current year's projected expenditures.

- Travel ($320,000).

Next year's budget is reduced by $105,000 based on current year's projected expenditures.

- Training ($167,000).

Next year's budget is reduced by $8,000 based on current year's projected expenditures.

- Facilities Operations ($2,000,000).

We have four sites to budget (Meridian, Senator, Culver City, and 500 Capitol Mall). We are expecting to consolidate our Sacramento office location to 500 Capitol Mall on September 1, 2010. Based on the projected new lease agreement, we will have free rent for the first 10 months.

- Contracts ($3,861,000)

This includes all of our Interagency and External Agreements. This expenditure will decrease by $652,000 due to a decrease in litigation work.

- Central Administrative Services ($2,267,000).

These are cost to do business with state "control agencies" such as Dept. of Finance, State Controllers Office, State Treasurer, Legislature, Department of Personal Administration, etc. Our Administrative Prorata costs (i.e., state overhead costs) have increased by $588,000. This amount is calculated by the Department of Finance.

- Information Technology ($927,000).

This area is reduced by $19,000. This is for hardware, software, maintenance agreements.

- Equipment ($320,000).

This area has been reduced by $85,000 due to reduced purchasing for copiers, furniture, and file cabinets.

- Hardest Hit Program (-$985,000).

This is the $700 million federal assistance program that will be provided to a non-profit. CalHFA will be reimbursed for developing, implementing, and follow-up. This is our best estimate to date.

- Strategic Project Contracts (7,369,000)

This area will increase by $766,000 due to our move to 500 Capitol Mall. The IT Strategic Projects are: Fiscal Project, Homeownership Project, Enterprise Content Management, and the Agency Move.

Scenario 2

In the event that borrower demand from first time homebuyers exceeds expectations and additional warehousing credit lines can be obtained, the Agency may be in the happy situation of bringing on more personnel to accommodate increased lending activity. Some of this increased activity will be handled by personnel levels planned in Scenario 1. However, in the event of significantly higher lending, the Agency has two options: 1) hire additional temporary contract employees or 2) hire additional limited term and/or permanent staff. In the event that these costs exceed the Scenario 1 proposed budget, staff will return to the Board for an augmentation of the operating budget.

Conclusion

This proposed budget covers the most likely events for the 2010/11 fiscal year. The approval of our operating budget plan will provide Staff with the flexibility to carry out the Agency's two year business plan. Once again, it is important to point out that the Agency is entirely self supported from operations. The cost of the Agency's operations have no impact on the State's general fund budget and, with the closure of the Agency's warehouse line of credit with the PMIB, do not create a cash flow drain to the State.

Your approval of Resolution 10-07 is requested.

May 4, 2010

CALIFORNIA HOUSING FINANCE AGENCY
2010-11
CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET
(DOLLARS IN THOUSANDS)

EXPENDITURE ITEM	Budgeted 2008-09	Actual 2008-09	Budgeted 2009-10	Projected Actual 2009-10	Proposed 2010-11
PERSONAL SERVICES					
Salaries and Wages	$21,714	$18,100	$22,189	$19,857	$22,509
Furlough / Vacancies	(1,134)		(2,186)	(4,729)	(963)
Anticipated Salaries and Wages	20,580	18,100	20,003	15,128	21,546
Temporary Help					
Students/Retired Annuitants	268	446	458	539	563
Contract	533	424	864	1,000	662
Overtime	109	110	144	169	179
Proposed Exempt Employee Compensation Adjustments	49	0	0	0	0
Staff Benefits	6,462	8,893	7,046	6,950	7,878
TOTALS, Personal Services	$28,001	$27,974	$28,515	$23,786	$30,828
OPERATING EXPENSES AND EQUIPMENT					
General Expense	757	734	803	750	712
Communications	781	603	609	500	538
Travel	665	424	425	325	320
Training	244	143	175	75	167
Facilities Operation	3,007	3,071	3,260	3,260	2,000
Consulting & Professional Services	4,025	2,989	4,513	4,652	3,861
*Central Admin. Serv.	2,150	2,184	1,679	1,679	2,267
Information Technology	936	841	946	946	927
Equipment	405	180	405	405	320
TOTALS, Operating Expenses and Equipment	$12,970	$11,169	$12,815	$12,592	$11,112
TOTALS, Baseline Budget	$40,971	$39,143	$41,330	$36,378	$41,940
TOTALS, Hardest Hit (Outside Funding)					($985)
NET, Baseline Budget	$40,971	$39,143	$41,330	$36,378	$40,955
TOTALS, Strategic Project Contracts (includes move costs)	$5,187	$2,835	$6,613	$4,134	$7,369
TOTALS, EXPENDITURES	$46,158	$41,978	$47,943	$40,512	$48,324

* Central Administrative Services: These are service costs (e.g., Finance, Controller, Personnel Board, Treasurer, Legislature, etc.) incurred by the Agency. These charges are calculated by the Department of Finance using a formula that takes three budget years into consideration.

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