



# REPORT

**DATE:** For the Agenda of April 12, 2002

**ITEM 104**

**REPORT NO:** HCR02-029

**SUBJECT:** Future Years Budget Projection and Recommendations

## SUMMARY

**Issue:** Should the Housing Commission approve and authorize the Chief Executive Officer (CEO) to pursue several actions to address the expected budget shortfall beginning in Fiscal Year 2003?

**Recommendation:** Approve the recommended actions included in this report and authorize the CEO to proceed with this action as directed.

**Fiscal Impact:** Implementation of all actions included in this report would result in a projected budget surplus of about \$89,000 in Fiscal Year 2003.

**Future Actions:** The actions approved by the Housing Commission will be incorporated into the FY03 Budget presentation to the City Council Committee on Land Use & Housing and Housing Authority scheduled for May 1, 2002 and May 14, 2002, respectively.

## BACKGROUND

During the FY03 budget workshop held on February 1, 2002, five-year budget projections were discussed with the Housing Commission. Early projections indicated an anticipated funding shortfall of about \$2.5 million. Consequently, the CEO initiated a series of actions to reduce the shortfall. These actions included the deletion of twelve positions, including two directors and one manager; a 90% reduction in funding for temporary employees; a 20% reduction in Contract/Consultant and a 10% reduction in Sundry expenditures. Those actions substantially reduced the expected shortfall; however, current projections anticipate a funding shortfall of about \$940,000 (Attachment 1).



The FY03 Budget was approved by the Housing Commission on March 22, 2002 and included a program and contingency reserve of about \$5 million. In the past, funding shortfalls have been covered through use of one-time revenues and some reserve funds. However, this is a practice that is not recommended as reserves decline and potential sources to replenish reserves are no longer available.

## **DISCUSSION**

Housing Commission revenues come from State and Federal grants, as well as revenues generated from Housing Commission activity (e.g., fees for services, rent payments). The latter are referred to as Local funds. Most funding sources limit the amount of administrative support that can be paid from their revenues, ranging from zero to 20 percent.

Local funds represent the most flexible revenue source available to the Housing Commission. These funds are used for a variety of purposes including provision of direct or indirect operational support for programs that are either under funded or unfunded.

In past years, the Housing Commission has been directed to fund several programs or projects that are not eligible for the Housing Commission's housing program funds from State or Federal grants. These include: Downtown Winter Shelter, City of San Diego Homeless Coordinator staff position, Regional Task Force on the Homeless, Fair Housing Council, Episcopal Community Services' Employee Assistance Program, Access Center for the Disabled, Elderhelp Shared Housing Program and the City/County Reinvestment Task Force. The cost to the Housing Commission for these programs and projects is over \$800,000. Since none of these programs are eligible for Federal or State funds administered by the Housing Commission, local funds have been used to pay for these commitments.

The budget projections (Attachment 1) show that the primary factor leading to the anticipated imbalance between revenues and expenditures is that funds available for administrative purposes are being used to support housing programs that are ineligible for State and Federal grants. Initial steps to address the budget imbalance suggest finding other ways to support the programs described above.

It should be noted that a second factor leading to the budget imbalance is a structural one; revenues for many programs (e.g., HOME) remain constant, producing a constant amount of funding for administration. Each year costs such as labor rise to produce the same amount of work, but the revenue is constant. For this reason, it is also important that the Housing Commission focus on revenue generating opportunities.

At this time, additional deletion of positions would inhibit the Housing Commission's ability to deliver effective, timely service to the client population and to continue to pursue the goals included in the Strategic Plan and the FY03 Budget. Consequently, the CEO is recommending a series of actions to address the expected shortfall. It should be noted that some of these actions would result in a reduction of the amount of funding available for housing activities.

### **Recommended Immediate Actions**

-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);

-Direct staff to terminate the Housing Commission's contract with the City's Equal Opportunity Program. The Housing Commission employs an Equal Opportunity Officer who is 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 support to the City for Episcopal Community Services' Employee Assistance Program. The City's Community Services Department has indicated they do not anticipate funding this program in FY03 (\$97,000);

### **Recommended Short Term Actions**

-Direct staff to work with the City to shift responsibility for the City/County Reinvestment Task Force to the City's 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 recommend that the City Manager pay for the City's Homeless Coordinator position (\$62,500);

-Direct staff to recommend that the City fund 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 cease funding or attempt to find alternative 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);

Attachment 1 includes a projection of the anticipated surplus or deficit after each set of these recommended actions. If all immediate actions were approved and incorporated into the FY03 Budget, the deficit would decrease to about \$247,000; if all immediate and short term actions were approved and incorporated, the Housing Commission would project a surplus of about \$89,000.

The Housing Commission's operation costs are not anticipated to increase beyond the approved FY03 Budget. As noted in the FY03 Budget Executive Summary, the operation costs decreased to 5% (down from 6% in FY02); that level will be maintained. The primary result of these recommended actions is to balance expenditures with anticipated revenues in FY03, without utilizing any reserve funds.

The CEO is also developing a series of longer-term recommendations to increase the funding sources and revenue for the Housing Trust Fund. 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.

**Alternative**

Direct staff to pursue limited specific immediate and short-term actions. This alternative will result in a deficit.

Respectfully submitted,

Approved by,

**Signature on File with Original Document**

Carrol M. Vaughan  
Chief Operating Officer

Elizabeth C. Morris  
Chief Executive Officer

/cv

Attachment 1: Five-Year Projection of Expenses & Revenues