



## REPORT

### ITEM 107

DATE: For the Agenda of March 22, 2002

REPORT NO. HCR02-014

SUBJECT: Proposed Fiscal Year 2003 Budget

### SUMMARY

**Issue No. 1:** Should the Housing Commission recommend Housing Authority adoption of the proposed Fiscal Year 2003 (FY03) Budget?

**Recommendation No. 1:** Review and recommend Housing Authority adoption of the \$137.1 million FY03 Activity Based Budget as proposed (Attachment 1).

**Fiscal Impact No. 1:** The proposed FY03 Budget anticipates revenues of \$137,112,281 from almost 70 sources. Approval of the proposed FY03 Budget will appropriate funds for the Agency to pursue the goals and objectives outlined in the proposed Budget document.

**Issue No. 2:** Should the Housing Commission seek authority from the Housing Authority to enable the Housing Commission to amend the approved FY03 Budget during the fiscal year?

**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 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 FY03 Budget when additional funding resources are available?

**Recommendation No. 3:** Continue to delegate limited authority to the Chief Executive Officer to amend the FY03 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.

**Issue No. 5:** Should the Housing Commission recommend Housing Authority approval to revise the Personnel Policy Classification & Pay Plan (Section III, Addendum 5) to reflect the proposed organizational structure?

**Recommendation No. 5:** Recommend Housing Authority approval to revise the Personnel Policy Classification & Pay Plan to reflect changes in management structure and position titles as discussed in this report.

**Affordable Housing Impact:** The proposed FY03 Budget allocates resources so that the Commission will continue to 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 11,446 households to rent private housing.
- Subsidize approximately 98 first-time homebuyers.
- Produce over 352 additional affordable rental units.
- Oversee physical improvements to 1,931 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:** For Recommendation 1, the Housing Commission and Housing Authority approved the FY02 Budget on April 20, 2001 and May 29, 2001 respectively. For Recommendation 2 and 3, the Housing Commission and Housing Authority approved similar delegation of budget authority on April 20, 2001 and May 29, 2001, respectively, along with the adoption of the FY02 Budget. For Recommendation 4, the Housing Commission and Housing Authority approved specific threshold levels for the withdrawal of Section 8 Operating Reserves on January 19, 2001 and January 30, 2001 respectively. For Recommendation 5, the Housing Commission and Housing Authority approved revisions to the Classification & Pay Plan as part of the Personnel Policy on June 1, 2001 and June 26, 2001 respectively.

**Future Related Actions:** Following Housing Commission approval of the proposed FY03 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. Prior to approval, the City's Financial Management staff will review the proposed FY03 Budget and issue a letter of opinion to the Housing Authority. Appropriate sections of the FY03 Budget will be submitted to the funding sources (State, HUD and City Council) for review and action as required.

## **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 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**

This report transmits the proposed FY03 Budget totaling \$137,112,281, a decrease of \$2.5 million from the current FY02 Budget of \$139,667,334.

The proposed FY03 Budget shows a two percent decrease in proposed expenditures, which reflects, in large part, the reduction of temporary employees in the Rental Assistance activity since successfully completing lease-up of the 2,364 additional units that were awarded by HUD in FY01 and FY02. Also, there is a decrease in salaries and benefits due to the net reduction of eight staff positions, while salary increases reflect year two of a three-year agreement with the employees' bargaining unit. The budget shows a decrease in legal costs as we conclude construction defect litigation and lower utilities. There is an increase in rent payments due to annualizing the new vouchers under lease into FY03 along with a provision for anticipated rent increases for participating owners. The obligation and/or expenditure 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 in FY01.

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

### Delegation of Budget Authority

As in prior years, the 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 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.

The Housing Commission has previously delegated authority to amend the budget to the Chief Executive Officer 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 Chief Executive Officer, paralleling the CEO's authority to expend funds.

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 FY03 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 to encourage Housing Authorities to maintain maximum leasing of units. 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 at the end of each year and in the past were available for "general housing purposes," pursuant to the Board approved budget, without a specific Board action. These funds have provided for a variety of other housing purposes in the past, including administrative support for programs that do not provide sufficient administrative funding, loans and grants to a variety of nonprofits, litigation and insurance reserves.

HUD now requires that Housing Authorities amend their administrative plan to include 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." The Housing Commission and Housing Authority approved specific threshold levels for the withdrawal of Section 8 Operating Reserves on January 19, 2001 and January 30, 2001 respectively. These thresholds provided authorization for the withdrawal of 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.

The Housing Commission supports a number of City of San Diego projects including the Winter Shelter, Fair Housing Council, Episcopal Community Services Work Program, Shared Housing, the City's Homeless Coordinator, Access Center and the Regional Task Force on the Homeless. It is estimated that contracts for more than \$900,000 will occur in FY03. This budget resolution proposes that Section 8 Operating Reserves be utilized to provide for these costs.

#### Revisions to Classification & Pay Plan

In past years, organizational changes have been incorporated into the Classification & Pay Plan as part of annual revisions to the Memorandum of Understanding (MOU) with SEIU Local 535 and the SDHC Personnel Policy. Since the Board approved a three-year contract in FY02, no revisions are anticipated to either the MOU or the Personnel Policy in FY03. To ensure the Classification & Pay Plan is current, it is necessary to amend the document to include revisions in the organizational structure and in position titles, e.g., retitle the Equal Opportunity & Compliance Manager to Organizational Development & Training Manager.

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 FY03.

Respectfully submitted,

Approved by,

**Signature on File with Original Document**

Carrol M. Vaughan  
Chief Operating Officer

Elizabeth C. Morris  
Chief Executive Officer