

THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE: For the Housing Authority Agenda of May 14, 2002

REPORT NO.: HAR02-005

SUBJECT: Proposed Fiscal Year 2003 Budget

SUMMARY

Issue No. 1: Should the Housing Authority approve the proposed Fiscal Year 2003 (FY03) Budget?

Recommendation No. 1: Approve the \$137.1 million FY03 Activity Based Budget contained in Attachment 1.

Fiscal Impact No. 1: The proposed FY03 Budget anticipates revenues of \$137,112,281 from almost 70 sources. The Housing Commission does not receive any funding from the City's General Fund.

Issue No. 2: Should the Housing Authority continue to delegate authority to amend the FY03 Budget to the Housing Commission?

Recommendation No. 2: That the Housing Authority continue to delegate limited authority to the Housing Commission to amend the FY03 Budget as described on Page 3 when additional funding sources are available, consistent with the policies, programs and activities approved by the Housing Authority,

Issue No. 3: Should the Housing Authority budget Section 8 Operating Reserves to support various City of San Diego housing related projects? HUD requires specific action to access this fund each year.

Recommendation No. 3: That the Housing Authority approve the use of Section 8 Operating Reserves to support various City housing related projects, as described in the proposed budget.

Affordable Housing Impact: The proposed FY03 Budget allocates resources so that the Commission will serve more than 75,000 San Diegans. In essence, the \$137.1 million FY03 Proposed Budget would enable the San Diego Housing Commission to:

- Assist 11,450 households to rent private housing.
- Subsidize approximately 100 first-time homebuyers.
- Produce over 350 additional affordable rental units.

- Oversee physical improvements to 1,380 homes and apartments.
- Manage 1,769 units of publicly owned housing.
- Provide special purpose housing opportunities for 320 persons.
- Aid 625 families toward self-sufficiency.

Previous Related Actions: On May 1, 2002, the Land Use and Housing Committee considered the proposed FY03 Budget. Along with the proposed Budget, the Committee discussed some budget related funding issues that will return to LU&H for further consideration. With few Committee comments pertinent to the proposed budget document itself, the Committee suggested that the FY03 Budget be forwarded for Housing Authority approval.

In addition, specific precedents exist: For Recommendation 1, the Housing Authority approved the FY02 Budget on May 29, 2001; and subsequent amendments to the FY02 budget on various dates. For Recommendation 2, the Housing Authority approved similar delegation of budget authority on May 29, 2001. For Recommendation 3, the Housing Authority approved specific threshold levels for the withdrawal of Section 8 Operating Reserves on January 30, 2001.

BACKGROUND

The Housing Commission's FY03 proposed budget is prepared as an activity-based budget. It contains prior year and proposed year data for comparison by activity. Also, the objectives for each activity shown in Section III of the budget document delineate the expected performance measures. Available funds have been allocated to support multiple housing activities that address the increasingly critical affordable housing needs in San Diego.

DISCUSSION

Issue No. 1: Approval of FY03 Activity Based Budget

The proposed FY03 Budget shows a two percent decrease in proposed expenditures. Administrative costs decline, reflecting the net reduction of eight staff positions as well as a decrease in utility costs and in legal costs as we conclude construction defect litigation. Housing Programs show a modest net increase. The Section 8 Rental Assistance Program is growing while fewer funds are available to support rental housing development. The expenditure or obligation of most HOME and Housing Trust Funds on various projects in the current fiscal year will lead to substantially less carryover of funds from FY02 than occurred last year.

Note that the Housing Commission's budget projections estimate a gap between administrative revenues and expenses. Despite program efficiencies and administrative cost reductions, there remains a net operating shortfall of \$940,000 that the proposed budget covers with Reserves. Housing programs are held harmless in this regard. This issue,

including its origin and steps taken or proposed to address it, are referenced below in the "Other Issues" section, and will be discussed further with LU&H before the fiscal year begins.

As in past years, it is expected that additional program funding will become available during the coming year through grant application cycles not yet completed. Any increases in revenues would result in amendments to the FY03 Budget.

Issue No 2: Delegation of Budget Authority

As in prior years, it is recommended that the Housing Authority authorize the Housing Commission Board to amend the budget as follows, provided that the amendments are consistent with the policies, programs and activities approved by the Housing Authority:

- a. Addition of any unanticipated funds not to exceed \$250,000 that are made available during the course of the year;
- b. Transfer of funds of less than \$500,000 among activities within the FY03 Budget that do not impact the overall size of the Agency's annual budget;
- c. Addition of funding resulting from applications submitted with the approval of the Housing Authority.

Issue No. 3: Use of Section 8 Operating Reserves

HUD requires that Housing Authorities include in their Administrative Plan, and confirm by resolution each fiscal year, a "threshold for the amount of expenditures that may be made from the Section 8 Operating Reserves for other [*i.e., non Section 8*] housing purposes without explicit approval of the Board." The FY03 Budget proposes that Section 8 Operating Reserves (those administrative funds earned in excess of our Section 8 operating costs last year) continue to be used to support contracts for a variety of City housing related services such as the winter shelter, Elderhelp's shared housing program and the Fair Housing Council.

The Housing Authority is being asked to reiterate approval of specific threshold levels for the withdrawal of Section 8 Operating Reserves previously granted on January 30, 2001. These thresholds provided authority to withdraw Section 8 Operating Reserves of \$100,000 or less for the Chief Executive Officer, \$250,000 or less for the Housing Commission and over \$250,000 for the Housing Authority. These thresholds are identical to delegated expenditure levels in Board approved policies. Uses of these funds would be pursuant to the approved Budget.

Other Issues

The Housing Commission's proposed FY03 Budget was briefly discussed at the May 1 Land Use and Housing Committee meeting. The report that was presented to LU&H included

additional recommendations to address a projected administrative budget gap. That information is included in Attachment 2 merely for informational purposes and to demonstrate that measures are being actively pursued. These issues are not a part of this report's recommended Housing Authority actions, but will be brought back for LU&H and Housing Authority consideration in the near future.

At the May meeting, LU&H also heard comments from members of the public. Committee members requested that the Housing Commission respond to specific statements. These responses are included in Attachment 3. It is important to note that funding for all of the service contracts referenced in public comments is not in jeopardy; all are included for funding in the Housing Commission's FY03 Budget.

Respectfully submitted,

Carrol M. Vaughan
Chief Operating Officer

**Signature on File
With Original Document** Approved by,

Elizabeth C. Morris
Chief Executive Officer

Attachments:

- 1) Proposed FY03 Budget
- 2) Five Year Budget Projections (Informational only)
- 3) Public Comments Addressed to Land Use and Housing Committee

Attachment 2

Five Year Budget Projections

In August 2001, early budget projections by the Housing Commission for the five-year period beginning in Fiscal Year 2003 anticipated a differential between administrative revenues and expenses of about \$2.5 million annually.

Consequently, the Commission's management team initiated a series of actions to reduce the shortfall. Actions entailed: (1) deletion of twelve positions, including two directors and one manager, (2) a 90% reduction in funding for temporary employees, (3) a 20% reduction in Contract/Consultant, and (4) a 10% reduction in Sundry expenditures. Deletion of additional positions would inhibit the Housing Commission's ability to deliver effective, timely service to its clients and to continue to pursue its adopted goals.

In addition, the large Rental Assistance Program was re-engineered to be more business-oriented so all available vouchers could be used by families seeking apartments and so the Commission would earn all the administrative fees it qualified for. All of these actions reduced the expected shortfall by over \$1.5 million; however, current projections anticipate a funding gap of about \$940,000. Please note that overhead expenses in FY03 are reduced from 6 percent to 5 percent of the total budget.

The Housing Commission's FY02 Budget contains \$5.8 million in Reserves. The proposed FY03 Budget would use some of those funds held in reserve to balance the revenues with expenditures, and begin the new fiscal year with a reserve of about \$5 million. Some of the FY03 Reserve is being held for future years' administrative expenses, and the majority is either committed to continuing programs or saved for contingencies such as lawsuits. This practice of maintaining program production levels while funding a portion of the budget through use of one time revenues or reserves is not recommended to continue indefinitely if potential sources to replenish reserves are not anticipated.

The administrative budget gap is due to several factors including the loss of depended upon one time revenues, costs rising with inflation and labor rates, and little or no administrative revenue associated with certain programs. In addition, the FY03 Budget contains funding of more than \$800,000 for a number of City of San Diego projects, including the Winter Shelter and the City's Homeless Coordinator, the Fair Housing Council, Episcopal Community Services Employee Assistance Program, Elderhelp's Shared Housing Program, Access Center, the Reinvestment Task Force and the Regional Task Force on the Homeless. Funding for these City projects is provided from Local funds including Section 8 Operating Reserves.

With this in mind, the Housing Commission recommends opening discussions to address the expected shortfall.

Recommended Immediate Actions (Early FY2003)

-Direct staff to work with the City Council to amend the Housing Trust Fund Ordinance to add emergency shelter as an eligible activity (\$445,000) and to increase the percentage available for administration from 8% to 12% (\$150,000) to more closely cover the costs of administering the fund.

-Authorize staff to change the Housing Commission's technical assistance contract with the City's Equal Opportunity Program. This action would not affect the Housing Commission's commitment to equal opportunity. The Housing Commission employs staff who are responsible for ensuring strict compliance with all aspects of Equal Opportunity. Any technical assistance required in the future from the City could be billed on an hourly basis rather than a fixed price contract (\$30,000).

-Approve termination of Housing Commission funded support for the City's contract with Episcopal Community Services' Employee Assistance Program. ECS was notified of this proposed action in March 2002 and has not sought a reversal of the action (\$97,000).

Recommended Short Term Actions (FY2004)

-Direct staff to work with the City to shift responsibility for the City/County Reinvestment Task Force to the City's Community and Economic Development Department. Although the Task Force monitors Community Reinvestment Act efforts related to housing, most of the work being done by the Task Force is focusing on economic development (\$50,000);

-Direct staff to work with the City Manager to identify municipal revenue sources to pay for the City's Homeless Coordinator position (\$62,500);

-Direct staff to pursue City funding of the Fair Housing Council from Community Development Block Grant funds because this expenditure ensures the City's eligibility for CDBG funds (\$70,400);

-Direct staff to attempt to find alternative funding (not eliminate funding) for the following activities:

- Access Center (housing referrals for people with disabilities) (\$45,000);
- Elderhelp (shared housing program for seniors) (\$64,350);
- City's contribution to the Regional Task Force on Homeless (\$45,000);

Attached to this section is a projection of the anticipated surplus or deficit after each set of these recommended actions. Their primary result would be to balance administrative expenditures with anticipated revenues without utilizing reserve funds.

Long term, budget projections show that the Housing Authority may need to pare back some programs such as housing rehabilitation, or seek alternative funding for them. This could involve expanding revenues for the Housing Trust Fund, allocating the full 20% of CDBG funds to housing according to City Council policy, paying for some programs with city instead of housing agency revenues, or approving programs (such as permitting the Commission to develop and own mixed income housing) which will enable the Housing Commission to become more self-sufficient.

In addition, Housing Commission staff is continuing to pursue re-engineering efforts, to identify potential revenues, and to identify more cost effective methods to deliver housing services to eligible households.

Attachment 3

Public Comment & Response

During the Land Use & Housing Committee discussion of the Housing Commission's FY03 budget, there were several public comments offered. The Housing Commission staff was instructed to address these public comments at the time the FY03 Budget is discussed at the Housing Authority meeting on May 14, 2002.

Mary Scott Knoll, Executive Director, Fair Housing Council

Ms. Knoll's comments related specifically to the Housing Commission staff recommendation to work with City staff to fund the Fair Housing Council from Community Development Block Grant funds (especially since this activity is required for the City to receive future CDBG funds). Ms. Knoll explained the importance of the work of the Fair Housing Council and stated that without additional funding (beyond the \$88,000 budgeted in FY03), the Council would not be able to achieve the goals included in the FY03 Update to the City's Consolidated Plan.

Response: The HC utilizes diminishing local funds to fund the Fair Housing Council. Fair Housing Council activities should, of course, not be discontinued, but they are eligible for funding under CDBG and are usually supported with CDBG administrative dollars. (Several cities throughout San Diego County use a portion of their CDBG administrative funds to support the Fair Housing Council.) The FY03 Housing Commission budget currently includes \$88,000 in funding for the Fair Housing Council.

Leonard Brown, Access Center, and Kathy Green, Social Services

Mr. Brown and Ms. Green's comments supported funding to the Fair Housing Council and increased funding to social service programs such as Access Center and Elderhelp.

Response: The Commission's FY03 budget includes funding for Access Center and Elderhelp. We are recommending that alternative and additional funding sources be explored, not that funding be stopped.

Mel Shapiro

Mr. Shapiro provided written copy of his comments as follows. (Please note that Mr. Shapiro's comments are shortened in this text.)

- 1) . . .these agencies were not notified that they might lose their funding. The city manager has not agreed to fund these programs.

Response: The Commission never recommended that the agencies lose their funding. The CEO is merely requesting direction to work with the City staff (as appropriate) to explore a variety of actions. Nothing in the report states that funding has been eliminated for these activities. All the activities mentioned are included in the FY03 Budget. Further, the Commission has been open with the named agencies. Over the past three years, conversations with them have included discussion about the Housing Commission's anticipated shortfall, and written notification has been provided in advance to organizations regarding funding levels. A letter was sent to ECS in March 2002

regarding the EAP; the Director of the Reinvestment Task Force had a conversation regarding the recommendation with a Commission staff member; and the Fair Housing Council and Elderhelp are participating in continuing conversations about identifying funding resources.

- 2) “The budget also cuts rental housing production by \$7 million compared to last year.”

Response: No cuts were made. Rather, there is less funding available both because of a dearth of new funding to the agency next year and because there is less carryover into FY03 than in past years due to the Commission’s success in committing most of its funds to in-progress and completed projects.

- 3) “Despite these budget shortfalls, \$1.5 million is put aside for a new office building to be owned by the Housing Commission. Total cost \$23 million, not counting land.”

Response: The Housing Commission has been putting off major renovation of its facility to continue to spend the money, instead, on its programs. A new building is not a “done deal.” It is the option recommended to it by experts as the most useful to clients (who have difficulty getting to its current site) and, potentially, to the Commission’s budget (if the project includes mixed use, such as office space the agency could lease to others).

The Housing Commission and the Housing Authority have reviewed an analysis of several options, including major renovation of the building at Newton Avenue, and have determined that the best interests of the Housing Commission would be served by building a new office facility. Any specific proposals, including costs and financing plans, would require future Housing Commission and Housing Authority consideration.

Further, \$1.5 million has been accumulated into reserves for the office facility and shown in the Housing Commission’s budget for the last few years. This amount has been set aside in case the Housing Authority approves either a new building project or rehabilitation of the existing offices.

- 4) “The Commission paid Keyser Marston \$138,000 for a report on their office needs.”

Response: On March 1, 2002, the Housing Commission approved an agreement with Keyser Marston for Phase II of the office building project with this “not to exceed” amount. Phase II will include an analysis of the Housing Commission’s organizational structure, future growth projections and development of a final space plan. It also calls for detailed financial analysis and negotiations. In addition, should the building project be approved by the Housing Authority, the Phase II would include pre-construction management review services.

- 5) Is it fair to take away money from the agencies that serve the homeless and spend it for a new office building on Broadway for the comfort of the staff?

Response: First, it is not suggested that the agencies serving the homeless not be funded, and nowhere in this budget would the Commission take funds previously committed for services and redirect them for an office. Second, the current warehouse-turned-office building site was adequate when it was purchased in (1984) and the Commission served far fewer clients (for example, a few thousand rental assistance client families vs. more than 11,000 families it assists today). It is no longer adequate for serving tens of thousands of low income families appropriately (needed are: more privacy for client-staff interviews, more waiting room space, additional parking, closer to

transportation, etc.). Nor does it have adequate space for the increased number of staff needed to assist so many clients. In fact, the agency operates out of four additional sites scattered over the city, including leased sites.

- 6) Is it fair to reduce housing production while selling a bond issue for a new office building?

Response: Again, rental housing production was not reduced to shift funding to a new office building or any other activity. Housing bonds and office bonds are different sources of funds and are paid differently. The Housing Commission will continue to use housing bonds to fund rental housing production to the maximum extent allowed by the state, regardless of the outcome for the office facility.

- 7) “They have an office building with plenty of free parking and no mortgage – the \$1.5 million is needed now for housing, not new offices.”

Response: Please see Response #3 above. Also, please note that public transportation is not optimal and lack of adequate parking has resulted in difficulty for clients and employees (who must double park) alike.

- 8) “The city council passed a resolution last year saying that the HC’s office needs should be “part of an overall discussion on the City’s office building needs.”

Response: On November 27, 2001, the Housing Authority (City Council) unanimously approved a motion to authorize an exclusive negotiating agreement (ENA) for the development of a site located at 12th Avenue and C Street to meet office space needs. Further, the minutes reflect that the plans for a new office facility should be part of an overall discussion on the City’s office building needs. The City’s Real Estate Asset Department held this meeting on May 8, 2002. In addition, the Housing Commission discussed the proposed office facility and financing with the staff from the City Auditor and City Financial Management. They issued a written report stating that the development by the Housing Commission of an office facility would have no bearing on the City’s finances or its ability to finance municipal office space.

- 9) “The Commission chooses to ignore the council resolution and proceeds to hire consultants and reserve funds for a new office building at 12th and Broadway with no parking for clients.”

Response: The Housing Commission has not ignored Council direction. In fact, staff has diligently pursued the negotiations envisioned in the Housing Authority approved ENA. Any firm proposal for development of an office facility will be brought to the Housing Commission and Housing Authority for approval.

- 10) “In light of your declared housing emergency, I question the commission priorities... The \$1.5 million should be transferred from reserves to a housing use.”

Response: We are working closely with the City Council on the housing emergency. This does not negate the need for a safe, useful site to serve our current and future clients and staff.