



Good Neighbors

San Diego  
Housing Commission

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# REPORT

**DATE ISSUED:** December 24, 2003

**Item: 104**

**REPORT NO.:** HCR04-04  
For the Agenda of January 9, 2004

**SUBJECT:** Proposed Fiscal Year 2004 Budget Revision (Citywide)

## SUMMARY

**Issue 1:** Should the Housing Commission recommend Housing Authority approval of revisions to the Fiscal Year 2004 budget to reflect actual carryover and net new revenues?

**Recommendation 1:** Approve the revision that will result in a net increase to the Fiscal Year 2004 budget of \$12,473,012 and recommend final approval by the Housing Authority.

**Fiscal Impact 1:** Approval of this action will increase the current Fiscal Year 2004 budget by \$12,473,012 for a total budget of \$177,026,834.

**Issue 2:** Should the Housing Commission recommend that the Housing Authority approve the use of Section 8 Operating Reserves to support various Housing Commission Activities in FY04? HUD requires specific action to access this fund each year.

**Recommendation 2:** That the Housing Authority approve the use of Section 8 Operating Reserves to support various Housing Commission Activities in FY04.

**Previous Related Actions:** On April 11, 2003, the Housing Commission approved the Fiscal Year 2004 budget in the amount of \$162,579,407. The budget was presented to the Land Use & Housing Committee and then forwarded to the Housing Authority for approval on June 10, 2003. The approval also included the use of up to \$750,000 of Section 8 Operating Reserves to support various City of San Diego related projects. Subsequent budget amendments detailed on Attachment 4 have increased the budget by \$1,974,415 to \$164,553,822.



A state agency authorized by the City of San Diego

## **BACKGROUND**

The budget revision is primarily a reconciliation of the previously approved FY04 budget with current, more accurate financial information. The 2004 Housing Commission Budget was developed in early 2003 and included estimates of carryover funds, because exact amounts would not be known prior to the close of Fiscal Year 2003. At this point, exact carryover has been determined and the revision reflects these additions and deductions.

In addition, the Housing Commission receives funding from numerous federal, state and local sources and these revenues change and require periodic update. Finally, new sources of funds received and sources anticipated but not awarded require adjustment to the previously approved budget. The summation of all these adjustments from estimated to actual is incorporated within this Fall budget revision.

## **DISCUSSION**

The first issue is the recommendation for a significant shift in revenue allocation due to changing federal regulations. In September 2003, HUD issued a Notice that limits the amount of operating reserves an agency may retain to 5% above actual expenses. The current balance of the Section 8 Operating Reserve is \$1,960,537 or 21% of administrative fees estimated to be earned in FY04 which means the Housing Commission cannot retain additional surplus fees at the end of FY04. The Housing Commission expects to earn an additional \$1.1 million in surplus administrative fees by the end of FY04. In order to be able to retain these fees for housing programs, it is recommended that \$1,960,537 be withdrawn from the Section 8 Operating Reserve and utilized in the FY04 Budget wherever eligible in various Housing Commission Activities. This action will enable the Housing Commission to retain all Section 8 fees earned and will still provide for administrative costs and other activities.

Furthermore, it is recommended that the Housing Commission utilize \$495,467 of new FY04 Section 8 fees rather than Conventional funds in Resident Services and \$214,835 of FY04 Section 8 fees rather than Local funds in Communications and Operations Development that includes Agency Reception and Ombudsman services. The use of Section 8 fees is eligible for these purposes as these Activities support Section 8 efforts. These recommendations will reduce estimated FY04 surplus administrative fees to a level less than 5% and the Housing Commission will be able to retain these fees for use in FY05.

The second policy issue involves the use of the resulting \$2,175,372 of Local funds that become available as a result of the substitution discussed above. It is recommended that \$1.5 million of this amount be used to replenish the Contingency Reserve for the office facility. The FY04 reserve for the office facility was reduced by \$1.5 million as a result of Housing Authority

approval to utilize \$1.5 million for the down payment and other planned costs related to the purchase of the new office facility. This amount was transferred to Facilities Management for those purposes. The replenished Contingency Reserve for the office facility (\$1.5 million) would continue to provide for any potential shortfall from the sale of the Newton office facility.

The remaining \$675,372 that became available as a result of the substitution is recommended, along with \$477,495 of carryover Local funds, to provide for a Local Section 8 Support Reserve of \$1,152,867. This action would create a locally funded reserve that takes the place of the Section 8 funded reserve that, for technical reasons noted above, has been reprogrammed for program related activities. This Reserve may be necessary to provide for transition funding for Rental Assistance in the event that proposed legislation reducing administrative fees is approved.

## **REVENUE CHANGES**

There are two types of funds incorporated into this budget revision: carryover funds and new revenue sources. The net addition to the budget from carryover sources was \$7,301,859. The net addition to the budget from new revenue sources was \$5,171,153.

Carryover funds are those funds budgeted in the prior fiscal year that for a variety of reasons did not get expended or obligated. Carryover may also be revenues in excess of those expected. Carryover funds can be broken down into two categories based upon the requirements of the funding sources. First, "restricted carryover" amounted to \$1,347,547. This carryover is restricted to a specific purpose or activity as mandated by the funding source. The second type of carryover is "unrestricted" and amounted to \$5,954,312. There is some discretion in the use of these funds.

New revenue sources are similarly broken into restricted and unrestricted funds. Restricted new funding adjustments amounted to \$2,051,937. Unrestricted new funding adjustments amounted to \$3,119,216. A detailed explanation of the sources of both carryover and new revenue sources is discussed in Attachment 1.

The Housing Commission currently has fifty-two revenue sources in the budget. All but five of these sources have been adjusted within this revision. Attachment 6 contains the detailed information by specific revenue source that contributes to the budget revision.

The following table summarizes the changes in revenues for local, state and federal sources.

<b>Revenues</b>	<b>Current Budget</b>	<b>Revision Budget</b>	<b>Proposed Budget</b>	<b>% of Change</b>
Local Revenues	18,783,436	7,023,679	25,807,115	+37%
State Revenues	1,576,368	962,334	2,538,702	+61%
Federal Revenues	144,194,018	4,486,999	148,681,017	+3%
<b>Total Revenues</b>	<b>164,553,822</b>	<b>12,473,012</b>	<b>177,026,834</b>	<b>+8%</b>

**EXPENDITURE CHANGES**

The incorporation of the additional revenue in the budget is offset by the uses for the funds. Of the \$12,473,012 in revenue additions, \$9,502,176 is budgeted into the various agency activities and the remaining \$2,970,836 is placed primarily into public housing related reserves. Generally speaking, funds carried over from a prior year were placed within the same activities as originally funded. Revised FY04 budget goals are included in this report as Attachment 8. New program funds were allocated to the activities identified in the application process. The Housing Commission will maintain the unexpected revenue, administrative savings and the transfer of Section 8 Reserves to Local funds in reserves for future utilization. The proposed changes in activities is presented in detail in Attachments 2 and 3.

The following table summarizes the changes in expenditures by major activity.

<b>Activities</b>	<b>Current Budget</b>	<b>Revision Budget</b>	<b>Proposed Budget</b>	<b>% of Change</b>
Housing Services	118,377,715	880,983	119,258,698	+1%
Hsg Finance & Dev	23,834,044	8,248,829	32,082,873	+35%
Operations	8,740,916	372,364	9,113,280	+4%
Reserves	13,601,147	2,970,836	16,571,983	+22%
<b>Total Expenditures</b>	<b>164,553,822</b>	<b>12,473,012</b>	<b>175,277,248</b>	<b>+8%</b>

The Agency summary of expenditure is detailed in Attachment 7. Salary and Benefits increase by \$299,382 to provide for the Housing Commission's prorata share of prior year losses incurred for Worker's Compensation as determined by the provider. Less than \$30,000 of the revision is attributable to services and supplies while over \$9.5 million, or 76% is utilized for the programs

and services the Housing Commission operates.

**Alternatives:**

1. Budget new unrestricted funds differently.
2. Utilize unrestricted carryover funds for activities other than those budgeted

Respectfully submitted,

Approved by,

Edward P. Mauk  
Manager, Financial Services

Elizabeth C. Morris  
Chief Executive Officer

**Attachment(s):**

- Attachment 1: Detailed Explanation of Proposed FY04 Revenue Revisions
- Attachment 2: Proposed FY04 Budget by Activity
- Attachment 3: Detailed Explanation of Proposed FY04 Activity Revisions
- Attachment 4: Previous FY04 Budget Revisions
- Attachment 5: Schedule of Agency FY04 Reserves
- Attachment 6: Agency Summary of FY04 Revenues
- Attachment 7: Agency Summary of FY04 Expenditures
- Attachment 8: Revised FY04 Activity Goals