NYC HDC
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Gary Rodney
President

Subject: Proposed FY 2016 Budget

Date: November 24, 2015

I am pleased to present the Corporation's proposed budget for Fiscal Year 2016 ("FY 2016"). As a central financing engine behind Mayor Bill de Blasio's *Housing New York* plan, HDC has continued to expand on our rich history of production and accomplishment. That history includes financing over 120,000 housing units over the last dozen years through the issuance of more than $15.9 billion in bonds and the provision of more than $1.86 billion in subsidies from our own corporate reserves. In many of those years, including the last three consecutively, HDC has been nationally ranked as the #1 issuer of mortgage revenue bonds for affordable multi-family housing.

During FY 2015, HDC issued $2.2 billion in bonds while maintaining its strong credit rating in the Multi-Family Housing Revenue Bond program (generally referred to as the "Open Resolution"). Bonds outstanding are at $10.2 billion at the end of FY 2015. Total assets of HDC now stand at approximately $14.3 billion at the end of FY 2015, an increase of $1.3 billion, while net assets have increased $106.6 million to approximately $2.1 billion at the end of FY 2015.

Continuing to build on such success is only possible through responsible and strategic fiscal planning, which allows us the flexibility to reach our goals while also containing administrative costs through operational innovations and efficient managerial controls. HDC's proposed FY 2016 budget achieves that strategic balance.

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Summary of FY 2015 Budget Results and FY 2016 Proposed Budget (attached schedules in Appendix A)

The Corporation ended FY 2015 with an excess of revenues over expenses, on a cash basis, of \$86.58 million, an increase of \$16.88 million over the budgeted amount of \$69.7 million. This improvement was largely due to better-than-expected performance in the Open Resolution surplus, higher servicing fees, and fees received on loan originations and refinancings.

The Corporation's most significant revenue source, the Open Resolution surplus, is expected to generate similar amounts of cash as it did in FY 2015 due to the over-collateralization of mortgages over bonds, the increased spread between underlying mortgage rates and the currently low interest rates on the variable rate debt in the Open Resolution. Investment income on corporate reserves is forecast to have a slight uptick from FY 2015 due to more funds under management. Although the Corporation's Investment Committee has sought to prudently maximize the rates of return on investments in the current markets, income on corporate reserves is not expected to match or exceed what it was prior to the financial crisis.

As indicated on the chart on the next page, staff projects total cash revenue to be \$106.08 million for FY 2016, an increase of 7.2% from the approved FY 2015 budget of \$98.96 million but a decrease of 8.4% from the 2015 actual, a cautious variance to be explained later in this memo. At the same time, operating expenses are budgeted to slightly increase to \$29.48 million, an increase of just 0.75% from the FY 2015 budget.

An excess of revenue over expenses of \$76.6 million is budgeted for FY 2016. The chart following summarizes these results, which are briefly discussed in the following section and presented in greater detail in the attached schedules and notes of revenues and expenditures in Appendix A.

Summary of Revenues And Expenditures (Cash Basis)	Adopted Budget FY 2015	Projected Actual FY 2015	Variance FY 2015	Proposed Budget FY 2016
Operating Revenues:				
Investment and Loan Income	60,900,000	63,290,071	2,390,071	62,900,000
Servicing Fees	25,880,000	31,237,219	5,357,219	28,230,000
Loan and Other Fees	12,178,500	21,296,438	9,117,938	14,948,250
Total Revenues	**98,958,500**	**115,823,728**	**16,865,228**	**106,078,250**
Operating Expenses:				
Salaries and Related	22,421,700	22,633,707	(212,007)	22,894,100
Contract Services	1,062,200	1,053,680	8,520	868,550
Other Expenses	5,778,100	5,557,846	220,254	5,718,350
Total Expenses	**29,262,000**	**29,245,233**	**16,767**	**29,481,000**
Excess of Revenues Over Expenses	**\$69,696,500**	**\$86,578,495**	**\$16,881,995**	**\$76,597,250**

FY 2015 Unaudited Budget Results

Operating Revenues

The Corporation's FY 2015 budget projected revenues of \$98.96 million, and HDC realized revenues of \$115.82 million, a variance of \$16.8 million or 17.04%. This result was attributable to four main positive variances:

- Servicing fees from HDC financed loans were \$4.75 million higher than budgeted. The increase was mainly due to an increase in the number of loans in the pipeline that converted to permanent, as well as from mortgage satisfaction fees from prepayments and mortgage participation fees that were received.
- Fees from loan originations and refinancings were \$9.36 million higher than anticipated due to an increase in loan closings as a result of the Mayor's Housing New York Plan, as well as fees relating to certain loan refinancings.
- Investment Income of Corporate Reserves was \$1.64 million higher than anticipated due to more funds under management.
- The Open Resolution surplus was \$1.3 million greater than anticipated because of the over-collateralization of mortgages over bonds, as well as increased spread between underlying mortgage rates and the currently low interest rates on the variable rate debt in the Open Resolution.

Offsetting these positive variances were two smaller negative variances:

- Corporate owned mortgage income was $543,000 lower than budgeted due to loan securitizations out of Corporate Services.
- CDBG-DR Funds were $256,000 lower than budgeted due to loans being closed at a slower pace than anticipated.

The attached Revenue Summary in Appendix A provides further budget and actual details on these and other, smaller variances.

Operating Expenses

The Corporation's adopted FY 2015 operating expense budget was $29.26 million. Actual FY 2015 expenses were $29.24 million, a variance of $16,767 or 0.06%. Although total costs essentially matched the budget there were the following variances.

Four major positive variances:

- Wages – $400,654. This line item was under budget mainly due to vacancies during the year and also some smaller savings in overtime between what was spent and what was budgeted.
- Fringe Benefits – $297,454. This line was under budget due to the vacancies and lower than anticipated funds needed for hospital insurance, whose premium increases were lower than anticipated. FICA, TSA, and disability insurances were also lower than anticipated.
- Rent – $375,369. This line item was under budget due to lower than anticipated funds needed for the 9th floor space, as well as a credit to the tenants' share of operating expenses from past years under the previous owners.
- Training and Conferences – $101,004. This line item was under budget due to lower than anticipated use of employee development funds and conference funds available to the staff.

Offsetting these positive variances were four negative variances:

- NYCERS – $947,887. This line item was over budget. Due to an excess of funds in the 2015 budget, the Corporation made an early payment to NYCERS for part of its FY 2016 appropriation to cover staff's participation in NYCERS.
- Other Consultants – $21,990. This line item was over budget due to an extension of a consultant's contract beyond what was originally budgeted to handle an IT project where there was no in-house expertise.
- Equipment & Maintenance – $323,556. This line item was over budget due to prepayments made with excess funds in the 2015 budget for two IT initiatives that were started at the end of FY 2015 and will be completed in FY 2016. Please see the Equipment & Maintenance expense section in Appendix A of the memo for further details.

- Leasehold Improvements – $58,592. This line item was over budget due to the postponement of requesting reimbursement from the building for tenant improvements until FY 2016. Please see the Leasehold Improvements expense section in Appendix A of the memo for further details.

The attached Expense Summary in Appendix A provides further budget and actual details on these and other, smaller variances.

FY 2016 Proposed Budget

Operating Revenues

The Corporation's revenues are budgeted at $106.08 million in FY 2016. This is a $7.12 million increase from the FY 2015 adopted budget but a $9.75 million decrease from the FY 2015 actuals. The attached schedule shows revenue projections by line item for FY 2016. While several areas of HDC revenue are under pressure, the projected increase from the FY 2015 budgeted amounts derives from three key factors: (1) a forecasted increase in HDC servicing fees due to more construction loans converting to permanent, thereby allowing for the collection of monthly servicing fees, as well as more loans in the portfolio; (2) an increase in loan origination fees expected with more deals closing under the Mayor's Housing New York Plan; and (3) a forecasted increase in investment income of corporate reserves due to more funds under management.

Each revenue source is discussed in detail in Appendix A.

Operating Expenses

The Corporation's proposed FY 2016 operating expense budget was based on FY 2015 actual expenditures, adjusted for identified changes in staffing, technology, office space and other costs.

The Corporation's expenses are budgeted at $29.48 million in FY 2016. This is a $219,000 or 0.75% increase from the FY 2015 adopted budget. The very slight increase from the FY 2015 budgeted amounts revolves around certain budget lines decreasing or increasing from last year, with the net effect being a marginal increase.

Expense projections by line item are discussed in detail in Appendix A.

Projections for FY 2016

The Corporation remains cautiously optimistic about its 2016 financial outlook. The proposed FY 2016 development pipeline is strong, with unabated interest in the Corporation's programs. The Corporation has had a strong financial performance over the years, despite the market turbulences and the continued low interest rate environment. This budget reflects a conservative expectation of future income, balanced against the needs of supporting the Mayor's housing program.

Appendix A

FY 2016 Proposed Budget – Notes and Schedules

Overview of Corporation Revenues and Cash Receipts

The Corporation's operating budget is presented and tracked on a cash basis. Before reviewing the details of the FY 2015 results and FY 2016 proposed budget, it will be useful to delineate the various categories of cash received by HDC in its operations.

It is important to note the distinction between Corporation revenues on a cash basis, as used in budgeting, and on a generally accepted accounting principles (GAAP) basis, as used in our financial reporting. For cash-based budgeting, revenues and expenditures are reported when received or paid, respectively. The GAAP figure matches revenues and expenses to the period to which they can be attributed, which may differ from the period in which they were received or billed.

Prior to FY 2013, one large difference in the Corporation's revenues between GAAP and cash accounting was that loan origination fees were recognized under GAAP over the life of the mortgage loan, typically 30 years, rather than when collected. However in 2012 the Governmental Accounting Standards Board ("GASB") issued Statement No. 65 which states that loan origination fees are now to be recognized when received, a more realistic standard. Therefore the Corporation early adopted GASB 65 at the end of FY 2012, and now recognizes loan origination fees when collected. As a result there is now no distinction between cash basis and accrual basis for loan origination fees. Also, income categories used for the Corporation's budget are different from the categories required under GAAP for our financial reporting.

Certain cash receipts are not considered revenues at all under GAAP and therefore are excluded entirely from the Corporation's budget, though they do figure into cash flow analyses and affect our ability to lend corporate reserves to subsidize development. These non-revenue cash receipts include (1) principal repayments of corporate loans, (2) bond sale proceeds from the placement of corporate loans in securitizations into the Open Resolution, and (3) transfers of corporate reserves between the Open Resolution and the corporate services fund.

Details of Operating Revenues

The Corporation's revenues are budgeted at $106.08 million in FY 2016. Each revenue source is discussed in detail below.

Investment and Loan Income

Investment of Corporate Reserves and Other Funds. The Corporation currently has $3.61 billion of cash and investments under management, but HDC retains the earnings on only a portion of those funds. Earnings on bond proceeds, monies of the New York City Department of Housing Preservation and Development ("HPD"), reserves for replacement accounts, and bond revenue funds outside the open resolution (and in three cases, in the open resolution) are all returned to the related party or credited against interest payments due. The Corporation keeps the earnings on our corporate funds and on most of the loan-related escrows it maintains. (The Corporation also keeps most of the earnings on open resolution bond revenue deposits, but those earnings are covered below in "Open Resolution Surplus"). Earnings are affected by the level of interest rates, the term of investments and the funds available for investment. In FY 2015, the Corporation realized $9.14 million on investments of corporate reserves and other funds due to more funds under management. Staff forecasts investment earnings will be slightly lower from the 2015 actuals at $8.5 million based largely on a continued low short-term interest rate environment, but slightly higher from the FY 2015 budgeted amount due to more funds under management.

Corporate-Owned Mortgage Interest. Although the Corporation has used over $1.86 billion total of corporate reserves to make loans, the Corporation currently has a $371 million portfolio balance of loans as corporate owned mortgages, due to securitizations totaling around $971 million over the past few years, as well as $33 million of loans transferred into the Open Resolution. The loans have varying repayment terms, often with deferred amortization or balloon mortgages, and most are at very low interest rates. Of the 136 individual loans in the portfolio, 52 loans are at 0%, 63 are at 1% interest, and the remaining 21 loans range between 0.70% to 6.90%, for a total weighted average of 0.89%. Interest payments on the corporate-owned loans totaled $4.86 million in FY 2015, a slight decrease from the budgeted amount due to securitization of loans into the Open Resolution thereby removing the loans from the Corporate Services Fund. Current portfolio loan schedules indicate $5.4 million interest revenue in FY 2016, which remains steady from the FY 2015 budget based on the current pipeline.

Open Resolution Surplus. The Corporation's highly rated Open Resolution is the mainstay of our affordable housing production. Because the resolution pools a wide range of credits and cash flows, individual risks are mitigated and surplus cash flows from some loans provide needed coverage for the pool as a whole. The amount of surplus fluctuates depending on interest rates, varying mortgage and bond payment schedules, the redemption of bonds, and the unpredictable prepayment of mortgages after the designated lockout period. Asset/liability ratios and debt service coverage are monitored closely by the ratings agencies and are modeled for the Corporation by JPMorgan Securities, which prepares a full cash flow each time the Corporation issues bonds under the Open Resolution.

Based on the cash flow model, and adjusted upward as discussed below, $49.0 million of Open Resolution surplus is included in the FY 2016 budget. This is due to the Corporation's ongoing financing activities in the Open Resolution, as well as expected low interest rates on the variable rate debt backed by fixed rate mortgages, creating an additional interest spread as income. Interest rate caps, in addition to the Corporation's large short term investment portfolio, are hedges should interest rates rise greatly.

The Open Resolution cash surplus is generated by (a) the spread between mortgage rates and bond rates, which varies widely depending on the bond series and, for some series, the level of variable interest rates; and (b) interest earnings on monies held under the resolution, including debt service reserve funds, principal and interest monies held prior to debt service payment, and mortgage prepayment funds held prior to bond call. A few series may temporarily run at a small deficit, typically when the underlying loans have stayed in construction longer than scheduled and so have not started making principal amortization payments.

Servicing Fees

The Corporation earns servicing fees from three major areas of work: (1) servicing HDC loans (originated or purchased by HDC); (2) tax credit monitoring fees; (3) and servicing HPD construction and permanent loans.

HDC Loan Servicing. Most loan servicing fees range from 0.125% to 0.5%. Servicing fees for many variable rate projects in recent years have been set on a sliding scale to vary inversely with the interest rate on the bonds. Loan servicing fee income is projected to increase from the FY 2015 budget of $20 million to about $22 million due to more loans converting after construction completion to permanent status (when servicing fees become due on a monthly basis), as well as an increase in collections on the servicing fees in the Open Resolution bond programs. Additionally, this line includes income from servicing fees associated with the Corporation's Preservation Lending Pilot Program.

The FY 2015 actual collection of HDC servicing fees was $24.7 million, which was $4.7 million over the budgeted amount. This variance was due to more loans converting to permanent than anticipated as well as the collection of $2.3 million in mortgage satisfaction and participation fees (relating to several large prepayments and refinancings with alternative lenders).

Tax Credit Monitoring Fees. Pursuant to a memorandum of understanding ("MOU") with HPD, HDC is responsible for monitoring low income housing tax credit compliance in accordance with Section 42 of the IRS code for properties financed by HDC that have allocations of 4% tax credits from HPD. Currently, the Corporation is monitoring over 270 HDC financed developments. In total, HDC is responsible for tax credit monitoring for developments containing approximately 47,000 units as of FY 2015.

The FY 2015 actual collection of tax credit monitoring fees came in on budget. The FY 2016 budgeted amount is based on projections related to the FY 2015 actuals.

HPD Financed Loans. HPD servicing fees are paid solely from investment earnings on funds under administration or, for permanent loans, debt service collections. As most construction loan fees are payable only out of investment income on associated HPD funds, fee income can vary widely depending on the level of HPD funds on hand, as loans are drawn down and new loan funds are sent over to be administered. Fee income is also affected by the overall level of interest rates.

The FY 2016 budgeted amount of $4.3 million is slightly higher than the FY 2015 budgeted amount due to an anticipated increase in the conversion of loans from construction to permanent. This amount is still lower than it should be due to an inability to collect the full amount of construction servicing fees payable to the Corporation. As mentioned above, in this low interest rate environment there has not been enough investment income to fully reimburse the Corporation for its servicing fees on the construction loans. In FY 2016 the Corporation should be due about $1.6 million in construction servicing fees for the year but we are only projecting collections of $400,000. This shortfall will be accrued as it has been for the past few years. The total shortfalls at the end of FY 2015 have accrued to $2.8 million.

The FY 2015 actual collection of HPD servicing fees was $4.64 million, which was $539,000 million over the budgeted amount.

Other Fees

Credit Enhancement Fee. In 2014 the Corporation issued its Multi-Family Housing Revenue Bonds, 2014 Series B, a securitization of a participation interest in pools of HPD loans previously purchased by the Corporation. HDC also agreed to continue to provide credit support for a debt service reserve fund for such bonds. The Corporation secures its pledge with a set-aside of corporate funds, currently $6.8 million. To compensate for this pledge, as well as its general enhancement of the 2014 Series B bonds, HDC earns a fee of 1.25% of the outstanding bonds. In FY 2016 the Corporation is projecting to collect $1.43 million as a credit enhancement fee.

Loan Origination and Refinancing Fees. The Corporation's commitment fees range from 0.75% to 1.0% for its loans. In FY 2015, total fees collected in this category were $18.36 million, which represents an increase of $9.3 million over the budgeted amount. This was due to an increase in loans closing from the expected pipeline when the budget was prepared last year, as well as the collection of refinancing fees on certain mortgages. The proposed FY 2016 budget amount is $12.5 million to reflect the anticipated pipeline for the Mayor's Housing New York Plan for FY 2016, and some anticipated refinancing fees.

REMIC Administration Fee. The Corporation is paid a fee by its subsidiary, the New York City Residential Mortgage Insurance Corporation ("REMIC"), to cover the cost of staffing and overhead. The REMIC administration fee for FY 2016 is $515,000. The fee is comprised of the direct cost of salary and fringe related to the REMIC staff members, plus a percentage of operating expenses based on headcount of REMIC staff versus total headcount in the Corporation. REMIC revenues consist of investment income on its principal plus income from insurance premiums and fees. It uses a small portion of this revenue to pay the administration fee to HDC.

CDBG-DR Funds. The Corporation is participating in the New York City Build It Back program funded through the Federal Community Development Block Grant – Disaster Relief ("CDBG-DR") Build It Back Multifamily Repair Program. The program was established to assist homeowners, landlords, and tenants in the five boroughs whose homes and properties were damaged by Superstorm Sandy. HPD is the Grantee of these funds and HDC is a Sub-Recipient engaged to assist HPD in utilizing these funds. HDC's participation is limited to projects in HDC's portfolio or projects expecting to refinance with HDC. The Build It Back program provides forgivable loans or grants for repairs and resiliency improvements to buildings with five or more units that sustained damage during Superstorm Sandy. During FY 2015, over $6.2 million of CDBG-DR funds have been provided to four developments containing over 2,900 units to reimburse them for storm damage repairs not covered by insurance. The Corporation projected that the expenditures related to staff time and such for FY 2015 to be $1,000,000. Actual costs for reimbursement totaled $743,897 for FY 2015 due to loans closing at a slower pace than originally anticipated. This year the Corporation is budgeting $500,000 for FY 2016.

Details of Operating Expenses

The Corporation's expenses are budgeted at $29.48 million in FY 2016. Each expense line item is discussed in detail below.

Salaries and Related Expenses

The Corporation's dedicated and hardworking staff remains the foundation of our success. Careful attention will continue to be paid to ensure that hiring meets the strategic needs of the Corporation for today, and for the future. During the last few years, HDC has increased the budget relating to staff expenditures based on targeted hiring to reinforce core functions and to increase efficiencies, which has been reflected in its financial results. This year's budget continues that same approach while also balancing the demands of the Mayor's Housing Plan.

Wages. Actual wage expenses came in under budget for FY 2015. This was due to vacancies during the year and some savings in overtime. Also included in the salaries line are funds for the Corporation's participation in the HPD/HDC Fellowship program.

The budget proposal provides for 183 staff positions, including the four staff participating in the HPD/HDC Fellowship program. The headcount for this year's budget will not increase from last year's budget due to attrition and efficiencies. During last fiscal year as some staff members left or retired there were some instances where replacement of that same position wasn't immediately necessary due to the expected implementation of a new loan servicing system during 2016. After the system is fully integrated, management will review where future staff, if necessary, are needed in the departments affected with the implementation. However, there will instead be three new hires this year in the IT and Communications areas.

The Corporation uses advanced reporting software tools to assist staff in reporting on the vast amount of data that accompanies management of an expanding portfolio. Two software tools, Sharepoint and Oracle BI, will become much more important throughout the Corporation starting this year and into the future. This year's budget includes the hiring of two IT staff members to provide expertise to fully utilize these specific software tools.

The other budgeted hire is in the Communications department where an assistant director is needed to help manage staff, handle press inquiries, and coordinate media events including press releases, media outreach and talking points for ribbon cuttings, ground breakings and press announcements.

Similar to the attrition during last year the Corporation will continue to look to reduce costs during this fiscal year either by delaying or not replacing vacancies in certain areas that may occur during the year, and also hiring at lower salaries where possible.

Also similar to last year, the proposed budget does not include any specific line amount for staff raises. However, there is a small amount of money available for discretionary promotions, and possibly some merit increases, including senior staff, subject to approval from the Governance Committee. Prior to the FY 2012 budget, the Corporation budgeted funds for raises and promotions for staff with a second quarter payout. However, in trying to find a balance between maintaining a high level of performance for a dedicated, highly skilled staff versus the challenging economy and fiscal austerity at all levels of government, the Corporation's senior management believes that a discretionary amount used for specific promotions and increases again this year is a prudent, necessary approach.

Fringe Benefits. Included in this category are sufficient funds to cover Health, Life, Dental, Disability and Vision benefits. This budget line also includes funds for HDC's matching contributions to the employees' Tax Sheltered Annuity (403(b) Retirement) Plan ("TSA"). Also budgeted in this category are funds to cover the employer's share of payroll taxes, Workmen's Compensation Insurance, Unemployment Insurance, etc.

An ongoing challenge for most American companies is the escalating expense related to health care costs, and HDC is no exception; such expenses have been built into our expectations for FY 2016, although the Corporation has made other efforts to reduce costs in the areas that it can control.

The fringe benefit line shows only a 2.52% increase over last year's budget. The increase is mainly attributable to higher premiums in health insurance as well as dental insurance. Based upon preliminary information received from our insurance carriers, the Corporation expects 5% and 7% increases to the health and dental insurances, respectively. The increases have been offset by the Corporation's efforts to reduce costs where possible. Life, disability and vision insurance policies were reworked a few years ago and led to reductions in premiums, which have continued in the proposed budget as well. Additionally, TSA expenses have increased this year due to the anticipated increase in staff who elect to join the deferred compensation plan instead of joining NYCERS. This increase is mostly offset with FICA costs now remaining steady from year to year due to the Corporation's revamping of the retirement policy offered to new employees a few years ago whereby new staff must elect to join either NYCERS or the TSA Plan. The Corporation will continue to look for ways to contain costs related to fringe benefits in the upcoming year and beyond. If not for these budgeted increases to health, dental and TSA, the fringe benefits line this year would have decreased 0.30% from last year's budget, rather than increased.

Although staff did its best to estimate the areas of increases for 2015 stated above, the actual costs of these line items, as well as the NYCERS appropriation amount described next in this memo, could possibly be even higher than budgeted.

Actual expenditures for this line item, in total, were under budget in FY 2015 due to savings in health insurance and TSA expenses due to vacancies. Additionally, there were lower than expected increases to premiums at the beginning of the year, and lower disability insurance expenses.

New York City Employees' Retirement System ("NYCERS"). This line provides funds for the required employer contribution for its employees who are enrolled in NYCERS. This line is over budget this year due to the Corporation making a partial payment of $950,000 in FY 2015 towards its 2016 NYCERS appropriation, with an excess of funds available in last year's budget.

Metropolitan Commuter Transportation Mobility Tax ("MCTM Tax"). The Metropolitan Commuter Transportation Mobility Tax ("MCTM Tax") is a tax that was imposed beginning March 1, 2009 on certain employers engaged in business within the metropolitan commuter transportation district. The tax is 0.34% of the payroll expense for employees. This year the tax is budgeted at $55,400.

Actual expenditures for this line item for FY 2015 were on budget.

Temporary Staff. This budget line (0.19% of the total budget) has decreased about 18% from last year's budget. This line item includes funds for vacation coverage in targeted positions and for potential coverage that may be needed due to unanticipated turnover or employee leave. When possible the Corporation prefers to have other staff members fill in for coverage, thereby saving on the use of temporary staffing, however some specific positions need to be filled with temps during staff absences or when the absences are prolonged. This line also includes $20,000 for the summer intern program.

Actual expenditures for this line item came in under budget in FY 2015. The variance is due to less funds being used during the implementation of the new loan servicing system.

Contract Services

Auditing and Accounting. The figure of $218,000 represents a contracted amount for auditing services from Ernst & Young for the annual financial audit of the Corporation. There is a decrease of close to 13% this year for two reasons. First, the base audit fee for this year and next year is lower due to the new four year contract awarded to Ernst & Young through an RFP process this year. Additionally, last year's audit fee was higher due to an expansion in the scope required for the Single Audit of Expenditure of Federal Funds. Since the Corporation is participating in the Federal Community Development Block Grant – Disaster Relief ("CDBG-DR") Build It Back Multifamily Repair Program as a Sub-Recipient due to Superstorm Sandy, the auditors have an expanded scope of auditing work than in past years. Since last year was the initial audit of the CDBG-DR program, the audit fees were higher.

The FY 2015 actual expenditures came in slightly over budget for this line item due to a higher anticipated cost related to the CDBG-DR initial audit.

Legal Consultants. This line item provides funds for potential fees from outside counsels for the upcoming year. Those include Hawkins, Delafield and Wood, for general advice; Epstein, Becker & Green as employee benefits counsel; Seyfarth & Shaw for advice on the Corporation's TSA 403b Plan; and NYC Corporation Counsel for labor litigation.

The FY 2015 actual expenditures were lower than budgeted due to lower than anticipated funds needed for litigation matters and the 403b Plan.

Annual Report. This budget line, representing 0.17% of the budget, provides funds for the design of the annual report. This line also includes photographic services for the photos used in the annual report, as well as ribbon cutting events for HDC and HPD projects.

The FY 2015 actual expenditures were lower this year due to a continued cost cutting, "going green" effort in the Corporation. The annual report was not printed in hard copy once again this year, but was published on-line on the Corporation's website. Budgeted funds for FY 2016 reflect the same premise, including the on-line version of the annual report, and no hard copy printing costs, as well as photography services.

Other Consultants. This budget line, representing 1.83% of the budget, provides for any special studies or services which cannot be performed efficiently by the in-house staff, or are short-term in nature and better suited to outside consultants. The consulting budget line has decreased over last year's budget by approximately 23%. This is mainly due last year's budget including $250,000 in consulting services needed to perform a financial and market analysis that helped inform changes to The City's Inclusionary Housing Program, including analysis related to the viability of a proposed Mandatory Inclusionary Housing Program, and was approved by the Members in September 2014. The IT consulting line, included in this budget line, has increased $77,350 from last year's budget to assist HDC as it transitions over to a new loan servicing system. The IT consultants are expected to assist IT staff in creating reports out of the new system, as well as bridging reports between all of the Corporation's systems.

Similar to last year, this line also includes $34,000 for a Christo Rey High School student job-share employee, continuing an educational intern program that is providing clerical help to the HDC staff. This line also includes $2,800 for the yearly fee for our insurance consultant.

The actual expenditures for FY 2015 came in over budget due to the increase in hours and hourly pay of the IT consultants working on the reporting in the new loan servicing system.

Other Expenses

Rent and Utilities. This line, representing 7.2% of the budget, primarily reflects rental payments, including escalations, for the Corporation's space at 110 William Street. Base rent, operating costs and real estate taxes on the current space on the 9th and 10th floors totals $160,376 per month. During FY 2015 the Corporation also negotiated with the landlord to take the last 2,174 rentable square feet of vacant office space on the 9th floor. The Corporation intends to use this windowless space as a file room. The negotiations resulted in twelve months of free rent for FY 2016 as well as tenant improvement reimbursements from the landlord for $139,616. Funds, forecasted at $70,000, are also included in this budget line to cover estimated escalation costs, which are adjusted annually. The total amount requested also includes $105,130 for electricity for the year.

Additionally, $20,000 of the total amount requested for this budget line provides for rent payments and document retrieval costs related to off-site storage space. This is a decrease from last year's budgeted amount as the Corporation works on reducing its storage costs in the long run. A one-time destruction fee was paid to the storage facility in FY 2015, and is also anticipated for FY 2016. This stems from an effort to reduce the number of old boxes sitting in storage that can be destroyed in accordance with records retention laws. Staff, along with the Records Retention Officer, have visited the offsite storage facility a few times between 2013 and 2014, as well as last year and started going through boxes to determine what can be destroyed. To date the monthly storage fees have already been reduced by more than half due to the staff efforts. This effort will continue again this year so that offsite storage costs can continue to be reduced in the future, and the Corporation moves to electronic document storage with the upgrade to a new document imaging system (please see the Equipment and Maintenance section on the next page).

The actual expenditures for FY 2015 came in under budget for two reasons. First, last year's budget included funds in anticipation of the Corporation obtaining the additional office space on the 9th floor, but this did not occur until late in the year. In addition, HDC received a credit from the landlord for true-ups in the escalations paid under the previous landlord in 2013 and 2014.

Office Expenses. This line, which represents 1.07% of our total budget, provides funds for:

Office Supplies	$70,000
Printing	11,100
Postage	20,000
Office Repairs	25,000
Cleaning Services	46,000
Messenger Service	13,000
Telephone	34,000
Wireless Services	57,300
Working Meals	36,800
Petty Cash	3,000

Except for two budget lines, all line items have slightly declined or remained the same from last year's budget. Office repairs and office cleaning expenses have slightly increased form last year due to an aging office space and an anticipated increase of post cleanup services needed after office restroom renovations planned during the year. Office supplies, printing, postage, wireless services, working meals and petty cash line items have basically been held steady from last year's budget and to reflect actual expenditures from FY 2015. The messenger service and telephone line items have slightly decreased last year's budget to reflect actual expenditures from FY 2015. The Corporation performs a comprehensive review of office expenses each year and, as a result, continues to look for ways to reduce costs and decreases line items where it can.

The actual expenditures for FY 2015 came in under budget on every line listed above except office supplies. The office supplies line item came in over budget due to using excess funds in the total budget to purchase office supplies, mainly paper and paper based goods, in advance of price increases to such products next year. However, the total office expense budget line still came in under budget.

Equipment and Maintenance. The Corporation remains focused on productivity and technical enhancements for its employees to ensure they have the tools needed to accomplish their work and the Corporation has the capacity to effectively manage its complex financial balance sheet. With this in mind, the Equipment and Maintenance budget includes important investments in technologies that will continue to strengthen our information systems capabilities and efficiencies, as well as its resiliency, in years to come, for use by all HDC employees.

Overall, this item represents 6.94% of the budget, and has been increased from last year's budget for reasons explained below. The majority of this line item is related to IT equipment and maintenance, which amounts to $1,863,600 this year. There are two major areas within the IT budget line that make up this line and warrant further description which include the following: (1) new investments in technology; and (2) renewals of ongoing IT maintenance agreements.

This year HDC needs to make two critical investments in technology to continue to meet the demands of a growing corporation with an expanding portfolio, vast amounts of data that accompany the management of such a large portfolio, and the high demands of reporting on that data. The investments in the new technology are the main reason for the increase to the budget line this year.

The first technology investment is a critical upgrade to the Oracle financial system. Oracle E-Business Suite is the backbone of the Corporation's financial information systems. The books of the Corporation, including its financial statements and all records of transactions, are maintained within the Oracle system. The system also is used for accounts payable, accounts receivable and billing. Due to the end of the Windows 2003 operating system life cycle, on which the Oracle system is currently run, as well as the discontinuation of support from Microsoft, and finally, that HDC is using an older version of Oracle, it was determined by HDC's IT staff that the Oracle system needed to be upgraded to maintain business continuity and functionality. In the event of any catastrophic failure of hardware or software the Corporation would be left with little or no support from either Oracle or Microsoft.

IT staff took on the challenge of upgrading the Oracle system in-house to the current version but were unsuccessful because of failures in applying patches to the software throughout the years due to the customized billing module that made any upgrades very difficult. Due to the complexity of an upgrade, the Corporation has determined that an outside software company would be needed to work with IT staff to perform the upgrade. HDC staff met with companies during last fiscal year to begin the selection process. The company selected has previously worked with IT staff on one project and has worked with another city agency in the past.

This project involves upgrading the Oracle software to the most current version, maintaining all historical data so that it can still be used in reporting, and integrating tables with a new imaging system that will also be implemented during the year. HDC IT staff will be responsible for retrofitting all Oracle modules that are customized to HDC, and all interfaces to other HDC systems. During this project HDC will also migrate from a Windows operating system to a Linux operating system as part of the upgrade. The total cost of this project is expected to be capped at $900,000, with a possibility of it costing less. The budget for this year includes funds for $675,000 for the project. Due to the extra funds available at the end of last fiscal year the Corporation was able to use some of those funds to begin purchasing some of the hardware and software needed for Oracle upgrade project and straddle the total cost over two fiscal years.

The second technology investment is a major application that is run in the Corporation, the imaging software, or electronic document storage system, which needs to be updated. The current imaging software is custom designed, proprietary, and the newer version of it (produced by another company) is no longer adequate for the Corporation. In addition to the lack of a fit, the pricing was steep for the parts of the software that we could use. Therefore during the last fiscal year HDC staff met with different software companies to begin the selection process of a new imaging system. The software company selected has demonstrated an attractive combination of features, including workflows that could bring efficiencies to some departmental work processes, and except for some core components, are not proprietary. Total cost of the project should be between $400,000 and $450,000. Due to the extra funds available at the end of last fiscal year the Corporation was able to use some of those funds to begin purchasing some of the hardware and software needed to start the project and straddle the total cost over two fiscal years. The balance of total amount needed for this year is $206,000.

Last year, and continuing this year, the Corporation began the implementation of its new loan servicing system to replace its current mortgage billing system. It is expected that the system will be put into place in the beginning of calendar year 2016 once parallel testing with the current system is completed. The new software allows for extensive loan information, flexible loan servicing functions, delinquent loan monitoring and restructuring, loan and project tracking, multi-level loan accounting, and risk management, to name a few. The funds budgeted this year to complete this project, including the integration with other HDC systems, as well as reporting, is $30,000, although it is anticipated that not all of those funds will be needed.

A total of $131,000 has also been budgeted for the following improvements:

- Purchase of audit software that will allow the Internal Audit department to conduct data analysis in a more efficient manner during their audits rather than using Excel.

- Redesign of the IT department's Active Directory system to enable more granular security access within the IT area over the administration rights to the Corporation's systems.
- Upgrade and build out of the current Exchange mail server which enables the load on all of the servers to be more balanced.
- Upgrade of the VOIP equipment that will reach the end of its support during the year.
- Decommission of old Uninterruptible Power Supply ("UPS") backup batteries that have reached the end of their support life, and transfer their loads over to the main UPS.
- Upgrade of VMWARE cloud and virtualization environment to a newer version since the current version has also reached the end of its support life.

The last major IT area pertains to all renewals of current softwares and hardwares. The bulk of the costs, $705,600, relates to ongoing software licensing, maintenance agreements and equipment repairs on current management information systems and internet related services, including our disaster recovery services. An additional $116,000 has been provided to upgrade hardware such as PCs, printers, laptops, parts and accessories, blackberries, fax machines, right fax and network security to maintain efficiencies.

Over the years, the Corporation has systemically invested in its hardware and software. With the vast amount of data that accompanies the management of a growing portfolio (relating to debt outstanding, asset management and compliance, as well as all other activities), and the high demands of reporting on that data, the Corporation must continually improve its information technology systems. These investments enable the Corporation to report on that data, manage our processes, promote efficiencies, and strengthen our analytical abilities.

With respect to other services in this budget line item not related to IT, $177,500 has been budgeted for maintenance agreements on office equipment and copiers, user licenses on the Tradeweb software that allows our Cash Management department to manage the Corporation's investments, and lease payments for eight cars, as well as parking, gas and tolls for such cars. Finally, this line item includes $6,000 for portable HVACs in the server room and various computer utility rooms throughout the office to prevent overheating of the computer equipment.

FY 2015 expenditures were over budget for this line item. With an excess of funds available in last year's budget HDC was able to make payments towards the two new softwares mentioned above that will be completed during this year.

Insurance. This line item includes premiums on policies for Property, Liability, Errors & Omissions, Umbrella Liability, Crime and Automobile. This budget line item has decreased almost 17% from last year's budget due to the payment of a two year policy on its Crime policy during FY 2015 which also covers FY 2016. This is slightly offset with an increase to the auto coverage due to the addition of two cars to the fleet. Although the Corporation increased its umbrella policy coverage last year, and increased its auto insurance coverage with additional drivers and cars, HDC is able to successfully reduce the total impact of these increases by obtaining lower rates each year.

Books and Publications. This line item, representing only 0.18% of the total budget, ensures that the staff maintains updated resources and continues to stay current on industry trends. This line includes funds for S&P Ratings Direct subscription for our Credit Risk Department, as well as Lexis Nexis for the Legal Department. This budget line has slightly decreased from last year's budget to reflect FY 2015 actuals. Over the past few years the Corporation has, where practical, switched over to electronic subscriptions to save money, and some have also been discontinued in areas where the staff can efficiently share recent issues of publications across departments.

Transportation. This item, 0.11% of the budget, covers travel to site visits and project inspections, as well as in-town conferences and seminars. This line item has decreased 21.5% from last year's budget mainly due to the anticipation of staff reducing the use of their personal automobiles with the increase of the two additional cars to the office fleet. The availability of additional cars should help the staff with the increase in site visits and project inspections due to the expanding portfolio. The Corporation does its best to mitigate the cost of transportation associated with a rapidly growing portfolio by scheduling inspections and site visits in close proximity to one another to save on transportation costs as staff attempts to be as efficient as possible.

Training and Conferences. This line, representing 0.88% of the total budget, provides funds for continued staff training and costs associated with the National Association of Local Housing Finance Agencies ("NALHFA") and National Council of State Housing Agencies ("NCSHA") conferences, as well as other conferences and seminars. Also included in this line item is $20,000 for legislative travel to Washington D.C. for the President, Executive Vice Presidents, and other specific staff members. The positive returns of participating in a coalition with other agencies with a similar regulatory and legislative agenda, just within the past few years, such as bond recycling, the Federal bond purchase program, the tax credit assistance program, and HDC's selection as the pilot agency for the Federal Financing Board ("FFB") initiative have far out-weighed the cost in travel expenses. In light of potential tax reforms to be considered by Congress, HDC senior staff will continue to pay particular attention to legislative matters in Washington.

This line also includes $130,700 for the Employee Development Program to assist the staff in their professional growth. This includes funds for tuition reimbursements and professional credit requirements, as well as funds for employee and technical skills development through classes both on- and off-site. This line has been held steady from last year's budget to allow for more specific on-site departmental wide training in financial statement analysis and tax credit training, as well as corporate wide training in broad areas such as communications, management and leadership, and EEO, just to name a few. It has been a few years since corporate-wide training has been conducted in some subjects and senior staff believe that time must be put aside from busy schedules to conduct training. HDC's external auditors have highly recommended further investment in staff development through continuing professional education.

FY 2015 expenditures were under budget due to savings in employee development, and conference and seminar spending.

Memberships. This number (0.27% of budget) provides funds for annual membership fees for NCSHA at $47,000, NALHFA at $4,000, NYSAFAH at $700, National Leased Housing Association at $1,200, the National Low Income Housing Coalition at $1,000, the Citizens Housing and Planning Council at $5,000, the New York Housing Conference at $4,100, and various other organizations to assist the staff in their professional growth, and maintain HDC's position in the policy discussions surrounding affordable housing.

FY 2015 expenditures were slightly under budget.

Employment Agency Fees/Ads. This line has held the same as last year's budget. This line provides funds needed to fill positions through newspaper, trade journal and internet advertising.

Furniture. This line provides funds for furniture that will be needed to furnish the office space on the 9th and 10th floors. This includes furniture for cubicles, as well as filing cabinets, bookcases and chairs. This line also provides funds for some smaller miscellaneous furniture throughout the entire office space. This line item has increased from last year's budget to allow for the purchase of large filing cabinets to be used in the new file room on the 9th floor.

Leasehold Improvements. This budget line, representing 0.51% of the budget, provides funds for two specific projects. The first project involves renovations of the restrooms on the 10th floor which have never been renovated, and are breaking down with age. The plan is to update the plumbing and replace all toilets, bathroom stalls, and sinks in the men's, women's and handicapped restrooms. The renovations will also include retiling of the walls and floors, and new lighting. This project was postponed from last year. The second project involves updating the lighting throughout the original office space on both floors, including offices, conference rooms, and general common work areas. Some light fixtures were replaced in 1999 when the Corporation moved into the office space and it is anticipated that those fixtures will remain, however they will be updated to hold LED bulbs which are more energy efficient. For other light fixtures that were not replaced at all in 1999, it is anticipated that those fixtures will be replaced with new LED fixtures. The balance of funds left in this budget line is to provide the final payment to contractors for the renovations made to the new file room on the 9th floor.

When the Corporation renegotiated and extended its lease in June 2011, one of the many other advantages other than lower rent on the existing original space included the landlord agreeing to reimburse the Corporation for up to $327,990 for renovations on the original space. With the renovations to the kitchenettes last year, as well as planned renovations to the restrooms and lighting this year, the Corporation will begin to seek reimbursement from the landlord during this year and again next year for some smaller planned renovations in 2017. Additionally, when the Corporation negotiated the new office space on the 9th floor for the file room the landlord agreed to tenant improvement costs of up to $139,616 for renovations made to the space. This year's budget reflects those reimbursements from the landlord, and is the main reason that the budget line has decreased this year.

FY 2015 actual expenditures came in over budget. With an excess of funds available in last year's budget HDC was able to make additional payments to the general contractor and architect for the new 9th floor file room.

Interagency Expenses. The New York City Department of Investigation ("DOI") has agreed to provide investigative services for the Corporation pursuant to a Memorandum of Understanding. This line provides funds for the anticipated cost of those services which are billed annually.

Marketing. This budget line provides funds for the printing of brochures, site signs and banners, and miscellaneous marketing costs associated with public events. These site signs and banners are used to promote the Corporation and its mission of providing affordable housing as part of the Plan.

The FY 2015 actual expenditures came in under budget last year due to the postponement of purchasing site signs and banners until this fiscal year.

Corporate Events. This year's request (0.20% of budget) has been increased by $4,000 from last year's budget. This budget line includes $10,000 in funds to accommodate some ancillary expenses for our collaborative work with HPD. Some of these expenses include orientation costs for HPD/HDC Fellows, training, attendance at housing functions, and other staff appreciation events. This line is used to fund HDC sponsored events such as the annual holiday party and the annual summer outing. Additionally, a total of $22,000 is budgeted for other items such as bus tours to project sites, staff attendance at housing related events, flu shots, Take Our Daughters and Sons to Work day, the Corporation's softball team, and flowers and donations in connection with employee hospitalizations and bereavements.

The FY 2015 actual expenditures came in slightly under budget.

Bank and Other Service Charges. This budget line item provides funds for payroll charges incurred from ADP, as well as the potential for some electronic banking products that work with the Corporation's current systems, and potentially the new loan servicing system, and could help to increase efficiencies.

FY 2015 expenditures were under budget as the expenses budgeted for electronic banking products were postponed into this year's budget.

Appendix A Schedules

New York City Housing Development Corporation
Requested Budget Summary
Fiscal Year 2015/2016

	Adopted Budget FY 2015	Projected Actual FY 2015	Variance FY 2015	Requested Budget FY 2016
REVENUES				
Fees	$ 38,058,500	$ 52,533,657	$ 14,475,157	$ 43,178,250
Investment and Loan Income	60,900,000	63,290,071	2,390,071	62,900,000
TOTAL REVENUES	**$ 98,958,500**	**$ 115,823,728**	**$ 16,865,228**	**$ 106,078,250**
EXPENSES				
Salaries and Related Expenses	$ 22,421,700	$ 22,633,707	$ (212,007)	$ 22,894,100
Contract Services	1,062,200	1,053,680	8,520	868,550
Other Expenses	5,778,100	5,557,846	220,254	5,718,350
TOTAL EXPENSES	**$ 29,262,000**	**$ 29,245,233**	**$ 16,767**	**$ 29,481,000**
EXCESS OF REVENUES OVER EXPENSES	**$ 69,696,500**	**$ 86,578,495**	**$ 16,881,995**	**$ 76,597,250**

New York City Housing Development Corporation
Revenue Budget Summary
Fiscal Year 2015/2016

Revenues **Fee Income**	**Adopted Budget FY 2015**	**Projected Actual FY 2015**	**Variance FY 2015**	**Requested Budget FY 2016**
Servicing Fees				
HDC Financed Mortgage Loans	$ 20,000,000	$ 24,747,900	$ 4,747,900	$ 22,000,000
Tax Credit Monitoring Fees	1,780,000	1,850,074	70,074	1,930,000
HPD Financed Loans	4,100,000	4,639,245	539,245	4,300,000
Sub-total Servicing Fees	25,880,000	31,237,219	5,357,219	28,230,000
Other Fees				
Credit Enhancement Fees	1,687,500	1,695,719	8,219	1,433,250
Loan Originations & Refinancings	9,000,000	18,365,822	9,365,822	12,500,000
REMIC Administration Fee	491,000	491,000	0	515,000
CDBG-DR Funds	1,000,000	743,897	(256,103)	500,000
Sub-total Other Fees	12,178,500	21,296,438	9,117,938	14,948,250
Total Fees	**$ 38,058,500**	**$ 52,533,657**	**$ 14,475,157**	**$ 43,178,250**
Investment and Loan Income				
Investment of Corporate Reserves	$ 7,500,000	$ 9,135,564	$ 1,635,564	$ 8,500,000
Corporate Owned Mortgages	5,400,000	4,857,215	(542,785)	5,400,000
Open Resolution Surplus, net of expenses	48,000,000	49,297,292	1,297,292	49,000,000
Total Investment and Loan Income	**$ 60,900,000**	**$ 63,290,071**	**$ 2,390,071**	**$ 62,900,000**
TOTAL REVENUES	**$ 98,958,500**	**$ 115,823,728**	**$ 16,865,228**	**$ 106,078,250**

New York City Housing Development Corporation
Expense Budget Summary
Fiscal Year 2015/2016

	Adopted Budget FY 2015	Actual FY 2015	Variance FY 2015	Requested Budget FY 2016
SALARIES & RELATED EXPENSES				
WAGES	15,590,200	15,189,546	400,654	16,271,700
FRINGE BENEFITS	5,369,500	5,072,046	297,454	5,505,000
NYCERS	1,342,000	2,289,887	(947,887)	1,007,000
MCTM TAX	53,000	51,483	1,517	55,400
TEMPORARY STAFF	67,000	30,744	36,256	55,000
SUBTOTAL	22,421,700	22,633,707	(212,007)	22,894,100
CONTRACT SERVICES				
AUDITING & ACCOUNTING	250,000	255,000	(5,000)	218,000
LEGAL CONSULTANTS	60,000	31,828	28,172	60,000
ANNUAL REPORT	50,000	42,663	7,338	50,000
OTHER CONSULTANTS	702,200	724,190	(21,990)	540,550
SUBTOTAL	1,062,200	1,053,680	8,520	868,550
OTHER EXPENSES				
RENT & UTILITIES	2,578,000	2,202,631	375,369	2,120,000
OFFICE EXPENSES	314,800	272,803	41,997	316,200
EQUIPMENT & MAINTENANCE	1,607,700	1,931,256	(323,556)	2,047,100
INSURANCE	60,000	58,293	1,707	50,000
BOOKS & PUBLICATIONS	53,600	55,325	(1,725)	52,850
TRANSPORTATION	41,000	20,037	20,963	32,200
TRAINING & CONFERENCE	248,000	146,996	101,004	259,000
MEMBERSHIPS	80,000	67,499	12,501	80,000
EMPLOYMENT AGENCY FEES/ADS	15,000	2,008	12,992	15,000
FURNITURE	30,000	15,982	14,018	90,000
LEASEHOLD IMPROVEMENTS	250,000	308,592	(58,592)	150,000
INTERAGENCY EXPENSES	400,000	400,000	-	400,000
MARKETING	11,500	2,350	9,150	11,500
CORPORATE EVENTS	53,500	49,372	4,128	57,500
BANK & OTHER SERVICE FEES	35,000	24,703	10,297	37,000
SUBTOTAL	5,778,100	5,557,846	220,254	5,718,350
TOTAL OPERATING EXPENSES	29,262,000	29,245,233	16,767	29,481,000

"MCTM Tax" = Metropolitan Commuter Transportation Mobility Tax