



SAN DIEGO
HOUSING
COMMISSION

San Diego Housing Commission Financial Highlights

Fiscal year ended June 30, 2010
2010 Popular Annual Financial Report

San Diego Housing Commission
Finance Department
1122 Broadway, Suite 300
San Diego, CA 92101
www.sdhc.org





Housing Authority

- Sherri Lightner, 1st District
- Kevin Faulconer, 2nd District
- Todd Gloria, 3rd District
- Tony Young 4th District
- Carl DeMaio, 5th District
- Donna Frye, 6th District
- Marti Emerald, 7th District
- Ben Hueso, 8th District

Board of Commissioners

- Chairman of the Board:
- Gary Gramling
- Commissioners:
- Khadija Basir
 - Sam Guillen
 - Allen Sims
 - Roberta Spoon
 - James T. Waring
 - Ben Moraga

President & CEO: Richard C. Gentry

Visit the Housing Commission’s website at:
www.SDHC.org



This report provides a condensed presentation of the significant financial highlights of the San Diego Housing Commission for the fiscal year 2010. The Comprehensive Annual Financial Report (CAFR) is the source of the data for this summary report. The CAFR is a more detailed financial report audited by The Reznick Group and fully conforms to general accepted accounting principles. The CAFR is available on our website at:

www.sdhc.org/BudgetAndAnnualReports.aspx

Financial Reporting Award

The Housing Commission received the Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the 2nd consecutive year. This award represents the highest standards in government accounting and financial reporting. The CAFR award is presented annually by the Government Finance Officers Associations of the United States and Canada (GFOA).

Table of Contents

Who We Are.....	3
Chief Financial Officers Message	4
Financial Summary	6
Key Financial Information.....	8
Asset Portfolio	9
Real Estate Portfolio.....	10
Federal Funds.....	12
Move-To-Work.....	13
Demographic & Economic Info	14



The San Diego Housing Commission, a government agency, was formed by the City of San Diego (City), under ordinance No. 2515 on December 5, 1978, in accordance with the Housing Authority Law of the State of California. The Housing Commission primarily serves low income families by providing rental assistance payments, rental housing, loans and grants to individuals and not-for-profit organizations and other services.



The Housing Commission is an integral part of the City of San Diego. The City Council, acting in its capacity as the Housing Authority, exercises oversight responsibility for the operations of the Housing Commission. As a result, the Commission's financial data is presented as a component unit of the City of San Diego.

Members of the Board of Commissioners are appointed by the Mayor and confirmed by the City Council. Two commissioners must be residents of assisted housing, and one of the resident commissioners must be age 62 or older.

The Housing Commission's Core Values: Respect, Integrity, Collaboration and Excellence

Strategic Business Goals, Fiscal Year:

- Broaden the Housing Commission's mission to provide affordable housing for a wider San Diego population, from assistance for the homeless to opportunities for workforce housing.
- Model effective application of private sector techniques in a public sector operation.
- Become a national model in initiating and implementing new, progressive ideas to address affordable housing needs across the country.
- Provide a positive customer experience through the seamless, efficient and professional delivery of our programs and services.
- Continue to be an employer of choice in San Diego by offering professional development initiatives and treating staff members in a fair and equitable manner.



Economic Factors

Fiscal Year 2010 was a year of change at the Housing Commission. The status quo was challenged, new plans and ideas were developed and implemented, and a fresh, more entrepreneurial style of thinking replaced the standard government grants and services approach.

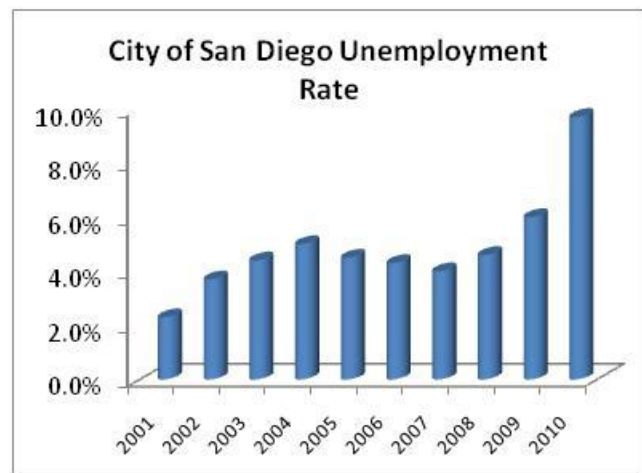
At the beginning of his tenure new President & CEO Richard C. Gentry set a goal of expanding the Housing Commission's national influence as a leader in the affordable housing development community. With this in mind, the Housing Commission set about doing all it could to strengthen the organization in order to better serve as a positive role model in the national housing development community. In fiscal year 2010, 129 affordable units at Hotel Sandford were acquired. In addition, the Commission partnered with developers on Riverwalk and Arbor Village to increase the City of San Diego's affordable housing inventory by 160 units. Approximately \$19 million was invested in additional properties in fiscal year 2010.

In early fiscal year 2011, the Commission acquired and closed on two additional projects, Courtyard Apartments and Mariners Village, for a total of 209 units. The Commission partnered with San Diego developers to acquire Vista Grande Apartments, which will add 49 affordable units to the City of San Diego's inventory. Also in fiscal year 2011, the Commission is scheduled to close two additional projects, Mercado Del Barrio and Mission Apartments, for a total of 176 units.

Besides adding a significant amount of housing, new initiatives proposed for fiscal year 2011 included transportation oriented development, supportive housing for the homeless, and identifying opportunities to develop additional workforce housing.

Other notable Housing Commission developments included a budget increase of approximately \$42 million for a total of \$322 million; to restructure the 2010 organization, which saw an expansion of Board and Executive Functions to include a policy unit and compliance responsibilities; and finally, a further restructuring that transferred all development functions to the Real Estate Department.

Let's turn briefly now to a regional outlook. Despite unemployment increasing in San Diego from 6% in 2009 to 9% in 2010, the San Diego housing market picked up steam this year as home buyers took advantage of special tax credits. New home sales rose during the first quarter of 2010, while existing home sales also saw an increase during the first quarter of 2010. Both were given a boost by low interest rates and special tax credits. While we project that home sales in the San Diego market will likely slow due to the loss of government incentives, the lower interest rates could assist further home purchases and refinancing.





As for the national outlook, the economic forecast appears mixed at best. Slow job growth combined with fears of deflation is expected to further dampen consumer demand. The ever-increasing national debt, a possible double dip recession and a lack of economic recovery in European markets all point to a sluggish U.S. recovery and suggests that we may not yet have seen the worst of the recession, which has been the most severe since the Great Depression of the 1930s.

Keeping this expectation of a less than robust economic recovery in mind, the San Diego Housing Commission implemented a comprehensive financial strategy for fiscal year 2010 and beyond. This strategy recognizes the considerable affordable housing needs of San Diego's citizens who live in diverse neighborhoods and in various housing circumstances. Through a wide variety of housing programs, the Housing Commission currently serves more than 76,000 people and in Fiscal Year 2010 assisted approximately 14,000 households in renting private housing, subsidized over 178 first-time home buyers, added 130 units to our housing stock, rehabilitate over 273 homes and apartments, managed over 1,900 units of housing and assisted 310 families towards self-sufficiency. While these are impressive numbers, the Housing Commission will work tirelessly until all of San Diego's housing needs are fully met.

Finally, the San Diego Housing Commission will search for additional ways to assist those needing affordable housing, be it through adding services, simplifying processes and paperwork, ensuring program conformity, or by seeking greater public awareness and understanding of local housing issues. The Housing Commission is committed to providing the most affordable housing possible and to assisting the residents of San Diego who are in need during this period of unprecedented economic turmoil.

John A. Pfeiffer, CPA

CFO, Vice President of Finance



Financial Statements

The financial statements of the Commission report information using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities.

Statement of Net Assets

The abbreviated **Statement of Net Assets** presented in this report gives an overview of the Commission's assets and liabilities, with the difference between the two reported net assets at a specific point in time.

Financial Overall Position

- Current assets increased by 52%. The increase in current assets is attributed to the Commission's investing in bonds with maturities of less than one year.
- Capital and Noncurrent assets increase of 14% was due to an increase in long term investments of \$23 million mainly due to proceeds from FNMA and an increase of \$11.4 million in land and building acquisitions.
- Total liabilities increase of 108% is attributed to \$37 million loan from FNMA that the commission borrowed on December 30, 2009 for increasing the affordable housing and capital asset portfolio.
- The unrestricted net assets increase of \$62 million is due to \$17 million in notes receivable and \$4 million in reserve for operations. Also due to HUD's approval of the Move-To-Work program \$20 million was reclassified from previously restricted Housing assistance program (HAP) funds to unrestricted to meet the single fund flexibility clause.
- Net Assets, Invested in capital assets net of debt, decreased \$30 million due to \$9 million in new assets and \$39 million in new loans.
- The Housing Commission's net assets increased 9% due to a \$32 million surplus generated during fiscal year 2010.

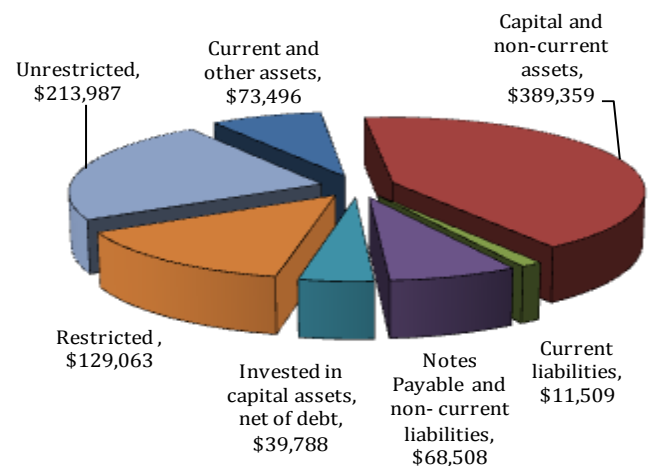
Statement of Net Assets

As of June 30, 2010

(in the thousands)

ASSETS	2010	2009	%
Current and other assets	\$ 73,496	\$ 48,245	52%
Capital and non-current assets	389,359	340,627	14%
Total assets	\$ 462,855	\$ 388,872	19%
LIABILITIES			
Current liabilities	\$ 11,509	\$ 8,830	30%
Notes Payable and non-current liabilities	68,508	29,679	131%
Total liabilities	\$ 80,017	\$ 38,509	108%
NET ASSETS			
Invested in capital assets, net of debt	\$ 39,788	\$ 69,458	-43%
Restricted	129,063	128,863	0%
Unrestricted	213,987	152,042	41%
Total net assets	\$ 382,838	\$ 350,363	9%

Financial Overall Position





Statement of Activities

The abbreviated **Statement of Activities** accounts for all of the Commission’s revenue and expenses and reports the difference between the two as the change in net assets. The statement reflects the results of the Commission’s operations over the year and can be used to determine the Commission’s credit worthiness and its ability to successfully recover all its costs through grants, tenant charges and other income.

Financial Overall Position (Continued)

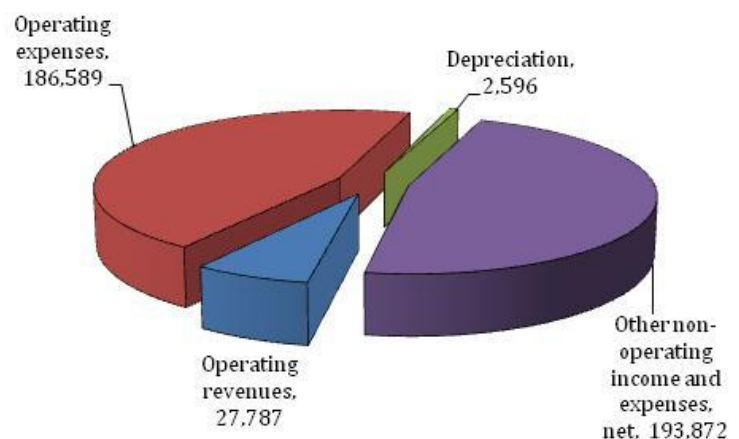
- Operating revenue grew by \$1.7 million in fiscal year 2010 mostly due to an increase in Neighborhood Stabilization Program (NSP) income.
- Net Non-operating income increased 12% which is attributed to an increase in grant income; \$10 million in Home funds \$7 million in NSP funds, \$2 million in American Recovery and Reinvestment Act (ARRA) funds, and \$1.7 million in Lead Reduction funds.
- Operating expenses increased 6% due principally to a \$4 million increase in housing assistance expenses attributable to an increase in leasing expenses, due to internal growth \$1.5 million in

Statement of Activities

As of June 30, 2010
(in the thousands)

	June 30, 2010	June 30, 2009	Change %
Operating revenues			
Dwelling rental income	\$ 21,193	\$ 21,432	-1%
Land lease and other rental income	1,234	1,369	-10%
Fee revenue	1,813	1,649	10%
Shared equity income	182	206	-12%
Other revenue	3,365	1,439	134%
Total Operating revenues	27,787	26,095	6%
Operating expenses	186,589	175,395	6%
Deficit before depreciation and other non-operating income and expenses	(158,802)	(149,300)	4%
Depreciation	2,596	2,367	10%
Deficit before other non-operating income and expense	(161,398)	(151,667)	4%
Other non-operating income and expenses, net	193,872	173,213	12%
Change in net assets	\$ 32,474	\$ 21,546	51%

Financial Overall Position (Continued)



Key Financial Summary - Investments



Key Financial Summary - Investments

The Housing Commission invests idle funds in accordance with the provisions of U.S. Department of Housing & Urban Development (HUD) Notice PIH 96-33 and California Government Code Sections 5922 and 53601. The Housing Commission's approved Investment Policy contains provisions concerning the Standard of Care that include Prudence, Ethics, Conflict of Interest and Delegation of Authority.

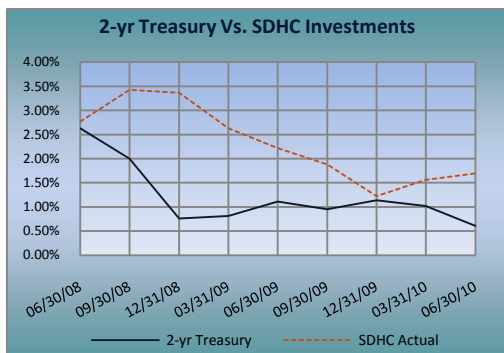
The overriding investment strategy of the Housing Commission's investment portfolio is to protect the principle investment. Second to safety of principle is liquidity of investments to meet anticipated cash flow needs. Subordinate to both safety and liquidity is yield. This principle of Safety, Liquidity then Yield, known as SLY, is the overriding principle used to evaluate each investment and the portfolio as a whole.

Portfolio Overall Position

The total funds invested on June 30, 2010 increased by 23.49% over the previous year. The increase reflects proceeds from debt financing activities not yet put to use in acquiring additional local affordable housing. Funds acquired from debt financing are expected to be expended in a very short period and therefore reside in liquid investments such as the State of California's Local Agency Investment Fund (LAIF) and the San Diego County Investment Pool (SDCIP).

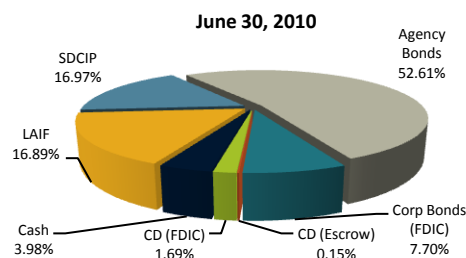
Market Value in Millions			
	06/30/09	06/30/10	Variance
Cash	\$ 5.43	\$ 4.70	\$ (0.73)
LAIF	\$ 31.33	\$ 19.95	\$ (11.38)
SDCIP	\$ -	\$ 20.03	\$ 20.03
Agency Bonds	\$ 49.49	\$ 62.12	\$ 12.63
Corp Bonds (FDIC)	\$ 7.10	\$ 9.08	\$ 1.98
CD (Escrow)	\$ 0.26	\$ 0.18	\$ (0.08)
CD (FDIC)	\$ 2.00	\$ 2.00	\$ -
Total	\$ 95.61	\$ 118.07	\$ 22.45

The blended rate of return at year-end was 1.69%. This is down from the prior year-ending blended rate of 2.22%. This is a direct result of the low interest rates being offered in the market and liquidity needs for asset acquisition. In late December, the portfolio was increased by \$36.83 million from debt financing. This large infusion of cash drove down portfolio returns. In the second half of the year, most of the cash was used for acquisitions and/or moved from lower yield cash account to higher yielding liquid investments.



The San Diego Housing Commission's investment portfolio is presented in detail to the Commissioner appointed Investment Committee on a quarterly basis. After each Investment

Committee meeting, the report is officially sent to the San Diego Housing Commission Board as an informational report and posted on the Housing Commission's website. Further investment detail and past reports can be viewed on the Housing Commissions website at <http://www.sdhc.org/Media-Center/SDHC-Meetings/Housing-Commission-Meetings/>.





Capital Assets

At the end of fiscal year 2010, the Housing Commission had over \$107 million invested in capital assets, including office furniture and equipment, vehicles, land, building and building improvements. The majority of the Housing Commission's investment in capital assets is comprised of ownership of land, affordable housing stock, and the Smart Corner office building as well as construction -in-progress that represents rehabilitation projects underway.



Fixed Assets

In fiscal year 2010 the Housing Commission acquired the Hotel Sandford, a 130-unit single room occupancy hotel which provides affordable housing for low-income seniors. The purchase price of the Hotel was \$6,870,000 which includes \$3.3 million for the purchase of the land and \$3.5 million for the building.

The Housing Commission partnered with Affirmed Housing Group to construct Riverwalk Apartments, a 50-unit (49 affordable housing units) apartment project. As part of the terms, the Housing Commission acquired the 2.56 acre parcel of land for \$2.2 million and issued a loan of \$2.28 million to the developing entity, Riverwalk Apartments, LP for the construction of the building. In addition, the Housing Commission will lease the land to Riverwalk Apartments, LP for annual ground lease payments.

The Housing Commission partnered with LINC Housing to rehabilitate Arbor Village Apartments, a 112-unit (111 affordable housing units) project. As part of the project, the Housing Commission acquired the 3.85 acre parcel of land for \$2.4 million and issued a loan of \$5.46 million to the developing entity, LINC-Arbor Apartments Housing Investors, LP for the rehabilitation of the building. In addition the Housing Commission will lease the land to LINC-Arbor Apartments Housing Investors, LP for annual ground lease payments.





Real Estate Portfolio

Belden SDHC FNMA LLC, Central SDHC FNMA LLC and Northern SDHC FNMA LLC were created as a requirement of Fannie Mae to obtain financing on the former public housing units. On December 30, 2009 the LLC's obtained financing from Fannie Mae (FNMA) in the amount of \$37 million. The FNMA loans were the LLC's not the commission. Each one of these loans are nonrecourse obligations of the LLC's. The LLC's are wholly owned by the San Diego Housing Commission.



Mercado groundbreaking on October 27, 2010.

The American Recovery and Reinvestment Act of 2009 created the new Build America Bond program (BAB's). State and local governments receive direct subsidy payments from the U.S. Treasury for a portion of their borrowing costs on BAB's equal to 35 percent of the total coupon interest paid. The subsidy stream is paid for the full term of the bonds. The Belden SDHC FNMA LLC loan has been approved as a qualified direct subsidy BAB's loan.

On August 31, 2010 the Housing Commission closed on two Federal Housing Administration (FHA) BAB's eligible tax credit loans of approximately \$39 million by leveraging 22 properties. On September 20, 2010, the Commission received an additional \$14 million from FHA by leveraging an additional 22 properties.

Fiscal Year 2010 Existing Portfolio Equity Withdrawn Fannie Mae

FNMA North \$10,810,000 6 SDHC properties 138 Units	FNMA Central \$14,010,000 27 SDHC properties 185 Units	FNMA Belden \$12,320,000 1 SDHC property 243 Units
--	---	---

Fiscal Year 2011 Existing Portfolio Equity Withdrawn FHA

FHA North \$17,500,200 14 SDHC properties 154 Units	FHA Central \$15,726,000 22 SDHC properties 234 Units	FHA South \$25,017,100 8 SDHC properties 300 Units
--	--	---



Real Estate Portfolio

As of June 30, 2010 the Housing Commission acquired the following properties with the loan proceeds:

<u>Property Name</u>	<u>Total units</u>	<u>Total Cost</u>	<u>Closing Date</u>
Hotel Sandford	130	\$ 6,095,000	3/18/2010
Riverwalk Apartments	50	\$ 4,475,145	4/30/2010
Arbor Village	112	\$ 7,900,000	4/30/2010
Total	292	\$ 18,470,145	

Subsequently from June 30, 2010 the Housing Commission acquired the following with the FHA and FNMA loan proceeds.

Fiscal year 2011 acquisitions

<u>Property Name</u>	<u>Total units</u>	<u>Total Cost</u>	<u>Closing Date</u>
Courtyard Condominiums	37	\$ 7,686,000	9/10/2010
Vista Grande	49	\$ 3,812,000	10/19/2010
Mariners Village	172	\$ 34,330,509	10/27/2010
Total	258	\$ 45,828,509	

Housing Commission Board approved acquisitions

<u>Property Name</u>	<u>Total units</u>	<u>Total Cost</u>	<u>Closing Date</u>
Mercardo Del Barrio	91	\$ 7,000,100	Pending close
Mission Apartments	85	\$ 6,000,000	Pending close
Total	176	\$ 13,000,100	

To date, the Housing Commission has committed \$77.3 million to acquire, directly or through development partnerships, eight properties containing 726 units, all required to remain affordable for at least 55 years.

The Housing Commission’s business plan can be seen at www.sdhc.org/budgetandannualreports.aspx



Federal Funds

With a budget of \$322 million and 259 employees the Housing Commission fuels the region's economy by expanding the supply of affordable housing and overseeing programs that help about 76,000 San Diegans annually.

For more information on our major federally funded programs the annual single audit report can be viewed on website located, <http://www.sdhc.org/BudgetAndAnnualReports.aspx>

Through the federal Housing and Economic Recovery Act of 2008, the U.S. Department of Housing and Urban Development (HUD) awarded the City of San Diego \$9.4 million of **Neighborhood Stabilization Program** funds. The grant, which is being administered by the Housing Commission on behalf of the city, includes funding to help moderate-income residents buy and rehabilitate foreclosed homes in targeted areas. Approximately \$7.3 million was utilized in fiscal year 2010.

In 2009, the Housing Commission launched a cutting-edge homeless prevention program called **Homelessness Prevention and Rapid Re-housing Program (HPRP)**. The three-year, \$5.7 million federal program targets families in danger of becoming homeless as a result of the economic downturn. The Housing Commission is administering the funds on behalf of the City of San Diego, which received a one-time grant from HUD through the federal American Recovery & Reinvestment Act. Approximately \$900,000 was utilized in fiscal year 2010.

In October 2008, the Housing Commission was awarded \$7 million in HUD **Lead Demonstration and Lead Control Grants** to help protect residents from lead paint hazards. The grant is for lead elimination over the next three years. Approximately \$2 million was utilized in fiscal year 2010.

The **HOME** Program was created under Title II (the Home Investment Partnerships Act) of the National Affordable Housing Act of 1990 to provide decent, safe, and affordable housing for all Americans and to alleviate the problems of excessive rent burdens, homelessness and deteriorating housing stock nationwide. HOME funds a broad range of activities, including new construction, rehabilitation and acquisition of standard housing, assistance to new homebuyers, and tenant-based rental assistance. Fiscal year 2010 HOME budget was \$9 million. Total loan portfolio as of June 30 2010 was \$127 million.

The **American Recovery and Reinvestment Act (ARRA)** of 2009 was signed into law by President Obama on February 17, 2009. The Act is an extraordinary response to the economic crisis and includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

ARRA includes \$13.61 billion for projects and program administered by HUD, nearly 75% of which was allocated to state and local recipients. ARRA investments in HUD programs will generate jobs, modernize homes to make them energy efficient and help families and communities hardest hit by the economic crisis. The Housing Commission received an allocation of \$2 million in fiscal year 2009. On June 29, 2010 the Housing Commission purchased Vista Verde and used all available ARRA funds.



On January 14, 2009, HUD approved the Amended and Restated Moving to Work (MTW) Demonstration Agreement. The term of the agreement is from January 2009 to June 30, 2018. Under the agreement, the Housing Commission has the flexibility to design and test various approaches for providing and administering housing assistance. The MTW program has three objectives:

1. Reduce cost and achieve greater cost effectiveness in Federal expenditures
2. Give incentives to families with children whose heads of household are either working, seeking work, or are participating in job training, education or other programs that assist in obtaining employment and becoming economically self-sufficient
3. Increase housing choices for low-income families

Calendar year 2010 HAP funding for the MTW vouchers was \$143,480,704.

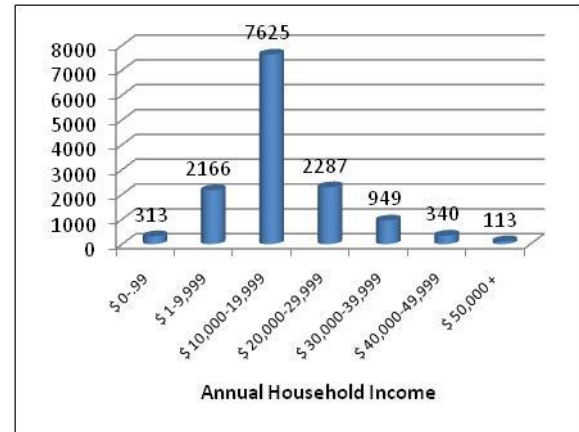
In accordance with fiscal year 2010 MTW plan's single-fund flexibility, HAP and administrative reserves were reclassified to unrestricted retained earnings. Single-fund flexibility was approved by HUD where the Housing Commission can combine funds from public housing operating, capital fund assistance and Housing Choice Voucher funds to implement a block grant/single fund budget approach to budgeting and accounting. At the same time, continuing to serve the same amount of participants prior to the Move-to-Work implementation.





Housing Choice Voucher Program

- Funded by HUD and managed by the Housing Commission's Rental Assistance Department, the Housing Choice Voucher Program (Section 8) serves 14,000 extremely and very low-income San Diego individuals and families.
- With Fiscal year 2010 funding of \$164 million Housing Choice Voucher is the Housing Commission's largest program, comprising over 60% of its annual budget.

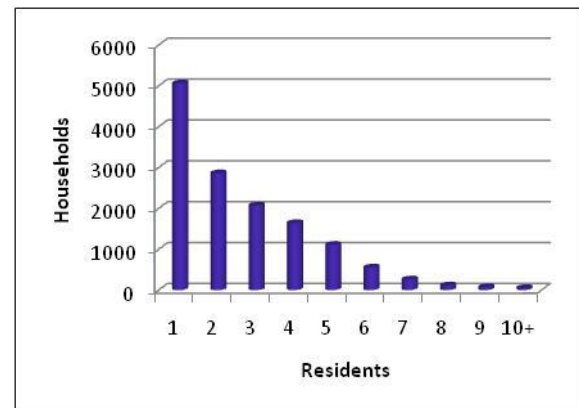


Income per HCV Household

- 55.5% of Housing Choice Voucher program recipients' income is between \$10,000 to \$19,999.

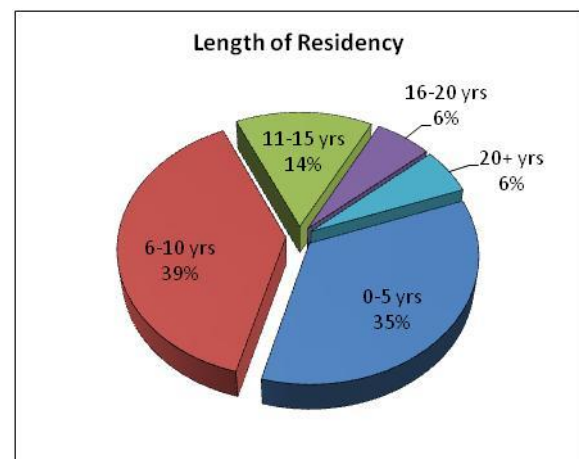
Resident Members per Household

- 35.6% of 14,020 households are single members.
- Second and third largest groups are two members per household at a total of 2,899, and three members at a total of 2,147.
- 5,208 households reside in a two bedroom unit followed by 3,538 in a three bedroom, 3,216 in one bedroom units.



Years in Housing Choice voucher Program

- 5,931 HCV residents have been in the program 1-4 years.
- 4,799 have been in the program 4-9 years.





SAN DIEGO
HOUSING
COMMISSION



“We’re About People”

