



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2017 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Tuesday, May 10th, 2016. Our review is attached.

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Trisha Tacke
Research Analyst

Handwritten signature of Andrea Tevlin in blue ink.

APPROVED: Andrea Tevlin
Independent Budget Analyst

San Diego Housing Commission

On May 6, 2016, the San Diego Housing Commission (SDHC) Board approved the FY 2017 Proposed Budget and recommended that the Housing Authority of the City of San Diego (Housing Authority) adopt it. SDHC's FY 2017 Proposed Budget is scheduled to be heard at the May 10th Budget Review Committee meeting. Please note, SDHC's Proposed Budget has been amended since it was initially presented to its Board on April 8, 2016. On April 26, 2016, the City Council approved the FY 2017 Annual Action Plan and Substantial Amendment to the FY 2015-FY 2019 Consolidated Plan, which included an additional \$4.6 million for the creation of an Affordable Housing Revolving Loan (AHRL) with SDHC. This additional funding is reflected in this report, and is included in the Commission's revised budget materials.

FY 2017 Proposed Adjustments

The FY 2017 Proposed Operating Budget for the San Diego Housing Commission is approximately \$368.0 million, which is an increase of \$43.1 million, or 13.2%, over the FY 2016 Adopted Budget. The FY 2017 Proposed Budget also includes a \$22.1 million Capital Budget, which is discussed in more detail later in this report. 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 \$289.0 million, excluding reserves: 1) Rental Assistance (\$164.0 million); 2) Real Estate (\$91.5 million); 3)

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY			
ACTIVITY	FY 2016 BUDGET	FY 2017 PROPOSED	CHANGE
Rental Assistance	\$ 170,156,065	\$ 172,329,261	\$ 2,173,196
Homeless Housing Innovations	10,450,842	18,000,243	7,549,401
Property Operations	38,418,321	52,840,726	14,422,405
Real Estate Finance	29,518,943	37,002,627	7,483,684
Homeownership	2,681,908	4,414,941	1,733,033
Rehabilitation	1,853,101	2,361,461	508,360
Loan Servicing	1,796,689	1,190,116	(606,573)
Reinvestment Task Force	247,119	183,682	(63,437)
Housing Development Partners	625,537	722,562	97,025
Fund Balance/Reserves	69,203,237	78,958,810	9,755,573
TOTAL OPERATING BUDGET	\$ 324,951,762	\$ 368,004,429	\$ 43,052,667

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

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Homeless Housing Innovations (\$17.1 million); and 4) Operations Support (\$16.5 million). The Rental Assistance and Real Estate divisions account for 56.7% and 31.6% of the Commission's budget, respectively, totaling 88.4% of its entire operational budget. Reserves, which are allocated within each division and are budgeted at \$79.0 million, are discussed in more detail on the following pages.

Funding Sources

The FY 2017 Proposed Budget for SDHC includes total operating revenues of \$368.0 million, including \$260.1 million in new revenue

and \$107.2 million in fund balance. This reflects an increase of \$26.2 million in new revenue and \$16.8 million in additional fund balance, for a total increase of \$43.1 million, or 13.2%. Fund balance represents 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 \$368.0 million in projected revenue for FY 2017, \$347.3 million or 94.4% is from restricted sources, including: Section 8 rental assistance, HOME funds, and the Affordable Housing Fund. The remaining 5.6% or \$20.7 million¹ is from con-

¹ Please note that although these funds are not restricted for specific programmatic uses, they may be committed for future use (e.g. the \$600,000 reserved for litigation and uninsured losses in the contingency reserves).

HOUSING COMMISSION FUNDING SOURCES			
FUNDING SOURCE	FY 2016 BUDGET	FY 2017 PROPOSED	CHANGE
Federal Sources			
<i>Section 8/MTW</i>	\$ 188,218,573	\$ 200,061,286	\$ 11,842,713
<i>HOME</i>	14,674,111	14,983,997	309,886
<i>Housing Innovation Funds</i>	5,970,330	5,925,084	(45,246)
<i>Other Federal Funds</i>	1,189,264	6,032,966	4,843,702
Total Federal	\$210,052,278	\$227,003,333	\$ 16,951,055
Local Sources			
<i>SDHC Real Estate</i>	\$ 55,165,459	\$ 58,304,211	\$ 3,138,752
<i>Affordable Housing Funds</i>	32,119,110	44,976,671	12,857,561
<i>Contingency Reserves</i>	12,393,358	12,745,190	351,832
<i>Unrestricted Funds</i>	5,846,718	8,009,561	2,162,843
<i>Veterans' Initiative</i>	-	6,642,985	6,642,985
<i>Redevelopment Agency Funds</i>	1,657,918	2,218,044	560,126
<i>Other Local Funds</i>	6,531,650	7,962,274	1,430,624
Total Local	\$113,714,213	\$140,858,936	\$ 27,144,723
State Sources			
Total State	\$ 1,185,270	\$ 142,160	\$ (1,043,110)
Total Federal, Local, State	\$324,951,761	\$368,004,429	\$ 43,052,668

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tingency reserves and unrestricted revenue sources that include bond administrative fees, ground lease revenue, HOME administrative reserve funds that were reclassified as unrestricted, and discretionary funding from the City of San Diego.

The \$43.1 million increase in FY 2017 proposed revenue is largely attributable to the following:

An \$11.8 million net increase in Section 8/Moving to Work (MTW) funds: This includes a \$17.3 million increase in Section 8/MTW revenues, and a \$5.5 million decrease in Section 8/MTW fund balance compared to FY 2016. Specifically, there is an additional \$4.7 million from HUD-Veterans Affairs Supportive Housing (VASH) vouchers in support of the 1,000 Homeless Veterans Initiative; and \$12.0 million in MTW funds for the rehabilitation of 44 of SDHC's FHA LLC properties, as well as the affordable housing portion of its Via Las Cumbres property. These properties were identified in the Commission's green physical needs assessment (GPNA) as needing immediate rehabilitation work.

A \$4.8 million net increase in other Federal funding, which includes a \$4.9 million increase in revenues, and an \$86,000 decrease in fund balance compared to FY 2016. Increasing revenues are largely due to \$4.6 million in Community Development Block Grant (CDBG) funding to create an AHRL, which is discussed in more detail in the following section.

A \$12.9 million net increase in Affordable Housing Funds, which is composed of a \$4.1 million increase in the Affordable Housing Fund (AHF), and a \$8.8 million increase in

fund balance over FY 2016. Additional AHF revenue is due to a slight increase in projected Housing Impact Fees (or Linkage Fees), and approximately \$3.5 million in additional revenue from Inclusionary Housing Fund fees charged on residential developments.

A \$310,000 net increase in HOME Investment Partnership Program funds, which reflects \$1.1 million in additional revenue that is largely offset by a reduction in fund balance of \$830,000. HOME funds are used to support homeownership affordability (e.g. the First-Time Homebuyer Program), and to develop and rehabilitate affordable housing units.

A \$1.4 million net increase in Other Local Funds, including \$871,000 in additional revenue, and \$560,000 in additional fund balance over FY 2016. The additional revenue is due in part to \$105,000 in new funding for the operation of restrooms for the homeless 24 hours a day, 7 days a week. Additional increases in local fund revenues are due to the recovery of Rental Housing Factor fees, loan servicing fees, and compliance monitoring fees.

A \$3.1 million net increase in SDHC Real Estate funding. This includes \$301,000 in additional revenue and \$2.8 million in fund balance over FY 2016 for the property replacement reserve. These funds, like the MTW funds, will support urgent property rehabilitation projects as identified by the GPNA.

A \$560,000 net increase in County Redevelopment Agency (RDA) funds. This includes a \$1.9 million increase in fund balance over FY 2016, which is largely offset by a de-

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crease of \$1.3 million in County Redevelopment Agency (RDA) funding. SDHC received these funds for lead abatement in FY 2016, but used expiring federal funds for this purpose instead. The \$1.3 million from FY 2016 is expected to be used in FY 2017 for lead abatement in 70 properties.

The increases in projected revenue noted above are partially offset by a \$1.0 million decrease in state funds. SDHC does not anticipate continued funding from the State Housing Trust Fund.

Budget by Funding Use

Personnel Expense (PE)

The FY 2017 Proposed Budget includes a total of 325.00 FTEs (including interns and part-time housing service aides), which is a net increase of 13.00 FTEs over FY 2016. Personnel expenditures of \$30.2 million are included in the Proposed Budget, which is an increase of \$1.9 million, or 6.8%. This increase is due to:

- The inclusion of \$956,000 for changes in

salaries and benefits due to SDHC's Classification and Compensation study. This study and revised pay plan was approved by SDHC's Board on May 6, and is expected to come before the Housing Authority for approval in late May.

- A proposed 3.0% cost of living adjustment (COLA).
- A net increase of 13.00 FTEs, which includes the addition of 20.00 FTE positions, and is partially offset by a reduction of 7.00 FTE intern positions.

The 20.00 new positions include:

- 2.00 FTE positions added in the Rental Assistance Division. One position will administer an additional 820 federal housing vouchers for homeless individuals and families, and one position will monitor affordability requirement compliance for 3,000 units.
- 10.00 FTE positions added in the Real Estate Division. Two of the positions will oversee and monitor the \$22.1 mil-

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USE			
	FY 2016 BUDGET	FY 2017 PROPOSED	CHANGE
FTE	312.00	325.00	13.00
Salaries & Benefits	\$ 28,247,544	\$ 30,181,333	\$ 1,933,789
Housing Program Expense	191,272,448	207,998,744	16,726,296
Property Expenses	14,576,416	15,315,471	739,055
Supplies & Services	10,211,304	10,417,270	205,966
Debt Principal Payments	3,079,445	3,066,941	(12,504)
Capital Expenditures	8,361,369	22,065,860	13,704,491
Reserves	69,203,236	78,958,810	9,755,574
TOTAL BUDGET	\$ 324,951,762	\$ 368,004,429	\$ 43,052,667

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lion in FY 2017 that will be invested in SDHC's property rehabilitation efforts. In FY 2017, the Housing Commission plans to manage all of its properties with in-house staff, instead of contracting out for this work. The additional 8.00 FTE positions requested will perform this work, and are expected to generate cost savings that will cover the addition of these employees.

- 1.00 FTE position in the Homeless Housing Innovations Division. This position is grant funded, and will support the Regional Continuum of Care Consortium.
- 6.00 FTE positions to administer the 1,000 Homeless Veterans Initiative.
- 1.00 FTE administrative support position for the Communications and Legislative Affairs Department.

Non-Personnel Expense (NPE)

The Housing Commission's FY 2017 Proposed Budget includes approximately \$337.8 million in NPE, which is an increase of \$41.1 million or 13.9% over FY 2016. This change is largely due to increases in Housing Program expenditures, capital expenditures, and reserves.

Housing Program Expenditures

A \$16.7 million increase in Housing Pro-

gram expenditures is largely attributable to:

- An increase in the number of Section 8 vouchers (and assumed usage of 100% of those vouchers).
- Additional funding for Permanent Supportive Housing (PSH) for SDHC's Housing First initiative, and affordable housing development.
- \$4.6 million in CDBG funding to create an AHRL. Of the \$4.6 million, \$3.4 million is for PSH and will be used for the rehabilitation of multifamily residential units. Additionally, \$1.0 million will provide an additional 20 families with down payment and homeownership assistance, and \$250,000 will fund the pilot "Green and Clean" Rehabilitation Program. Staff indicates that the pilot will fund owner occupied, single family home efficiency upgrades, and will further the goals of the City's Climate Action Plan.

Capital Expenditures

The FY 2017 Proposed Budget for capital expenditures is approximately \$22.1 million, an increase of \$13.7 million or 163.9%. In past years, the Housing Commission's Capital Budget has included expenditures associated with the creation of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition, and software

FY 2017 CAPITAL BUDGET			
ACTIVITY	FY 2016 BUDGET	FY 2017 PROPOSED	CHANGE
Capital Improvements	\$ 6,116,783	\$ 22,065,860	\$ 15,949,077
Housing Development/Acquisition	2,244,586	-	(2,244,586)
TOTAL CAPITAL BUDGET	\$ 8,361,369	\$22,065,860	\$13,704,491

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and IT equipment. However, this year's Capital Budget reflects the Commission's prioritization of capital improvements and rehabilitation of existing properties.

As discussed earlier, SDHC commissioned a GPNA of its 155 rental properties. The GPNA was completed in 2015 and projected capital needs of approximately \$200 million over the next 20 years for SDHC's current portfolio of properties. Given these long-term needs, SDHC is formulating a rehabilitation plan that could cover the next five years. In the meantime, the FY 2017 proposed Capital Budget includes funding for critical rehabilitation work at 87 SDHC-owned properties. **Due to the significant needs identified in the GPNA, the City Council may want to request an update once a multi-year rehabilitation plan has been developed.**

Reserves

The FY 2017 Proposed Budget includes approximately \$79.0 million in reserves, which is a \$9.8 million or a 14.1% increase from the FY 2016 Adopted Budget. The Housing Commission has three reserve categories, including: Program Restricted Reserves, Property Reserves, and Contingency Reserves.

In FY 2017, the Proposed Budget includes

\$38.7 million for Program Restricted Reserves, an increase of \$1.4 million or 3.6% from FY 2016. This change is primarily due to increases in the reserves for the Affordable Housing Fund, and the new Veterans Initiative. These increases are partially offset by decreases in reserves for Section 8/MTW, and the HOME Administrative Fund.

The Proposed Budget also includes \$26.7 million for Property Reserves, which is an increase of \$7.4 million or 39.0% from FY 2016. Property Reserves are set aside for major capital improvement needs, replacements, enhancements, and repairs. In FY 2017, these reserves are expected to grow in order to support anticipated GPNA rehabilitation work in FY 2018.

Approximately \$13.6 million is included in the FY 2017 Proposed Budget for the Housing Commission's Contingency Reserves. This is an increase of \$902,000 or 7.1% over the FY 2016 Adopted Budget, and includes \$13.0 million in unobligated reserves, and \$600,000 for litigation and uninsured losses. Unobligated reserves for FY 2017 are budgeted at approximately 5.1% of projected annual revenue, which is a very slight increase over FY 2016. This satisfies a previous IBA request that unobligated reserves equal a minimum of 5%.

FY 2017 RESERVES BUDGET			
ACTIVITY	FY 2016 BUDGET	FY 2017 PROPOSED	CHANGE
Program Restricted Reserves	\$ 37,294,235	\$ 38,655,425	\$ 1,361,190
Property Reserves	19,213,658	26,706,494	7,492,836
Contingency Reserves	12,695,344	13,596,891	901,547
TOTAL RESERVES	\$ 69,203,237	\$ 78,958,810	\$ 9,755,573

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

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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 CDBG funding that is set aside 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 is allocated as follows:

- \$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

The CDBG set aside creates funding certainty for homeless programs that previously competed for funding with other organizations citywide. In FY 2013, direct competition with other organizations resulted in the loss of CDBG funding support for the Neil Good Day Center.

The Mayor's FY 2017 Proposed Budget includes \$2.3 million for homeless services, which is an increase of \$275,000 over the FY 2016 Budget. This funding includes:

- Approximately \$1.5 million for Year-Round Interim Housing and Related Services. This amount funds 350 year-round interim housing beds at the St. Vincent

de Paul Village campus, including 140 beds for Veterans and 50 beds for homeless triage and housing placement by the San Diego Police Department's Homeless Outreach Team. It also includes \$25,000 for an Inclement Weather Program and \$110,000 for Housing Commission administration of the various programs and services.

- \$300,000 for Connections Housing. Funding for People Assisting the Homeless (PATH) will support the continuation of essential services, and will allow development partners to continue to pursue private fundraising and public grants to fill the remaining gap in operating funds.
- \$290,000 for the Serial Inebriate Program (SIP). This represents an additional \$170,000 over FY 2016 that will increase the number of transitional housing beds from 32 to a total of 56, and will also provide supportive services for residents experiencing homelessness and struggling with substance abuse. Please note, the Housing Commission's Proposed Budget does not include the additional \$170,000, but Staff has indicated that it will be added to the reforecasted budget once the additional funding has been adopted in the City's final budget.
- \$125,000 for the Transitional Storage Center, which will continue funding for the operation of the Think Dignity (formerly Girls Think Tank) storage facility. The facility provides lockers and bins to homeless families and individuals to safely store their personal belongings.

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ings. Approximately 2,000 people use this facility.

- \$105,000 for 24/7 Restroom Access. This amount represents new funding for the operation of restrooms for the homeless 24 hours a day, 7 days a week. SDHC will subcontract with St. Vincent de Paul for the continued provision of these services.

1,000 Homeless Veterans Initiative

The 1,000 Homeless Veterans Initiative is part of SDHC's Housing First-San Diego program, its three-year homelessness action plan. In February 2016, the City Council and Housing Authority approved the appropriation of funds for this program, with a goal of providing housing for 1,000 homeless veterans in the City.

The City contributed \$4.0 million in FY 2016 to this initiative. This contribution was available as a result of funding received from the ground lease of San Diego Square. Additional funding for the initiative included up to \$3.0 million from the pending sale of Hotel Metro, \$3.4 million in Federal Sponsor-Based Housing Vouchers, \$2.7 million in HUD-VASH vouchers, and \$250,000 in Housing Commission local funds.

Although no additional City General Fund money is included in the FY 2017 Proposed Budget, unspent funds from FY 2016 will be rolled over into FY 2017. According to SDHC staff, a total of \$10.6 million (including \$3.6 million in City contributed funds) will be rolled over into FY 2017 for this purpose.

Performance Measures

The Housing Commission collects performance related information both for internal

and external use. For instance, the Commission produces an annual report about its Moving to Work program that includes metrics like the number of affordable housing units rehabilitated, and number of project-based vouchers awarded for rental assistance at its properties. Internally, the Housing Commission develops reports on items like the number of Section 8 vouchers processed on time. Given the value of these types of metrics for both citizens and policy makers, the Housing Commission may want to consider adding some of these performance indicators to its Proposed Budget materials in future years.

Addressing the Housing Affordability Crisis in San Diego

On December 9, 2015, the Housing Commission presented its report, *Addressing the Housing Affordability Crisis in San Diego and Beyond*, to the Smart Growth and Land Use Committee. The report included 11 recommendations for federal, State, and local action to increase production and reduce the costs of affordable and market rate housing development in San Diego. Eight of these recommendations were directly related to opportunities at the local level, and the Committee directed City Staff to work with the Housing Commission to bring back actionable items for Committee consideration. A hearing for this follow up has yet to be scheduled for Committee, but the Commission's recommendations and the full report are available at: http://www.sdhc.org/uploadedFiles/Media_Center/Significant_Documents_Reports/SDHC%20Housing%20Affordability%20Study%20Report.pdf.