MSHDA Bond Cap Increase

Michigan State Housing Development Authority

Legislative Advocacy: State Advocacy

HFA Staff Contact

Mark Garcia

garciam8@michigan.gov

Michigan State Housing Development Authority
Bond Cap Increase
Legislative Advocacy – State Advocacy

Entry Description

The Problem

With the recent success of MSHDA's single-family mortgage program, we found that the Authority would soon be bumping up against our statutorily mandated bond cap of $3.4 billion. Prior to engaging in this state outreach effort, MSHDA could not have outstanding bonds and notes in an aggregate principal amount that exceeded $3.4 billion, excluding the following:

- The principal amount of bonds and notes issued to refund outstanding bonds and notes.
- The principal amount of bonds and notes that appreciate in principal amount, except to the extent of the principal amount of these bonds and notes payable at such time.
- The principal amount of bonds and notes representing original issue discount, if any.
- The aggregate principal amount of bonds and notes that were issued before or on November 1, 2014, that is outstanding on that date, and that exceeds $3.4 billion (This particular provision was deleted in the bill and reflected a change in the cap that took effect November 1, 2014).

As a result, MSHDA legislative staff took action to notify the administration of the perceived problem, engage stakeholders, draft a bill, find a sponsor, and shepherd the bill through to passage in the Michigan Legislature and enactment through Governor Gretchen Whitmer's signature.

Administration Notification

First on the actionable items list was to notify Governor Whitmer's legislative and policy staffs that a potential problem with the cap was on the horizon. We did this two years prior to any anticipated difficulties to our operations in an attempt to afford us enough time to go through and complete the process legislatively. Because each State department works at the behest of the Governor, it was imperative to get their buy-in prior to commencing the process. The administration, being supportive of MSHDA's activities and mission, was immediately on board and gave us the green light to proceed.

Michigan State Housing Development Authority
Bond Cap Increase
Legislative Advocacy – State Advocacy

Engaging Stakeholders

One of the most important aspects to this strategy was incorporating the buy-in and support of many of our key stakeholders. As most HFA's know, our singular voice often does not resonate as loudly as a unified voice from multiple sources. By engaging the capacity of many key stakeholders, we were able to gain a valuable foothold among both their memberships and the legislators that they maintained strong relationships with. A small example of the stakeholders we involved includes:

- Habitat for Humanity Michigan
- Community Economic Development Association of Michigan (CEDAM)
- Michigan Municipal League (MML)
- Michigan Credit Union League (MCUL)
- Michigan Banker's Association (MBA)

Through this public/private partnership, we were able to set the key groundwork moving toward a successful bill.

Drafting a Bill

This was primarily done in-house, with help from both our Legal Division and our Finance Division. MSHDA attorneys were able to craft language that met the parameters set forth by our in-state drafting authority, the Michigan Legislative Service Bureau, and Finance was able to convey to the attorneys what exactly their goals were with the legislation.

Finding a Bill Sponsor

Having relationships with the legislature became paramount on this front. Knowing what committees handled not just housing matters, but housing matters combined with finance was useful. MSHDA legislative staff had a solid prior relationship with the Chairwoman of the House Finance Committee, as well as the Chairman of the Senate Committee on Finance. By working with both legislative chambers, it became apparent that the best avenue for passage would be to tackle the fickler House first, then move on to the Senate. Additionally, it was deemed a better strategy to allow a Democratic representative take lead sponsorship, as this would allow for quick turnaround with the Governor upon approval. As such, the House Finance Committee Chairwoman gave the bill to a Democratic colleague on her committee, and we were ready to proceed.

Michigan State Housing Development Authority
Bond Cap Increase
Legislative Advocacy – State Advocacy

Getting it Done

While attempting to pilot a piece of legislation through the Michigan House and Senate can be a challenge, especially depending on the subject matter, we had a relatively smooth sail this time around. We found the key to this process was education and, as such, we put together what we felt was the simplest one-pager to explain the bonding process and why MSHDA was running out of time to amend what could have become a difficult problem. You will find that one-pager below in our visual aids.

All that said, the bill passed the House (without amendment) 103-6, the Senate (without amendment) 35-2, and easily garnered the Governor's signature. Going forward, MSHDA is operating with a base $5 billion bond cap and does not foresee any issues for years to come. Crisis averted.

BOND CAP PROJECTION 2018

- The Michigan State Housing Development Authority (MSHDA) can issue debt for very limited purposes. To date, MSHDA has only issued debt for the purchase of single-family mortgages, funding multifamily development, home improvement loans and the cost of issuing the bonds.

- MSHDA bonds are asset-backed debt, meaning the assets purchased with the bond proceeds serve as security to the bond investors. As the mortgages are repaid, the funds are used to pay back the bonds. The Authority does not issue debt to fund operating costs.

- MSHDA primarily uses the proceeds from the issuance of debt to purchase assets (multifamily and single-family mortgages), that are pledged to investors. Revenues generated from these debt issuances allow MSHDA to operate with no General Funds from the State, and debt issued by MSHDA is not a General Obligation of the State of Michigan.

- MSHDA has never failed to meet its obligations, has never defaulted — even through the housing-induced credit crisis of 2008. MSHDA's Issuer Credit Rating is rated AA with a Stable Outlook by Standard & Poor's.

- Currently, MSHDA cannot have outstanding bonds or notes at any time, for any of its corporate purposes, in an aggregate principal amount exceeding $3.4 billion. MSHDA estimates it will push up against this current cap within a year.

- MSHDA's bond limit has not been raised since 2012. Bond cap usage has increased 662 percent since then. If the current pace of production continues, MSHDA will be back to the Legislature in five to six years for another bond cap increase.

- Inflation has increased the value of homes and the cost of building materials, which in addition to the robust lending, is accelerating the speed with which MSHDA is reaching the cap.

- The proposed legislation would amend MSHDA's governing statute (Public Act 346 of 1966) to increase MSHDA's limit on corporate bonds and notes from the current $3.4 billion limit to $5 billion.