THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE ISSUED: June 4, 2003

REPORT NO. HAR03-002
For the Agenda of June 10, 2003

SUBJECT: Proposed Fiscal Year 2004 Budget

SUMMARY

Issue No. 1: Should the Housing Authority approve the proposed Fiscal Year 2004 (FY04) Budget?

Recommendation No. 1: Approve the $162.6 million FY04 Activity Based Budget as proposed (Attachment 1).

Fiscal Impact No. 1: The proposed FY04 Budget anticipates revenues of $162,579,407 from almost 70 sources and does not receive any funding from the City's General Fund. Approval of the proposed FY04 Budget will appropriate funds for the Agency to pursue the goals and objectives outlined in the Business Plan.

Issue No. 2: Should the Housing Authority continue to delegate authorization to amend the FY04 Budget to the Housing Commission?

Recommendation No. 2: That the Housing Authority continue to delegate limited authority to the Housing Commission to amend the FY04 Budget as described on page three when additional funding sources are available, consistent with the policies, programs and activities approved by the Housing Authority.

Issue No. 3: Should 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. 3: 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 FY04 Budget allocates resources so that the Housing Commission will continue to serve more than 75,000 San Diegans. In essence, the $162.6 million FY04 Proposed Budget would enable the San Diego Housing Commission to:

- Assist 12,296 households to rent private housing.
- Subsidize approximately 87 first-time homebuyers.

- Produce 312 additional affordable rental units.
- Oversee physical improvements to 1,752 homes and apartments.
- Manage 1,769 units of publicly owned housing.
- Provide special purpose housing opportunities for 220 persons.
- Aid 625 families toward self-sufficiency.

Previous Related Actions: The Housing Authority approved similar resolutions for the Fiscal Year 2003 Budget on May 14, 2002. The Housing Commission and the Land Use and Housing Committee approved the FY04 Budget on April 11, 2003 and April 23, 2003 respectively.

Future Related Actions: Appropriate sections of the FY04 Budget will be submitted to the funding sources (State, HUD and City Council) for review and action as required.

BACKGROUND

The Housing Commission's FY04 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

Issue No. 1: Approval of FY04 Activity Based Budget

This report transmits the proposed FY04 Budget totaling $162,579,407, an increase of $13.1 million from the current FY03 Budget of $149,513,223.

The proposed FY04 Budget shows a nine percent (9%) increase in proposed expenditures and reserves, which reflects, in large part, the increase in the Voucher program for the addition of 144 units, annualizing rent payments for the additional units leased, and providing for rent increases to landlords through FY04. Also, there is an increase in salaries and benefits resulting from Year Three of a three-year agreement with the employees' bargaining unit, and benefits increase due to substantially higher rates for worker's compensation. The budget includes no net increase in staff, although there is an increase of two (2.00) positions in Rental Assistance for the additional workload resulting from leasing all available vouchers, and a reduction of two (2.00) positions in Human Resources. There is a decrease in legal costs as we conclude known construction defect litigation. The obligation and/or expenditure of most development program funds on various projects in the current fiscal year will lead to substantially less carryover of funds from FY03. It should also be noted that the Housing Trust Fund is projected to receive new revenue of only $1.3 million in FY04. Reserves increase due to the accounting transfer of the Property Management Operating Reserves of the Conventional, Maya Apartments, State and University Canyon sites from the Non-Budgeted Restricted Cash Addendum to the Program Reserves section of the FY04 Budget. The use of these funds does not change; they are set-asides for future extraordinary maintenance.

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 FY04 Budget.

Issue No. 2: 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 is made available during the course of the year;

b. Transfer of funds of less than $500,000 among approved activities within the FY04 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.

Issue No. 3: 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 in which they were earned 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." 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 thresholds provide 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, Shared Housing, the City's Homeless Coordinator, Access Center and the Regional Task Force on the Homeless. It is estimated that contracts for almost $750,000 will occur in FY04. This budget resolution proposes that Section 8 Operating Reserves be utilized to provide for these costs up to an amount of $750,000.

Approval of the staff recommendations will provide budget authority sufficient to continue implementation of the City's multifaceted strategy for the provision of affordable housing during FY04.

Respectfully submitted,

Signature on File
With Original Document

Ed Mauk
Accounting & Financial Services Manager

Approved by,

Elizabeth C. Morris
Chief Executive Officer

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Attachment 1 – Proposed Fiscal Year 2004 Budget*

*Distribution of the attachment is limited. Complete copies are on file at the Office of the Housing Commission, 1625 Newton Avenue, and the Office of the City Clerk, 2nd Floor, 202 C Street.