

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item: San Diego Housing Commission FY 2007 Proposed Budget

OVERVIEW

The San Diego Housing Commission is submitting their Fiscal Year 2007 Proposed Budget to the Housing Authority for adoption. The Housing Commission's FY 2007 Proposed Budget is \$275.7 million. This is an increase of \$33.5 million from the Fiscal Year 2006 Budget of \$242.2 million. The increase is primarily due to the one-time revenue and expenditures associated with the acquisition and preparation of the Smart Corner office facility where the San Diego Housing Commission will be housed.

While, overall the Housing Commission's FY 2007 Proposed Budget is sound, there are a few areas that need to be addressed.

FISCAL/POLICY DISCUSSION

The Housing Commission's FY 2007 budget is as follows:

FY 2007 Proposed Budget			
Revenues	FY 2006	FY 2007	% of FY 07 Budget
Restricted Revenues	\$188,448,743	\$188,663,151	68.4%
Unrestricted Revenues	\$53,762,170	\$87,068,412	31.6%
Total Revenues	\$242,210,913	\$275,731,563	100.0%
Expenditures			
Salaries & Benefits	\$16,678,619	\$17,110,820	6.2%
Services & Supplies	\$7,500,156	\$11,756,749	4.3%
Housing Programs	\$196,172,018	\$224,850,424	81.5%
Program Reserves	\$14,936,269	\$15,187,937	5.5%
Contingency Reserves	\$2,115,673	\$2,600,000	1.0%
Agency Reserves	\$4,808,178	\$4,225,633	1.5%
Total Expenditures	\$242,210,913	\$275,731,563	100.0%

The increase of \$33.5 million from the FY 2006 Budget of \$242.2 million is primarily related to the San Diego Housing Commission move that is scheduled for December 2006, to the new office facility at the Smart Corner development located at 12th and Broadway. The cost associated with the one-time acquisition and preparation of the Smart Corner office facility is budgeted at \$27.7 million. This represents 83% of the proposed \$33.5 million increase for FY 2007.

Winter Shelter

The Homeless Service Program in the Community and Economic Development Department, plans, organizes and coordinates activities to assist the homeless community, including the Winter Shelter Program. Funding for the homeless winter shelter for FY 2007 is not currently included in the Housing Commission's FY 2007 Budget due to a smaller allocation of new funding in FY 2007. The San Diego Housing Commission has provided \$445,000 annually for this purpose for several years. The San Diego Housing Commission has identified a possible funding solution for FY 2007 and FY 2008, but the Commission has not finalized it at this time. The solution involves an agreement between the Housing Commission and Centre City Development Corporation regarding a loan buyout. If the Housing Commission is unable to finalize the identified funding for the Winter Shelter Program prior to June 30th, then the City will need to identify other revenue to fund this program.

Increase Housing Commission's Level of Approval

The Housing Commission is requesting an increase in the level of approval from \$250,000 to \$500,000 for allocation of any unanticipated funds that are available during the year. While the Housing Commission is not governed by the Appropriation Ordinance, the allocation policy used by the Commission should be consistent. The City will be reviewing the Appropriation Ordinance for possible policy changes during the budget process. Therefore, the IBA does not recommend the increase of the approval level for the Housing Commission at this time.

Housing Commission's 1.5% Agency Reserve

Blue Ribbon Committee Report on General Reserves dated July 22, 2002 states the following:

“According to Public Budgeting and Finance, an industry publication sponsored by the Association for budgeting and Financial Management, and the American Society for Public Administration, the most frequently cited guideline for setting an optimal level of reserves is 5 percent of General Fund revenues.

The City of San Diego's FY 2006 General Fund reserve was approximately 4.2% of the General Fund. Council Policy 100-20, adopted in FY 2003, sets a City goal to bring the General Fund Reserve to five percent by 2014. The Mayor has indicated a goal to increase the Unappropriated Reserves to eight percent by FY 2010, which was established to fund General Fund emergencies.

The San Diego Housing Commission has a 1.5% Agency Reserve and a total Program, Contingency and Agency Reserves of 8%. Per the Housing Commission's FY 2007 Budget, "*Agency Reserves include amounts that are available for any unanticipated housing purpose. The Program Reserves provide for future personnel, services and supplies or housing expenditures. Contingency Reserves include litigation reserves to provide for unexpected legal issues, insurance reserves to provide for coverage of deductibles, and building reserves to provide for any potential shortfall in the Smart Corner transaction*". The Housing Commission has indicated the desire to increase their Agency Reserve to approximately 5% since the current reserve of \$4.2 million is particularly low. As unanticipated revenue is received and/or expenditure savings occur, the Housing Commission should consider depositing those funds into the Agency Reserve.

Federal and State Reliance

The Housing Commission's FY 2007 Budget includes \$275.7 million in revenues. 71% are federal funds, 1% state and 28% are locally generated. The Commission has indicated a desire to minimize the reliance on federal and state funding by creating other revenue options. One of the challenges for the Commission will be the changing HUD program rules, that further restricts the use of funds received from the program, thereby putting additional strain on the unrestricted revenue that the Housing Commission receives.

The President's FY 2007 Federal Budget Proposal threatens major HUD cutbacks, including CDBG that may have an impact to the Commission. If the Commission's annual funding is decreased, or eliminated, a proposed amendment to the budget will be necessary. The changing HUD program regulations and the threat of HUD cutbacks will have a significant impact on the City of San Diego. The affordable housing programs that are funded by these funding sources are important elements to San Diego.

CONCLUSION

The San Diego Housing Commission's FY 2007 Proposed Budget is very detailed and includes all pertinent information. The Commission will need a contingency plan if the HUD policies are modified that affect the San Diego region. The IBA recommends approving the Housing Commission's FY 2007 Budget with the level of approval for the Housing Commission remaining at \$250,000.

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