



To: Members of the GSFA Executive Committee
From: Lisa McCargar, Chief Financial Officer
Milena De Melo, RCRC Controller
Date: November 2, 2021
Re: GSFA 2022 Proposed Budget - **ACTION**

The proposed 2022 Golden State Finance Authority (GSFA) Operating Budget constitutes our continued commitment to the core functions of providing affordable housing, energy retrofit, economic development, and targeted efforts to pursue and expand rural broadband. This proposed budget represents a year of planned investment for the organization and is representative of GSFA's continued effort to support ongoing programs and explore new opportunities in line with GSFA's purposes. The following sections describe in more detail the highlights of the attached proposed 2022 Budget and significant changes from 2021.

2022 Proposed GSFA Budget Summary

The proposed 2022 GSFA Budget (Attachment A) includes total revenues of \$39,322,372 and total expenditures of \$37,579,560 and results in net revenues over expenditures of \$1,742,812. The primary sources of revenue and expenditures are described below.

2022 Proposed Revenue Highlights

Proposed revenues are primarily derived from GSFA's housing and energy programs. Interest income from second mortgage portfolio earnings and interest, dividend earnings and capital gains from portfolio investments also provide sources of revenue.

The proposed 2022 budget also includes budgeted revenue contingent upon an award of a grant from the U.S. Department of Commerce Economic Development Administration (EDA). In September 2021, the GSFA Board of Directors approved, and GSFA later submitted, an application for funds to develop broadband strategic plans for 26 member counties and comprehensive economic development strategies (CEDs) for two member counties. Pending approval from EDA, GSFA has budgeted for grant receipts along with matching funds required to be contributed from each member county participating in the grant.

The proposed 2022 GSFA Budgeted Revenue of \$39,322,372 includes:

- Housing program revenue, which remains the primary source of GSFA revenues, are expected to generate \$35,359,132 in 2022.
- Revenues from energy financing programs are estimated to be \$900,000.

- Energy program loan servicing revenue is derived from the American Recovery and Reinvestment Act (ARRA) program. GSFA cost reimbursements from this grant are estimated to be \$170,000 for 2022.
- Interest earnings from investments projected at \$150,000.
- Interest from the affiliated entity loan to Golden State Natural Resources (GSNR) is budgeted to generate interest income of \$172,500.
- The GSFA second mortgage portfolio which is projected to generate interest income of \$150,000.
- Pending approval from EDA, grant receipts of \$1,896,660 and related matching funds from participating counties totaling \$429,080. See further details below in “Key Differences in 2022 and 2021 budgets” section.

2022 Proposed Expenditure Highlights

The proposed 2022 GSFA Expenditure Budget is designed to provide the resources necessary to pursue and implement housing, energy programs and services, economic development, and some expenditures to pursue broadband access in rural counties. The proposed 2022 Expenditure Budget totals \$37,579,560.

The key proposed 2022 GSFA expenditures are highlighted below.

- Housing down payment assistance to homebuyers of \$24,000,000.
- Down payment assistance program management services fees paid to National Homebuyers Fund, Inc. (NHF) totaling \$1,100,000.
- Contract support services payments to RCRC in the amount of \$5,246,400. The proposed contract support services fee includes a prorated amount of the salaries for RCRC personnel who provide services to GSFA through the contract for services with RCRC, including those of the President/CEO, Chief Operating Officer / Chief Financial Officer and Senior Vice President of RCRC. The proposed contract support services amount and the underlying compensation for RCRC personnel that are included in the proposed budget will be approved by the RCRC Board of Directors.
- The proposed budget includes a lump sum contract performance fee of \$1,898,370. Each year, the contract calls for the GSFA Board to consider and approve this performance fee as part of its budgeting process. The performance fee is based on housing and energy program activity levels and net performance.
- Energy program servicing of \$440,000 includes contract payments to NHF related to two energy programs including servicing loans associated with the ARRA program and managing the energy retrofit program. These fees are detailed in the service contract between GSFA and NHF as approved by the respective Boards.

- On September 29, 2021 GSFA issued a \$20,500,000 mortgage revenue bond to reimburse the entity for funds utilized in its down payment assistance program. Total interest expense for the bond is budgeted at \$670,000 for 2022.
- Consulting services for the implementation of aforementioned EDA grant are budgeted to be \$2,325,740. These estimated expenditures will be reimbursed by the grant, if awarded. The actual award may differ from the amount applied for. See further explanation below in the “Key Differences between the 2022 and 2021 Budgets” section.
- Other consulting in the amount of \$600,000 for implementation of broadband efforts. Items include technical support and assistance, marketing and communication, and geographic information system mapping data sourcing.
- \$300,000 for housing – business development and economic development.

Key Differences between the 2022 and 2021 Budgets

The proposed 2022 GSFA Operating Revenue Budget is \$39,322,372, a decrease of \$10,102,628 (20.4%). The proposed 2022 expenditures budget for GSFA of \$37,579,560 represents a decrease of \$4,300,390 (10.3%) from the 2021 approved revised budget. Following is a summary of the key differences between the proposed 2022 and the 2021 approved revised budgets:

- **Housing Program Revenue and Housing Program DPA (Expense) to Homebuyers –**
 - A decrease of \$12,060,868 (25.4%) of housing program revenue resulting from reduced expectations for GSFA’s down payment assistance program. GSFA’s down payment assistance comes in the form of either a Gift or a zero-interest rate Second Mortgage that is forgiven in the future. Both GSFA’s traditional Gift option and expectations for the zero-interest option have been reduced.
 - A decrease of \$6,000,000 (20.0%) in housing program DPA expense resulting from lower housing program expectations.
- **Interest and Dividend Income** – A decrease of \$450,000 (75.0%) associated with earnings on the entity’s investments from CalTRUST and LAIF. Interest rates remain low on those investments.
- **Interest Income – GSNR Loan** – An increase of \$172,500 (100.0%) for interest earned on Golden State Natural Resources (GSNR) existing balance and planned future draws on the loan.
- **EDA Grant and EDA Grant Match (Revenue) & Consultants EDA Grant (Expense)** – The revenue and expense categories for EDA Grant, Match, and Consultants are contingent upon an actual award of the EDA grant as described above. Expenses will not be incurred, nor will revenue be received for reimbursement if the grant is not awarded. Likewise, these budgeted expenditures will be adjusted

to reflect the actual amount of grant award, if different. Amounts included in this budget only represent a portion of the total \$3,050,000 grant applied for and \$690,000 in county match. It is anticipated that, once notified of a successful award, expenditures will begin in the second quarter of 2022 and carry over into 2023. Grant reimbursement and county match dollars will offset such expenditures with a net zero impact to GSFA. In summary, the differences from 2021 are:

- Revenue: An increase of \$1,896,660 (100.0%) and \$429,080 (100.0%) respectively, pending approval of EDA grant application. This item is new and contingent upon EDA awarding the grant to GSFA.
 - Expense: An offsetting increase of \$2,325,740 (100.0%) for consultant costs associated with the execution of EDA grant.
- **DPA Program Management (Expense)** – A decrease of \$650,000 (37.1%) in program management expenses paid to NHF. This fee is based on underlying projected decrease in program volume resulting from lower volume of services provided by NHF.
 - **Contract Support Service Expenses** – Contract Support Service Expense has been budgeted to increase by \$594,150 (12.8%) demonstrating increased support services provided by RCRC in both the housing and broadband initiatives.
 - **Contract Performance Fee** – A decrease of \$316,630 (14.3%). The fee is calculated based on a predetermined and contracted formula based on housing and energy program activity levels, and the projected decrease in such activity, including the revenues from these programs.
 - **Broadband Expansion Implementation** – A decrease of 800,000 (100.0%). The prior year 2021 budget included initial estimated costs that are not anticipated in the 2022 budget year. These costs specifically related to participation in the broadband RDOF – Auction 904. See below for other 2022 budgeted broadband expenditures.
 - **Consultants: Broadband** – An increase of \$600,000 (100.0%) as we continue to pursue broadband related initiatives. These amounts cover costs to consultants in the research and development of broadband efforts.
 - **Interest Expense** – An increase of \$670,000 (100%) expected to be paid for the \$20,500,000 Bond issued in September 2021.
 - **Disaster/Other Assistance** – A decrease of \$900,000 demonstrating a revision in strategy to assist and support our member counties and their communities.

Budgeted Net Revenue

The proposed budget for 2022 will result in net revenues over expenditures of \$1,742,812. The budgeted expenditures include noncash items for projected loan losses of \$100,000 and unrealized gains of \$25,000. Therefore, the proposed 2022 budget is projected to generate net cash resources of \$1,817,812. In conjunction with the strategic

planning process, GSFA expects to formalize its reserve policy for existing resources, to include identifying funds available for operations and those available for investment.

Other Related Matters and Information

Due to the volatility and pace of the programs and markets, request authority for the Executive Director to make necessary business decisions up to \$500,000 per decision outside of the approved operating budget. Also request the GSFA Executive Director be granted with the authority to proceed with necessary operating decisions due to changes in the market, economy or changing transactional requirements to avoid unnecessary delay and provide the necessary flexibility to effectively and timely implement and modify programs. Such expenditure and operational decisions are to be made in consultation with the GSFA Deputy Director, the GSFA Chair and the GSFA Vice Chair and are to be reported back to the Board with subsequent ratification as necessary.

In 2018, the GSFA Board of Directors approved utilization of up to \$10 million of resources as an investment into a potential housing program. In 2020 through 2021 an additional \$30 million was authorized for the expansion of that program. While such investments use cash, they have created an offsetting asset in the form of notes receivable. On September 29, 2021 a \$20,500,000 bond was issued. The bond will mature on October 15, 2051 and will bear interest at a rate of 3.50% per annum. Remittances from loans assigned and pledged to the Bond and currently on GSFA's balance sheet as receivables will be used to pay down the debt. Additional cash flows from receivable collections and pay down of debt obligations are in addition to amounts presented in this budget.

During the June 2020 Meeting, the GSFA Board of Directors approved a loan of up to \$10 million from GSFA to Golden State Natural Resources (GSNR) to finance program activities and meet cash flow requirements during the pre-development phase of GSNR's forest resiliency program. To date a total of \$3,500,000 has been drawn on this line and we anticipate continuation of this support into 2022. Cash flows described herein are in addition to amounts shown in this budget.

Recommendations

It is recommended that the GSFA Executive Committee approve the following recommendations and direct the GSFA Executive Director to make the same recommendations to the GSFA Board of Directors.

1. Approve the attached proposed 2022 GSFA Operating Budget.
2. Grant the GSFA Executive Director the authority to make necessary business decisions and utilize up to \$500,000 per decision outside of the approved operating budget when necessary. Such decisions will be made in consultation with the GSFA Deputy Director, the GSFA Board Chair and Vice Chair and reported back to the GSFA Board at the next available Board meeting.
3. Grant the GSFA Executive Director the authority to proceed with necessary operating decisions due to changes in opportunities, the market, the economy or changing transactional requirements to provide necessary flexibility to effectively and

timely implement programs. Such decisions to be made in consultation with the GSFA Deputy Director, GSFA Chair and GSFA Vice Chair with subsequent ratification by the Board of Directors as necessary.

4. Consider and approve the lump sum contract service fee to RCRC in the amount of \$5,246,400 which includes a prorated amount of the salaries for RCRC personnel who provide services to the GSFA through the contract for services with RCRC, including those of the RCRC President/CEO, RCRC Chief Operating / Chief Financial Officer and RCRC Senior Vice President, and estimated performance fee in the amount of \$1,898,370.

Attachment

- 2022 GSFA Operating Budget (Attachment A)