



# REPORT

**DATE:** For the Agenda of December 13, 2002 **Item 108**

**REPORT NO.:** HCR02-102

**SUBJECT:** Proposed Fiscal Year 2003 Budget Revision (Citywide)

## SUMMARY

**Issue:** Should the Housing Commission recommend Housing Authority approval of revisions to the Fiscal Year 2003 budget to reflect actual carryover and net new revenues?

**Recommendation:** Approve the revision that will result in a net increase to the Fiscal Year 2003 budget of \$11,359,204 and recommend final approval by the Housing Authority.

**Fiscal Impact:** Approval of this action will increase the current Fiscal Year 2003 budget by \$11,359,204 for a total budget of \$148,837,874.

**Previous Related Actions:** On March 22, 2002, the Housing Commission approved the Fiscal Year 2003 budget in the amount of \$137,112,281. The budget was presented to the Land Use & Housing Committee and then forwarded to the Housing Authority for approval on May 14, 2002. Subsequent budget amendments detailed on Attachment 4 have increased the budget by \$366,389 to \$137,478,670.

## BACKGROUND

The budget revision is primarily a reconciliation of the previously approved FY03 budget with current, more accurate financial information. The 2003 Housing Commission Budget was developed in early 2002 and included estimates of carryover funds, because exact amounts would not be known prior to the close of 2002. 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**

There are essentially two policy areas presented in this budget revision that involve a shifting of resources. The first issue relates to the Housing Trust Fund Linkage Fees collected by the City. The original Fiscal Year 2003 budget anticipated an annual level of \$3,500,000. The current inflow of resources into the Housing Trust Fund has decreased significantly to about \$100,000 per month. Therefore, a reduction of \$2,300,000 in several Housing Finance and Development (HF&D) activities is proposed based on a lack of funding. To make up some of this reduction, it is recommended that unanticipated carryover of FY02 Housing Trust Fund and HOME funds be budgeted in the HF&D activities. In addition, transfer of \$100,000 of local funds and unexpected NCFUA and Coastal developer fees will help to mitigate the loss of Housing Trust Fund resources. The budget revision, therefore, shows a net reduction of \$243,080 in the HF&D activities.

The second policy issue involves the use of rental rehabilitation funds rather than local funds in the payment to the City for the Winter Shelter Program. Annually, the Housing Commission is asked to contribute local funds to the City to pay for the Winter Shelter. With the continuing drain on local funds, staff recommends that this obligation be supported by eligible program funds. This utilization of funds is in compliance with the terms and conditions of the funding source.

## **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 \$6,408,517. The net addition to the budget from new revenue sources was \$4,950,687.

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 planned. Carryover funds can be broken down into two categories based upon the requirements of the funding sources. First, "restricted carryover" amounted to \$2,713,170. This carryover is restricted to a specific purpose or activity as mandated by the funding source. The second type of carryover is "unrestricted" and in the FY02 budget amounted to \$3,695,347. 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 \$4,775,687. Unrestricted new funding adjustments amounted to \$175,000. 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 eight 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        | 16,594,045            | 3,687,427              | 20,281,472             | +22%               |
| State Revenues        | 577,224               | 23,487                 | 600,711                | +4%                |
| Federal Revenues      | 120,307,401           | 7,648,290              | 127,955,691            | +6%                |
| <b>Total Revenues</b> | <b>137,478,670</b>    | <b>11,359,204</b>      | <b>148,837,874</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 \$11,359,204 in revenue additions, \$5,521,130 is budgeted into the various agency activities and the remaining \$5,838,074 is placed into reserves. Generally speaking, funds carried over from a prior year were placed within the same activities as originally funded. New program funds were allocated to the activities identified in the application process. Administrative savings of \$1,392,265 and discretionary funds were maintained in reserves for future utilization by the Housing Commission. The proposed utilization of the revenues 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                | 100,165,553             | 5,741,228              | 105,906,781             | +6%                |
| Hsg Finance & Dev<br>Operations | 25,450,283<br>6,862,320 | (243,080)<br>22,982    | 25,207,203<br>6,885,302 | -1%<br>+0%         |
| Reserves                        | 5,000,514               | 5,838,074              | 10,838,588              | +117%              |
| <b>Total Expenditures</b>       | <b>137,478,670</b>      | <b>11,359,204</b>      | <b>148,837,874</b>      | <b>+8%</b>         |

The Agency summary of expenditure is detailed in Attachment 7. None of the revision is utilized for salary or benefit increases and under \$90,000 is attributable to services and supplies. Over \$5.4 million, or 98%, is utilized for the programs and services the Housing Commission operates.

The Housing Commission has experienced a significant increase of local reserves from the prior year of operation. This increase is attributable to one-time revenues that occurred, e.g. the addition of 710 Housing Commission Vouchers, a major litigation settlement, higher Section 8 administrative fees, greater bond fees and administrative savings of \$1,392,265. However, despite this reserve status, the agency still projects annual deficits in which administrative revenue is less than anticipated expenditures. Current five-year projections place this annual deficit ranging from approximately \$700,000 to \$1,000,000. The CEO and management staff continue to aggressively seek administrative cost savings and new sources of income. The current reserve position replenishes reserves used in FY02 for litigation and the lease-up push, and allows development of a methodical long-term solution rather than an immediate response to a critical problem.

## **ALTERNATIVES**

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

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Respectfully submitted,

Approved by,

**Signature on File  
with Original Document**

Edward P. Mauk  
Manager, Financial Services

Elizabeth C. Morris  
Chief Executive Officer

- Attachments:
- 1: Detailed Explanation of Proposed Revenue Revisions
  - 2: Proposed FY03 Budget by Activity
  - 3: Detailed Explanation of Proposed Activity Revisions
  - 4: Previous FY03 Budget Revisions
  - 5: Schedule of Agency Reserves
  - 6: Agency Summary of Revenues
  - 7: Agency Summary of Expenditures