

City Agencies

San Diego Housing Commission

The FY 2015 Proposed Operating Budget for the San Diego Housing Commission (SDHC) was approved by the San Diego Housing Commission Board on April 11, 2014. The Proposed Budget is scheduled to be heard at the May 8th Budget Review meeting.

FY 2015 Proposed Adjustments

The FY 2015 Proposed Operating Budget for the San Diego Housing Commission is \$337.3 million, reflecting an increase of \$31.2 million, or 10%, over the FY 2014 Budget. The FY 2015 Proposed Budget also includes a \$12.6 million Capital Budget. The following table illustrates the various activities the Housing Commission funds with its operating budget.

The Housing Commission administers these activities through four divisions: 1) Rental

Assistance Division (\$181.3 million); 2) Real Estate Division (\$134.3 million); 3) Housing Innovations Department (\$8.3 million); and 4) Operations Support (\$13.4 million). As shown in the chart on page 32 of the SDHC's Proposed Budget, Rental Assistance and Real Estate account for 53.7% and 39.8% of the Commission's budget, respectively, totaling 93.5% of its entire operational budget. Funds allocated for reserves in each division are budgeted at \$93.9 million, and are further discussed on the following pages.

The FY 2015 Proposed Budget continues to include modifications from previous year budgets to demonstrate Generally Accepted Accounting Principles (GAAP) best practices. The Proposed Budget reflects the actual anticipated expenditures for the fiscal year, and not the awarded amounts. Prior to FY 2014, awarded amounts were presented as a current year budgeted ex-

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY			
ACTIVITY	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
Rental Assistance	169,394,045	168,192,975	(1,201,070)
Housing Innovations	10,452,293	8,880,169	(1,572,124)
Property Operations	43,273,697	38,836,942	(4,436,755)
Rental Housing Finance	17,859,336	16,125,364	(1,733,972)
Homeownership	5,548,664	4,355,517	(1,193,147)
Home Safe Home	6,613,406	5,314,488	(1,298,918)
Loan Management	2,418,562	1,055,836	(1,362,726)
Reinvestment Task Force	178,964	225,934	46,970
Housing Development Partners	487,447	491,313	3,866
Fund Balance/Reserves	49,932,600	93,859,654	43,927,054
TOTAL OPERATING BUDGET	\$ 306,159,014	\$ 337,338,192	\$ 31,179,178

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penses. These awarded, but unused funds are appropriately reflected in the Reserves Budget category.

Funding Sources

The FY 2015 Proposed Budget for the San Diego Housing Commission includes total operating revenues of \$337.3 million, including \$235.9 million in new revenues and \$101.5 million in carryover funds, reflecting an increase of \$13.9 million and \$17.3 million respectively, for a total increase of \$31.2 million, or 10%. 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 and expended in FY 2014. \$325.4 million or 96% of SDHC revenues in FY 2015 are from restricted sources, including Section 8 rental assistance, HOME funds, and State funds. The remaining 4%, or \$11.9 million, are unre-

stricted revenue sources that include bond administrative fees and ground lease revenue.

The 10% increase in FY 2015 proposed revenue is largely attributable to the following:

- \$10.2 million increase for Section 8/ Moving to Work primarily due to a \$8.2 million in additional Section 8 funding, and an increase of about \$2 million in the use of carryover funding due to unspent development funds;
- \$6.4 million in Real Estate revenue over FY 2014 largely due to a \$5.3 million increase in carryover funds from unspent development funds in FY 2014 and an increase in anticipated rent revenue;
- \$16.1 million increase for Affordable Housing Fund revenue, due to increased

HOUSING COMMISSION FUNDING SOURCES			
FUNDING SOURCE	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
Federal	\$ 217,713,655	\$ 228,609,155	\$ 10,895,500
<i>Section 8/MTW</i>	196,098,384	206,338,152	10,239,768
<i>HOME</i>	11,214,400	12,116,385	901,985
<i>Housing Innovation</i>	4,289,859	4,437,277	147,418
<i>Rehabilitation</i>	3,071,078	2,798,003	(273,075)
<i>CDBG</i>	2,926,628	2,774,243	(152,385)
<i>Other</i>	113,306	145,095	31,789
Local	86,313,336	108,679,332	22,365,996
<i>SDHC Real Estate</i>	53,198,580	59,642,450	6,443,870
<i>Unrestricted</i>	12,259,634	11,902,223	(357,411)
<i>RDA</i>	1,229,479	745,307	(484,172)
<i>AHF</i>	16,468,645	32,542,507	16,073,862
<i>Other</i>	3,156,998	3,846,845	689,847
State	2,132,023	49,704	(2,082,319)
	\$ 306,159,014	\$ 337,338,191	\$ 31,179,177

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fund balance of \$11.2 million and about \$4.9 million more in anticipated revenue to adjust for anticipated increases in revenue from inclusionary housing fees in FY 2015, based on current trends; and

- About \$973,000 increase in anticipated HOME funding, slightly offset by the \$71,000 reduction in the fund balance.

These increases are offset by a reduction of \$3.3 million from a variety of sources including CDBG, redevelopment Successor Agency funding, and, most notably, a \$2.1 million decrease in State funds due to the anticipated reduction in CALHOME funding.

Budget by Funding Use

The FY 2015 Proposed Budget includes 299.00 FTEs, an 11.00 FTE decrease from the FY 2014 Budget. Total personnel expenditures are budgeted at \$25.4 million, an increase of about \$521,000 over the FY 2014 Budget. This increase is due to a proposed cost of living adjustment (COLA) and performance incentive costs, which is offset by the decrease of 11.00 positions. The Housing Commission has expressed that

these positions were reduced in order to reflect increased efficiencies achieved with the implementation of the Yardi ERP System and to also mitigate future impacts of anticipated decreases in funding.

Non-personnel expenditures for Supplies and Services are budgeted at \$10.1 million, a decrease of about \$2.0 million. This reduction is a result of the reclassification of property related expenses previously budgeted in this category to the property expense category.

Housing Programs are budgeted at \$178.1 million, a reduction of \$7.3 million over FY 2014. This reduction reflects a modification in budgetary policy to properly reflect actual anticipated expenses and the reservation of approximately \$10 million dollars for new permanent supportive housing for the homeless, which the Housing Commission does not expect to be funded until FY 2016.

Capital Expenditures

Capital expenditures are budgeted at \$12.6 million, a decrease of \$6.6 million from FY 2014. The Capital Budget reflects all capital expenditures associated with the creation

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USE			
	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
FTE	310.00	299.00	(11.00)
Salaries & Benefits	\$ 24,931,869	\$ 25,452,777	\$ 520,908
Supplies & Services	12,139,538	10,153,626	(1,985,912)
Housing Program Expense	185,407,141	178,097,752	(7,309,389)
Property Expense	11,437,229	14,106,278	2,669,049
Debt Principal Payments	3,105,613	3,043,019	(62,594)
Capital Expenditures	19,205,023	12,625,084	(6,579,939)
Reserves	49,932,600	93,859,654	43,927,054
TOTAL BUDGET	\$ 306,159,013	\$ 337,338,190	\$ 31,179,177

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of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition, and software and IT equipment. The overall decrease is primarily due to usage of available development funds in the prior year, and an increase in reserves due to the Commission's long-term reserve management strategy and Green Physical Needs Assessment (GPNA) requirements.

Within the capital expenditures budget, there is a reduction of about \$104,000 for capital improvements. Although the reduction is slight, it should be noted that there was a \$1.5 million decrease due to a reduction in budget for the rehabilitation of the State Sites, offset by a \$1.4 million addition for capital improvements related to ADA and GPNA requirements.

There is a \$6.4 million decrease in the Housing Development/Acquisition category of the Capital Budget. This is in part related to a \$7.2 million reduction in the budgeted use of HUD Moving to Work funds, HOME funds, Property Funds, Affordable Housing Funds, and loan proceeds, as shown on page 48 of the Housing Commission's Proposed Budget. These funds were unspent for development in FY 2014 and removed from the Capital Budget, and eligible funds were moved to the appropriate reserve category. This decrease is offset by a \$733,000 addition of budgeted expense for the Park

Crest Project.

Reserves

The FY 2015 Proposed Budget includes approximately \$93.9 million in the Reserve category, an increase of \$43.9 million from the FY 2014 Budget. The SDHC has three reserve categories which include Program Restricted Reserves, Property Reserves, and a Contingency Reserve.

Program Restricted Reserves are proposed to increase by \$36.8 million which is mainly attributable to a \$13.9 million increase in Move to Work/Section 8 reserves to cover two months of funding, about a \$20 million increase to support permanent supportive housing for the homeless in FY 2016 and other identified future projects, and the addition of \$2.5 million for the new HOME Administration Reserve requirement.

Property Reserves are proposed to increase by \$2.7 million. This increase is net of a \$3.2 million addition in replacement reserves and the reduction of \$500,000 in contingency funding for the Hotel Churchill property which was added in FY 2014. For Property Reserves, it is important to note that the Housing Commission is in the process of conducting a Property Needs Assessment (PNA) to examine the sufficiency of the current reserves for Housing Commission properties. Findings from the PNA will inform the appropriate reserve

FY 2015 CAPITAL BUDGET			
ACTIVITY	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
Capital Improvements	10,015,521	\$ 9,911,746	\$ (103,775)
Housing Development/Acquisition	9,089,502	2,648,338	\$ (6,441,164)
Software and IT Equipment	100,000	65,000	\$ (35,000)
TOTAL CAPITAL BUDGET	\$ 19,205,023	\$ 12,625,084	\$ (6,579,939)

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level for each of the Commission’s properties moving forward. Preliminary results have prompted the Housing Commission to increase the Property Reserves for FY 2015, and it is likely that more funding will be necessary in future years to address identified needs.

The Contingency Reserve budget increases by \$4.4 million in the FY 2015 Proposed Budget. This is due to a similar increase in the Unobligated Reserve, budgeted at approximately \$11.8 million. The remaining Contingency Reserve is budgeted at \$600,000 for litigation and uninsured losses. The Unobligated Reserve is budgeted at approximately 5% of the operating budget, representing improvement from 3% in FY 2014. In the past, the IBA has advocated for an Unobligated Reserve of 5%. In prior fiscal years, the Housing Commission expressed a desire to pursue this long-term goal to fund a 5% unobligated reserve, with its Reserve Policy requiring a minimum of 2%. For the FY 2015 Proposed Budget the Housing Commission has essentially met this goal with Unobligated Reserves budgeted at about 5%. The Housing Commission has expressed that increasing these reserves is especially important in an unstable funding environment, as evidenced by sequestration and the recent Government shutdown that was experienced in October 2013. These recent events reinforced the need for an

increased Unobligated (and overall) Reserve level to mitigate unanticipated funding decreases. We also acknowledge that combined reserves are equivalent to 38.5% of the operating budget.

Issues to Consider

City Funding for Homeless Programs

In accordance with the Third Amendment to the City’s MOU with the Housing Commission for the administration of homeless programs on the behalf of the City, the Housing Commission receives \$1.3 million in “off the top” CDBG funding to support the Neil Good Day Center, Veterans Winter Shelter, Cortez Hill Family Shelter, and Connections Housing facility operations. This \$1.3 million consists of \$205,902 for the Cortez Hill Family Shelter, \$562,176 for the Veterans Shelter and Connections Housing, and \$550,000 for the Neil Good Day Center. This “off the top” funding creates funding certainty for homeless programs that previously competed directly for funding with other organizations citywide, which in FY 2013 resulted in the loss of CDBG funding support for the Neil Good Day Center. Due to this, in FY 2013, the General Fund provided \$550,000 in funding support to fund Neil Good Day Center operations.

In the FY 2015 Proposed Budget, the Mayor

FY 2015 RESERVES BUDGET			
ACTIVITY	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
Program Restricted Reserves	21,494,747	58,278,696	36,783,949
Property Reserves	20,465,404	23,187,600	2,722,196
Contingency Reserves	7,972,449	12,393,358	4,420,909
TOTAL RESERVES	\$ 49,932,600	\$ 93,859,654	\$43,927,054

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has allocated \$1.9 million to support a variety of homelessness programs for outcome focused services and program enhancements as proposed by Council President Gloria. This funding will support:

- 1) Enhanced Single Adult Winter Shelter and Veteran's Winter Shelter (\$800,000)
- 2) Coordinated assessment, coordinated entry, and homeless management information (\$400,000)
- 3) Serial Inebriate Program (SIP) expansion (\$120,000)
- 4) Neil Good Day Center service enhancements (\$80,000)
- 5) Homeless Outreach Team (HOT) enhancement
- 6) Homeless transition storage facility (\$150,000)
- 7) Connections Housing Downtown gap funding (\$300,000)

An updated MOU with the Housing Commission has been prepared and is scheduled to be presented at the Housing Commission Board meeting on May 9, 2014. It is anticipated to come before City Council for approval in June 2014. When the MOU comes before the Council in June, our office recommends that Council ask Housing Commission and Economic Development staff about the sufficiency of the budgeted funds, and other sources of revenue that may be available, to achieve the desired objectives for each of these programs.

Impacts of Sequestration & Government Shut Down

Impacts of sequestration and the recent Government shutdown were considered in preparing this budget. As shown through reserve increases and a reduction in FTEs, the Commission anticipates funding sources to remain unstable and to potentially decline in future fiscal years. They continue to attempt to mitigate reductions and stabilize funding fluctuations through the use of carryover funding from prior years, and by implementing a long-term reserve management strategy. The use of carryover and reserve funding to offset revenue reductions will deplete these resources over time if funding reductions continue, which may result in actual program reductions.

Linkage Fees

In November 2013 the Housing Commission presented a proposal to the City Council to increase current Linkage Fees based on an updated Nexus Study that was completed in August 2013. After initial approval of this proposal, a referendary petition was filed to appeal the associated resolution and ordinance. On March 4, 2014, the City Council voted to repeal the resolution and ordinance which increased these fees, and directed the Housing Commission to return to City Council in June 2014 with an alternate proposal.