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DATE: February 15, 2018

TO: The Honorable Pat Garofalo
State Representative
485 State Office Building

The Honorable Jim Knoblach
State Representative
453 State Office Building

The Honorable Torrey Westrom
State Senator
3201 Minnesota Senate Building

The Honorable Julie Rosen
State Senator
3235 Minnesota Senate Building

CC: Chris Zempel, Fiscal Analyst
370 State Office Building

Marianne Conboy, Exec. Budget Officer
658 Cedar Street

Dan Mueller, Fiscal Analyst
3300 Minnesota Senate Building

Kate Perushek, Policy Advisor
Office of the Governor

FROM: Mary Tingerthal, Commissioner

SUBJECT: 2018 Operating Costs Report

I am submitting the attached Operating Costs Report For FY 2017 and Budget Plan For FY 2018 for the Minnesota Housing Finance Agency (MHFA), pursuant to Minn. Stat. § 462A.20, subd. 4. There are a few elements of the report that are worth noting. We underwent an office move in FY 2017. We incurred expenses as a result of the move; however, these expenditures came in well within budget, as noted in the Rent and Utilities line for FY2017. There is an increase in the budget for Rent and Utilities in FY2018 as compared to actual expenditures in FY2017. This is due to rent paid in both locations for a short period while we moved, and a slight increase in rent in our new office space. As a result of the move, we made equipment purchases and had one-time construction costs in FY2017 that appear in the Equipment and Other Operating Costs lines. Because these are one-time costs, we expect to experience lower levels in these budget lines in FY2018. Budgeted increases for salaries and benefits can be attributed to cost of living increases, progression increases for those that are eligible, increases in insurance rates and a slight increase in FTEs.

In FY2017 Minnesota Housing provided \$1.117 billion in assistance to Minnesota households. The ratio of operating expenses to assistance provided in FY2017 is 3.19%.

Also enclosed is the Agency's FY2017 Financial Report, which includes the audited financial statements for all of the Agency's funds. An independent certified public accounting firm audits the Agency's financial statements every year. The procedures used to audit the Agency's administrative expenses are primarily analytical in nature. For the larger individual amounts included in the salaries and benefits and other general operating expense lines, comparisons are made to the prior year. Large fluctuations, if any, are identified, reviewed and assessed for reasonableness. The total amount of payroll is consistent with the Agency's payroll records. The FY2017 Financial Report fulfills the statutory requirement that the financial statement include information on expenditures and receipts relating to debt issuance and administration, and loan origination and administration.

If you have any questions, please contact me at (651) 296-5738 or mary.tingerthal@state.mn.us or Ryan Baumtrog at (651) 296-9820 or ryan.baumtrog@state.mn.us

(Dollars in Thousands)

	FY 2017		FY 2018				Estimated Yr over Yr Increase (Decrease) in Expendits		
	Budgeted Expendits	Actual Expendits	Budgeted Expendits	Actual Expendits through 12/31/2017	Estimated Expendits for the Full Year	Under (Over) Budget			
Operating Costs									
Salaries and Benefits (NOTE A)	25,144	25,447	27,140	11,897	26,782	358	1,335		
Rents and Utilities (NOTE B)	2,597	1,302	1,562	775	1,543	19	241		
Repairs, Alterations, Maintenance	41	77	85	2	31	54	(46)		
Printing and Advertising	104	120	161	58	115	46	(5)		
Professional/Technical Services (NOTE C)	2,711	2,552	4,167	1,817	3,070	1,097	518		
Computer and Systems Services	2,037	2,043	2,194	105	2,194	0	151		
Communications	130	144	190	46	104	86	(40)		
Travel and Subsistence, Instate	162	182	191	82	144	47	(38)		
Travel and Subsistence, Out of State	143	137	183	36	113	70	(24)		
Supplies	163	375	302	86	178	124	(197)		
Equipment (NOTE D)	2,684	1,708	831	95	418	413	(1,290)		
Employee Development	255	235	360	115	227	133	(8)		
Other Operating Costs (NOTE D)	265	1,104	247	87	196	51	(908)		
State Indirect Cost Billings	212	212	222	111	222	0	10		
Attorney General Costs	10	11	12	3	9	3	(2)		
Total, Agency Operating Costs	36,658	35,649	37,847	15,315	35,346	2,501	(303)		
Assistance Provided	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Assistance Provided by the Agency (NOTE E)	444,237	717,375	726,979	638,307	781,838	754,083	1,037,283	1,091,030	1,117,548
Operating Costs as a % of Assistance Provided	5.67%	3.41%	3.21%	3.73%	3.30%	3.55%	2.88%	2.82%	3.19%

Footnotes: The following comparisons are between the estimated expenditures for FY2018 and the actual expenditures for FY2017.

NOTE A, Salaries and Benefits. The increase in Salaries is due mainly to an increase in FTEs, progression increases for those eligible, and increases in insurance rates.

NOTE B, Rents and Utilities. The increase in Rents and Utilities is due to higher rent for our new office space and parking; and the doubling up of rent for a short period while we were going through the move process.

NOTE C, Professional & Technical Services. The increase in the Professional & Technical account is directly related to the contractors hired for various IT projects and for construction of the new office space.

NOTE D, Equipment and Other Operating Costs. The increase in Equipment and Other Operating Costs in FY 2017 is due to equipment purchases and construction costs for the new office space. Our projected Equipment purchases in FY 2018 are lower and we hope to experience additional savings in this line in the near future as many of our major equipment components have been updated in the move to our new office.

NOTE E, Assistance Provided. The assistance provided figures are from the Agency's annual Program Assessment Report that is submitted to the Legislature each year. The assistance figures are for a federal fiscal year ended September 30.