

EXECUTIVE SUMMARY

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 7, 2012

IBA Report Number: 12-18

Budget Review Committee Meeting Date: May 10, 2012

IBA REVIEW OF HOUSING COMMISSION BUDGET

The Housing Commission FY 2013 Proposed Budget is scheduled to be heard at the Thursday, May 10th Budget Review Committee Meeting. The items of note from our review include:

- The FY 2013 Proposed Operating Budget for the San Diego Housing Commission (SDHC) is \$349.1 million, reflecting a decrease of \$3.8 million from the FY 2012 Current (revised) Budget.
- The FY 2013 Proposed Budget for the San Diego Housing Commission (SDHC) includes total operating revenues of \$349.1 million, including \$216.2 million in new revenues and \$132.9 million in carryover funds, reflecting a reduction of \$4.4 million and an increase of \$621,577 respectively, for a net reduction of \$3.8 million.
- The FY 2013 Proposed Budget includes 266.00 FTE positions, a net decrease of 2.50 positions from the FY 2012 Current Budget. The position adjustments pertain to restructurings, the designation of 3.0 FTE positions to support the Commission's ERP System, and the addition of 1.00 FTE for outreach to small businesses.
 - 3.10 FTEs are moved from the Rental Housing Development and Rental Housing Finance subdivisions to Housing Development Partners (HDP).
- Non-personnel expenditures for supplies and services are budgeted at \$13.2 million, a net decrease of \$2.9 million.
- Housing programs are budgeted at \$233.7 million, a reduction of approximately \$6.0 million over FY 2012. This reduction is primarily related to an \$8.3 million decrease in budgeted mortgage payments with the removal of FY 2012 onetime budget activity pertaining to the \$5.0 million pay down for refinancing the Smart Corner facility and \$2.3 million loan payoff on the Maya Apartments.
- Capital expenditures are budgeted at \$41.9 million, an increase of \$9.6 million from FY 2012. Increases in capital improvements are primarily related to the \$10.3 million rehabilitation of the state sites.
- The FY 2013 Proposed Budget includes \$37.7 million for reserves, a decrease of \$5.1 million from the FY 2012 Current Budget. The net decrease in budgeted reserves is mostly due to the use of reserves for program activities. The Unobligated Reserve is budgeted at 2.2% of the operating budget.
- The Housing Commission has confirmed with our office their commitment to fund \$250,000 of the \$550,000 needed to support the Neil Good Day Center in FY 2013 through the use of Emergency Solutions Grant funding. There is still an outstanding funding need of \$300,000.

City Agencies

San Diego Housing Commission

The FY 2013 Proposed Operating Budget for the San Diego Housing Commission was approved by the San Diego Housing Commission Board on April 13, 2012. The Proposed Budget is scheduled to be heard at the May 10th Budget Review Meeting of the City Council. The Budget differs from that published in Volume I of the Mayor's FY 2013 Proposed Budget book due to updates subsequent to the initial submission for inclusion in the publication.

FY 2013 Proposed Adjustments

The FY 2013 Proposed Operating Budget for the San Diego Housing Commission (SDHC) is \$349.1 million, reflecting an in-

crease of \$63.9 million from the original FY 2012 Adopted Budget, and a decrease of \$3.8 million from the FY 2012 Current (revised) Budget. The FY 2013 Proposed Budget also includes a \$41.9 million capital budget. The Housing Commission has an activity-based budget comprised of four primary activity groups funded through a variety of restricted and unrestricted revenue sources. The primary activity groups are Rental Assistance; Real Estate; Housing Innovations; Operations, and Reserves.

The FY 2013 Proposed Budget for the San Diego Housing Commission (SDHC) includes total operating revenues of \$349.1 million, including \$216.2 million in new revenues and \$132.9 million in carryover

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY

	FY 2012 CURRENT	FY 2013 PROPOSED	CHANGE
Rental Assistance	\$ 173,621,992	\$ 179,564,112	\$ 5,942,120
Housing Choice Vouchers	170,191,202	176,700,791	6,509,589
Workforce & Economic Development	2,917,279	2,321,680	(595,599)
Compliance	513,511	541,641	28,130
Real Estate	111,451,876	106,012,398	(5,439,478)
Property Management & Maintenance	21,513,168	17,511,250	(4,001,918)
Construction Services	8,784,404	18,141,825	9,357,421
Facilities Management	8,820,502	852,384	(7,968,118)
Rental Housing Development	27,984,770	27,298,617	(686,153)
Rental Housing Finance	25,941,270	25,052,903	(888,367)
Homeownership	4,406,374	6,128,729	1,722,355
Rehabilitation	11,718,438	8,430,118	(3,288,320)
Lease Management	254,383	147,291	(107,092)
Loan Management	2,028,567	2,019,886	(8,681)
Housing Development Partners	0	429,395	429,395
Housing Innovations	13,246,197	11,591,812	(1,654,385)
Operations	11,733,994	14,186,294	2,452,300
Board & Executive Functions	2,337,738	1,306,596	(1,031,142)
Public Policy & Legislative Services	0	516,348	516,348
Community Relations & Communications	709,993	751,579	41,586
Special Programs	0	903,340	903,340
Reinvestment Task Force	126,289	120,732	(5,557)
Section 3 Outreach	0	239,642	239,642
Human Resources	1,501,478	1,144,574	(356,904)
Procurement	1,489,435	1,459,703	(29,732)
Information Technology	2,997,228	4,876,746	1,879,518
Financial Services	2,571,833	2,867,034	295,201
Prgm., Contin. & Unoblig. Reserves	42,811,451	37,711,769	(5,099,682)
	\$ 352,865,510	\$ 349,066,385	\$ (3,799,125)

City Agencies

funds, reflecting a reduction of \$4.4 million and an increase of \$621,577 respectively. Carryover funds represent revenues that were received in prior years but not expended or obligated, while new revenues reflect funding that is anticipated to be received in FY 2013. \$331.8 million or 95.0% of SDHC revenues in FY 2013 are from restricted sources, including Section 8 rental assistance, residential workforce/economic development grants, and State funds. The remaining 5.0%, or \$17.3 million, are unrestricted revenue sources including rental rehabilitation loan repayments, local funds, Housing Trust Funds, and HOME funds.

The decline in FY 2013 proposed revenue is particularly related to the following program funding reductions: \$2.5 million in HOME funding, \$1.2 million in Homeless Prevention & Rapid Rehousing, \$1.9 million in Lead Hazard Control Grants, \$3.3 million in Local Funds carry over, \$1.1 million in Shelter Plus Care program income, and a \$1.7 million reduction in Section 8 Programs due to lower carry over funding. These decreases were offset by significant increases in the following areas: \$6.0 million property management due to higher carry over funding, \$2.0 million in Inclusion-

ary Housing funding from new projects, \$1.4 million for public housing revenue from increased capital program funding.

The FY 2013 Proposed Budget includes 266.00 FTE positions, a net decrease of 2.50 positions from the FY 2012 Current Budget. The position adjustments pertain to restructurings, the addition of 3.00 FTE positions to support the Commission's ERP System, and the addition of 1.00 FTE for outreach to small businesses. As a part of these adjustments, 3.10 FTE are moved from the Rental Housing Development and Rental Housing Finance subdivisions to Housing Development Partners (HDP). HDP is an affiliate non-member public benefit corporation of the Housing Commission. HDP personnel expenses are fully reimbursed by revenue generated from the positions.

Total personnel expenditures are budgeted at \$22.4 million, an increase of approximately \$570,141 from the FY 2012 Current Budget. This increase is primarily due to Pay For Performance salary and fringe costs. The Pay For Performance System was approved in March 2011 by the Housing Authority. FY 2013 will be the first year of the payment of performance incentives for the

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USES

ACTIVITY	FY 2012		FY 2013	
	CURRENT		PROPOSED	CHANGE
FTE	268.50		266.00	(2.50)
Salaries & Benefits	\$ 21,862,578	\$	22,432,719	\$ 570,141
Supplies & Services	16,178,414		13,241,131	(2,937,283)
Housing Programs	239,695,527		233,735,325	(5,960,202)
Capital Expenditures	32,317,540		41,945,441	9,627,901
Reserves	42,811,451		37,711,769	(5,099,682)
TOTAL BUDGET	\$ 352,865,510	\$	349,066,385	\$ (3,799,125)

City Agencies

first evaluation period in FY 2012. In FY 2012, funding was set aside in reserves for performance pay. This funding will be removed from reserves in FY 2013 for payment.

Non-personnel expenditures for supplies and services are budgeted at \$13.2 million, a net decrease of \$2.9 million. Significant decreases in supplies and services include: a \$2.5 million reduction in office & building rent, a \$1.1 million reduction in property management fees related to a change in budgetary policy, and a \$273,595 decline in office equipment. These decreases are in part offset by a \$640,592 increase in consultant and professional services contracts and \$540,943 in cost increases related to the implementation of the new Yardi ERP System.

Housing programs are budgeted at \$233.7 million, a reduction of approximately \$6.0 million over FY 2012. This reduction is related to a \$8.3 million decrease in budgeted mortgage payments with the removal of FY 2012 onetime budget activity pertaining to the \$5.0 million pay down for refinancing the Smart Corner facility and the \$2.3 million loan payoff on the Maya Apartments. There is also a \$2.3 million reduction in loans and grants expenses resulting from program cost reductions and a \$1.1 million

reduction in site acquisition costs. These significant decreases are offset by a \$5.3 million increase in funds dedicated to rental assistance and a \$1.0 increase in maintenance related to the Belden, Maya and University Canyon rehabilitations.

Capital expenditures are budgeted at \$41.9 million, an increase of \$9.6 million from FY 2012. The capital budget reflects all capital expenditures associated with the creation of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition, and software and IT equipment. Within the capital expenditures budget, increases in capital improvements are primarily related to the \$10.3 million rehabilitation of the state sites. The state sites rehabilitation project that was approved by the Housing Authority in February 2012 will convert 113 affordable housing units developed previously through state funding to public housing, qualifying the properties for needed funding for rehabilitation and operating support. The net increase in the housing development/acquisition category is related to Mariner's Village, Mercado, Hotel Sanford, and Courtyard projects, and adjustments in other yet to be determined projects. Software and IT equipment expense increases are primarily related to the

FY 2012 CAPITAL BUDGET

ACTIVITY	FY 2012 CURRENT	FY 2013 PROPOSED	CHANGE*
Capital Improvements	\$ 7,911,660	\$ 15,240,050	\$ 7,328,391
Housing Development/Acquisition	24,405,880	26,112,391	1,706,511
Software and IT Equipment	-	593,000	593,000
TOTAL CAPITAL BUDGET	\$ 32,317,540	\$ 41,945,441	\$ 9,627,902

*Capital Improvements budget change calculation rounding error has been adjusted to reflect correct total.

City Agencies

implementation of the Yardi ERP System.

The FY 2013 Proposed Budget includes \$37.7 million for reserves, a decrease of \$5.1 million from the FY 2012 Current Budget. The net decrease in budgeted reserves is mostly due to the use of reserves for program activities. Program Restricted Reserves are proposed to decrease by \$8.5 million. The Contingency Reserve decreases by approximately \$579,000 to release monies set aside in FY 2012 for the payment of performance incentives in FY 2013.

Property Reserves are proposed to increase by \$3.2 million. In regards to the Property Reserves, it is important to note that in FY 2013, the Housing Commission will conduct a Property Needs Assessment (PNA) to examine the sufficiency of the current reserves for Housing Commission properties. The findings from the PNA will inform the appropriate reserve level for each of the Commission's properties moving forward.

The Unobligated Reserve is budgeted at \$6.9 million, reflecting an increase of approximately \$775,000. The Unobligated Reserve is budgeted at 2.2% of the operating budget. In the past, the IBA has advocated for an Unobligated Reserve of 5%. The Housing Commission has expressed a desire to pursue a long-term goal to fund a 5% reserve. This and other budgetary goals will be addressed in a budgetary and reserve policy that the Housing Commission is currently working on. While the Unobligated Reserve is short of 5% of the operating budget, we acknowledge that the combined reserves are equivalent to 10.8% of the operating budget.

Issues to Consider

Neil Good Day Center Funding

The Housing Commission request for \$550,000 in FY 2013 CDBG grant monies to support the Neil Good Day Center was not approved. At the March 2011 CDBG hearing at Council, the Housing Commission committed to fund \$250,000 of the need through the use of Emergency Solutions Grant (formerly titled Emergency Shelter Grant) funding. Housing Commission staff confirmed this commitment with our office subsequent to the Council hearing. There is still an outstanding funding need of \$300,000.

Linkage Fee

In July 2011, the Council heard the Housing Commission's recommended changes to the Housing Impact Fee which included the following:

- Maintaining current fees until FY 2014
- Increase the fee by 20% each year for five years, to return it to 1990 levels by FY 2018
- Beginning in FY 2019, adjust the fee based on the Building Cost Index

The recommendations were not approved by Council. At the hearing, Councilmembers expressed a desire for stakeholders to continue to work together to identify alternatives and solutions for addresses affordable housing funding needs.

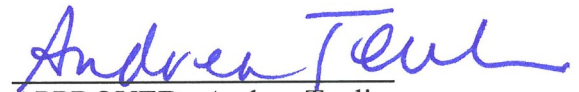
In November 2011, the 2011 Affordable Housing Best Practices Task Force presented its affordable housing recommendations to the Land Use & Housing Commit-

City Agencies

tee. The recommendations included the implementation of a three-year Master Plan for increasing affordable housing within the City, including the implementation of regulatory procedure changes and the exploration of revenue sources to meet affordable housing needs. The report was accepted by the Committee and an affordable housing working group, led by Councilmembers Lightner and Alvarez was established to review the Task Force recommendations and return to the Land Use & Housing Committee with their proposals. The working group's review is ongoing.



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