ON BOARD AGENDA: June 28, 2018
AGENDA ITEM: 7.B.i

HOUSINGAUTHORITY
SANTA CLARA COUNTY

To: Board of Commissioners

From: Katherine Harasz, Executive Director

Subject: The Santa Clara County Housing Authority's Operating and Capital Budget for the fiscal year ending June 30, 2019

Approved	Katherine Harasz	Date	6-21-2018

Recommendation

1. Report on the Housing Authority's Total Projected Sources of Funds by program and type for the fiscal year ending June 30, 2019 (**Attachment A**) and the Two Year Annual Comparison of the FY 2018 and FY 2019 operating budgets (**Attachment B**);
2. Approve the Housing Authority's proposed Operating Budget for the fiscal year ending June 30, 2019 (FY 2019), including the expenditure of funds identified in **Attachment C**;
3. Approve the Housing Authority's proposed Capital Budget for the fiscal year ending June 30, 2019 (FY 2019), including the expenditure of funds identified in **Attachment D**;
4. Approve a delegation of authority to the Executive Director to authorize the use of additional funds to address unbudgeted expenditures of up to five percent (5%) of approved FY 2019 operating expenditures (**Attachment C**), or up to $1,510,381.31, with the authority to expire August 31, 2019;
5. Approve a delegation of authority to the Executive Director to authorize the use of additional funds to address unbudgeted expenditures of up to ten percent (10%) of approved FY 2019 capital expenditures (**Attachment D**), or up to $151,740.00, with the authority to expire August 31, 2019; and
6. Direct the Executive Director to continue providing the Board with quarterly reports on budget to actual operating expenditures, fund reserves and cash position.

Strategic Outcome

The reports and recommended actions support our Strategic Plan Goal V, operating in an innovative, financially responsible manner by cost-effectively performing core services, strengthening the Board's capacity to provide leadership and skillful policy guidance, monitoring federal actions to protect and advance the Housing Authority's mission, and attracting, motivating and retaining a skilled and adaptable workforce.

Analysis

Before June 30 of each year, the Board of Commissioners must approve the agency's annual operating and capital budgets effective July 1. The budget includes a projection of the coming fiscal year's operating revenues (grant funds, fees, interest, etc.) and expenditures, including staff, consultant and service contracts, facilities, equipment and supplies.

As explained during the June 7 budget training, today's actions are limited to approval of funds to pay for our agency operations. There is very limited approval of program budget expenditures included in the operating budget (explained below); the lion's share of program funds must be paid in accordance with governing regulations and Board-approved policies. The Board does approve the expenditure of program funds not mandated by program regulations (non-traditional uses of Moving to Work (**MTW**) funds, for example), or otherwise directed by a Board approved policy or delegation of authority.

Budget Overview

The proposed operating budget is a balanced budget based on:

- Calendar Year **(CY)** 2018 appropriated funds for our various voucher programs;
- A conservative projection of federal funds that we anticipate receiving in CY 2019 pursuant to our MTW contract with the Department of Housing and Urban Development (**HUD**), other federal grant funds; and
- Local funds we anticipate earning from our development and asset management activities during FY 2019.

The projected operating expenses reflect that **overall operating costs are just over eight percent (8.2%[1]) of our total revenues**, an enviable ratio for government and non-profit organizations alike.

The Housing Authority's proposed operating expenditures are $30,207,626, which is an increase of $1,710,495 over last year's budget of $28,497,131[2] (**Attachment B**). This increase is primarily attributable to salary increases under our Compensation Plan and some staffing additions (described later in this report).

This year we are presenting capital expenditures separately. In the past they were presented as part of the operating budget. Capital expenditures are different from other operating expenditures because they are subject to different accounting rules (depreciation charged over the life of the asset) and because they are one-time expenditures that create value into future years. Sometimes the proposed capital expenditure also extends into future budget years, and this is reflected in **Attachment D**.

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[1] Budgeted Operating Expenditures are $30,207,626; total agency revenues are projected to be $368,218,124.

[2] To provide an apples to apples comparison, the FY 2018 operating budget figure was revised to exclude capital expenditures, which are now budgeted independently of the operating budget. See Attachment C-1.

Revenues

Federal Programs

The Housing Authority's predominant source of funds comes from our contract with HUD under our **MTW** contracts. Our MTW contracts set forth two formulas for calculating the total amount of MTW funds that we are eligible for: one formula provides how our rental assistance or Housing Assistance Payments (**HAP**) will be calculated, and a second formula provides how our administrative fee will be calculated[3]. This eligibility amount is then prorated (up or down) according to funds actually appropriated by Congress.

We recently learned that our Housing Assistance proration for CY 2018 is 99.745% of eligibility; we have yet to learn our final proration for our CY 2018 MTW administrative fees, so we are assuming 76% of eligibility (HUD is also paying our administrative fees consistent with this proration). For the period of January – June 2019, we are assuming a Housing Assistance proration of 95.3% and an administrative fee proration of 70%.

Why do we project CY 2019 federal revenues so conservatively? Our fiscal stability is the fiscal stability of the vulnerable families we serve. We carefully plan our operating, capital and program expenditures to avoid a repeat of the challenges resulting from the retroactive budget cut we experienced in 2013. The federal revenue landscape continues to be uncertain, but not because there is lack of agreement, instead because federal revenue and expenditure initiatives are not aligned.

The 2017 tax reform package has presumably reduced federal revenues (and caused the value of tax credits to plummet, a primary tool for the development of desperately needed affordable housing). On the other hand, a budget compromise has resulted in one of the highest Section 8 funding prorations in years, and the signs are that it may continue into next year. But increased federal spending combined with reduced federal revenues will ultimately result in an increased national debt, which results in higher interest payments on that debt, and those interest payments must be paid from the same discretionary funds that our program funds come from. The debt ceiling is projected to be exhausted by early 2019, which will require congressional action to resolve. The degree of discord will be informed by the November election results. We will continue to monitor the political outlook in Washington DC and the potential for an abrupt funding decrease, and in the meantime keep our program expenditures calibrated to allow for a cushion as rent increases seem to be continuing.

While our MTW contracts provide separate funding for rental assistance versus administrative fee, as an MTW agency we have the flexibility to combine the funds and use them for authorized purposes under the 1937 Housing Act and as authorized through our HUD-approved MTW Plans (single fund flexibility). Pursuant to Board direction, the Housing Authority staff calculates MTW operating revenues by blending the program and administrative funds. We calculated revenues under a blended

[3] Public housing or Section 9 funds are also paid under this contract, but given that we have only four public housing units, this is an immaterial part of our budget.

proration of 98% for the first half of the fiscal year; and 94% for the second half of the fiscal year, yielding an overall 96% proration for FY 2019. In addition, we are recommending use of an additional $4.9 million in MTW funds to cover our proposed capital and operating costs.

In addition to MTW funds, we receive other federal funds for specialized vouchers, including Veterans Affairs Supportive Housing (**VASH**), Mainstream, Non-Elderly Disabled, Family Unification and Moderate Rehabilitation. We also receive only partial funding for our Resident Opportunities and Self Sufficiency program, formerly Family Self Sufficiency, and so we are proposing to supplement this program and staff cost with our MTW funds.

Last year we thought the revenues for these smaller programs would meet the program and operating costs, but we experienced a $3.2 million deficit under VASH, which we paid with MTW reserves. This deficit was due to a much higher cost per voucher than what HUD paid under our VASH grant, which became a problem as our All the Way Home campaign succeeded and our overall leasing increased. This year we applied for and received another 115 VASH vouchers, which will provide a buffer for the higher cost of our voucher compared to the cost actually covered by the amount of the grant.

Reserves in these specialized voucher programs will be or are exhausted with this budget. We are carefully monitoring our leasing costs across all programs to ensure that we have sufficient cash and authorized funding to pay for the required operating and program expenditures. In the future, if we experience a program deficit as we did with VASH we will alert the Board.

Local Programs

In addition to federal funds, approximately $1.8 million in revenues will be earned through our development and asset management activities. In addition, approximately $1.1 million in MTW funds is needed to fully fund our asset management activities, as permitted by MTW Activity 2012-4, which allows use of MTW funds for preservation of our existing housing portfolio. The Housing Authority's Development team will rely on reserves from prior years.

Expenditures

The majority of the agency's operating expenditures are the recurring cost of salaries and benefits. Our pension and Other Post Employment Benefit obligations are fully funded, meaning under required reporting standards, the funds are projected to be able to cover our current and future retiree obligations.

Personnel

Following our classification and compensation study in 2016/17, we have continued to refine our staffing needs to promote succession planning and division-wide back up for the Assistant Director tier. Our management structure has several tiers: Executive Management; Senior Management; Mid-Management; and Supervisory staff.

This budget has a net increase of four full time employees:

- Director of Administrative Services: An addition to the Executive Management team, this position will provide additional leadership and strategic thinking for Human Resources, Information Technology, Facilities, Procurement and Customer Service (lobby and office assistant support);
- Development Manager: An addition to the development team in the mid-management tier, this position will support the Assistant Director in her division duties in lieu of a supervisory level position that was primarily focused on pending projects;
- Information Technology Manager: Currently vacant, this position is being developed to serve the division in the mid-management tier in lieu of a supervisory level position that was primarily focused on pending projects; and
- Executive Department Management Analyst: An addition to the Executive team to assist with implementation of several agency-wide initiatives (record retention policy, business continuity and disaster recovery planning, adding social media to promotion and outreach).

The Bay Area job market remains as challenging as the rental market. There are a few positions that we have been recruiting for some time, specifically an Assistant Director of Asset Management and Compliance as well as a Housing Policy Manager. The absence of these positions means that the Housing Director is doing more of the day to day operations of the Asset Management team, and the Assistant Director of Policy is doing more of the day to day management of the team of policy analysts. We have tried a few different recruitment strategies and consultants, and will continue to use all of the tools available to us to find qualified candidates to assist us in these areas.

The Classification and Compensation Plan reflects this priority. CalPERS requires that the Board approve a Plan annually which is used to calculate a retiree’s pensionable compensation. Approval of the Plan is a separate action item on today’s agenda.

Capital Expenditures

A significant part of the proposed capital expenditures relate to our Julian Street office building. Now that we have purchased over six acres of land on East Santa Clara Street, we have the opportunity to design a building that will meet HUD’s requirements for the protection of personal information and incorporate technology improvements that will streamline operations and improve customer service. In separate items on today’s agenda, staff recommends that the Board take actions to begin the master planning process for the site, a significant step toward creating a new office building to meet the Housing Authority’s needs. Nevertheless, we have at least five years in this building, and so we are proposing to replace our legacy voice and messaging system, and make minor renovations to the lobby that will increase privacy for program participants.

Program Expenditures

The budget also includes some planned program expenditures of our non-federal funds (Housing Authority Revenue Account, **HARA**) or of MTW funds under our single fund flexibility:

- $177,000 in MTW funds are planned to pay for the Resident Opportunities and Self Sufficiency program, formerly Family Self Sufficiency; the federal grant only pays for part of our coordinator and none of LifeSTEP's services;
- $180,000 in MTW funds are planned for housing search services, a pilot project that we intend to expand to include those that experience a termination of HAP due to inspection failures;
- $28,114 in HARA funds are proposed for expenditure for Eklund Park; and
- $25,000 in HARA funds are planned for the STRIVE scholarships.[4]

Status of Reserves

The agency holds over $60 million in the HARA, which are non-federal reserve funds, $20 million of which is held to address program contingencies pursuant to the Board's policy. In early June, the Executive Director was required to use $5 million of these reserve funds to address a cash shortfall resulting from HUD's cash management reconciliation error. This was within the Board's delegation of authority to the Executive Director under the Cash Management and Contingency Reserve Policy; HUD has not released the funds, and we are requesting that the error be corrected as soon as possible.

HUD holds our MTW reserves, and we will continue to track voucher leasing expenditures so we can project and manage available reserves. HUD continues to request permission in appropriation laws to be able to offset MTW reserves, and Congressional appropriation staff continue to reject this language. We are mindful that HUD may attempt to sweep reserves at any time. In August we will advise the Board of current trends in Section 8 leasing and costs as well as development needs, and make recommendations regarding Commissioner requests to adjust the tenant rent payment.

New MTW Advocacy Group

The MTW agencies have for some time represented themselves through a steering committee of MTW Executive Directors. The Steering Committee led the negotiations for the extension of our MTW contracts until Congress ordered HUD to extend our agreements under their existing terms, and they have continued to help us arrive at a consensus opinion on other salient issues before HUD. Needless to say, this work is time consuming and a diversion from their own agency operations. The MTW agencies have now agreed to fund a policy analyst under the umbrella of the Council of Large

[4] There is an additional $3,000 available from a US Bank donation for a total of 28 $1,000 scholarship awards this year. One Commissioner requested that we maintain the 50th anniversary budget level, however, the advertisement and grant amounts were already published. We will return to the Board later this year to discuss Board support for the FY 2020 program.

Public Housing Authorities (**CLPHA**), which will be paid for by the MTW agencies. CLPHA has long been an ally of the MTW agencies and we believe this relationship will serve our interests well.

Contingency

The proposed budget is based on an estimate of the funds required and allowable to pay projected expenditures. The revenue and expense estimates and projections may vary, and so the Executive Director requests that the Board authorize the use of additional funds (Housing Authority Reserve Account, MTW or public housing proceeds where applicable) to address contingencies that may arise during the year as identified in the recommendations above. Expenditure of these contingency funds would be subject to the Board's delegation limit (currently $150,000), excepting urgent issues that do not allow time to obtain the Board's authority.

Conclusion

The Housing Authority is in sound fiscal condition and able to respond to reasonable funding challenges that may present themselves during the fiscal year. The Housing Authority has adequate financial strength to meet its normal obligations, including its long term employee retiree pension and health obligations, and housing program contingencies.

Fiscal Impact

The impact of this budget is described in the attached documents.

Attachments

A. Total Projected Sources of Funding by program and type for the fiscal year ending June 30, 2019

B. Two Year Annual Comparison of the FY 2018 and FY 2019 operating budgets

C. Operating Budget for the fiscal year ending June 30, 2019

C-1. Total Operating Budget and Capital Expenditures for the fiscal year ending June 30, 2019

D. Two Year Capital Improvement Plan