

RESOLUTION 11-08

CALHFA OPERATING BUDGET

FISCAL YEAR 2011/2012

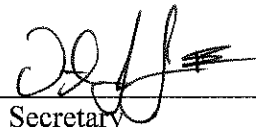
WHEREAS, the Board of Directors of the California Housing Finance Agency has reviewed its proposed operating budget for the 2011/2012 fiscal year;

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 2011/2012.

I hereby certify that this is a true and correct copy of Resolution 11-08 adopted at a duly constituted meeting of the Board of the Agency held on May 19, 2011, in Sacramento, California.

ATTEST:

  
Secretary

Attachment

# MEMORANDUM

To: Board of Directors  
CALIFORNIA HOUSING FINANCE AGENCY

Date: May 19, 2011

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

Subject: Agenda Item 8 -- Board Resolution 11-08: OPERATING BUDGET FOR FY 2011-12

## Assumptions and Overview

Provided for your approval is the proposed operating budget for Fiscal Year 2011-12. Staff's objective is to provide a meaningful and effective budget that takes into account the continued challenges faced by the Agency and the accompanying 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 continue lending in both the Homeownership and Multifamily Divisions. Other activities such as the MHSA program through FY 2011-12 providing an even greater workload for the Multifamily Asset Management Division.

With much uncertainty still surrounding the California real estate markets, the Congressional debate over U.S. mortgage finance 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 CalHFA goals and priorities.

As discussed in the update to the Two Year Business Plan, the CalHFA Board 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 partnerships and new revenue-generating business opportunities.

With these priorities in mind, we have developed a baseline operating budget for FY 2011-12.

## Summary

The proposed operating budget for Fiscal Year 2011-12 is \$50.1 million. This amount includes a required estimate of future pension costs, an item that has never been included in the Agency's budget. For FY 2011-12 this amount is \$2.6 million and should be subtracted before a comparison can be made with the FY 2010-11 budget. Net of the \$2.6 million, the FY 2011-12 operating budget is \$47.5, a 1.5% decrease from the FY 2010-11 budget.

We have again broken the budget into two parts, the “Baseline Budget” and the “Strategic Projects Contracts.” Together 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.) We have also noted the amount of Agency costs that will be reimbursed by the Hardest Hit Fund for amounts spent on the Keep Your Home California program.

For FY 2010-11, it appears that, once again, the Agency will spend less than the operating budget approved by the Board in May 2010. At this point in the fiscal year, projected actual expenditures for the year are \$44.5 million or \$3.8 million under budget. Most of the reduction in spending resulted from a \$3.3 million reduction in expenditures on strategic projects during the year – mainly attributable to delays in the development of the Homeownership Loan Reservation System. Although the Agency also reduced operating expenses by \$2.1 million, those savings were somewhat offset by a greater than expected use of overtime and temp help.

### **FY 2011/12 Operating Budget**

The FY 2011-12 operating budget represents a substantial increase in spending over FY 2010-11 actual spending. The proposed budget of \$50.2 million represents a \$5.7 million or 12.8% increase over projected actual costs for the current year. Again, these proposed increases can be explained by activities that mirror the priorities discussed above.

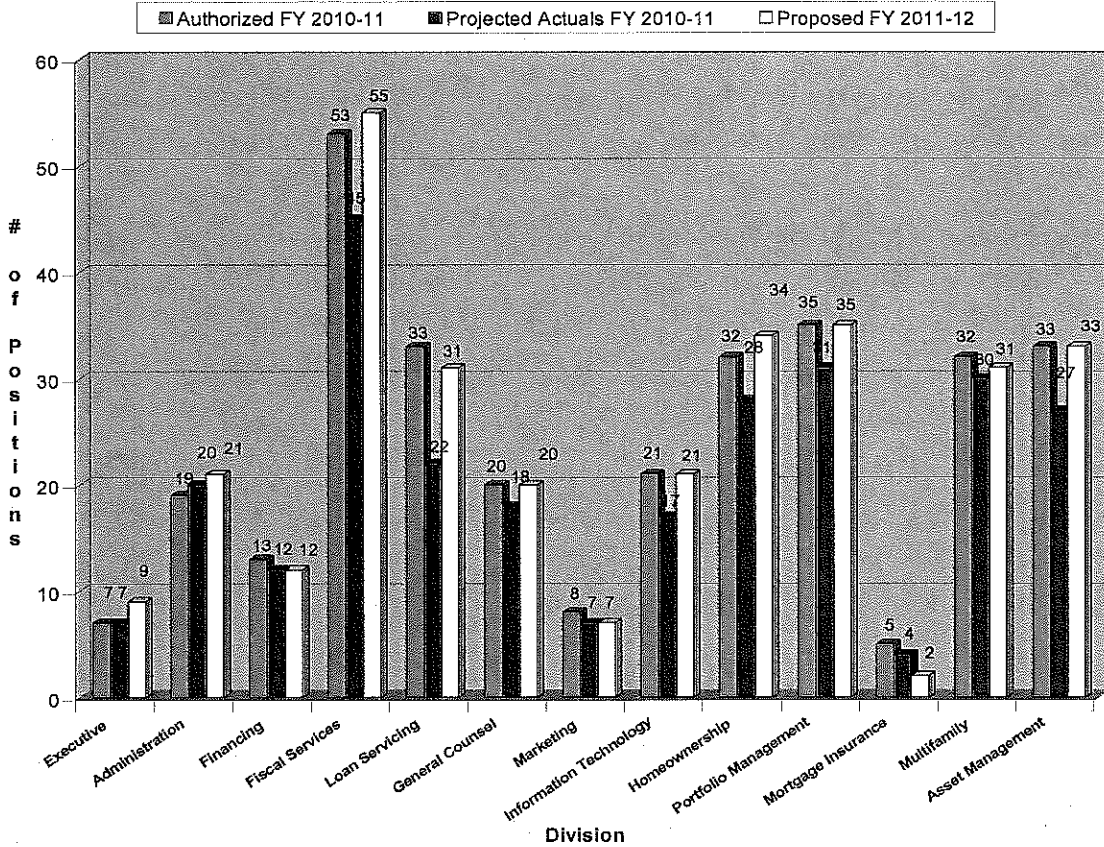
#### **Proposed staffing:**

The Agency has 311 total authorized positions and will begin the fiscal year with 42 vacancies. As staff has discussed previously with the Board, CalHFA has had a number of retirements in key positions throughout the Agency and we have also used temporary positions and overtime rather than permanent positions to deal with workload especially in Loan Servicing, REO management and Fiscal Services Divisions. The combination has resulted in an increase in vacancies.

- During FY 2011-12, the Agency plans to reduce vacancies and fill a total of 27 positions at a cost to the Agency of approximately \$2.3 million, including staff benefits.
- Position filled will replace key staff who have retired and also establish permanent positions where the Agency has used temp help in the prior two fiscal years. Conversion from temp help to permanent positions is being used primarily in Loan Servicing where we are losing temporary employees to other job opportunities as the economy begins to recover.
- An increase in overtime pay, staff promotions and increased future pension costs account for an additional \$440,000.
- These increased costs are offset by a reduction in the use of temp help for a savings of \$647,000.
- Overall, staff costs are increased by a total of \$2.1 million over FY 2010-11 actual.

The chart below illustrates the distribution of staff positions after these vacancies are filled. The Agency continues to have a very high number of staff allocated to Loan Servicing, REO management and also Fiscal Services, where much of the back office work is done for single family loan servicing and REO management.

**CalHFA Position Allocations**



**Operating Expenses**

- General Expense (\$866,000).

Next year’s budget is increased to account for additional costs in storage of Agency records. During the move to our new locations, we made the decision to reduce office space and use more offsite storage at less expense. This decision is also part of the Agency’s plan to eventually go to imaged documents.

- Communication (\$649,000).

Next year’s budget is increased by approximately \$110,000 to account for additional marketing expenses for the Agency’s new lending products and return to the marketplace.

- Travel (\$410,000).

Next year’s budget is increased to account for anticipated increased travel in connection with the Lehman Brothers bankruptcy litigation. In addition, Agency senior staff will continue to participate in key negotiations with U.S. Treasury on the HFA initiative.

- Training (\$150,000).

Next year’s budget is reduced by \$17,000 based on current year’s projected expenditures.

- Facilities Operations (\$2,800,000).

We have four sites to budget (Meridian, Senator, Culver City, and 500 Capitol Mall). The \$800,000 increase in budgeted cost is due to the expiration of the “free lease” period at the 500 Capitol Mall site in August 2011.

- Contracts (\$3,542,000)

This includes all of our Interagency and External Agreements. This line item is budgeted for substantially more than actual FY 2010-11 expenditures due to anticipated legal costs associated with the Lehman Brothers bankruptcy litigation.

- Central Administrative Services (\$2,459,000).

These are costs to do business with state "control agencies" such as Department of Finance, State Controller's Office, State Treasurer, Legislature, Department of Personal Administration, etc. Our Administrative Pro Rata costs (i.e., state overhead costs) will increase by another \$200,000 in the coming fiscal year. This amount is calculated by the Department of Finance.

- Information Technology (\$1,124,000).

We are budgeting additional costs of approximately \$200,000 for network infrastructure, service upgrades and additional storage capabilities associated with the Agency's imaging plans. Obviously, CalHFA's investment in technology is a vital part of providing excellent lending services to our homeownership originating lending banks, borrowers and our other business partners.

- Equipment (\$150,000).

This area has been reduced by \$170,000 based on current year actual expenditures.

- Hardest Hit Program (-\$789,000).

The Hardest Hit funding is provided by the U.S. Treasury for the Keep Your Home California program. This is the \$2 billion federal assistance program that will be provided to CalHFA Mortgage Assistance Corporation, a nonprofit corporation established to receive the federal funding. CalHFA is being reimbursed for out-of-pocket costs associated with developing, implementing, and follow-up.

- Strategic Project Contracts (\$4,665,000)

These costs are associated with Agency Strategic Projects: Homeownership Project (expected to be completed in FY 2011-12, Enterprise Content Management (ongoing project to improve document management through imaging and enterprise wide storage and retention of documents), and the next phase of the Fiscal Services Project (a project to design and implement a vastly improved financial and management information system for the Agency).

### Conclusion

This proposed budget covers the most likely events for the 2011-12 fiscal year. The approval of our operating budget by the Board 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 costs associated with the Agency's operations have no impact on the State's general fund budget and do not in any way create a cash flow drain to the State.

Your approval of Resolution 11-08 is requested.

May 12, 2011

**CALIFORNIA HOUSING FINANCE AGENCY**  
**2011-12**  
**CONSOLIDATED CALHFA AND MIS FUNDS OPERATING BUDGET**  
**(DOLLARS IN THOUSANDS)**

<u>EXPENDITURE ITEM</u>	<u>Budgeted 2009-10</u>	<u>Actual 2009-10</u>	<u>Budgeted 2010-11</u>	<u>Projected Actual 2010-11</u>	<u>Proposed 2011-12</u>
<b>PERSONAL SERVICES</b>					
Salaries and Wages	\$22,189	\$22,189	\$22,509	\$22,509	\$22,740
Estimated Savings (Furlough / Vacancies)	(2,186)	(\$6,271)	(963)	(3,191)	(1,418)
Anticipated Salaries and Wages	20,003	15,918	21,546	19,318	21,322
Temporary Help					
Students/Retired Annuitants	458	622	563	432	462
Contract	864	1,182	662	2,033	1,356
Overtime	144	165	179	217	222
Staff Benefits	7,046	9,019	7,876	7,325	7,959
*OPEB (GASB 45)				2,648	2,745
<b>TOTALS, Personal Services</b>	<b>\$28,515</b>	<b>\$25,906</b>	<b>\$30,828</b>	<b>\$31,973</b>	<b>\$34,056</b>
<b>OPERATING EXPENSES AND EQUIPMENT</b>					
General Expense	803	835	712	704	866
Communications	609	557	536	516	649
Travel	425	277	320	357	410
Training	175	97	167	55	150
Facilities Operation	3,260	3,597	2,000	1,966	2,800
Consulting & Professional Services	4,513	5,816	3,861	2,177	3,542
**Central Admin. Serv.	1,679	1,741	2,267	2,267	2,459
Information Technology	946	622	927	750	1,124
Equipment	405	367	320	225	150
<b>TOTALS, Operating Expenses and Equipment</b>	<b>\$12,815</b>	<b>\$13,910</b>	<b>\$11,112</b>	<b>\$9,017</b>	<b>\$12,150</b>
<b>TOTALS, Baseline Budget</b>	<b>\$41,330</b>	<b>\$40,816</b>	<b>\$41,940</b>	<b>\$40,990</b>	<b>\$46,216</b>
<b>TOTALS, Hardest Hit (Outside Funding)</b>			<b>(\$985)</b>	<b>(\$584)</b>	<b>(\$789)</b>
<b>NET, Baseline Budget</b>	<b>\$41,330</b>	<b>\$40,816</b>	<b>\$40,955</b>	<b>\$40,406</b>	<b>\$45,427</b>
<b>TOTALS, Strategic Project Contracts (includes move costs)</b>	<b>\$6,613</b>	<b>\$3,352</b>	<b>\$7,369</b>	<b>\$4,123</b>	<b>\$4,655</b>
<b>TOTALS, EXPENDITURES</b>	<b>\$47,943</b>	<b>\$44,168</b>	<b>\$48,324</b>	<b>\$44,529</b>	<b>\$50,092</b>

\* OPEB (Other Post-Employment Benefits) Under GASB 45, public agencies must account for, and report, the annual required contribution (ARC) for OPEBs in the same way they report pension benefits. As a result, the annual OPEB expense to be reported by most employers will need to be based on actuarially determined amounts rather than on the "pay-as-you-go" method. Governments must use actuarial evaluations to determine the final accounting and reporting amounts expected in the future. OPEB costs also must be reported over the working lifetime of employees, and the information provided in financial statements must include the funding, costs and provisions in an OPEB plan. While GASB 45 does not require that OPEB plans be funded, it requires disclosure of net OPEB obligations (NOD).

\*\* 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.