NYC HDC
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

To: The Chairperson and Members

From: Eric Enderlin
President

Subject: Proposed FY 2023 Operating Budget

Date: November 22, 2022

---

I am pleased to present the Corporation's proposed operating budget for Fiscal Year 2023 ("FY 2023") for the Members approval. The attached budget contains a summary of revenues and expenditures for the Corporation's general operating fund, Corporate Services. Amid serious economic uncertainties stemming from high inflation and geopolitical realities far outside of our control, this operating budget demonstrates HDC's responsible and strategic fiscal planning. By containing administrative costs through operational innovations and efficient managerial controls, HDC will maintain its flexibility as we reach our goals of increased productivity.

This memorandum, which accompanies the proposed operating budget schedules and notes in Appendix A, provides a complete discussion of the variance from the FY 2022 budget to the projected actuals as well as the Corporation's FY 2023 expected fee and investment income and anticipated line-item expenses. Detailed explanations for each revenue and expense budget line are provided in the budget notes. Some budget lines are still affected as we continue to emerge from the pandemic and its economic impacts, and notations have been made in those sections of the budget notes.

**<u>Summary of FY 2022 Budget Results and FY 2023 Proposed Budget (attached schedules in Appendix A)</u>**

The Corporation ended FY 2022 with an excess of revenues over expenses, on a cash basis, of $116.29 million, an increase of $11.74 million over the budgeted amount of $104.55 million. This increase was mainly due to higher-than-expected servicing fees. Earnings on investments also show a significant increase from FY 2021 due to rising interest rates. This also resulted in better-than-expected performance in the Multifamily Housing Revenue Bonds program ("Open Resolution") surplus.

The Open Resolution surplus is the Corporation's most significant revenue source, and despite the uncertainties in the economy, mortgage repayments have remained strong. The Open Resolution is still expected to generate similar amounts of cash as it did in FY 2022 due to the over-collateralization of mortgages over bonds, despite rising interest rates on variable rate debt.

As indicated on the chart below, staff projects total cash revenues to be $151.92 million for FY 2023, an increase of 4.81% from the approved FY 2022 budget of $144.95 million and a decrease of 3.04% from the 2022 actual. At the same time, operating expenses are budgeted to increase to $45.86 million, an increase of 13.51% from the FY 2022 budget, a variance to be explained later in this memo.

An excess of revenue over expenses of $106.06 million is budgeted for FY 2023. The chart below 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 2022** | **Actual FY 2022** | **Variance FY 2022** | **Proposed Budget FY 2023** |
|---|---|---|---|---|
| | | | | |
| **Operating Revenues:** | | | | |
| Investment and Loan Income | 79,560,000 | 86,412,013 | 6,852,013 | 86,067,000 |
| Servicing Fees | 41,133,000 | 46,038,691 | 4,905,691 | 41,845,000 |
| Loan and Other Fees | 24,255,000 | 24,238,633 | (16,367) | 24,009,000 |
| **Total Revenues** | **144,948,000** | **156,689,337** | **11,741,337** | **151,921,000** |
| | | | | |
| **Operating Expenses:** | | | | |
| Salaries and Related | 30,327,000 | 30,475,886 | (148,886) | 33,993,000 |
| Contract Services | 1,430,800 | 1,213,244 | 217,556 | 1,517,300 |
| Other Expenses | 8,642,200 | 8,707,499 | (65,299) | 10,349,700 |
| **Total Expenses** | **40,400,000** | **40,396,629** | **3,371** | **45,860,000** |
| | | | | |
| **Excess of Revenues Over Expenses** | **$104,548,000** | **$116,292,708** | **$11,744,708** | **$106,061,000** |

## FY 2022 Unaudited Budget Results

*Operating Revenues*

The Corporation's FY 2022 budget projected revenues of $144.95 million, and HDC realized revenues of $156.69 million, a variance of $11.74 million or 8.1%. This result was attributable to three main positive variances:

- Servicing fees on HDC loans were $4.85 million higher than budgeted due to an increase in the number of loans in the pipeline that converted to permanent and an increase in other HDC servicing fees received during the year.
- The Open Resolution surplus was $3.38 million greater than anticipated because of the over-collateralization of mortgages over bonds, as well as increased spread between underlying mortgage rates.
- Investment income of corporate reserves was $2.56 million higher than budgeted due to an increase in short term interest rates throughout the year as the Federal Reserve continues to increase rates as a means of combating inflation.

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 2022 operating expense budget was $40.4 million. Actual FY 2022 expenses were $40.4 million, a variance of $3,371 or 0.01%. This result was attributable to the following variances.

Five major positive variances:

- Wages – $982,568. This line item was under budget mainly due to vacancies during the year.
- Fringe Benefits – $472,625. This line was under budget due to staff vacancies and lower than anticipated funds needed for health insurance. Deferred compensation, dental and unemployment insurances were also lower than anticipated.
- Other Consultants – $287,852. This line item was under budget mainly due to various consulting contracts being delayed or taking slightly longer than anticipated.
- Training and Conferences – $184,868. This line item was under budget mainly due to a slower than anticipated return to in person group trainings for employee development and conferences, and reduction in travel after the pandemic.
- Office Expenses – $128,386. This line item was under budget mainly due to the surplus of supplies not used during the pandemic and the slow return to normalcy.

Offsetting these positive variances were two major negative variances:

- NYCERS – $1,700,780. This line item was over budget. Due to an excess of funds in the 2022 budget, the Corporation paid a portion of its FY 2023 NYCERS estimated appropriation to cover staff's participation in the New York City Employees Retirement System ("NYCERS").
- Rent & Utilities – $374,367. This line item was over budget due to a down payment deposit required for the new office space.

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

## FY 2023 Proposed Budget

Despite the current national economic downturn which has led to soaring inflation and rising interest rates the Corporation remains cautiously optimistic about its 2023 financial outlook. The Corporation's mortgage portfolio continues to perform well, with loan repayments remaining high and the delinquency rate remaining low. Nevertheless, HDC's Asset Management team remains vigilant in monitoring potential problem projects and offering workouts and refinancing opportunities to enable mortgagors experiencing financial difficulties to remain current on their payments. The proposed FY 2023 development pipeline is robust, with great interest in and utilization of HDC's programs. Throughout its history, HDC has had strong financial performances even during turbulent times. It has come out strong despite long stretches of low interest rate environments, the fiscal crisis in 2008 and 2009, and federal uncertainties. Although we cannot predict the effect this latest economic crisis will have on the local or global economy, there is still an expectation of continued solid financial performance for the Corporation.

Notwithstanding the upheaval in the post-pandemic financial landscape, the Corporation has been weathering the storm relatively well this past year. During fiscal year 2022 the Corporation issued $1.92 billion in bonds and debt obligations to finance a total of 32 developments in a combination of new construction and preservation loans. Additionally, $127 million of corporate money was committed for subsidy loans. Along with the bond financings HDC's total assets and net assets for fiscal year end are expected to be $25 billion and $3.69 billion, respectively.

Additionally, the Corporation's work with our partner agencies continues. HDC continues to work as the key financing partner under the *NYCHA 2.0 Permanent Affordability Commitment Together* ("PACT") program, a ten-year plan to rehabilitate and preserve 62,000 units of the New York City Housing Authority ("NYCHA") portfolio. In January 2020, HDC launched the Housing Impact Bond Resolution, which was created exclusively to finance loans specifically for the benefit of New York City's public housing stock. To date, HDC has contributed $1.06 billion in financing, supporting repairs and upgrades at 33 NYCHA campuses comprising 10,252 homes under the PACT program. In addition to assembling the financing, HDC joins NYCHA in providing ongoing asset management for PACT transactions as well.

The Corporation also continues its longstanding partnership work the New York City Department of Housing Preservation and Development ("HPD") including bringing additional debt and properties into the portfolio, increased loan servicing, and working on streamlining procedures and processes to enable applicants and shelter residents to move into their new homes more expediently. There has also been an increase in underwriting for workouts, which is no easy task during this period of rising expenses and interest rates.

These great partnerships and concerted efforts by the agencies to revitalize neighborhoods and increase the supply of affordable housing also comes with increased workloads on staff and other costs. While HDC continues to flourish, we are paying close attention to cost management. The Corporation over the years has strategically implemented small increases in headcount as a result of targeted hiring to reinforce core functions and increased technological efficiencies. Attrition of staff has also contributed to smaller increases in headcount over the past few years. However, this year, like last year, we need to once again right size the staff for not only the current work but also to prepare for the anticipated workload in the near future. It is critical that the Corporation is fortified to perform at the high standards and professionalism that bestows HDC's reputation and warrants its AA credit rating. It is also the right time to build on the future of the Corporation as we continue to prepare for succession planning. This year's budget will include new hire requests sprinkled throughout the departments to maintain an efficient and productive work force and work product.

Along with the Corporation's long-term plan to invest in its employees and technology, there needs to be an investment in its physical space. The Corporation's office space lease at its current location expired on November 18th, 2022, and after an extensive search of the best opportunities available in the financial district area, HDC was able to take advantage of a down real estate market and executed a lease at the historic Equitable Building located at 120 Broadway in July 2022. The Corporation is very proud to remain in the Financial District area, which we have called home for more than fifty years. HDC is dedicated to ensuring the success of New York City's communities and is proud that the new office space will allow us to be a continued part of the revitalization of one of the city's most vibrant business districts. The new space will allow HDC to accommodate the needs of a growing staff. This year's budget carries certain one-time expenditures to prepare for the new office space, which has led to a larger than normal increase to the budget. If not for these increased budget lines related to the new office space, the FY 2023 expense budget would have increased only 3.18%. As these are one-time budget expenditures, we are anticipating that next year's operating budget will see an overall decrease and a return to routine operating budget activity. With the expected decrease in FY 2024, and taking into account the small increases to the annual budgets prior to preparing for the new office space, the five-year average annual budget increase is about 5.7% from FY 2020 thru FY 2024.

The Corporation is curtailing costs where possible, balancing expenses while maintaining efficiencies, keeping pace with the continuously expanding portfolio its staff is required to oversee, and seeking to maximize its contributions to the City's housing effort. The budget proposed by senior management for FY 2023 reflects our balanced and measured response to this challenge, along with a conservative expectation of income, all while operating under these challenging economic times.

*Operating Revenues*

The Corporation's revenues are budgeted at $151.92 million in FY 2023. This is a $6.97 million increase from the FY 2022 adopted budget and a $4.77 million decrease from the FY 2022 actual budget. The attached schedule shows revenue projections by line item for FY 2023.

The budget to budget increase is largely attributable to an increase in investment income as the staff expects interest rates to continue to rise as the Federal Reserve attempts to stabilize the economy and cool down inflation.

Each revenue source is discussed in detail in Appendix A.

*Operating Expenses*

The Corporation's expenses are budgeted at $45.86 million in FY 2023. This is a $5.46 million or 13.51% increase from the FY 2022 adopted budget. The attached schedule shows expense projections by line item for FY 2023. The increase from the FY 2022 budgeted amounts revolves around certain budget lines decreasing or increasing from last year but the overall projected increase as explained above is due to the growth in work, growth in staff and the execution of the new office lease.

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

**Action by the Members**

The Members are requested to approve the Corporation's FY 2023 Operating Budget.

## Appendix A

## FY 2023 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 2022 results and FY 2023 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. 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 $151.92 million in FY 2023. Each revenue source is discussed below.

### Investment and Loan Income

Investment of Corporate Reserves and Other Funds. The Corporation currently has $5.2 billion of cash and investments under management at fiscal year-end, but HDC retains the earnings on only a portion of those funds. Earnings on bond proceeds, monies of 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 its 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 2022, the Corporation realized $18.3 million on investments of corporate reserves and other funds, which was over budget due to the rising interest rate environment despite a $700 million decrease in funds under management. There were less funds under management due to an increase in mortgage advances in the loan portfolio throughout the fiscal year. In FY 2022, the average rate of return on the corporate reserve investments was 1.6% compared to a return of 1.2% in FY 2021. Although some corporate reserve funds are invested in long term securities that are intended to be held to maturity, some corporate reserves are invested in demand deposit accounts, currently earning higher interest income. Due to the liquidity needs of the Corporation more than 40% of the total funds under management are invested in demand deposits whose weighted average rate of return was 2.13% in FY 2022 compared to just 0.33% in FY 2021.

Staff forecasts investment earnings in FY 2023 to be $21.0 million, a significant increase from the 2022 budget, but more aligned to 2022 actual income due to higher interest rates. The Corporation's Investment Committee has sought to prudently maximize the rates of return on investments in the current markets, and expects more rate increases by the Federal Reserve during FY 2023. Although, the Corporation projects to make higher investment income, it is also expected to pay higher interest costs on its floating rate debt that may reduce the income difference or spread. In the near term most of the Corporation's spread income on bond deals closed over the last several years are locked in for a period of time and will continue to be a source of income for the Corporation irrespective of interest rates in the next year.

<u>Corporate-Owned Mortgage Interest.</u> The Corporation has used over $3.5 billion total of corporate reserves to make subsidy loans since 2003 and the Corporation currently has a $296 million portfolio of loans as corporate owned mortgages. This lower amount is due to securitizations that have yielded around $1.09 billion in proceeds and $1.58 billion of loans have been transferred into the Open Resolution and Federal Financing Bank ("FFB") program. The loans have varying repayment terms, often with deferred amortization or balloon mortgages, and most are at very low interest rates. Interest payments on the corporate-owned loans totaled $3.51 million in FY 2022, an increase from the budgeted amount. Current portfolio loan schedules indicate $3.1 million interest revenue in FY 2023, an increase from the FY 2022 budget. The Corporation's short-term funding on senior mortgages, which bridges the gap between loan conversation and the FFB loan participation closings, are funded from corporate reserves. The senior mortgage loan rates are usually at a higher rate than the subsidy loans funded from corporate reserves thereby resulting in increased loan income.

<u>Open Resolution Surplus</u>. The Corporation's highly rated Open Resolution is the mainstay of its 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 in-house by the Corporation's staff using cfX software. A full cash flow demonstrating capacity to pay scheduled debt service is prepared each time the Corporation issues bonds under the Open Resolution.

The Open Resolution cash surplus is generated by (a) the spread between mortgage rates that HDC charges its borrowers and bond rates paid to HDC's investors, 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.

Based on the cash flow model, and adjusted upward as discussed above, $61.97 million of Open Resolution surplus is included in the FY 2023 budget. This is due to the Corporation's ongoing financing activities in the Open Resolution, as well as expected higher investment income. Interest rate caps and swaps, approved by the Members, in addition to the Corporation's large short-term investment portfolio, are hedges should interest rates rise greatly. The higher rates on the variable rate debt will be offset by payments received from the interest rate swap counter parties creating additional cash surplus in the Resolution. The FY 2022 cash surplus withdrawal from the Open Resolution was $64.64 million, a $3.38 million increase from the budgeted amount of $61.26 million due to the surplus from the Federal Financing Bank mortgage loan participation program and with an additional loan added to the pool.

**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 0.11% to 0.25%. 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 2022 budget of $34 million to about $34.7 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. As part of its ongoing financing of the NYCHA PACT program, the Corporation collects servicing fees immediately upon closing on the loans that are fully funded. Servicing fees projected for the PACT portfolio are estimated to be $2 million in FY 2023. Additionally, this budget line includes income from servicing fees associated with the Corporation's Preservation Lending Program, mortgage satisfaction fees, and regulatory and compliance monitoring fees.

The FY 2022 actual collection of HDC servicing fees was $38.8 million, including $1.8 million from the PACT loans financed to date. The FY 2022 total was $4.8 million over the budgeted amount and was due to more loans converting to permanent than anticipated, as well as an increase in HDC standby letter of credit fees, mortgage satisfaction and refinancing fees.

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. Fees are collected during the 15-year compliance period. Currently, the Corporation is collecting fees for 357 HDC financed developments, containing 64,700 units as of FY 2022. In total, including developments in their Extended Use period, HDC is responsible for tax credit monitoring for 475 developments containing approximately 70,900 units as of FY 2022.

The FY 2022 actual collection of tax credit monitoring fees came in on budget. The FY 2023 budgeted amount is based on projections related to the FY 2022 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 transmitted to HDC to be administered. Fee income is also affected by the overall level of interest rates. The FY 2023 budgeted amount of $3.81 million is slightly lower than the FY 2022 budgeted amount due to a decrease in the collection of fees on the permanent loans.

The FY 2022 actual collection of HPD servicing fees was $4.01 million, which was $54,536 over the budgeted amount due to an increase of investment earnings on the unadvanced funds held for construction loan advances allowing for the collection of servicing fees previously accrued on the construction loans.

**Other Fees**

Credit Enhancement Fee. In 2018 the Corporation issued its Multi-Family Housing Revenue Bonds, 2018 Series B-1 and 2018 Series B-2, 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 corporate funds set-aside, currently $10.7 million. To compensate for this pledge, as well as its general enhancement of the 2018 Series B bonds, HDC earns a fee of 1.25% of the outstanding bonds. For FY 2023, the Corporation is projecting to collect $650,000 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 2022, total fees collected in this category were $21.0 million which was $78,632 more than budgeted due to an increase in bond financing fees collected to cover debt issuance costs. The increase in bond financing fees was offset by a decrease in loan origination fees which is recorded net of fees collected on the PACT portfolio. The proposed budget amount is $21.0 million to reflect the anticipated pipeline for the Housing Plan for FY 2023, 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 2023 is $679,000. 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. The Corporation projected that the expenditures related to staff time and such for FY 2022 to be $60,000. Actual costs for reimbursement totaled $98,284 for FY 2022, the difference being related to the timing of invoices for reimbursement with HPD. As this resiliency work is winding down, the Corporation is budgeting $30,000 for FY 2023.

NYCHA PACT Administration Fee. HDC is using its lending strength, capital markets capacity and staff to assist NYCHA to help preserve and finance the rehabilitation of housing developments in the NYCHA portfolio to provide safe, decent, and affordable housing to New Yorkers. Debt issuance through HDC finances extensive capital improvements which are essential to preserve, modernize and improve the developments and to ensure their viability for current and future generations of NYCHA residents while also still protecting such tenants' rights. As a result of this initiative, HDC created a Public Housing Finance unit within its Development department to develop and lead this undertaking. In addition to this unit, HDC has also dedicated current staff throughout the Corporation to arrange financing, asset manage, and ensure compliance.

The Corporation is paid a fee related to this work. The fee is comprised of the direct cost of HDC staff's salary and fringe allocated to their work on the transactions related to the NYCHA financing portfolio, plus a percentage of operating expenses based on headcount (similar to the REMIC fee discussed above). The Corporation generates fee revenue from originating loans, loan servicing and credit enhancement fees as well as spread raised in the bond resolution. The Corporation will use the related portion of this revenue to pay the administration fee to HDC. Corporation revenues related to the lending program in excess of the related fee are expected to stay with the Corporation in a reserve to support the NYCHA lending program and may be used for future lending or related credit enhancement. The actual administration fees collected in FY 2022 were almost $1.65 million and are forecasted to be similar in FY 2023.

## Details of Operating Expenses

The Corporation's expenses are budgeted at $45.86 million in FY 2023. Each expense line item is discussed 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 many years past, HDC has maintained a steady headcount based on attrition and increased efficiencies in technology, which has been reflected in its financial results. The Corporation over the years has strategically had small increases in headcount as a result of a pattern of targeted hiring to reinforce core functions and to increase efficiencies. However, as we started to see last year, and continues again this year, there has been an increased demand placed upon many departments throughout the Corporation. Due to our success, as well as planning for future demands on our staff and succession planning for the organization, an increased headcount is necessary. As mentioned earlier the increased workload is related to the Housing Plan, the NYCHA PACT Program, and additional properties in the portfolio, just to name a few.

Wages. This budget line provides for 228 staff positions, including the eight staff participating in the new Housing and Planning Fellowship program, an expansion of the long established HPD/HDC Fellowship Program. The headcount for this year's operating budget includes an increase of ten positions. This increase continues a pattern of targeted hiring to meet the increased workload, reinforce core functions and to increase efficiencies. The Corporation regularly evaluates staff hires throughout the year as some staff members leave or retire. The assessments over the years have sometimes resulted in instances where the replacement of that same position wasn't immediately necessary due to the increased technological efficiencies. There are other instances, including this year, where an open position in one department was reallocated to another department based on need, mostly relating to the increase in the size of the loan portfolio and the demands of reporting on that portfolio. However, this year's budget addresses the continuing need to right size the staff for the demands placed on it during the past few years.

The budgeted hires include five positions in the Asset Management department, two positions in the Policy & Analytics department, and one each in the Development, Human Resources and Office Services departments. All of these new hires will be additions to existing staff positions to support the increased workload. Asset Management is the Corporation's largest department and, as such, has been hit exponentially harder than other departments with the increased workload from an expanded portfolio. There are increased inspections and monitoring of the NYCHA PACT portfolio, the construction and preservation portfolio, the city loan portfolio, the aging Mitchell-Lama portfolio and the addition of Low Income Housing Tax Credit ("LIHTC") unit inspections. There has also been an increase in underwriting for workouts which is no easy task during this period of high interest rates.

The two new hires requested for the Policy & Analytics department are needed to plan and execute the Corporation's Data Governance Initiative. HDC has a series of different data platforms aligned with specific lines of our business. The different and separate platforms are not integrated and some of those platforms have overlapping data. There are opportunity costs associated with maintaining the status quo. Some of these include staff time dedicated to legacy processes and reacting to data quality issues caused by the overlapping data; staff time spent on cleaning and validating manual processes; and staff time spent on cobbling together reports in an inefficient manner. All of which is staff time that could otherwise spent on value-add analysis. Data governance will improve data quality leading to greater confidence in data use, more efficient use of staff time, and improved productivity. The processes and standards that will arise from data governance will take a holistic view of the Corporation, which can allow for synergistic use of data across departments. Establishing a formal foundational layer of data management positions

HDC to adopt emerging technology to optimize processes, increase efficiency, support flexibility, and accelerate growth.

The budgeted hire in the Development department is needed to lead the Corporation's Public Housing initiatives, finance, and portfolio repositioning related to PACT and the Trust. This position will also serve as HDC's relationship manager with lending partners including the GSEs and HUD. The budgeted hire in the Human Resources department is related to talent acquisition. This position is needed to help the Corporation strategically and proactively source candidates to address recruitment needs, as well as build and maintain a quality talent pipeline for current and future workforce needs. And finally, the Office Services position is needed to help support a growing corporate staff and increased office space, and also to ensure efficient operations and facility management throughout the office footprint.

Similar to last year, the proposed budget does not include any specific line amount for staff raises. However, with excess funds available on the salary line in FY 2022 due to vacancies, increases were given to HDC staff who performed exceptionally well and/or who needed to be compensated for pay parity to recent new hires. These increases, albeit contributing to the increase to the budget line this year, were important to retain highly performing staff. During this past year there was also an expansion of HDC's executive staff, once again to right size the organization due to growth as well as for succession planning.

This year there is a small amount of money available for discretionary promotions, and possibly some merit increases, including senior staff, subject to approval from the HDC Governance Committee. In trying to find a balance between maintaining a high level of performance for a dedicated, highly skilled staff versus the challenge of fiscal responsibility 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 prudent and necessary.

Actual wage expenses came in under budget for FY 2022 due to staff vacancies during the year.

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 2023 although the Corporation has made other efforts to reduce costs in the areas that it can control.

The fringe benefit line shows an increase of 13.65% over last year's budget. The increase is related to a few factors the first of which is attributable to an increase in staff headcount expected for this year. The second reason relates to an increase in budgeted FICA payroll taxes to match actual cost from last year plus the expectation of additional costs related to an increase in staff headcount and participation. And lastly, the increase is attributable to expected increases in premiums for most of the insurance benefits. The Corporation participates in the New York State Health Insurance Plan

("NYSHIP") and therefore benefits from the group rates and, although much less costly than other health insurance plans, there is a potential increase of 8% to 9% this year. Last year there was an expectation of an increase of between 6% and 8% and the increase actually averaged about 10%. This budget line also includes assumed increases of between 7% and 8% to dental, vision, disability and life insurances, after the past fiscal year in which there were no increases to those premiums.

Every year the Corporation's senior managers diligently monitor its fringe benefit budget and look to reduce costs where possible, including obtaining bids from different insurance carriers through a broker. The Corporation will continue to look for ways to contain costs related to fringe benefits in the upcoming year and beyond.

Although staff did its best to estimate the areas of increases for 2023 stated above, the actual costs of these line items, as well as the NYCERS appropriation amount described next in this memo, could possibly be higher than budgeted.

Actual expenditures for this line item, in total, were under budget in FY 2022 due to savings in all the detailed line items due to vacancies, especially in health and dental insurance, and TSA expenses. These savings were slightly offset by the FICA costs that were over budget due to an increase in new hires joining the Social Security program. Additionally, there were lower than expected increases to most insurance premiums at the beginning of the calendar year.

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 paying a large portion of its 2023 NYCERS estimated appropriation due in December 2022 with the excess of funds available in last year's budget. The 2023 budget includes funds to pay the balance of the appropriation for this year.

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 $84,100.

Actual expenditures for this line item for FY 2022 under budget due to staff vacancies during the year.

Temporary Staff. This line item includes funds for vacation coverage in targeted positions throughout the Corporation and for potential coverage that may be needed due to unanticipated turnover or employee leave. This year's increase is attributable to an extension of an MOU between HDC and HPD to cover temporary staff as well as an expansion of HDC's Internship program.

An MOU between HDC and HPD, originally signed in May 2021 and extended for an additional year in 2022, covers funds to pay for five temporary staff for HPD's Homeless Placement Services ("HPS") Unit. In May 2021 HPD had requested that HDC take over the homeless placement process for HDC financed homeless set-aside units becoming available. HDC researched alternatives to address HPD's staffing capacity issue which included creating a new division at HDC modeled after HPD's HPS group, contracting with a third-party vendor, or increasing capacity at HPD through the hiring of temporary staff. It was determined that funding the temporary staff was the best solution. The FY 2023 budget includes $250,000 to pay for the last three quarters of the period covered in the MOU which expires in June 2023.

In an effort to meet HDC's diversity, equity, and inclusion ("DEI") goals, specifically the goal to place a focused DEI lens on recruitment and retention, this fiscal year HDC intends to expand its internship recruitment program and practices. Many years ago, HDC started a summer intern program, which then evolved into placing interns in various departments that had requested interns during the year. However, as we closed out last fiscal year the Corporation's Human Resource department made a concerted, intentional effort to connect with teams across HDC to create opportunities for local NYC students, exposing them to careers in the government and not-for-profit sector, while simultaneously creating a pool for potential future hires for HDC. This year's budget provides $130,000 for the expansion of the Corporation's internship program for the Fall and Spring semesters in addition to the summer program.

And lastly, this line also includes $45,000 to cover the Corporation's participation in the Christo Rey High School student job-share program, an educational intern program whose student participants provide clerical help to HDC staff.

Actual expenditures for this line item were under budget in FY 2022. The variance is attributable to the last quarter's payment for the aforementioned temporary staff for the HPD HPS Unit not being made before the end of the fiscal year.

**Contract Services**

<u>Auditing and Accounting</u>. The figure of $276,000 represents a contracted amount for auditing services from Ernst & Young for the annual financial audit of the Corporation. There is an increase of $9,000 from last year based on the contractual amount.

Actual expenditures for this line item for FY 2022 were within budget.

<u>Legal Consultants</u>. 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; Venable LLP as leasing counsel on the new office space lease; and NYC Corporation Counsel for labor litigation. This year's line item has increased from last year's budget to include additional funds for outside counsel to assist HDC Legal staff in drafting and executing leasehold condominium documents to allow the Corporation to take advantage of tax exemptions related to the new office space lease.

The FY 2022 actual expenditures were over budget due to higher-than-expected fees incurred for drafting, negotiating and executing the rental office lease for the new office space.

Annual Report. This budget line provides funds for the design and production of the annual report. This year the budget line has remained steady from last year's budgeted amount. The Corporation continues to keep costs low in this budget line as part of its "going green" efforts and publishing on-line on the Corporation's website as opposed to printing hard copies.

The FY 2022 actual expenditures were under budget for the year due to the timing of payments.

Other Consultants. This budget line, representing 2.14% of the total budget, provides for any special studies or services which cannot be performed by staff or are short-term in nature and better suited to outside consultants. The consulting budget line has increased almost 4% from last year mainly due to two new endeavors this year.

The first new line item is related to a homeless placement evaluation to map potential streamlining in the lottery process. HDC and HPD, in conjunction with our partners, are making significant strides in housing homeless New Yorkers. As the volume of homeless placements increases, HDC seeks a consultant knowledgeable in all applicable federal, state, city statutory requirements for a four- to six- month engagement to evaluate the current process for placing homeless households in HDC and HPD financed housing and make recommendations for streamlining and improvements. $200,000 has been budgeted for this initiative.

The second new budgeted item is related to a management consultant to evaluate HDC's Asset Management department to ensure that they are adequately staffed and properly situated to handle the expected increase in the NYCHA portfolio. Asset Management is tasked with monitoring the continued financial and physical viability of the developments. They also provide limited oversight and guidance during the rehabilitation process. Ensuring that the Corporation's Asset Management department is appropriately staffed and proper procedures in place will mitigate potential financial and public exposure, in addition to our primary goals of residents having safe and improved living conditions. Historically, the rating agencies have placed strong value in the Corporation's asset management and to have confidence that this will continue $200,000 has been budgeted for this study.

Three consultants that were newly engaged last year will need to continue their projects into this fiscal year. Therefore, this budget line contains funds for an architect, an IT consultant, and a Diversity, Equity and Inclusion ("DEI") consultant. $80,000 has been budgeted to finish out a contract with an architectural firm to assist the Corporation in overseeing the buildout of the new office space. Services include reviewing architectural and engineering drawings provided by the landlord and making recommendations in all aspects of the construction process, design and furniture. The buildout of the space is being handled by the landlord. However, HDC's architect, along with a project manager from the real estate firm, and HDC staff meet regularly with the building's architects and engineers to assure that the buildout is on time and according to plan.

Another consulting line continued from last year includes funds to migrate our current reporting software over to a new reporting software. HDC has used an Oracle reporting tool, Oracle Discoverer, for over a decade and has built up a large repository of reports. However, Oracle stopped developing this product several years ago and it is now in "sustaining" support. HDC staff have reviewed over 1,200 reports to remove duplicate, closely related and unused reports. The remaining several hundred reports that are actively used are being converted to Oracle's current reporting platform Oracle Business Intelligence Enterprise Edition. The requested funds will be used to finish out a contract with a consultant who is converting the larger, more complicated reports to this platform. The consultant works full-time on this project and in addition there are a handful of HDC IT department staff members who work on converting the smaller reports as their workload permits. $185,000 has been budgeted for this initiative.

The final consulting service continuing into this year is related to a DEI consultant that was chosen in the last half of 2022 to assist the Corporation with its continued DEI initiatives. As HDC's mission directly impacts New York City residents, it is imperative as an organization that we sustain and support a diverse, equitable and inclusive workforce, one that reflects the population we serve. In 2020, HDC collected feedback from staff through Employee Voice Sessions, DEI trainings, and pulse surveys, to capture critical themes and points of feedback pertaining to diversity, equity, and inclusion in the workplace. The DEI consultant will work with HDC's leadership team and the newly formed HDC DEI Council to create a roadmap of next steps and to help HDC integrate DEI principles and best practices into our culture, operations, and practices. $50,000 has been budgeted to continue this initiative.

A DEI related, but new, initiative this year is to engage a compensation strategy consultant to ensure impactful corporate diversity, equity and inclusion strategies around pay equity and pay transparency. With the expert advice and guidance of the consultant, HDC's goal is to elevate the importance of compensation as a central pillar of talent management and a successful business strategy. HDC's human resource leadership team will examine what changes need to be made to remain competitive when it comes to managing sustainable fair pay practices for HDC's workforce. $50,000 has been budgeted for this initiative.

This budget line also includes funds for consulting services to work with the Corporation and provide advisory services on best ways to engage government leaders to implement federal policies and funding strategies that will enable HDC to strategically support the preservation of New York's public and assisted housing stock. Funds are budgeted at $150,000 for this service. $50,000 has also been included to provide funds for an external quality assessment of our internal audit function as required every five years under the Institute of Internal Audit's *Standards for the Professional Practice of Internal Auditing* requirement.

The budget line this year also includes some ancillary funds to continue work with a cybersecurity consultant. The consultant will be used intermittently throughout the year as advice is needed or issues arise with cybersecurity efforts and ensuring that HDC continues to meet regulatory compliance. The consultant will also work closely with a new cyber security analyst position that the Corporation is looking to fill. Funds are budgeted at $5,000 for this line item. The Corporation may require additional services on an as-needed basis from year to year to advise the CIO and executive leadership on upcoming regulations, best practices and threats.

This budget line also includes $8,000 to provide funds to perform actuarial services for the Other Post Employment Benefits ("OPEB") liability as required by the Governmental Accounting Standards Board ("GASB"). This year's services include performing rollforwards from last year's valuation that were performed under GASB Statement #75 which requires all governmental agencies to have their OPEB valuations performed every two years. As this is the off year of a full-scale valuation, the budgeted costs are much lower than last year. This line also includes ancillary funds for the yearly fees for our insurance consultant and HDC's affirmative action plan.

The actual expenditures for FY 2022 came in under budget due funds not being fully spent on most of the detailed consulting lines, most especially the architect and IT consultants whose projects are continuing into this budget year.

**Other Expenses**

Rent and Utilities. This line primarily reflects rental payments, including escalations and electricity, for the Corporation's office space, currently at 110 William Street. The lease on the office space expired on November 18, 2022, and the Corporation is working on a short-term extension at 110 William Street to bridge the gap until the new office space at 120 Broadway is ready for occupancy.

In July 2022 the Corporation executed a rental lease for office space at the historical Equitable Building at 120 Broadway and will occupy the entire 2nd and 3rd floors of the building. This is expected to occur sometime in Spring 2023 once the space is ready for occupancy. During initial lease negotiations HDC and Silverstein Properties, Inc. agreed, after execution of the operating lease, to negotiate in good faith to transfer the operating lease to a leasehold condominium so as to allow the Corporation, a 501(c)(3) entity, to take advantage of a tax exemption each year. The expectation is that this will happen once transfer documents are complete and executed, which could take most of this fiscal year.

The funds for this budget line include base rent, operating costs and real estate taxes on the current space on the 9th and 10th floors at 110 William Street thru June 2023. The total amount requested also includes electricity for the year at both office locations.

Additionally, $17,000 of the total amount requested for this budget line provides for rent payments and document retrieval costs related to off-site storage space. This line has been kept steady for a few years and reflects the continued efforts to reduce the number of old boxes sitting in storage that can be destroyed in accordance with records retention laws. This effort will continue again this year so that offsite storage costs can continue to be reduced or kept steady in the future, and as the Corporation moves to electronic document storage. Additionally, in preparation for the office move, staff have spent time throughout the year reducing paper by scanning documents sitting in file cabinets into electronic files, thereby eliminating files that need to be physically stored offsite.

The actual expenditures for FY 2022 came in over budget for the year due to a down payment made on the first month's rent at the time of execution of the operating lease on the new office space at 120 Broadway.

Office Expenses. This budget line, representing 0.64% of the total budget, provides funds for office supplies, printing, postage, working meals, telephone and wireless services, office repairs and cleaning services, and petty cash. Overall, this line has slightly increased by 2.5% this year in anticipation of the move to new office space mostly effecting printing and cleaning services.

Additionally, as staff returned to the office this year many supplies that weren't used during the pandemic have accumulated, thereby reducing the need for a full year's worth of office supplies. 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 2022 came in significantly under budget for the year due to excess supplies that weren't used during the pandemic, which lessened the need to place supply orders when staff began returning to the office.

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 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, fortify our cybersecurity systems, and continue to enhance our information systems capabilities and efficiencies, as well as its resiliency, in years to come.

Overall, this line represents 7.53% of the budget, and has increased from last year's budget which will be explained below. The majority of this line item is related to IT equipment and maintenance, which amounts to $3,265,900 this year, and represents the majority of the increase from last year. There are three 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; (2) renewals of ongoing IT maintenance agreements; and (3) new equipment purchases for the new office space.

The investments in new technology and upgrades for FY 2023 total $320,000, an increase of $40,000 from last year. With the staff's heavy reliance on information systems to assist them in managing a large portfolio it is imperative that technology and information systems are the most up to date, most secure, and most efficient across the Corporation. The following paragraphs touch upon the proposed new initiatives planned for FY 2023, however some projects could be substituted for other initiatives depending on planning or other needs that may occur during the fiscal year.

About $162,000 of the new technology funds will be used to continue a project to upgrade the Corporation's data backup systems. This project started last year to identify a solution to consolidate several different backup tools currently being used. After taking some time to research solutions and refine the specifications, a new solution was purchased with funds that will straddle both last year and this year. The new solution is a cutting-edge cloud backup system that includes a cyber recovery vault that is isolated from the rest of the network to protect system backups from cyberattacks. The first phase of the implementation is being scheduled with the vendor and is planned to start in the next couple of months. The requested budget also includes funds for a second phase with additional cybersecurity features, including features that are of interest to our cyber liability insurance providers. The implementation of the second phase, however, is dependent on the vendor releasing these features for use with our cloud provider, which is expected to occur as planned in the second quarter of 2023.

Also, as a follow up to the successful cloud migration last year, $41,000 has been budgeted to provide advanced project level assistance, as well as provide backup to HDC staff, from Oracle experts when needed as HDC's IT staff continue to enhance the Oracle cloud environment. This contract is used as a stand-by contract for when specialized expertise is needed, and it was not needed last year. The funds from last year have been budgeted once again for FY 2023 as it has been invaluable when the need arises, and Oracle upgrades and improvements are planned for the coming year.

About $107,000 of the new technology funds have been budgeted for two technology solutions to assist both the Development and Asset Management departments, and ultimately the whole Corporation, in terms of developing a central data repository. During FY 2021 HDC began piloting a new affordable housing development pipeline management and underwriting system for its Development department to replace existing tracking of new and potential projects on spreadsheets. The pilot was successful and well received and, as a result, HDC exercised its option during last fiscal year to extend the Software-as-a-Service ("SaaS") agreement. Funds are budgeted for system customizations and services not included in the SaaS agreement, based on feedback from the users. For Asset Management, IT staff are currently evaluating a case management solution that would assist HDC staff in leasing, marketing and compliance to manage tenant applications in the system and allow for collaboration with external managing agents through a web portal. This project was delayed from FY2022 in anticipation of a new administration last year and the unknown of possible changes to housing policies.

And finally, $10,000 of the new technology funds have been budgeted to remove decommissioned equipment from the data center at 110 William Street and dispose it of properly as we have migrated to the cloud and are preparing to move office locations.

The next major IT budget area pertains to renewals of current softwares and hardwares. The bulk of the costs, $1,810,900, relates to ongoing software licensing, maintenance agreements and equipment repairs on current management information systems and internet related services, including disaster recovery services. An additional $165,000 has been provided to upgrade hardware such as PCs, printers, laptops, parts and accessories, phones and mobile devices, fax machines, 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, as well as the risk of cyber threats in the world today, the Corporation must continually improve its information technology systems. These investments enable the Corporation to continue strengthening our systems, improve our defenses against cybersecurity threats, promote efficiencies, and report on the data.

The last IT budget area for this year is related to the upcoming office move. Funds have been budgeted for $970,000 this fiscal year to cover the remaining cost for IT, Wifi, Audio/Video ("AV"), and security planning, design and construction services required for the buildout of HDC's new office space at 120 Broadway. The buildout includes IT server and switch rooms, staff offices and workstations, conference rooms, team meeting rooms, phone rooms, breakout areas and an employee café all of which will require advanced AV technology.

HDC completed a multi-year effort to shrink the size of the onsite data center by moving most of the servers and workloads to the cloud. There are certain servers and functions that need to remain onsite. As planned, these servers have been recently migrated to a new, smaller rack unit that is 1/6 the size of the previous equipment. The Corporation is now able to achieve the goal of decommissioning HDC's current data center upon vacating the 110 William Street offices and shrink the footprint of the remaining portion down to a much smaller room in the 120 Broadway offices that will not require a raised floor, a fire pre-action system, or complex cooling requirements, all of which were needed in the current data center and is costly each year.

The bulk of the costs are for IT cabling, a new Wifi system, and AV throughout the new space. The majority of the contracts and orders for this equipment and related installation services are in place. HDC has been proactive in securing contracts and orders as early as possible to lock in pricing before anticipated price increases, as well as to obtain delivery windows for equipment given the long lead times throughout the industry after the pandemic.

HDC is also implementing Microsoft Teams Rooms in conference rooms to allow staff to seamlessly join Teams meetings with a single touch, and easily control the video camera and related AV equipment. This will enhance staff productivity and allow easy to use video conferencing features to be implemented in all of the larger conference rooms. At the same time, the Corporation is being cost-conscious by reusing conference room displays from the 110 William office space where possible, and choosing modern but economical new equipment to control costs.

With respect to other services in this budget line item not related to IT, $174,500 has been budgeted for maintenance agreements on office equipment and copiers, user licenses on the Tradeweb software that allows the 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 $15,000 for emergency replacement of portable HVACs, water pumps and condenser units in the current computer server room and various computer utility rooms throughout the office to prevent overheating of the equipment.

FY 2022 expenditures came in slightly over budget due to the timing of payments for a few annual software maintenance renewals.

<u>Insurance</u>. This line item, representing 0.65% of the total budget, includes premiums on policies for Property, Liability, Errors & Omissions, Umbrella Liability, Crime and Automobile. Beginning in FY 2020 this line item also started to cover funds for cyber insurance. The budget line item has increased about 36% this year to align with FY 2022's actual cost of cyber insurance plus an anticipated increase to the premium that normally occurs with all types of insurance. HDC's CIO has worked with our cybersecurity consultant in evaluating HDC's cybersecurity measures and what insurance coverages are needed. Cyber insurance covers HDC in the event of a cyber-incident such as hacking incidents, viruses, worms and malware, just to name a few. Any of these examples could result in HDC needing to respond internally in the form of data reconstruction, or the need to require external forensic specialists to determine the cause and to help reconstruct data and

systems. If outside assistance is needed cyber insurance can cover these costs. The other increase to this budget line is attributable to aligning the property, liability, auto and umbrella premiums with the actual cost from last year plus an anticipated increase to this year's premiums.

FY 2022 actual expenditures came in over budget. As mentioned above the Corporation first obtained cyber insurance in July 2020 and based the FY 2022 budgeted amount on the 2021 actual costs. However, given the newness of the industry all cyber insurance policy holders incurred larger than expected increases to their premiums. However, due to the Corporation's strong internal controls, policies and cyber training, our premium increases were smaller compared to most other companies. We have been informed by our brokers that rates should start to stabilize going forward.

<u>Books and Publications</u>. This line item, representing 0.17% of the total budget, ensures that the staff maintains updated resources and continues to stay current on industry trends. This budget line has increased from last year's budget as the HDC Legal department transitions to more robust and intuitive on-line legal research tools. The new research tools will also offer unlimited continuing legal education for the attorneys to complete their bi-annual requirements. As part of the process of upgrading the research tools many of the hardcopy legal research books that the Legal department has been receiving for many years will not be renewed as the subscriptions expire and will offset some of the costs next year. Over the years the Corporation has, where practical, switched over to electronic subscriptions to save money.

The actual expenditures for FY 2022 came in under budget due to the timing of some subscriptions with the end of the budget year.

<u>Transportation</u>. This budget line covers travel to site visits and project inspections, as well as in-town conferences and seminars. This line also includes funds for car service within the five boroughs for employees who work late. This line item has been kept steady from last year's budget.

The actual expenditures for FY 2022 came in significantly under budget due to a reduction in travel and overtime as staff transitioned back to working in the office after working from home during the pandemic.

<u>Training and Conferences</u>. This budget line, representing 0.7% 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 $5,000 for legislative travel to Washington D.C. for the President, Executive Vice Presidents, and other specific staff members. HDC senior staff will continue to pay particular attention to legislative and programmatic matters in Washington with the current administration.

This line also includes almost $172,000 for HDC's 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 virtually and on- and off-site. This line allows for specific on-site and virtual 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, DEI and EEO, and an executive staff retreat, just to name a few. HDC's external auditors have highly recommended further investment in staff development through continuing professional education. This budget line has increased about 10% from last year as we return to pre-pandemic levels of in-person conferences and training throughout the industry.

FY 2022 expenditures were significantly under budget due to the slow return of in-person conferences which started to return to normalcy in the last half of the fiscal year.

Memberships. This budget line provides funds for annual membership fees for NCSHA, NALHFA, National Low Income Housing Coalition, National Leased Housing Association, the National Low Income Housing Coalition, the National Association of Affordable Housing Lenders, the Citizens Housing and Planning Council, the New York Housing Conference, and various other organizations to assist the staff in their professional growth, and maintain HDC's position in the policy discussions surrounding affordable housing. This budget line has increased slightly as some memberships have increased their fees and there has been an increase in HDC staff members.

FY 2022 expenditures came in under budget mainly due to the timing of some membership payments with the end of the fiscal year.

Employment Recruitment and Advertising. This line provides funds needed to fill positions withing the Corporation. Although this line originally provided funds for advertising of positions in trade journals and on-line internet postings, beginning in 2020 the Corporation added an on-line subscription recruiting service to its toolbox to assist and expand the universe of employee recruiting. Last year funds were added to this line for a subscription to research salary comps to help with competitive recruiting of hires as well as employee retention. As we continue to expand our toolbox for recruitment and retention the increase to this year's budget is attributable to funds for a new candidate applicant tracking platform which will assist the Corporation's Human Resources department to proactively support HDC's existing diversity, equity and inclusion initiatives.

Furniture. This line normally provides funds for office furniture, conference room furniture, filing cabinets, bookcases, chairs and some smaller miscellaneous furniture throughout the HDC office space. Due to the office move, funds are needed to purchase new workstations and office furniture for staff in the new space being built at 120 Broadway. As a state public benefit corporation, HDC is eligible to purchase furniture through the New York State Office of General Services contract at a 50-70% discounted rate and intends to take advantage of that. HDC staff plan to retain most of the newer file cabinets, chairs, conference room tables, guest seating and other furnishings that are in the current workspace and move them to the new office space. The estimated cost of purchasing, delivering and installing new workstations and office furniture has been split between last fiscal year and the balance being covered in this year's budget. However, as not all furniture and their related costs have been finalized it is possible that the total cost could be lower.

The FY 2022 budget expenditures for this line item were within budget.

Leasehold Improvements. This budget line provides funds for anticipated additional cost of renovations throughout the new office space at 120 Broadway that will not be covered by the landlord during the office space build out. This budget line has increased significantly due to the new office space. Funds for this budget line have remained low or close to nothing the past few years in anticipation of the expiration of the current lease at 110 William Street, and is expected to return to normal levels next budget year after the office move.

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.

Actual expenditures for this line item for FY 2022 were within budget.

Marketing. This budget line provides funds for the printing of brochures, site signs and banners, and miscellaneous marketing costs associated with promoting HDC, and for public events. The site signs, banners, and other marketing items are used to promote the Corporation and its mission of providing affordable housing throughout the City of New York.

The FY 2022 actual expenditures came in under budget last year due to the postponement of purchasing site signs and banners.

Corporate Events. This year's request has increased slightly from last year's budget as we continue to get back to in person attendance at events post pandemic. 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 the Housing and Planning Fellows, training, attendance at housing functions, and other HPD staff appreciation events. This line is also used to fund HDC sponsored events such as the annual holiday party, which had been canceled for the past two years, and the annual summer outing. Additionally, a total of $32,000 is budgeted for other items such as bus tours to project sites, staff attendance at housing related events, token recognitions of appreciation for retiring employees, flu shots, Take Our Daughters and Sons to Work day, and flowers and donations in connection with employee hospitalizations and bereavements.

The FY 2022 actual expenditures were over budget due to the unexpected expense of hosting a memorial event for our dearly departed Chief Operating Officer, Richard Froehlich, who died suddenly last year.

Bank and Other Service Charges. This budget line item, representing 0.18% of the total budget, provides funds for payroll charges, as well as the potential for some electronic banking products that work with the Corporation's current systems and could help to increase efficiencies. This budget line also includes funds for the outsourcing of the flex spending account program ("FSA") offered to HDC employees as well as funds for background checks conducted on potential employees who are offered positions in the Corporation.

FY 2022 expenditures came in under budget due to less than expected payroll charges and background fees as hiring was slower post pandemic.

**Appendix A Schedules**

**New York City Housing Development Corporation**
**Requested Budget Summary**
**Fiscal Year 2022/2023**

| | Adopted Budget FY 2022 | Actual FY 2022 | Variance FY 2022 | Requested Budget FY 2023 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Fees | 65,388,000 | 70,277,323 | 4,889,323 | 65,854,000 |
| Investment and Loan Income | 79,560,000 | 86,412,013 | 6,852,013 | 86,067,000 |
| **TOTAL REVENUES** | **144,948,000** | **156,689,336** | **11,741,336** | **151,921,000** |
| **EXPENSES** | | | | |
| Salaries and Related Expenses | 30,327,000 | 30,475,886 | (148,886) | 33,993,000 |
| Contract Services | 1,430,800 | 1,213,244 | 217,556 | 1,517,300 |
| Other Expenses | 8,642,200 | 8,707,499 | (65,299) | 10,349,700 |
| **TOTAL EXPENSES** | **40,400,000** | **40,396,629** | **3,371** | **45,860,000** |
| **EXCESS OF REVENUES OVER EXPENSES** | **104,548,000** | **116,292,707** | **11,744,707** | **106,061,000** |

**New York City Housing Development Corporation**
**Revenue Budget Summary**
**Fiscal Year 2022/2023**

| **Revenues**<br><br>**Fee Income** | **Adopted Budget FY 2022** | **Actual FY 2022** | **Variance FY 2022** | **Requested Budget FY 2023** |
|---|---|---|---|---|
| Servicing Fees | | | | |
| HDC Financed Mortgage Loans | 34,000,000 | 38,851,171 | 4,851,171 | 34,723,000 |
| Tax Credit Monitoring Fees | 3,173,000 | 3,172,984 | (16) | 3,307,000 |
| HPD Financed Loans | 3,960,000 | 4,014,536 | 54,536 | 3,815,000 |
| Sub-total Servicing Fees | 41,133,000 | 46,038,691 | 4,905,691 | 41,845,000 |
| Other Fees | | | | |
| Credit Enhancement Fees | 814,000 | 813,969 | (31) | 650,000 |
| Loan Originations & Refinancings | 21,000,000 | 21,078,632 | 78,632 | 21,000,000 |
| REMIC Administration Fee | 606,000 | 606,000 | 0 | 679,000 |
| CDBG-DR Funds | 60,000 | 98,284 | 38,284 | 30,000 |
| NYCHA Lending Admin Fee | 1,775,000 | 1,641,748 | (133,252) | 1,650,000 |
| Sub-total Other Fees | 24,255,000 | 24,238,633 | (16,367) | 24,009,000 |
| **Total Fees** | **65,388,000** | **70,277,323** | **4,889,323** | **65,854,000** |
| **Investment and Loan Income** | | | | |
| Investment of Corporate Reserves | 15,700,000 | 18,258,365 | 2,558,365 | 21,000,000 |
| Corporate Owned Mortgages | 2,600,000 | 3,513,643 | 913,643 | 3,100,000 |
| Open Resolution Surplus, net of expenses | 61,260,000 | 64,640,005 | 3,380,005 | 61,967,000 |
| **Total Investment and Loan Income** | **79,560,000** | **86,412,013** | **6,852,013** | **86,067,000** |
| **TOTAL REVENUES** | **144,948,000** | **156,689,336** | **11,741,336** | **151,921,000** |

**New York City Housing Development Corporation**
**Expense Budget Summary**
**Fiscal Year 2022/2023**

| | Adopted Budget FY 2022 | Actual FY 2022 | Variance FY 2022 | Requested Budget FY 2023 |
|---|---|---|---|---|
| **SALARIES & RELATED EXPENSES** | | | | |
| WAGES | 22,347,800 | 21,365,232 | 982,568 | 24,740,000 |
| FRINGE BENEFITS | 7,202,900 | 6,730,275 | 472,625 | 8,186,000 |
| NYCERS | 500,000 | 2,200,780 | (1,700,780) | 550,000 |
| MCTM TAX | 76,300 | 71,617 | 4,683 | 84,100 |
| TEMPORARY STAFF | 200,000 | 107,983 | 92,018 | 432,900 |
| SUBTOTAL | 30,327,000 | 30,475,886 | (148,886) | 33,993,000 |
| **CONTRACT SERVICES** | | | | |
| AUDITING & ACCOUNTING | 267,000 | 267,000 | 0 | 276,000 |
| LEGAL CONSULTANTS | 170,000 | 257,083 | (87,083) | 210,000 |
| ANNUAL REPORT | 50,000 | 33,214 | 16,786 | 50,000 |
| OTHER CONSULTANTS | 943,800 | 655,948 | 287,852 | 981,300 |
| SUBTOTAL | 1,430,800 | 1,213,244 | 217,556 | 1,517,300 |
| **OTHER EXPENSES** | | | | |
| RENT & UTILITIES | 2,427,000 | 2,801,367 | (374,367) | 2,334,000 |
| OFFICE EXPENSES | 287,800 | 159,414 | 128,386 | 295,000 |
| EQUIPMENT & MAINTENANCE | 2,912,000 | 2,944,954 | (32,954) | 3,455,400 |
| INSURANCE | 220,000 | 243,322 | (23,322) | 300,000 |
| BOOKS & PUBLICATIONS | 61,200 | 49,144 | 12,056 | 76,000 |
| TRANSPORTATION | 15,500 | 498 | 15,002 | 15,900 |
| TRAINING & CONFERENCE | 281,300 | 96,432 | 184,868 | 310,000 |
| MEMBERSHIPS | 95,000 | 79,572 | 15,428 | 100,000 |
| EMPLOYMENT RECRUITMENT & ADS | 30,000 | 23,245 | 6,755 | 44,400 |
| FURNITURE | 1,902,500 | 1,900,000 | 2,500 | 1,700,000 |
| LEASEHOLD IMPROVEMENTS | - | - | 0 | 1,300,000 |
| INTERAGENCY EXPENSES | 260,000 | 260,563 | (563) | 260,000 |
| MARKETING | 5,000 | 590 | 4,410 | 7,000 |
| CORPORATE EVENTS | 64,000 | 81,975 | (17,975) | 70,000 |
| BANK & OTHER SERVICE FEES | 80,900 | 66,422 | 14,478 | 82,000 |
| SUBTOTAL | 8,642,200 | 8,707,499 | (65,299) | 10,349,700 |
| **TOTAL OPERATING EXPENSES** | 40,400,000 | 40,396,629 | 3,371 | 45,860,000 |

"MCTM Tax" = Metropolitan Commuter Transportation Mobility Tax