



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Budget Review Committee Docket Date: May 7, 2015

Review of City Agencies FY 2016 Budgets: San Diego Housing Commission

The IBA has reviewed the budget for the San Diego Housing Commission. This budget is scheduled to be heard on Thursday, May 7th, 2015.

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San Diego Housing Commission

On April 10, 2015, the San Diego Housing Commission (SDHC) Board approved the FY 2016 Proposed Budget, and recommended that the Housing Authority of the City of San Diego (Housing Authority) adopt it. SDHC's FY 2016 Proposed Budget is scheduled to be heard at the May 7th Budget Review Committee meeting.

FY 2016 Proposed Adjustments

The FY 2016 Proposed Operating Budget for the San Diego Housing Commission is approximately \$325.0 million, which is a decrease of \$12.4 million, or 3.7%, from the FY 2015 Adopted Budget. The FY 2016 Proposed Budget also includes an \$8.0 million Capital Budget. The table below illustrates the various activities the Housing Commission funds with its operating

budget.

Housing Commission activities are administered through four divisions for a total of approximately \$255.7 million, not including reserves: 1) Rental Assistance (\$160.4 million); 2) Real Estate (\$70.3 million); 3) Homeless Housing Innovations (\$9.8 million); and 4) Operations Support (\$15.3 million). Rental Assistance and Real Estate account for 62.7% and 27.5% of the Commission's budget, respectively, totaling 90.2% of its entire operational budget. Funds allocated for reserves in each division are budgeted at \$69.2 million, and are discussed in more detail on the following pages.

The FY 2016 Proposed Budget continues to include modifications from budgets in previous years to demonstrate Generally Accepted Accounting Principles (GAAP) best

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY			
ACTIVITY	FY 2015 BUDGET	FY 2016 PROPOSED	CHANGE
Rental Assistance	\$ 168,192,975	\$ 170,156,064	\$ 1,963,089
Housing Innovations	8,880,169	10,450,842	1,570,673
Property Operations	38,836,943	38,418,321	(418,622)
Rental Housing Finance	16,125,364	29,518,943	13,393,580
Homeownership	4,355,517	2,681,908	(1,673,608)
Home Safe Home	5,314,488	1,853,101	(3,461,386)
Loan Management	1,055,836	1,796,689	740,853
Reinvestment Task Force	225,934	247,119	21,185
Housing Development Partners	491,313	625,537	134,224
Fund Balance/Reserves	93,859,653	69,203,236	(24,656,416)
TOTAL OPERATING BUDGET	\$ 337,338,190	\$ 324,951,761	\$ (12,386,429)

Note: Table may not sum to total due to rounding.

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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 current year budgeted expenses. These awarded, but unused funds are appropriately reflected in the Reserves Budget category.

Funding Sources

The FY 2016 Proposed Budget for the San Diego Housing Commission includes total operating revenues of \$325.0 million, including \$234.5 million in new revenue and \$90.4 million in carryover funds. This reflects a decrease of \$1.3 million in new revenue and \$11.1 million in carryover funds from FY 2015, for a total decrease of \$12.4 million, or 3.7%. Carryover funds rep-

resent 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 during the fiscal year. Of the \$325.0 million in projected revenue for FY 2016, \$306.6 million or 94.4% is from restricted sources, including: Section 8 rental assistance, HOME funds, and State funds. The remaining 5.6% or \$18.3 million is from unrestricted revenue sources that include bond administrative fees and ground lease revenue.

The \$12.4 million decrease in FY 2016 proposed revenue is largely attributable to the following:

- \$11.1 million decrease in carryover funds from FY 2015. This reduction is

HOUSING COMMISSION FUNDING SOURCES			
FUNDING SOURCE	FY 2015 BUDGET	FY 2016 PROPOSED	CHANGE
Federal	\$228,661,261	\$212,552,279	\$ (16,108,982)
<i>Section 8/MTW</i>	<i>206,338,151</i>	<i>188,218,573</i>	<i>(18,119,578)</i>
<i>HOME</i>	<i>12,116,384</i>	<i>17,174,111</i>	<i>5,057,727</i>
<i>Housing Innovation Funds</i>	<i>4,437,277</i>	<i>4,652,252</i>	<i>214,975</i>
<i>Rehabilitation Funds</i>	<i>2,798,004</i>	<i>-</i>	<i>(2,798,004)</i>
<i>CDBG</i>	<i>2,826,350</i>	<i>2,346,432</i>	<i>(479,918)</i>
<i>Other Federal Funds</i>	<i>145,095</i>	<i>160,911</i>	<i>15,816</i>
Local	108,627,220	111,214,213	2,586,993
<i>SDHC Real Estate</i>	<i>59,642,447</i>	<i>55,367,860</i>	<i>(4,274,587)</i>
<i>Unrestricted Funds</i>	<i>12,880,138</i>	<i>18,316,483</i>	<i>5,436,345</i>
<i>RDA</i>	<i>745,306</i>	<i>1,657,918</i>	<i>912,612</i>
<i>Affordable Housing Funds</i>	<i>32,570,061</i>	<i>32,119,110</i>	<i>(450,951)</i>
<i>Other Local Funds</i>	<i>2,789,269</i>	<i>3,752,842</i>	<i>963,573</i>
State	49,704	1,185,270	1,135,565
Total	\$337,338,190	\$324,951,762	\$ (12,386,424)

Note: Table may not sum to total due to rounding.

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due to the use of reserves for the purchase of Village North Senior Garden Apartments, and additional investment in the rehabilitation of Hotel Churchill (which will provide 72 affordable studios for homeless veterans and youth aging out of the foster care system).

- \$3.5 million decrease in Section 8/ Moving to Work (MTW) funds as a result of its Path to Success initiatives (reduced expenditures for this program have resulted in a corresponding reduction in revenues). Path to Success modifies the method used to determine how much rent will be paid by families who have been identified as able to work, increases the average rental payments of work-able families, and helps work-able families become more financially self-sufficient through enrollment at SDHC's Achievement Academy. The Housing Commission indicates that this savings will be available for use in future MTW programs.
- \$2.8 million decrease in rehabilitation funds due to a reduction in planned major rehabilitation projects. SDHC has indicated that it is no longer pursuing grants to fund the removal of lead from homes.
- \$1.3 million decrease in the Affordable Housing Fund revenue due to a decrease in projected inclusionary in lieu fees and program income.
- \$542,000 decrease in Community Development Block Grant (CDBG) funds because SDHC does not expect to receive CDBG Homeownership grants in FY 2016.

The decreases in projected revenue noted above are partially offset by the following:

- \$1.6 million increase in SDHC's Real Estate revenue due to annual rent adjustments to market rates, lower vacancies, and the acquisition of Village North Senior Garden Apartments.
- \$1.6 million increase in General Funds from the City. These funds will support homelessness initiatives including the Interim Housing Facility at St. Vincent de Paul, and the Day Center Facility for Homeless Adults.
- \$1.3 million increase due to the anticipated use of County Redevelopment Agency (RDA) funds.
- \$1.2 million increase in HOME Investment Partnerships Program funding, which will support Permanent Supportive Housing (PSH) for SDHC's Housing First initiative.
- \$1.2 million increase in funding from the State Housing Trust Fund. Of the \$1.2 million, approximately \$500,000 is expected to support the 14th & Imperial multi-family affordable housing project, and the remainder will be used for PSH as part of the Housing First initiative.
- \$215,000 increase in Housing Innovation Funds for PSH and rapid re-housing efforts.

Budget by Funding Use

The FY 2016 Proposed Budget includes a total of 312.00 FTEs, which is an increase of 13.00 FTEs over FY 2015. The number of FTEs was reduced in FY 2015 due to sequestration and concerns about future fund-

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ing, so this increase brings the total number of FTEs back up to approximately FY 2014 levels.

The Proposed Budget also includes \$28.2 million for personnel expenditures, which is an increase of \$2.8 million, or 11.0%. This increase is due to:

- The inclusion of a 5% contingency for potential changes in salaries and benefits due to SDHC’s Classification and Compensation study. This study is currently underway, and results are not expected to be available before the start of FY 2016.
- A proposed 2.5% cost of living adjustment (COLA).
- New positions, including:
 - Four maintenance workers who will replace a previously outsourced service maintenance contract.
 - Three project managers and one Supervising Project Manager who will be part of the new Project

Management Office and will support the efficient, timely and successful completion of projects; ensure alignment with SDHC’s Strategic Plan goals; and increase transparency and accountability.

The Housing Commission’s FY 2016 Proposed Budget includes approximately \$296.7 million in non-personnel expenditures, which is a decrease of \$15.2 million or 4.9% from FY 2015. This decrease is largely due to a \$24.7 million reduction in reserves, which was used for the Hotel Churchill rehabilitation, and to purchase the Village North Senior Garden Apartments. Additionally, there is a \$4.3 million decrease in expenditures, which is due to a reduction in capital expenditures. In FY 2015, \$7.8 million was included in the capital improvements budget for the States Sites project. Now that the States Sites project is largely completed, SDHC will focus on capital improvements for smaller projects.

These expenditure reductions are partially offset by:

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USE			
	FY 2015 BUDGET	FY 2016 PROPOSED	CHANGE
FTE	299.00	312.00	13.00
Salaries & Benefits	\$ 25,452,777	\$ 28,247,544	\$ 2,794,767
Supplies & Services	10,153,626	10,211,304	57,678
Housing Program Expense	178,097,752	191,272,448	13,174,696
Property Expenses	14,106,278	14,576,416	470,138
Debt Principal Payments	3,043,019	3,079,445	36,426
Capital Expenditures	12,625,084	8,361,368	(4,263,716)
Reserves	93,859,654	69,203,236	(24,656,418)
TOTAL BUDGET	\$ 337,338,190	\$ 324,951,761	\$ (12,386,429)

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- A \$13.2 million increase in Housing Program expenditures. This increase is primarily due to increased Inclusionary Rental Housing Factor (RHF) activity (which is related to SDHC's Permanent Supportive Housing/Housing First initiative), and Housing Choice Voucher (HCV) activity.
- \$470,000 anticipated increase in property expenses related to utility rates and maintenance costs.

Capital Expenditures

The FY 2016 Proposed Budget for capital expenditures is approximately \$8.0 million, a decrease of \$4.6 million or 36.3%. 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. As mentioned earlier, \$7.8 million was included in the FY 2015 capital improvements budget for the States Sites project. Now that the States Sites project is largely completed (\$700,000 is included in FY 2016 for remaining improvements), SDHC will focus on approximately \$5.1 million in capital improvements for smaller projects at SDHC owned properties. An additional \$404,000 decrease in

the Housing Development and Acquisition portion of the Capital Budget is attributable to a decrease from FY 2015 in planned project costs related to the Park Crest Senior Apartments.

Reserves

The FY 2016 Proposed Budget includes approximately \$69.2 million in reserves, which is a \$24.7 million or a 26.3% decrease from the FY 2015 Adopted Budget. The Housing Commission has three reserve categories, including: Program Restricted Reserves, Property Reserves, and Contingency Reserves.

In FY 2016, the Proposed Budget includes \$38.4 million, a decrease of \$19.9 million from FY 2015, for Program Restricted Reserves. This decrease is primarily due to the purchase of Village North Senior Garden Apartments, the rehabilitation of Hotel Churchill, and the \$10.0 million committed in November 2014 for the Permanent Supportive Housing Notice of Funding Availability (NOFA). The Proposed Budget also includes \$18.4 million for Property Reserves, which is a decrease of \$4.7 million from FY 2015. This decrease in Property Reserves is largely due to the \$5.0 million committed in FY 2016 for the rehabilitation of SDHC owned properties, and a \$304,000 decrease

FY 2016 CAPITAL BUDGET			
ACTIVITY	FY 2015 BUDGET	FY 2016 PROPOSED	CHANGE
Capital Improvements	\$ 9,911,746	\$ 5,803,283	\$ (4,108,463)
Housing Development/Acquisition	2,648,338	2,244,586	(403,752)
Software and IT Equipment	65,000	-	(65,000)
TOTAL CAPITAL BUDGET	\$ 12,625,084	\$ 8,047,869	\$(4,577,215)

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due to the planned carpet replacement in the Smart Corner building in FY 2016.

In FY 2016, approximately \$12.4 million is included in the Proposed Budget for the Housing Commission's Contingency Reserves. This is the same amount as was included in the FY 2015 Adopted Budget, and includes \$11.8 million in unobligated reserves, and \$600,000 for litigation and uninsured losses. The Unobligated Reserve for FY 2016 is budgeted at approximately 5.0% of projected annual revenue, which is a very slight increase over FY 2015. In past years, the IBA has advocated for an unobligated reserve of 5.0%, which is 3.0% higher than was previously required in the Housing Commission's Reserve Policy. The IBA recognizes that SDHC has increased its unobligated reserve levels, and supports the Housing Commission's expressed interest in growing this reserve rate more in future years to mitigate unanticipated funding decreases.

Issues to Consider

City Funding for Homeless Programs

In accordance with the First Amendment to the City's 2014 MOU with the Housing Commission for the provision of homeless shelters and services programs (adopted by

the City Council on April 28, 2015), the Housing Commission receives \$1.3 million in "off the top" CDBG funding to support the Day Center Facility for Homeless Adults, Cortez Hill Family Shelter, Interim Housing Facility for Homeless Adults, and Connections Housing Interim Bed Program. This \$1.3 million consists of approximately:

- \$541,000 for the Day Center Facility for Homeless Adults
- \$206,000 for the Cortez Hill Family Shelter
- \$267,000 for the Interim Housing Facility for Homeless Adults
- \$304,000 for the Connections Housing Interim Bed Program

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.

The Mayor's FY 2016 Proposed Budget includes \$2.04 million for Homelessness Services, which is the same as was included in the FY 2015 Budget. This funding will support:

FY 2016 RESERVES BUDGET			
ACTIVITY	FY 2015 BUDGET	FY 2016 PROPOSED	CHANGE
Program Restricted Reserves	58,278,696	38,366,038	(19,912,658)
Property Reserves	23,187,600	18,443,840	(4,743,761)
Contingency Reserves	12,393,358	12,393,358	-
TOTAL RESERVES	\$93,859,654	\$69,203,236	\$(24,656,419)

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- Year-Round Interim Housing and Related Services (\$1.47 million): This amount includes funding for the Interim Housing Facility, Day Center Facility for Homeless Adults, Homeless Triage Beds, and Homeless Management Information System.
- Connections Housing (\$300,000): Funding for People Assisting the Homeless (PATH) to continue essential services, and for development partners to continue to pursue private fundraising and public grants to fill the remaining gap in operating funds.
- Serial Inebriate Program (SIP) (\$120,000): Continues funding to maintain the SIP at 32 support units and beds.
- Transitional Storage Center (\$150,000): Continues funding to support the operation of the Girls Think Tank storage facility, which provides a place for 350 homeless families and individuals to safely store their personal belongings.

Housing First—San Diego

In November 2014, the San Diego Housing Commission announced its Housing First—San Diego program, which is a three-year plan to serve as many as 1,500 homeless by providing them with housing (and support services) as quickly as possible. The plan includes:

- Renovating Hotel Churchill (as discussed earlier in this report).
- \$10.0 million per year (for a total of \$30.0 million over three years) to create Permanent Supportive Housing, or convert existing transitional housing to

Permanent Supportive Housing.

- Committing 300 federal rental housing vouchers in the first year (and up to 1500 over three years) to provide housing to homeless individuals and families.
- Investing up to \$15.0 million from the federal “Moving to Work” rental assistance program to acquire a property that will set aside 20 percent of its units for Permanent Supportive Housing for homeless San Diegans.
- Dedicating 25 of SDHC’s affordable housing units to temporarily provide furnished apartments to homeless individuals and families.

These priorities are reflected in the changes to SDHC’s projected revenues and expenditures for FY 2016, as discussed earlier in this report.

Housing Impact Fees

In November 2013, the Housing Commission presented a proposal to the City Council to increase the Housing Impact Fees based on an updated Nexus Study that was completed in August 2013. After initial approval of this proposal, a verified petition was filed with the City Clerk, which required the City Council to either rescind the increase or submit the issue to the voters. 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 the City Council with an alternate proposal. The Housing Commission brought back an alternate proposal to the Smart Growth & Land Use Committee on July 17, 2014, which the IBA found deficient in a

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number of areas. IBA report #14-29 outlined these concerns, and proposed options for revising the proposal, including: removing the sunset provision, adding an automatic annual adjustment, clearly defining the conditions the City must meet, and phasing in a 25% increase over the next four years with an automatic annual adjustment. On October 2, 2014, Councilmember Myrtle Cole proposed a revision to the affordable housing fee as follows:

- Raise the fee 100%, phased-in over three years, to the 1990 level. The phase-in period began on January 1, 2015.
- The Housing Impact Fee adjustment will not sunset.
- Manufacturing, warehouse, and non-profit hospitals are exempt from the Housing Impact Fee for the purposes of economic development.
- No adjustment to the fee levels for research and development construction.
- Removal of the requirement for an annual recommendation to the Council for revenue level updates based on a construction cost index.

On October 6, 2014, the City Council adopted the ordinance based on Councilmember Cole's proposal, increasing housing impact fees to 1990 high levels by January 2017.

Despite the adoption of the increased housing impact fees in October 2014, additional funding will be necessary to meet all of the City's affordable housing needs. As is discussed in IBA Report #14-43, the General Plan Housing Element goal for 2013-2020

calls for 9,600 units over an 8 year period, but actual needs are far greater. For instance, there are approximately 46,000 households in San Diego who are on a waiting list to obtain Section 8/federal Housing Choice Vouchers, with an average wait time of 8-10 years. The Housing Commission is working on a report addressing affordable housing costs and needs, and expects to return to the Smart Growth & Land Use Committee on July 1, 2015.