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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# FY 2012 Proposed Budget for the San Diego Housing Commission

## OVERVIEW

The FY 2012 Proposed Operating Budget for the San Diego Housing Commission (SDHC) is \$285.1 million, reflecting a reduction of \$6.6 million from the original FY 2011 Adopted Budget, and a reduction of \$27.0 million from the FY 2011 Current (revised) Budget. The FY 2012 Proposed Budget also includes a \$35.4 million capital budget, while continuing appropriations are projected to be \$23.3 million. 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 Housing Services & Special Initiatives; Real Estate; Operations; and Program, Contingency & Unobligated Reserves.

Housing Commission staff is requesting that the Housing Authority delegate to the Housing Commission Board the authority to amend the FY 2012 Budget for amounts up to \$500,000. In prior years, the Housing Authority has delegated the authority for the Housing Commission Board to amend the budget for amounts up to \$250,000, and for the President & CEO to amend the budget for amounts up to \$100,000. The SDHC Budget Report notes that in November 2009 the Housing Authority delegated to the Housing Commission Board the authority to award maintenance, renovation and improvement contracts for amount up to \$500,000. However, this delegation of authority was limited to awarding routine contracts for which funding was budgeted. The current request for delegation of authority to amend the budget for amounts up to \$500,000 is much broader in scope. The IBA recommends that Housing Commission staff provide additional information as to why this additional delegation of authority is necessary, and what benefit it would provide.

## HOUSING COMMISSION - FY 2012 PROPOSED BUDGET BY ACTIVITY

ACTIVITY	FY 2011	FY 2012	CHANGE
	CURRENT	PROPOSED	
<b>Housing Services &amp; Special Initiatives</b>	<b>\$ 190,945,572</b>	<b>\$ 182,703,470</b>	<b>\$ (8,242,102)</b>
<i>Rental Assistance</i>	173,846,907	169,675,368	(4,171,539)
<i>Workforce &amp; Economic Development</i>	2,779,417	2,795,039	15,622
<i>Special Housing Initiatives</i>	14,319,248	10,233,063	(4,086,185)
<b>Real Estate</b>	<b>68,946,446</b>	<b>43,941,309</b>	<b>(25,005,137)</b>
<i>Rental Housing Development</i>	21,622,102	1,263,330	(20,358,772)
<i>Rental Housing Finance</i>	11,901,744	8,475,532	(3,426,212)
<i>Homeownership</i>	4,276,768	4,200,059	(76,709)
<i>Compliance Monitoring</i>	524,442	522,489	(1,953)
<i>Rehabilitation</i>	8,117,660	4,878,031	(3,239,629)
<i>Portfolio Management</i>	22,503,730	24,601,868	2,098,138
<b>Operations</b>	<b>14,489,240</b>	<b>19,679,120</b>	<b>5,189,880</b>
<i>Board &amp; Executive Functions</i> <sup>1</sup>	2,321,974	2,387,442	65,468
<i>Support Services</i>	11,543,259	16,632,955	5,089,696
<i>Community Relations &amp; Communications</i>	624,007	658,723	34,716
<b>Program, Conting. &amp; Unoblig. Reserves</b>	<b>37,714,651</b>	<b>38,805,154</b>	<b>1,090,503</b>
<b>TOTAL OPERATING BUDGET</b>	<b>\$ 312,095,909</b>	<b>\$ 285,129,053</b>	<b>\$ (26,966,856)</b>

1. Includes Reinvestment Taskforce.

## FISCAL/POLICY DISCUSSION

The FY 2012 Proposed Budget for the San Diego Housing Commission (SDHC) includes total operating revenues of \$285.1 million, including \$212.5 million in new revenues and \$72.6 million in carryover funds, reflecting a reduction of \$7.8 million and \$19.1 million respectively. Carryover fund 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 2012. Approximately 89% of SDHC revenues in FY 2012 are from restricted sources, including Section 8 rental assistance, residential workforce/economic development grants, State funds, and CDBG funds awarded by the City of San Diego. The remaining 11%, or \$32.2 million, are unrestricted revenue sources including rental rehabilitation loan repayments, local funds, Housing Trust Funds, and HOME funds.

The FY 2012 Proposed Budget includes 268.50 FTE positions, a net increase of 3.00 positions from the FY 2011 Current Budget. Position adjustments include the addition of 1.00 Housing Assistant II, 1.00 Senior Program Analyst, 1.00 Senior Administrative Assistant, as well as two position reclassifications. Total personnel expenditures are budgeted at \$21.5 million, an increase of approximately \$390,000 from the FY 2011

Current Budget. This increase is primarily due to the addition of the 3.00 new positions. The budget does not include any funding for raises or bonuses, but does include a 3% contingency of approximately \$579,000 for performance incentives pursuant to the implementation of the new Performance Management System approved in March 2011.

Non-personnel expenditures for supplies and services are budgeted at \$14.5 million, a net increase of approximately \$73,000. Significant increases in supplies and services include \$337,000 in property management fees for Hotel Sandford and Mariner’s Village, \$312,000 in office rent, and \$213,000 in legal services for rental housing finance and development activities. These increases are offset by a \$612,000 reduction in consultant and professional services contracts and a \$189,000 reduction in office equipment.

**HOUSING COMMISSION EXPENDITURES BY CATEGORY**

CATEGORY	FY 2011	FY 2012	CHANGE
	CURRENT	PROPOSED	
FTE	265.50	268.50	3.00
Salaries & Benefits	\$ 21,127,343	\$ 21,516,395	\$ 389,052
Supplies & Services	14,396,647	14,469,239	72,592
Housing Programs	238,857,268	210,338,265	(28,519,003)
Reserves	37,714,651	38,805,154	1,090,503
<b>TOTAL BUDGET</b>	<b>\$ 312,095,909</b>	<b>\$ 285,129,053</b>	<b>\$ (26,966,856)</b>

Housing programs are budgeted at \$210.3 million, a reduction of approximately \$28.5 million. One of the most significant budgetary adjustments in the FY 2012 Proposed Budget is the transfer of funding for capital improvements, rehabilitation, and housing development projects from the operating budget to the capital budget. In October 2009, the Housing Authority approved the SDHC Finance Plan for the Acquisition of New Affordable Housing Units. At that time, the IBA suggested that a capital budget be created in order to incorporate revenues and activities associated with the Finance Plan into the annual budget. The capital budget was established as part of the Housing Commission FY 2011 Budget.

The FY 2011 capital budget primarily reflected the development and acquisition of new affordable units funded by financing proceeds. In FY 2012, the capital budget has been expanded to reflect all capital expenditures associated with the creation of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition. As a result, approximately \$24.9 million has been transferred from the operating budget to the capital budget in FY 2012, which accounts for much of the overall decline in housing programs from FY 2011. In addition, the capital budget includes approximately \$10.4 million in financing proceeds from prior years, for a total budget of \$35.4 million.

**FY 2012 PROPOSED CAPITAL BUDGET**

<b>ACTIVITY</b>	<b>FY 2012 PROPOSED</b>
Capital Improvements	\$ 4,270,672
Rehabilitation	4,762,319
Housing Development/Acquisition	26,086,297
Tenant Improvements	272,647
<b>TOTAL CAPITAL BUDGET</b>	<b>\$ 35,391,935</b>

Other significant adjustments in the FY 2012 Proposed Budget for Housing Programs include the following:

- An \$8.1 million increase in mortgage payments, primarily due to a \$5.0 million loan pay down for refinancing the Smart Corner facility and \$2.3 million for the loan payoff on the Maya apartments;
- A \$4.1 million increase in capital improvements (before transfer to capital budget) due to the addition of new projects in FY 2012;
- A \$10.4 million reduction in loans and grants due to a \$21.8 million decline in carryover from FY 2011, offset by \$11.3 million in new funding awards;
- A \$4.6 million reduction in Housing Choice Voucher program due to a decline in carryover and new funding;
- A \$1.5 million reduction in the Homeless Prevention & Rapid Re-Housing program due to a decline in carryover funding;

Finally, the FY 2012 Proposed Budget includes \$38.8 million in Program, Contingency and Unobligated Reserves, an increase of \$1.1 million from the FY 2011 Current Budget. The Contingency Reserve increased by approximately \$579,000 due to a 3% contingency for performance incentives as previously mentioned. Program Reserves increased by \$601,000. The Unobligated Reserve is budgeted at \$7.1 million, reflecting a decline of \$89,000. However, due to the decline in FY 2012 revenues, the Unobligated Reserve actually increased as a percentage of the operating budget, from 3.3% to 3.5%. In the past, the IBA has advocated for an Unobligated Reserve of 5%. While the Reserve is short of this level, we acknowledge that the combined reserves are equivalent to 13.6% of the operating budget.

## CONCLUSION

The FY 2012 Proposed Operating Budget for the San Diego Housing Commission (SDHC) is \$285.1 million, reflecting a reduction of \$6.6 million from the original FY 2011 Adopted Budget, and a reduction of \$27.0 million from the FY 2011 Current (revised) Budget. The Proposed Budget includes 268.50 FTE positions, a net increase of 3.00 positions from the FY 2011 Current Budget. Total personnel expenditures are

budgeted at \$21.5 million, an increase of approximately \$390,000 from the FY 2011 Current Budget, primarily attributable to the new positions. The budget does not include any funding for raises or bonuses, but does include a 3% contingency of approximately \$579,000 for performance incentives pursuant to the implementation of the new Performance Management System approved in March 2011.

One of the most significant budgetary adjustments in the FY 2012 Proposed Budget is the transfer of funding for capital improvements, rehabilitation, and housing development projects from the operating budget to the capital budget. In FY 2011, the capital budget primarily reflected the development and acquisition of new affordable units funded by financing proceeds. In FY 2012, the capital budget has been expanded to reflect all capital expenditures associated with the creation of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition. As a result, approximately \$24.9 million has been transferred from the operating budget to the capital budget in FY 2012.

Finally, Housing Commission staff is requesting that the Housing Authority delegate to the Housing Commission Board the authority to amend the FY 2012 Budget for amounts up to \$500,000. In prior years, the Housing Authority has delegated the authority for the Housing Commission Board to amend the budget for amounts up to \$250,000, and for the President & CEO to amend the budget for amounts up to \$100,000. The IBA recommends that Housing Commission staff provide additional information as to why this additional delegation of authority is necessary, and what benefit it would provide.

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