



Good Neighbors

San Diego
Housing Commission

REPORT

DATE ISSUED: April 16, 2004 **ITEM 106**

REPORT NO. HCR04-25
For the Agenda of April 23, 2004

SUBJECT: Proposed Fiscal Year 2005 Budget

SUMMARY

Issue No. 1: Should the Housing Commission recommend Housing Authority adoption of the Fiscal Year 2005 (FY05) Budget as proposed?

Recommendation No. 1: Review and recommend Housing Authority adoption of the \$197.2 million proposed FY05 Activity Based Budget (Attachment 1). Note: the budget schedule allows for consideration of the budget at today's meeting and approval at the May 14, 2004, Housing Commission meeting to ensure sufficient opportunities for Commissioners to review.

Fiscal Impact No. 1: The proposed FY05 Budget anticipates revenues of \$197,183,418 from almost 70 sources. Approval of the proposed FY05 Budget will appropriate funds for the Agency to pursue the goals and objectives outlined in the Business Plan.

Issue No. 2: Should the Housing Commission seek authority from the Housing Authority to enable the Housing Commission to amend the approved FY05 Budget during the fiscal year?

Recommendation No. 2: Recommend that the Housing Authority continue to delegate limited authority to the Housing Commission to amend the FY05 Budget as described on Page 3 of this report, consistent with the policies, programs and activities approved by the Housing Authority, as it has in past years.

Issue No. 3: Should the Chief Executive Officer be authorized to amend the FY05 Budget when additional funding resources are available?

Recommendation No. 3: Continue to delegate limited authority to the Chief Executive Officer to amend the FY05 Budget as discussed on Page 3 of this report, consistent with policies, programs and activities approved by the Housing Authority.

Issue No. 4: Should the Housing Commission recommend that the Housing Authority approve the use of Section 8 Operating Reserves to support various City of San Diego related projects? HUD requires specific action to access this fund each year.

Recommendation No. 4: That the Housing Authority approve the use of Section 8 Operating Reserves to support various City of San Diego-related projects.

Affordable Housing Impact: The proposed FY05 Budget allocates resources so that the Housing Commission will continue to serve more than 75,000 San Diegans. In essence, the \$197.2 million FY04 Proposed Budget would enable the San Diego Housing Commission to:

- Assist 12,454 households to rent private housing.
- Subsidize approximately 95 first-time homebuyers.
- Produce 690 additional affordable rental units.
- Oversee physical improvements to 1,830 homes and apartments.
- Manage 1,745 units of publicly owned housing.
- Provide special purpose housing opportunities for 370 persons.
- Aid 589 families toward self-sufficiency.

Previous Related Actions: The Housing Commission and Housing Authority approved similar resolutions for the Fiscal Year 2004 Budget on April 11, 2003 and June 10, 2003 respectively.

Future Related Actions: Following Housing Commission approval of the proposed FY05 Budget, this item will be presented for review to the City Council Committee on Land Use & Housing, and then to the Housing Authority for consideration. The City's Financial Management staff requested that a copy of the Housing Commission's FY05 Budget be submitted prior to April 16, 2004, in order to include it in the related agencies volume of the City Budget. Also, appropriate sections of the FY05 Budget will be submitted to the funding sources (State, HUD and City Council) for review and action as required.

BACKGROUND

The Housing Commission's FY05 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 clearly 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

The proposed FY05 Budget totals \$197,183,418, an increase of \$17.6 million from the current FY04 Budget of \$179,638,620. There are no City General Funds in this budget.

The proposed FY05 Budget shows a \$20 million (15%) increase for housing programs, while administrative costs and reserves decline. Most of the additional expenditure is for rent increases to owners in the Section 8 Voucher Program anticipated during the year, with offsetting revenue from the U.S. Department of Housing and Urban Development (HUD). In addition, the budget projects

more funds available for Rental Development and Home Ownership loans as a result of new state and federal grants. Proceeds from the sale of 35 public housing units to the School District are included to begin development of replacement housing. FY05 funding levels for Resident Services, funded with prior year grants that are largely depleted, decline in the initial budget until new grants are obtained.

Seven positions would be deleted, resulting in a slight decrease in salaries and benefits. There is a decrease in services and supplies due to constrained expenditures as well as the transfer of planned expenditures for Reinvestment Task Force salaries and certain office facility expenses to other budget lines that better reflect the nature of these costs.

Reserves previously set aside for "extraordinary maintenance" will be drawn down and used with new HUD capital grants to provide for rehabilitation at numerous publicly owned apartment complexes. Funds held for future expenditure under multiyear grants decline; and litigation, insurance and office facility reserves are unchanged. Unallocated contingency reserves are budgeted at almost one percent of the total budget amount.

It is expected that additional funding will become available during the coming year through grant application cycles not yet completed. Any new funding awards would result in proposed amendments to the FY05 Budget.

Delegation of Budget Authority

As in prior years, the Housing Commission is seeking Housing Authority approval to amend the budget within certain limitations. Specifically, it is recommended that the Housing Authority authorize the Commissioners 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 is made available during the course of the year;
- b. Transfer of funds of less than \$500,000 among approved activities within the FY05 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.

The Housing Commission has previously delegated authority to amend the budget to the Chief Executive Officer (CEO) in order to add or transfer funds among activities. Since FY00, the Housing Commission has annually approved budget authority up to \$100,000 for the CEO, paralleling the CEO's authority to expend funds. All budget revisions, including those authorized by the CEO, are included in the quarterly budget status report.

This report proposes that the Chief Executive Officer's authority to amend the budget be maintained at \$100,000 as follows:

- a. Addition of funds resulting from applications submitted with the approval of the Housing Commission;

- b. Addition of up to \$100,000 available from other sources;
- c. Transfer of funds up to \$100,000 among line items within the FY05 Budget that do not impact the overall size of the Agency's annual budget.

Use of Section 8 Operating Reserves

Rather than providing a fixed dollar amount of administrative funding, Section 8 programs earn an administrative fee for each unit leased. This fee currently provides greater income than is required to provide for the direct cost of program staff and support activities. The surplus administrative fees must be placed in the Operating Reserve in which they were earned and subsequently become available for "general housing purposes." In the past, these funds have provided for a variety of other housing purposes including support grants to nonprofits, litigation and insurance reserves, and administrative support for programs that do not provide sufficient administrative funding,.

HUD now requires that Housing Authorities adopt a resolution authorizing a "threshold for the amount of expenditures that may be made from the Section 8 Operating Reserves for other housing purposes without approval of the Board." Beginning in January 2001, the Housing Commission and Housing Authority have approved specific threshold levels annually for the withdrawal of Section 8 Operating Reserves. These approved thresholds provide authorization for the withdrawal from Section 8 Operating Reserves of \$100,000 or less by the Chief Executive Officer, \$250,000 or less by action of the Housing Commission and amounts over \$250,000 require Housing Authority specific approval. These thresholds are identical to delegated expenditure levels in Board-approved policies.

The Housing Commission supports a number of City of San Diego projects, including the Access Center, the City's Homeless Coordinator, Fair Housing Council, the Regional Task Force on the Homeless, Shared Housing, and the Winter Shelter. It is estimated that contracts for \$780,494 will occur in FY05. This budget resolution proposes that Section 8 Operating Reserves be utilized to the extent permitted by HUD regulations.

Approval of the staff recommendations will allow this item to be forwarded to the Land Use & Housing Committee and Housing Authority for consideration and, if approved by the Housing Authority, will provide budget authority sufficient to continue implementation of the City's multifaceted strategy for the provision of affordable housing during FY05.

Respectfully submitted,

Approved by,

**Signature on File
With Original Document**

Carrol M. Vaughan
Chief Operating Officer

Elizabeth C. Morris
Chief Executive Officer