
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of San Diego Housing Commission Fiscal Year 2009 Budget

OVERVIEW

The San Diego Housing Commission (SDHC) must submit their proposed budget to the Housing Authority for approval on an annual basis. The Fiscal Year 2009 Proposed Budget was unanimously approved by the Board of the Housing Commission on April 25, 2008. As in past years, it is anticipated that the Housing Commission will amend their budget throughout the fiscal year to adjust for additional revenues and expenditures.

The Fiscal Year 2009 Proposed Budget is \$265 million, a decrease of \$7.9 million or 2.9% from the current FY 2008 Budget. This reduction is largely attributable to: \$13.7 million decrease in Housing Finance and Construction Services resulting from less carryover from FY08 to FY09 due to grants and capital improvement funds obligated in this fiscal year, a \$4 million decrease in site acquisition and \$3 million decrease resulting from a loan payoff. Conversely, there is an increase of nearly \$7 million in total reserves resulting largely due to a \$6.3 million increase in additional income from SDHC affordable housing units that will provide funding for development of new units. Also, there is an addition of \$6 million resulting from increased rent to owners due to an increase in Section 8 voucher funds.

The following table compares the Fiscal Year 2009 Budget to the previously approved Fiscal Year 2007 and 2008 Budgets and illustrates the changes from year to year.

FISCAL YEAR 2009 PROPOSED BUDGET SUMMARY								
	FY07	%	FY08	%	FY09	%	Difference between FY08 and FY09	% Change
Revenues								
Restricted	\$193.9	67%	\$206.4	76%	\$213.4	80%	\$7.0	3.39%
Unrestricted	\$93.6	33%	\$66.5	24%	\$51.6	20%	(\$14.9)	-22.40%
TOTAL REVENUES	\$287.5	100%	\$272.9	100%	\$265.0	100%	(\$7.9)	-2.89%
Expenses								
Salaries and Benefits	\$17.1	6%	\$17.8	7%	\$18.7	7%	\$0.9	5.06%
Services and Supplies	\$12.3	4%	\$9.5	3%	\$8.7	3%	(\$0.8)	-8.42%
Housing Programs	\$232.8	81%	\$217.7	80%	\$202.7	76%	(\$15.0)	-6.89%
Reserves	\$25.3	9%	\$27.9	10%	\$34.9	13%	\$7.0	25.09%
TOTAL EXPENSES	\$287.5	100%	\$272.9	100%	\$265.0	100%	(\$7.9)	-2.89%

FISCAL/POLICY DISCUSSION

The SDHC Proposed FY 2009 Budget is organized into four activity groups and reserves, a change from three activity groups and reserves in the current fiscal year. This organizational change shifts Rental Housing Development out of the Housing Finance activity and creates a new activity group – Housing Development, which will be focused on SDHC internal rental housing development. The chart below illustrates the changes from the FY 2008 Original and Revised Budgets to the FY 2009 Proposed Budget.

FISCAL YEAR 2009 BUDGET BY ACTIVITY GROUP	FY08 Original Budget	FY08 Revised Budget	FY09 Proposed Budget	Change from FY08 to FY09
Housing Services	\$154.6	\$173.1	\$171.6	(\$1.5)
Rental Assistance	\$134.5	\$151.9	\$157.0	\$5.1
Property Management	\$17.8	\$18.5	\$12.0	(\$6.6)
Resident Services	\$2.4	\$2.7	\$2.6	(\$0.1)
Housing Development	\$7.0	\$7.0	\$3.5	(\$3.5)
Rental Housing Development	\$7.0	\$7.0	\$3.5	(\$3.5)
Housing Finance	\$38.5	\$53.6	\$42.8	(\$10.8)
Rental Housing Finance	\$19.0	\$31.1	\$22.5	(\$8.6)
Homeownership	\$5.8	\$6.5	\$5.5	(\$1.0)
Rehabilitation	\$7.8	\$8.8	\$6.7	(\$2.1)
Portfolio Servicing and Occupancy Monitoring	\$2.8	\$3.0	\$2.6	(\$0.4)
Special Purpose Housing	\$3.1	\$4.3	\$5.6	\$1.3
Operations	\$11.2	\$11.2	\$12.2	\$1.0
Board and Executive Functions	\$0.9	\$0.9	\$0.9	\$0.0
Support Services	\$9.5	\$9.5	\$10.0	\$0.5
Policy and Public Affairs	\$0.8	\$0.8	\$1.3	\$0.5
Reserves	\$20.0	\$27.9	\$35.0	\$7.0
Program Reserves	\$11.9	\$17.2	\$20.8	\$3.6
Contingency Reserves	\$2.6	\$3.6	\$10.0	\$6.4
Unobligated Reserves	\$5.5	\$7.2	\$4.3	(\$2.9)
TOTAL ACTIVITY GROUPS	\$231.3	\$272.9	\$265.0	(\$7.9)

Public Housing Disposition Plan

On December 5, 2006, the Housing Authority approved the SDHC decision to transition 1,366 units out of the Conventional Public Housing Program, subsidized by the federal government to a “sufficient and self-sustaining” program supported entirely by SDHC (referred to as “Local Units” below). Current residents received Section 8 Tenant Based

Housing Choice Vouchers, which they could use to remain in their current residence or another property accepting Section 8. The SDHC planned that in time as residents moved through attrition, rents at these properties could be raised up to 80% of Area Median Income, thereby realizing new revenue that could be utilized to build or purchase other developments, resulting in greater inventory of affordable housing in San Diego.

This agreement to opt-out of the federal program included a mandate to acquire or develop an additional 350 affordable housing units over five years. The FY 2009 Proposed Budget expenditures for Housing Development include \$3.5 million to initiate acquisition and development of 120 units as part of the ongoing effort to “Identify and pursue market opportunities to expand the City’s inventory of additional affordable housing through Housing Commission ownership.”

Addition of New Positions

The Budget includes the addition of 7.00 positions, a reduction of 1.50 positions, for a net increase of 5.50 positions. These additions and reductions are detailed in the budget document prepared by SDHC and the IBA supports the need for the addition of these positions.

Status of Long-term Funding Plan for Homeless Winter Shelter

The Housing Commission has confirmed that for FY 2009, there is an allocation of \$380,000 in funding for the shelter, allocated within the Special Purpose Housing subactivity of the Housing Finance section of the proposed budget. This FY 2009 allocation has been earmarked from the sale of the Rancho del Rio Mobile Park leasehold. This sale is a one-time revenue source that is being used for funding an ongoing expense. Additionally, for FY 2009, SDHC plans to allocate \$200,000 to fund the Cortez Hill Family Shelter, which will allow the City to allocate \$217,891 in Emergency Shelter Grant funds and \$82,109 in Community Development Block Grant funds for the Homeless Winter Shelter Program.

The funds allocated to the Winter Homeless Shelter for FY 2009 are not a part of the long-term plan SDHC proposed to Council in September 2007, which has not been implemented because CCDC has chosen not to proceed with its acquisition of the Hotel Metro Site from the Housing Commission. The SDHC staff has indicated that although a long-term plan has not materialized, SDHC includes assisting the City in its effort to locate a site and create a financing plan for a permanent shelter in its FY 2009-FY 2011 Business Plan. Furthermore, SDHC has indicated that it may be able to set aside Housing Trust Fund dollars as a part of a long-term plan. Since the FY 2009 funding is a one-time measure, this long-term plan should be discussed again prior to FY 2010 budget discussions.

Reserves

For FY 2009, overall reserves have been increased by \$7 million, or 25%, primarily from additional income from SDHC Local Units. Contingency reserves increased by \$6.3 million, due to the SDHC plan to provide for the development of new affordable units, as detailed above. An additional \$3.6 million has been allocated to program reserves for

future capital improvements on SDHC Local Units. These allocations have been designated as highest priority for SDHC in FY 2009 and reflect the Commission's plan to acquire or develop an additional 350 affordable housing units in the next five years.

In our previous review of the FY 2008 SDHC Budget, the IBA has expressed support of increases in unobligated reserves. However, this year, the unobligated reserves have been decreased by \$2.9 million, from \$7.2 million to \$4.3 million, approximately 1.6% of the budget. Staff has indicated that this decrease is the result of the unexpected costs from a decline in the rental market, resulting in a longer time to secure a lease of the Smart Corner office building and the overall regional economic downturn resulting in lower loan repayments and developer fees. As we've previously communicated, a 5% level in unobligated reserves is recommended as a best practice. This would require an additional allocation of \$9 million, for a total of \$13.3 million in unobligated reserves. SDHC staff has indicated that they expect to replenish the unobligated reserves fund as the economic situation improves, however the IBA notes that this may be optimistic in the near term.

Authority to Amend the Budget

For FY 2009, the SDHC requests authority to amend up to \$250,000 of the approved Housing Commission budget. This request is in line with previous years and the IBA supports this proposal.

CONCLUSION

The IBA supports the approval of the SDHC Fiscal Year 2009 Budget, including the provision that allows the Housing Commission authority to amend the FY 2009 Budget up to \$250,000.

However, aside from the \$380,000 allocation of one-time revenue, and \$200,000 allocation to the Cortez Hill Family Center, we note that at this time neither the City nor the Housing Commission has a long-term funding plan for the Homeless Winter Shelter. As a result, the City will face the problem of securing funding again in Fiscal Year 2010.

We reiterate that in this time of uncertain economic conditions and continuing revenue reductions, fewer funds are allocated into the unobligated reserves and if economic conditions do not improve within the next fiscal year, reserves are likely to be reduced further.

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