

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

August 4, 2020

TO: MDHA Finance & Audit Committee and Board of Commissioners
FROM: James Harbison, Executive Director
SUBJECT: Fiscal Year 2021 MDHA Operating Budget

Board approval is requested for the Fiscal Year 2021 Operating Budget with income of \$150,114,038, operating expenses of \$131,311,493, fixed expenses of \$13,350,027 and a positive cash flow of \$5,452,518.

MDHA's Fiscal Year aligns with U S Department of Housing and Urban Development's fiscal year, October 1st to September 30th, as they are our largest fund source. Led by MDHA's Finance Director, we began our budget planning immediately after mid-year review and will conclude in September with the Board's decision. Our budget is built from the property and program level up, using templates based on historical performance and including goals for revenue generation and operating expense control. In addition to Directors, budgets are reviewed by the Finance Director, Chief Operating Officer, Chief Development Officer and the Deputy Executive Director, prior to Executive Director review in preparation for the Finance Committee and Board.

2021 MDHA OPERATING BUDGET	
Description	2021
INCOME	\$150,114,038
OPERATING EXPENSES	\$131,311,493
NET OPERATING INCOME (LOSS)	\$18,802,545
FIXED EXPENSES	\$13,350,027
CASH FLOW (LOSS)	\$5,452,518

MDHA's 2021 \$150,114,038 of income has three major components: \$86,458,623 in HUD housing assistance payments (HAP) for our Rental Assistance voucher programs and our Affordable Housing RAD converted Project Based Rental Assistance (PBRA) apartments; \$31,848,840 in grant income, largely from HUD subsidized Community Development programs, with Community Development Block Grants (CDBG) and HOME funds being the larger two programs; and \$27,957,698 in tenant rents, principally from our PBRA, Workforce and Market Rate tenants. HUD's 2021 subsidy to MDHA represents 78% of our income.

MDHA's \$131,311,493 of operating expenses has three main parts: \$74,975,161 in direct program costs, with voucher payments to landlords and Community Development

payments to recipients of CDBG and HOME funds being the largest; \$28,097,630 in maintenance and utility costs for our properties; and \$26,020,522 in administrative costs, principally employee salaries and benefits. These costs are 98% of operating expenses.

MDHA's Net Operating Income (NOI) of \$18,802,545 is our 2021 operational financial goal.

The \$13,350,027 of fixed expenses are long term commitments that vary little year over year. \$5,568,653 of fixed expenses are contributions into MDHA's capital needs repair escrow. We deposit funds into a repair escrow account to ensure the long term sustainability of our properties. These funds pay for major repairs when they occur, like the replacement of heating, venting and air conditioning (HVAC) systems. Our present reserve for repair escrow balance is just over \$50,000,000. Each year's contribution is mandated by HUD and is based on a third party assessment of existing and future capital repair needs.

\$5,120,298 of the \$13,346,539 of fixed expenses are debt service payments for loans that helped finance new mixed income apartments, principally at Envision Cayce. \$2,584,076 of fixed expenses are insurance costs and a Payment In Lieu Of Taxes (PILOT) for our properties to Metropolitan Nashville.

\$5,452,518 of budgeted positive cash flow will be available for MDHA use after the FY 2021 audit, scheduled to complete in February 2022. These funds are planned for Envision developments. We reviewed this program at the Board retreat in January, and in a recent Finance and Development Committee meeting, and will next update this planning as part of the Envision Cayce execution presentation in October.

Included as an attachment is the Finance Director's more detailed categorization of MDHA's budget and includes a narrative comparison with FY2020. Due largely to additional COVID 19 related funding, MDHA's 2021 revenue significantly increases from FY2020. The majority of the additional funds flow out to the community as program expenditures. Also attached are presentation slides indicating financial performance, which are intended to communicate budget status more clearly to the Board and could be used in FY2021 to measure MDHA's financial performance against budget goals.

MDHA's continuity of operations response to COVID-19 has been challenging, and successful, due to our employees. This budget includes employee step increases, employee longevity pay, MDHA contributions to each employee's Vanguard retirement plan of 13% of employee pay with no required employee match, and full funding of a comprehensive health and dental plan that has no increases in employee contributions from 2020. In addition to these benefits, this recommended budget includes an across the board 1.5% pay raise for all employees. We believe this pay raise will have no negative impact to MDHA's long term plans, including its development and Envision goals.


James Harbison

- Attachments: (1) Fiscal Year 2021 Budget Detail Totals Entity Wide
(2) Director of Finance Memorandum on MDHA's Fiscal Year 2021 Budget
(3) Fiscal Year 2021 Budget Presentation Slides

2021 BUDGET TOTALS MDHA ENTITY WIDE

Description	ENTITY BUDGET TOTAL
TOTAL RENTAL INCOME	27,957,698
TOTAL HAP INCOME	86,458,623
TOTAL OTHER RENTAL INCOME	831,635
<hr/> NET TENANT INCOME	<hr/> 115,247,956
TOTAL GRANT INCOME	31,848,840
TOTAL FEE FOR SERVICE INCOME	-
TOTAL MANAGEMENT & BOOKKEEPING FEE INCOME	-
TOTAL PROGRAM INCOME	-
TOTAL DEVELOPER FEE	1,739,593
TOTAL INTEREST INCOME	316,577
TOTAL OTHER INCOME	961,072
<hr/> TOTAL INCOME	<hr/> 150,114,038
TOTAL ADMINISTRATIVE EXPENSES	26,020,522
TOTAL TENANT SERVICES EXPENSES	609,805
TOTAL UTILITY EXPENSES	9,317,800
TOTAL MAINTENANCE EXPENSES	18,779,830
TOTAL PROTECTIVE SERVICES	1,608,375
TOTAL PROGRAM EXPENSES	74,975,161
<hr/> TOTAL OPERATING EXPENSES	<hr/> 131,311,493
<hr/> NET OPERATING INCOME (LOSS)	<hr/> 18,802,545
TOTAL INSURANCE & PILOT	2,584,076
TOTAL DEBT SERVICE	5,120,298
TOTAL REPLACEMENT RES PMTS	5,568,653
<hr/> CASH FLOW BEFORE CAPITAL REQUESTS	<hr/> 5,529,518
TOTAL CAPITAL REQUESTS	77,000
TRANSFERS IN (OUT)	-
<hr/> CASH FLOW AFTER CAPITAL REQUESTS	<hr/> 5,452,518

METROPOLITAN DEVELOPMENT AND HOUSING AGENCY

INTEROFFICE MEMORANDUM

August 6, 2020

TO: James E. Harbison, Executive Director

FROM: Melinda Hatfield, Director of Finance

SUBJECT: Approval of Agency's Operating Budgets for Fiscal Year beginning October 1, 2020 and Calendar Year beginning January 1, 2021

The 2021 Budget process began the middle of June with worksheets populated from current year data to help establish a basis. Each department and/or property worked closely with Finance members to compile a budget for 2021 that includes staff salaries and employee benefits, a 1.5% across the board salary increase estimated at \$416k, approved vacant positions, an Operating Cost Adjustment Factor (OCAF) of 1.5% for all Project Based Rental Assistance (PBRA) contract Housing Assistance Payment revenue, administrative and program costs for Rental Assistance, Community and Urban Development and estimated inflation of all other operating costs. The detailed budgets have been reviewed by Property Management, Department Directors, Chief Operating Officer and the Executive Director. The individual program budgets have been compiled and reported as a Total Entity Budget for the presentation to the Finance Committee. Comparative analytical charts from 2020 to 2021 are included in the packet for your review.

An explanation of each entity budget line item is presented below with significant budget fluctuations highlighted:

INCOME

Total Rental Income represents tenant rent charges for of the affordable housing and market rate properties, managed by MDHA and Freeman Webb, and commercial lease revenues for the Downtown Parking garage and ground leases at Rolling Mill Hill.

Total Housing Assistance Payment Income estimates the subsidy due for all eligible affordable housing properties and landlord payments for the Rental Assistance voucher program. The \$7 million increase in HAP income from 2020 is due to a projected increased landlord assistance revenue for the Rental Assistance program of \$3 million and increased HAP revenue for the PBRA properties of \$4.15 million.

Total Other Rental Income are tenant charges for extraordinary maintenance, utility fees and late fees. Late fees in 2020 have been suspended with the CARES Act, but we anticipate reinstating late fees beginning October 1.

Grant Income represents HUD funding for the Community Development program and administrative expenses, Rental Assistance administrative costs and funds received from Metro Nashville for the administration of the Tax Increment Financing Program. The 2021 budgeted increase in grant income is due to CARES Act funding for the CD department totaling \$13.2 million

Developer Fee Income is earned by the MDHA development team for the Low Income Housing Tax Credit project construction budgets funded by Equity Partners.

Interest Income from cash deposits and investments along with other income from written off tenant accounts and rental assistance fraud recoveries complete the budgeted revenue for 2021.

OPERATING EXPENSE

Administrative expense is comprised mostly of administrative salaries and employee benefits, management and bookkeeping fees and other costs related to office operations. The \$4 million increase in administrative expense is due to increased salaries from new positions, merit and the 1.5% across the board increases, and additional costs budgeted to manage the new CAREs Act grants.

Tenant service expense incorporate the costs of Family Self Sufficiency coordinators and other social services related to tenants and resident association activities.

Utility expense budget accounts for the water, storm water, electricity and gas costs for affordable properties that cover all utilities for tenants.

The Maintenance budget includes salary and employee benefits for all affordable housing property maintenance staff, the MDHA Service Crews, and janitorial staff. Contract costs for the site upkeep and unit maintenance and turnover are also included in this budget line item total.

A majority of the Protective Services budget is to cover the cost of the contracts with the Metro Police Department for walking officers and extra patrols at family sites. Camera installation and maintenance costs are also budgeted in this total for all sites.

Rental Assistance HAP payments to landlords and Community Development program costs are budgeted in the Program Expense total. These costs are funded by HUD grants for each program type. The increase in Program Expense is due to the new CD CAREs Act grant program costs estimated at \$12.7 million and the increase in landlord payments for the rental assistance program of \$3 million.

NON-OPERATING EXPENSE

Property, General Liability, Worker's Compensation, Auto, and Officers and Directors insurance is budgeted as a non-operating expense. The Payment in Lieu of Taxes (PILOT) due to Metro Government based upon a cooperative agreement with MDHA is included in this line item.

Budgeted principal and interest payments for affordable housing properties and the Downtown Parking Garage are budgeted for in the Debt Service line.

HUD required monthly Replacement Reserve deposits for each affordable housing property are also budgeted.

BUDGET NOTES BY PROGRAMS

Board approval is requested for all of the FY 2020-2021 budgets. These include:

- the Central Office Cost Center (COCC),
- the MDHA Service Crews,
- the Freeman Webb managed properties,
- the Project Based Rental Assistance (PBRA) properties,
- the program budgets for
 - the Rental Assistance,
 - Community Development,
 - Urban Development,
- the operating budgets for other commercial leases and business type activities.

The COCC covers central office administrative salaries and operating costs (including Executive, Finance, Human Resources, Information Technology, Legal and the Affordable Housing central office). The projected 2021 COCC budget will be covered by management fees from our Housing Voucher, PBRA and market rate properties and other grant programs, by developer fees, by cash flow from the Rolling Mill Hill ground lease income, and by surplus cash generated from the PBRA properties.

The MDHA Service Crews are continuing to expand their capacity to assist property management by decreasing unit turnover time and provide a more efficient alternative to outside contract labor. The Service Crews are reported separately from the COCC and are projecting a breakeven budget with fees for service totaling \$1.77 million to cover expenses; the budget also includes a capital cost of \$50,000 for two new trucks.

The operating budgets for the Project Based Rental Assistance (PBRA), mixed income and market rate properties have been prepared using HUD approved contract rents for each HAP contract. The projected cash flow is \$8 million before the cash surplus transfer to COCC. Any capital needs will be funded by repair and replacement reserve escrowed funds established at each property rather than from the operating budgets.

Freeman Webb manages eight properties owned by MDHA, therefore the 2021 budgets are being prepared by their management team. Collectively the estimated positive cash flow based upon the 2020 budgets from these properties totals \$944,889.

The projected program funds for Rental Assistance, Community Development, and Urban Development are enough to cover budgeted expenses resulting in breakeven budgets.

The budget includes employee merit increases as outlined in the Agency personnel policy, along with a 1.5% across the board increase for all Agency employee for your approval.

The MDHA staff have met or complied with all requirements outlined in the attached resolution, approving the operating budgets for the Central Office Cost Center, MDHA Service Crews, and the Project Based Rental Assistance properties. Board approval of this resolution and also of the other operating budgets is recommended. Board approval is also requested to authorize the Executive Director and Board Chairman to approve all documents required by HUD for the 2021 Agency Budget.

“Whereas, The Metropolitan Development and Housing Agency has committed to the proper management of funds it receives; and

Whereas, the agency has prepared a realistic revision of the estimate of operating receipts and expenditures for the fiscal year beginning October 1, 2020; now, therefore, be it

RESOLVED, That, the Operating Budget for the Central Office Cost Center, MDHA Service Crews, the Project Based Rental Assistance Properties and Freeman Webb managed properties, the Community Development Department, the Urban Development Department, and the Rental Assistance Department for the fiscal year beginning October 1, 2020 are hereby adopted and approved.

BE IT FURTHER RESOLVED, That the Executive Director will initiate the actions to implement this budget.”

Melinda Hatfield

MDHA INCOME STATEMENT (BUDGET)

200,000,000

150,000,000

100,000,000

50,000,000

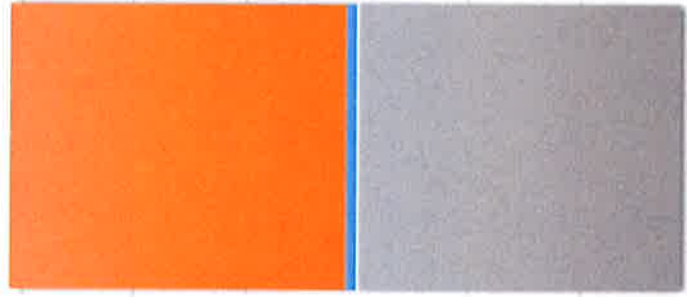
0

-50,000,000

-100,000,000

-150,000,000

-200,000,000



FY2021

150,114,038

5,452,518

-144,661,520

FY2020

128,222,010

6,079,776

-122,142,234

Revenue

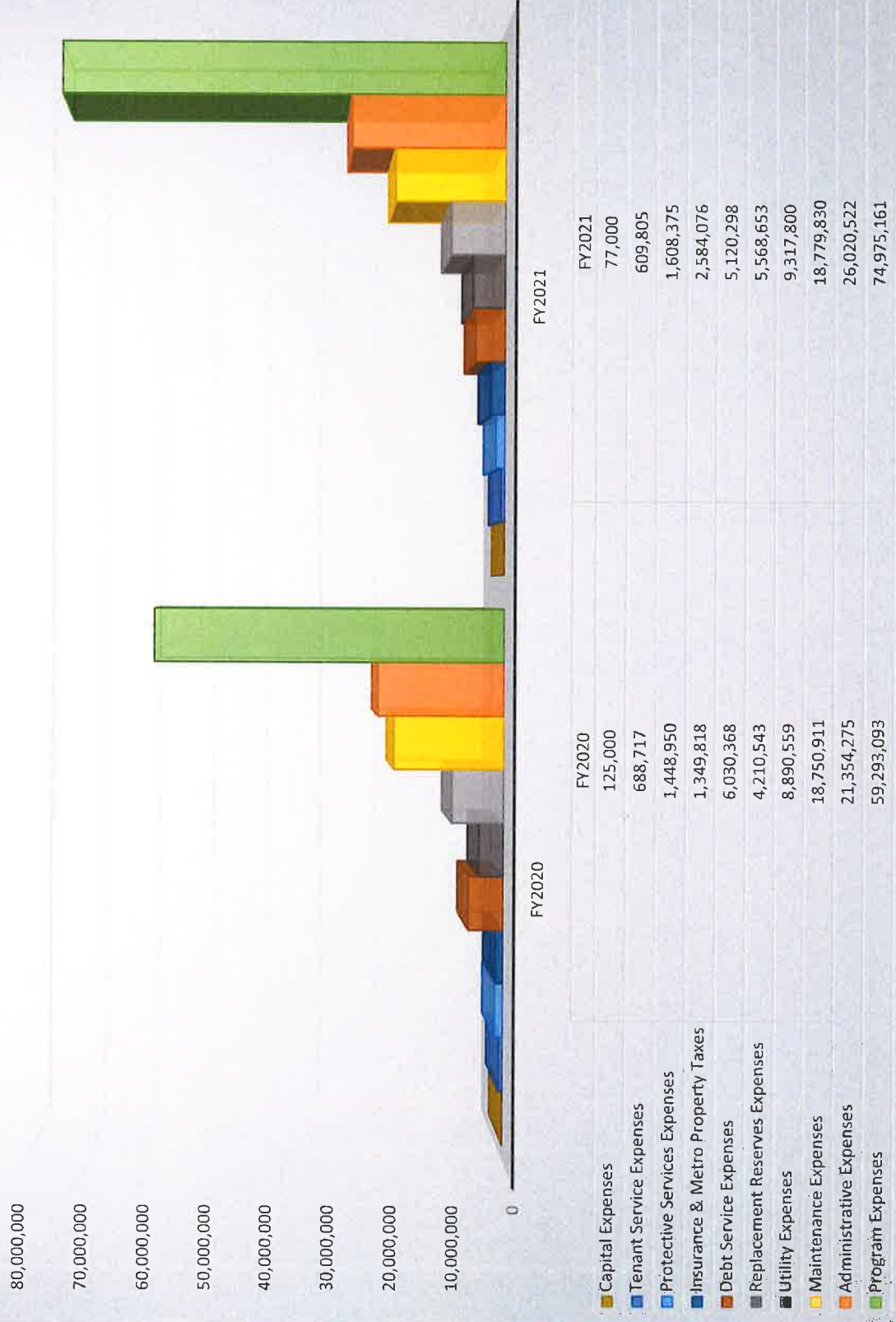
Profit

Expense

Revenue by Category



Expense By Category



Profit By Fiscal Year

