

## **Legislative Campaign – State Campaign**

### **Managing Expectations: Maintaining Financial Integrity in an Era of Raids & Revolts**

All quasi-public agencies likely fear a raid on their working capital accounts as state budget writers look for ways to help absorb cuts made to core state programs. MassHousing is no exception. In an era of declining revenues – MassHousing has been approached several times over the past 3 ½ years to assist to the Commonwealth of Massachusetts in funding housing programs that have not been MassHousing's obligation previously.

MassHousing is one of the most open and “transparent” agencies in Massachusetts. The Agency is required by statute to submit detailed financial information annually to the state Comptroller, the Governor, legislative leaders, Agency bondholders and bond rating agencies such as Standard & Poor's and Moody's. Annual financial statements as well as information statements, required whenever the Agency issue bonds, can all be found in plain view for anyone to see on MassHousing's website. These information statements contain comprehensive information about MassHousing's financial condition.

Making this information available publicly is certainly worthwhile, but it does have its disadvantages. To an untrained eye, it may seem that the Agency is flush with expendable cash, ready to be transferred to the state's General Fund to finance some of the Commonwealth's most needy budgetary shortfalls.

Over the years, MassHousing has worked hard to ensure that its finances are managed in such a way that it remains self-sustaining and as such does not need to seek financial assistance from the Commonwealth. When the day finally came and the state asked directly for MassHousing's financial help, MassHousing's challenge was to find creative funding solutions to respond to these requests and legislative mandates that would assist the state without harming the Agency's own financial stability.

In recent years, quasi-public agencies in Massachusetts have been the subject of great scrutiny because of the media spotlight on one or two poorly run agencies with highly-compensated employees and superior benefits. Unfortunately, the result has been that all quasi-public agencies have been painted with a broad brush and all viewed with the same amount of public cynicism and distrust. During a recent interview, one state senator in discussing quasi-public agencies said, *"I'm advocating more restraint, more transparency and more control than what I'm sure all of these quasies would hope for. Most of the scandal and fraud and corruption have happened because there has been arm's length control."* MassHousing needed to portray itself in a different light to legislators and state officials looking for ways for the Commonwealth to gain greater oversight of the various quasi-public agencies in the state, and the money in the reserve accounts of those agencies.

Abe Lincoln once said *"Am I not destroying my enemies when I make friends of them?"* In this way, MassHousing needed to ensure that the Agency was seen for what it is – an innovative, successful, financially-stable, and nationally recognized agency. To do this, the Agency needed to transform its quasi-public enemy image and make friends.

To achieve this goal, MassHousing has worked hard to cultivate relationships with key members of executive and legislative offices. These relationships, formed as soon as a new legislature begins or a new administration comes into office, have helped MassHousing in numerous ways – both financially and legislatively.

### **The General Court**

Newly assigned Senators, Representatives and staff of the legislature's Joint Committee on Housing, as well as House and Senate Ways and Means staff, are briefed on the Agency and its programs and products by the Executive Director and Government Affairs Manager. Packets of information relating to MassHousing's overall statewide lending and lending in each legislator's district are prepared and distributed. Legislators are often surprised to learn how many homeownership loans have been made in their district, or to learn that a rental development in their district has been financed by the Agency and is well-maintained and monitored by MassHousing.

### **Administration**

The Governor's chief financial officer, the Secretary of the Executive Office for Administration and Finance (A&F), is an ex-officio member of MassHousing's Board of Directors. The same is true for the Secretary of Housing and Economic Development. Through the A&F Secretary, the Governor's office has a greater insight to MassHousing's financial situation. MassHousing's Executive Director and Chief Financial Officer have been able to foster this relationship. By offering briefings upon the Secretary's first taking office as well as communicating to staff that MassHousing must respond quickly and completely to all administration requests – MassHousing has gained the trust of the administration and fostered a healthy working relationship.

The relationships with these core state officials have been the key in MassHousing's success in providing millions of dollars to the Commonwealth of Massachusetts to offset budget cuts to housing programs or supplement existing programs. Instead of a "raid" on the Agency's working capital fund, the Agency has worked with Executive branch and Legislative branch budget writers to facilitate smooth transfers of funds. Specifically, the Agency has successfully made the case to state budget writers that it must fund programs that have similarly based missions. In this way, instead of simply directing funds from the Agency to be paid into the General Fund, MassHousing has financed various housing line items and housing-related programs that have some relationship to the Agency's mission and its existing housing programs. MassHousing has funded the state's Affordable Housing Trust Fund – but only on deals where MassHousing holds the mortgage. Similarly, MassHousing has funded the Massachusetts Rental Voucher Program – again only on deals where MassHousing's financing is already in the deal. This careful funding has satisfied bond rating agencies and MassHousing's investors alike, who would be concerned about financial obligations placed on MassHousing by the Commonwealth.

Among the cuts to state subsidy programs that MassHousing has absorbed are reductions to the Massachusetts Rental Voucher Program (MRVP) at an amount of \$5 million, the State Housing for Rental Assistance Program (SHARP) at an amount of \$13 million, the 13A Interest Subsidy

Program at an amount of \$80.7 million and the Rental Development Action Loan Program (RDAL) at an amount of \$9 million. In addition, the Agency has found innovative ways to help fund housing initiatives like the state's Affordable Housing Trust Fund (\$40 million), Commission to End Homelessness (\$7 million), and Workforce Housing (\$15 million). In all, then, MassHousing's financial commitment to the Commonwealth has totaled close to \$170 million, far surpassing any other Massachusetts authority's contribution of which MassHousing is aware. And while MassHousing has by no means been spared from the economic downturn, this financing has been provided without any cuts in services to its own constituencies – the Agency's borrowers and bondholders.

MassHousing has also worked proactively to create new programs to move the state's housing agenda. These programs have been presented to members of the Administration as well as elected officials to formally announce and receive the associated publicity benefits in announcing these new initiatives. These programs include the Home Saver program which provided refinancing loans to homeowners at risk of foreclosure; the Home for the Brave program, which provides affordable mortgage loans to veterans; "Opportunity Knocks," a series of homebuyer fairs and open houses across Massachusetts; as well as the "Buy Cities" programs that provides loans to purchase abandoned or foreclosed homes in targeted cities. Despite the fact that these programs and products were the result of work done by Agency staff, most of these announcements have been made with a contingency of Executive, Legislative and locally elected officials, all of whom are then able to receive the associated press and praise demonstrating their commitment to homeownership and rental opportunities for their constituents.

MassHousing has consistently been able to sell bonds to raise capital, even in very difficult markets. In March of 2009, in the midst of great turmoil in the housing and financial markets, MassHousing received an upgrade in its Issuer Credit Rating from Standard and Poor's from A to A+. In its narrative explaining the upgrade, Standard & Poor's noted MassHousing's strong management team, improved financial performance and stable equity levels. It also took note of the Agency's management of variable rate debt exposure; the improved performance of MassHousing's loan portfolios; ***"and sufficient state support to allow MassHousing the autonomy and independence to effectively meet its legislative mandate"***. This last statement is of particular significance. This establishes the precise message for which MassHousing has worked. Despite the fact that MassHousing is a "net contributor" to the Commonwealth of Massachusetts, the Agency is still viewed by bond rating agencies as autonomous and independent.

MassHousing continues to work cooperatively with state and local elected officials to assist their efforts in funding housing programs and services – but doing it in a way that preserves MassHousing's independence and autonomy and ensuring that the Agency remains strong and financially viable.