



TACOMA HOUSING AUTHORITY

Date: June 23, 2010

To: THA Board of Commissioners

From: Ken Shalik, Director of Finance and Administration

Re: Fiscal Year 2011 Agency Budget Resolution No. 2010-6-23(1)

Background

Each year the Housing Authority of the City of Tacoma (THA) prepares a budget for the upcoming fiscal year. The Annual Budget reflects an estimate of the expected revenues and expenditures for each of its departments and major programs. The overall agency budget is based on individual department expense budgets for management purposes, with the expectation that each department director will manage and control their department budget in accordance with Federal, State and Local regulations.

The budget is based on numerous estimates and significant assumptions. I set out below the choices and principles we used to prepare this budget, some significant assumptions, and the main features of the budget. I also remain uncertain that will unfold through the year that require monitoring.

Budget Choices and Principles:

We propose this budget upon the following choices and principles:

- *Reserves:* We will balance this budget without dipping into reserves. We spent down our reserves last year to keep Salishan going. Instead, we must rebuild them.
- *Salishan:* We will continue with Salishan's rental construction. We cannot afford a stall this year any more than we could last year. We will finish all rental phases by the end of FY 2011.
- *Spend Non-Recurring Income:* This year we will have about \$750,000 net non-recurring income. We propose to spend it this year.
- *Limited Layoffs/Position Cuts:* We have cut about 10% from our operational expenses. This has required a layoff of three staff and will keep 6 other positions vacant. We have tried to limit these staffing cuts to preserve our level of service to families and our operational progress.

Some Budget Assumptions:

- We calculate the Public Housing Subsidy at 100%. We think this is likely because HUD recalibrated this subsidy and saved significant amounts.
- HAP Income calculated with a 2.0% increase and prorated at 99.5% for CY 2011.
- For the Housing Choice Voucher Program (Section 8), THA receives two separate types of funding: (1) Housing Assistance Payments (HAP), and (2) Administrative Fees. Funding has been calculated by HUD thorough December 31st. In CY 2011, our base funding will be set by HUD for the remainder of the Moving to Work contract (through 2018) and will be adjusted annually based on the Annual Adjustment Factor (AAF) for HAP and prorated at the same level as all other Housing Authorities. For CY 2011, HAP is being budgeted with a 2% increase in funding at a 99.5% pro-ration. Administrative fees are budgeted with a 1% increase in HUD funding, and a 92.5% proration factor. This reflects a loss of approximately \$203,000 of calculated administrative fees earned.
- The rental income for our LIPH and Local fund (Wedgewood, Stewart Court, Alaska 9 Homes, and North Shirley) properties is based on the January, 2010 rent roll and assumes 97% occupancy.
- Benefits were calculated based on the following assumptions:
 - Health Care benefits – Laborers trust for our maintenance staff has a 5% increase effective July 1st. We are calculating a 15% increase for benefit increases for the remainder of the staff effective January 1st.
 - Dental – 6% budgeted increase effective January 1st.
 - Retirement – Washington State employer portion of retirement plan remains budgeted at the current 5.29% level.

Major Budget Features

- *Salishan Developer Fee:* THA will receive approximately \$1,270,000 net income Development fees for Salishan 5, 6, and 7. These amounts represent the final development fee payments to THA.
- *Salishan Lot Sales Expenses:* Approximately \$560,000 is budgeted for expenses related to lots for sale in Salishan.
- *Changes to Voucher Occupancy Standards and minimum rents:* The budget contemplates a change to the Voucher Occupancy standards and the adoption of a minimum rent of \$50 per unit with an elimination of the related utility payment. The Board packet contains a memo from April with more detail on the policy reasons for the changes, responding to the Board discussion on June 5th.

- We know the Board will require some additional discussion before deciding on some of these changes, especially the ones relating to the occupancy standards. We do not need the Board to decide on those changes now. Instead we will bring those proposals to the Board later this year. For purposes of the Budget, it is only necessary to expect that some combination of the changes will be acceptable to achieve the following savings: \$250,000 this year and \$750,000 per year going forward starting next year.

This should be a very plausible outcome because adopting both changes in their full form would give us more than enough savings for these purposes. It is likely therefore that the Board will find some version of each change that is both acceptable as a matter of policy and is enough to provide the savings we need:

These savings are important this year and following, for two reasons:

For this year and next year, they are necessary to sustain the level of services to present families. They would allow THA to serve more families once the full savings phase in over the next 2 – 3 years.

Without these savings, THA would layoff at least an additional 4 staff persons this year. This is additional to the 10% cut in expenses and loss of positions already built into this budget. These additional losses would notably diminish THA's level of services to families in case management and property management, and slow down our effort to improve our operations.

In addition, as explained above, THA faces a \$750,000 operational deficit in Fiscal Year 2012. The savings from these changes will fill that deficit. Because it takes at least two years to phase in the change, we need to begin the change this year if we are to realize the savings next year.

These savings and their use is one reason why THA sought MTW status, and is a common approach among other MTW agencies.

We ask the Board to adopt the budget as presented with the assumption of these changes. Please note that the Board must still adopt those changes in October as amendments to the various operational plans. If the Board does not adopt the changes then, we will use that occasion to review the budget and adjust it accordingly.

- *Capital Fund Program (CFP) Money for Operations:* Even under HUD's regular rules, a PHA can use up to 20% of its CFP funds for operations. THA has not used this authority to a significant extent. The last time THA used CFP for operations was in 2003, when we used \$90,000. We now propose to use \$309,000 of CFP funds for public housing operations, \$91,000 for Community Services, and \$45,000 for the Desk Manual Technical Writer

- *Limited Lay Offs/Positions Left Unfilled:* The budget proposes to remove funding for a net of 6 regular positions and 3 temporary positions. The 3 temporary positions will end at the end of the current fiscal year and the staff occupying them have already been notified. The lack of funding for the regular positions results in part from the disappointing news that we did not get the HOPE VI grant for Old Hillside Terrace. To make these cuts, we will leave some open positions unfilled and will lay-off other positions. We will extend one sunset position and fill the new position for Moving to Work Coordinator. These are critical positions for moving our projects forward.

We avoid more layoffs this year by the savings resulting from the changes to the occupancy standards and minimum rent policy, the spending of the non-recurring income and the use of the CFP funds for operational purposes.

In the meantime, we will watch our budget carefully throughout FY 2011. As part of this scrutiny, the Board will review the budget in January 2011. we also will carefully scrutinize any request to fill a vacancy.

- *Reserves:* This budget will leave us with the following reserves as indicated in Attachment A:

~ Public Housing/Voucher HAP Reserves \$5.241 million

~ Unrestricted Reserves: \$2.794 million

Please Note: These reserves do **not** include an additional \$3.3 million we have set aside, should it be necessary, for the cash pledge to Citibank for the Salishan infrastructure loan.

Budget Uncertainties

Here are the notable and largely unavoidable uncertainties about our budget:

- *Congressional Appropriations:* As always, we will not know our congressional appropriations for the second half of our budget year starting January 1st. Congress is due to pass its budget for that period by October 1st. It usually misses that deadline. This year is an election year so the federal budget may be later than usual.
- *Wage and Health Insurance Costs Reopeners:* THA and its two unions will be conferring about wage and health insurance reopeners. Any changes would be effective on July 1, 2010 for the Trades and January 1, 2011 for OPEIU.
- *Moving to Work:* We have only begun to explore our MTW flexibilities. As we learn, we may find other ways to use or save money.
- *Old Hillside Terrace:* We did not receive the Hillside HOPE VI grant. In the short term, this will require us to eliminate some positions (see above). We are devising a "Plan B" for the property. This may require further expenditures to pursue other

- sources of money and would save or bring in more money if we are successful. The possibilities include:
 - ~ apply for the next round of HOPE VI funding;
 - ~ apply for a Choice Neighborhoods grant;~ demolish Old Hillside Terrace in the meantime, for two reasons: (i) doing so would make us more competitive for HOPE VI or Choice Neighborhood funding because HUD regards vacant land as an advantage in making a project “ready” to go; (ii) Old Hillside is very expensive to operate. However, demolishing housing before we arrange the financing for its rebuilding will require extensive thought and community consultation.

Recommendation

I recommend that the Board adopt Resolution 2010-6-23(1) to formally approve THA’s Fiscal Year 2011 Annual Budget.



TACOMA HOUSING AUTHORITY

RESOLUTION 2010-6-23 (1)

FISCAL YEAR 2011 ANNUAL BUDGET

Whereas, The Housing Authority of the City of Tacoma (“Authority”) intends to incur expenses and other cash outflows for Fiscal Year 2011; and

Whereas, The U.S. Department of Housing and Urban Development (HUD) requires the Authority’s Board to approve it’s annual Site-based budgets;

Whereas, Authority staff has prepared and the the Board of Commissioners of the Housing Authority of the City of Tacoma as reviewed and provided input to the proposed Fiscal Year 2011 annual budget,

Resolved by the Board of Commissioners of the Housing Authority of the City of Tacoma, Washington that:

1. The Board of Commissioners of the Housing Authority of the City of Tacoma adopts the attached FY 2011 Agency wide budget. The HUD required site-based budgets are also approved and are a subset of the overall agency wide budget. The Board of Commissioners hereby authorizes the Executive Director to implement and execute said budget. Expenses and other cash outflows are projected as follows:

<u>Expenses</u>	
Executive	436,379
Human Resources	355,111
Finance & Administration	1,588,076
Community Services	1,340,086
Development	1,683,986
Rental Assistance	34,066,594
Property Management	5,628,925
Moving to Work	<u>232,107</u>
Subtotal	45,331,264
<u>Additional Cash Outflows</u>	
Capital Expenditures	31,611,629
Debt Service	<u>157,833</u>
Subtotal	31,769,462
TOTAL APPROVED BUDGET	<u>77,100,726</u>

Approved: June 23, 2010

Ken Miller, Chairman