




Office of the Executive Officer

INFORMATION CALENDAR

December 13, 2005

To: Honorable Chairperson and
Members of the Housing Authority

From:  Phil Kamlarz, Executive Officer

Submitted by: Stephen Barton, Director, Housing

Subject: BHA Financial Statements for the Fiscal Year Ending June 30, 2005

SUMMARY

The Berkeley Housing Authority (BHA) submitted to HUD the un-audited FY 2005 financial statements with a total surplus of \$119,868 from all Section 8 and Public Housing programs. During this period, the agency increased the monthly average lease-up by 71 units and the total HUD funding decreased by \$1,046,598, compared to FY 2004.

In FY 2006, the BHA was successful in getting HUD to correct an error in the administrative fee calculation. This will allow a needed addition to BHA staff and is projected to lead to a balanced budget at the end of the year, with a small contribution to reserves, and a balanced budget for FY 2007 with little or no contribution to reserves due to slower growth in federal administrative fees than in staffing costs.

CURRENT SITUATION AND ITS EFFECTS (ATTACHMENT 1)

Budget Status: Fiscal Year 2006 – The agency ended the first quarter of the current fiscal year with an operational surplus of \$47,779 compared with the projected budget deficit of \$487 for the same period. This is a result of the agency's implemented cost-cutting measures for operating expenses and maintaining the operating receipts in conjunction with the budget. The projected FY 2006 budget shows a surplus for \$112,980 including contributions from the Public Housing Programs, Capital Fund and General Fund. This projection includes HUD approval of additional administrative fee for the Section 8 Voucher Program in the amount of \$104,819, additional one and half FTE for the remaining of fiscal year, substantial saving in other administrative expenses and the implementation of the new software for the agency.

Budget Status: Fiscal Year 2007 – Unless HUD further reduces the amount of funds available to the programs for the next calendar year, the BHA anticipates a conservative increase of two percent (2%) in administrative fees for the Section 8 Programs. The five percent (5%) increase in administrative expenses, salaries and benefits, together with maintaining additional staff, BHA projects an operational surplus of \$10,653 for the fiscal year 2007 without any contribution from the General Fund. Additionally, BHA will continue to explore ways to further reduce operating costs while sustaining the viability of its programs.

BACKGROUND

The Berkeley Housing Authority (BHA) administers 2,096 authorized units of different Section 8 programs and 61 units of Public Housing program funded by the Department of Housing and Urban Development (HUD). In addition, the agency administers 14 units of scattered-sites public housing units funded by the State of California. During the fiscal year 2005, the agency confronts many challenges and changes, both financially and operationally as follow:

- **Funding Cycle** – Beginning January 1, 2005, HUD changed the funding formula and funding cycle from the Fiscal Year (FY) to Calendar Year (CY) for the Section 8 Housing Choice Voucher (HCV) Program.
- **Funding Cuts** – BHA and many other housing authorities across the nation have been affected by the FY 2004 funding cuts and implementation of the CY 2005 Consolidated Appropriation Act provisions for the HCV Program. The agency requested from HUD for review and recalculation of funding for CY 2005 administrative fees for the HCV program. In addition, HUD will revise the operating subsidy calculation for the public housing, beginning with calendar year 2006.
- **Staffing** – The agency reduced the number of personnel from 16 to 13 full time employees (FTE), beginning July 1, 2004. Additionally, management embarked on major reorganization and redistribution of responsibilities to deal with staff reduction and lease-up increase of HCV program.
- **Training** – During the Fiscal Year 2005, many staff received training in program changes, rent calculation, quality control and timely electronic submission of the participants annual re-examination
- **Troubled Status** – The agency entered into a Memorandum of Agreement (MOA) with HUD to implement and monitor the agreed working plan in many operational and financial areas, in order for removal of the agency from the HUD “troubled List”, by June 30, 2006. The MOA requires periodic review and monitoring of BHA progress by HUD staff and demand the agency for preparation and submission of regular reporting to HUD on each section of the MOA.
- **Late submission of the FY 2004 audited financial to HUD** – During the fiscal year 2005, the outside auditors failed to submit the audited financial statements on a timely manner to HUD Real Estate Assessment Center (REAC). Consequently, the agency did not receive satisfactory scores to be considered a standard performing housing authority.

FINANCIAL STATEMENTS – FISCAL YEAR 2005 (ATTACHMENT 2)

The agency is committed to improve the efficiency, streamline the operation, meet the requirements for removal from the HUD “trouble list”, reduce expenditures, increase its housing portfolio, maximize the utilization of funds, and improve services to the tenants and landlords participating under different housing programs administered by the City of Berkeley Housing Authority.

- **Housing Choice Voucher Program**

The Housing Choice Voucher (HCV) Program is the major and main source of the BHA’s Section 8 housing programs with 1,841 authorized units and total Annual Contribution

Contract (ACC) of \$23,568,648. This tenant-based Section 8 program provides Housing Assistance Payments (HAP) to the owners of property on behalf of the low-income families participating in HC Voucher program. Additionally, the agency receives Administrative Fees for administration of the program. During the FY 2005, as a result of funding cuts by the Congress, HUD implemented many program changes and substantial reduction of funding for HAP and administrative fees. According to the FY 2005 Appropriation Act provision for the HC Voucher Program, the BHA will receive \$22,215,562 for HAP and \$1,457,905 for administrative fees for calendar year 2005. This is another set back and funding reduction for the HCV program compare to the previously funding cuts of the FY 2004 for \$22,964,855 for HAP and \$1,532,080 for Administrative Fees. Consequently, in order to fully lease up the 1,841 HUD authorized units, the agency must reduce the average monthly HAP to \$1,005.59 per unit and the monthly administrative fee to \$61.25 per unit. Whereas, during the FY 2004, HUD provided funding to the agency based on \$1,039.51 average monthly HAP and \$69.35 for monthly administrative fees per unit.

- **Moderate Rehabilitation Program**

The Section 8 Moderate Rehabilitation Program consists of two projects with 98 authorized Single Room Occupancy (SRO) units and total Annual Contribution Contract of \$557,692 for the FY 2005. This is a project-based Section 8 program, which provides long-term funding commitment to the owners of multi-units projects for Housing Assistance Payments on behalf of the low-income families and Administrative Fee to the agency for administering the program. The CY 2005 funding cuts did not affect this program and there were no changes for administration of the program.

- **Shelter Plus Care Program**

The BHA administers 157 authorized units of four (4) projects of Shelter plus Care tenant-based Section 8 Program with total funding of \$2,125,005 for the FY 2005. However, the agency has been able to utilize the total amount of funding and lease 30 more units over the HUD authorized baseline units. Three (3) projects of this program awarded by HUD for 142 units and one (1) project is a contract with the County of Alameda for 15 units. Under this program, the agency provides rental subsidy to homeless and disabled persons/families with related supporting services tied to the rental subsidy.

- **Low-Income Public Housing (LIPH) – Federal**

The BHA managed day-to-day operation and administration of 61 units of this program until December 31, 2003. From January 1, 2004, Affordable Housing Associates (AHA) has been responsible for day-to-day operation and administration of the project. AHA collects the monthly rent from the tenants (approximately 30% of income) and, the monthly operating subsidy received from HUD is forwarded to AHA for administrative and maintenance expenditures. HUD is in the process of reviewing the calculation of operating subsidy for changes in calendar year 2006.

- **Rental Housing Construction Program (RHCP) – State**

This program, funded through the State of California, has 14 scattered-site units for low-income families that pay approximately 25% of their monthly income for rent and the State of California provides rental subsidy to the agency. Since January 1, 2004, AHA has been contracted to manage the units under this program for the Berkeley Housing Authority.

FINANCIAL HIGHLIGHTS OF THE FISCAL YEAR 2005

The following is a summary of the BHA's un-audited financial statements for the fiscal year 2005, from July 1, 2004 through June 30, 2005. The financial reports were transmitted to HUD and approved conditionally upon the outside auditor's review and final submission to HUD.

- **Revenues**

The agency's revenue from the Section 8 Programs consists of Housing Assistance Payments (HAP) and Administrative Fees. The HAP funding from HUD is based on the actual monthly payments to the landlords on behalf of the participants under each program. The Administrative Fees are based on a monthly fixed rate per leased unit to cover the administrative expenses of the program. Due to the recent budget cuts, HUD issued a notice to all housing authorities establishing a ceiling for HAP and Admin Fee funding for the HCVoucher program based on a Calendar Year.

During the fiscal year 2005, the agency received \$24,292,554 funding for the Housing Assistance Payments and earned \$1,722,893 of administrative fees for all the Section 8 Programs. This is an increase of \$800,799 in comparison with the audited FY 2004 year-end financial reports. The funding increase is primarily the result of an increase in our lease-up for the Voucher program, during the Fiscal Year 2005. The Public Housing revenue consists of HUD and State rent subsidy, plus monthly rent charges from the tenants. The rent subsidy is calculated based on many factors and formulas prescribed by HUD and the State for each program. During the Fiscal Year 2005, the agency received \$119,132 from HUD and \$33,109 from the State of California for rent subsidy and, rent charges of \$265,684 from the tenants. Compared with the audited financial reports for the fiscal year 2004, the rent subsidy fell by \$8,596 and rent charges increased by \$26,743.

The agency received \$120,000 from the Housing Department's CDBG funding source earmarked for payments of principal and interest installments for the Section 108 Guaranteed Loan Program. The Section 108 Guaranteed Loan from HUD was granted to the agency in 2003 for major rehabilitation of the public housing units. In addition, for FY 2004, HUD awarded \$127,128 of Capital Funds for capital improvements of the public housing units in the City of Berkeley. Currently, the agency is in the process of utilizing the FY 2004 capital funds for major rehabilitation of public housing units and the funds should be fully utilized by March of 2006.

Overall, the agency's revenue for the Fiscal Year 2005 increased by \$696,537 or 2.7 percent (2.7%) from fiscal year 2004.

- **Expenses**

The FY 2005 budget for the agency included thirteen (13) Full Time Employees (FTE) compared to sixteen (16) FTE for the FY 2004. The management had to take on major organizational and operational changes to operate with 20% reduction of staff, cope with the

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HCV lease-up increase and monitor the management of public housing units by the contractor.

The total expenses of \$26,458,668 consist of \$2,165,713 in administrative expenses and \$24,292,995 for Housing Assistance Payments to the landlords for the Section 8 Programs. The total salary and benefits of \$1,404,506 represents 65% of the total operating expenses. Compared to the fiscal year 2004, the total administrative expenses declined by \$183,275 and the Housing Assistance Payments increased by \$1,057,963. The decline of administrative expenses is primarily the result of fewer staff and the increase of HAP is due to the higher lease-up for the HCVoucher program, during fiscal year 2005.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Balancing revenues with expenditures beyond 2007-2008 will be a challenge given the uncertainty of HUD's long-range funding situation together with the certainty of staff salary increases. The City has committed to an approximate five percent annual cost of living increase and equity adjustments for staff salaries through FY2007 as well as in FY2008. If HUD provides a cost of living adjustment in excess of three percent and BHA further reduces operating expenditures, a balanced budget can be realized; otherwise General Fund subsidy would be necessary to sustain BHA operations.

CONTACT PERSON

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Attachments:

- 1: FY 2006 Budget vs. Actual & Projections
- 2: FY 2005 Year End Financial Reports

BERKELEY HOUSING AUTHORITY

FY 2006 - Section 8 Programs

Budget vs. Actual Report

For the Period Ending September 30, 2005

DESCRIPTION	ANNUAL BUDGET		YEAR-TO-DATE BUDGET vs. ACTUAL			ANNUAL PROJECTION	
	FY 2006 (100%)		BUDGET (25%)	ACTUAL 3 Months	Bud vs. Act ACTUAL	FY 2006 (100%)	FY 2007 (100%)
OPERATING RECEIPTS:							
Administrative Fees Earned - HUD	\$ 1,443,744		\$ 360,936	\$ 361,053	117	\$ 1,584,563	\$ 1,616,254
Administrative Fees Earned - Shelter+Care	193,077		48,269	49,417	1,148	197,668	201,621
Other Contribution (Public Housing, Capital Fund, General Fund)	131,157		32,789	32,789	-	131,157	98,080
Audit Fees	21,600		5,400	5,400	-	22,500	24,750
Miscellaneous Income	16,900		4,225	3,542	(683)	14,168	14,876
TOTAL OPERATING RECEIPTS	\$ 1,806,478		\$ 451,619	\$ 452,201	\$ 582	\$ 1,950,056	\$ 1,955,581
OPERATING EXPENDITURES							
Salaries	\$ 861,047		\$ 215,262	\$ 215,094	168	\$ 960,476	\$ 1,008,500
Other Admin. Expenses	339,697		84,924	45,462	39,462	261,848	288,033
Tenant Services	59,080		14,770	17,012	(2,242)	59,048	62,000
Utilities	13,800		3,450	1,261	2,189	9,844	11,813
Ordinary Maintenance (Janitorial)	50,646		12,662	12,662	-	50,648	53,180
Employee Benefits	480,257		120,064	109,756	10,308	492,037	516,639
TOTAL OPERATING EXPENSES	\$ 1,804,527		\$ 451,132	\$ 401,247	\$ 49,885	\$ 1,833,901	\$ 1,940,165
Prior Year Adjustments	-		-	3,175	(3,175)	3,175	4,763
TOTAL EXPENDITURES	\$ 1,804,527		\$ 451,132	\$ 404,422	\$ 46,710	\$ 1,837,076	\$ 1,944,928
CONTRIBUTION TO RESERVE	\$ 1,951		\$ 487	\$ 47,779	\$ 46,128	\$ 112,980	\$ 10,653

NOTES - FY06 Annual Projection:

- 1- The agency received HUD approval of additional Administrative Fee for the Housing Choice Voucher Program in the amount of \$104,819.
- 2- Additional 11 units of Shelter + Care grant through Alameda County scheduled for lease up by December 2005.
- 3- Includes a new Office Comm. Service Specialist II effective 12/01/05 and extension of the current OS II for additional six months for the total of \$55,000.
- 4- Increase of employee benefits associated with the new staff and extension of the current staff for additional six months for a total of \$30,000.

Attachment 2

**BERKELEY HOUSING AUTHORITY
Statement of Revenues and Expenditures (un-audited)
Fiscal Year 2005**

I- Housing Programs and Lease-Up

	Section 8			Public Housing		Total
	Housing Voucher	Moderate Rehab.	Shelter + Care	LIPH Federal	RHCP State	
HUD Authorized No. of Units	1,841	98	157	61	14	2,096
<u>Lease Up Units:</u>						
FY05 Average Monthly Leased Units	1,763	91	184	57	11	2,038
FY04 Average Monthly Leased Units	1,692	88	187	58	9	1,967
Increase (Decrease)	71	3	(3)	(1)	2	71
<u>Approved Funding:</u>						
FY05 Total Funding Available	\$ 23,568,648	\$ 557,692	\$ 2,125,003	\$ 119,132	\$ 33,109	\$ 26,403,584
FY04 Total Funding Available	\$ 24,496,935	\$ 555,248	\$ 2,237,162	\$ 125,427	\$ 35,410	\$ 27,450,182
Increase (Decrease)	\$ (928,287)	\$ 2,444	\$ (112,159)	\$ (6,295)	\$ (2,301)	\$ (1,046,598)

II- Financial Highlights of the Fiscal Year 2005

Housing Programs	Housing Voucher	Mbd Rehab.	Shelter +Care	LIPH Federal	RHCP State	Total FY2005
<u>Revenue:</u>						
SS Operating Grants/PH Rent Subsidy	\$23,332,752	\$557,692	\$2,125,003	\$119,132	\$33,109	\$26,167,688
Rent Collection (Public Housing)				225,655	40,029	265,684
Other Income	4,194	2,703	1,414	11,095	72	19,478
CDBG- City of Berkeley				120,000		120,000
Total Revenue	\$23,336,946	\$560,395	\$2,126,417	\$475,882	\$73,210	\$26,572,850
<u>Expenses:</u>						
Administrative Salaries	\$719,674	\$43,227	\$71,628	\$81,070	\$17,822	\$933,421
Employee Benefits	374,290	22,487	35,908	31,019	7,381	471,085
Other Operating Expenses - Admin	253,107	17,708	6,267	59,730	20,713	357,525
Utility Expense	8,410	531	326	64,886	8,920	83,073
Ordinary Maintenance Expenses	0	0	0	133,617	28,900	162,517
Other General Expenses	0	0	57,338	91,451	9,303	158,092
Housing Assistance Payments	21,882,756	465,034	1,945,165			24,292,955
Total Expenses	\$23,238,237	\$548,987	\$2,116,632	\$461,773	\$93,039	\$26,458,668
<u>Adjustments:</u>						
Prior Year Adjustments	\$12,144	\$521	(\$1,667)	(\$5,423)	\$111	\$5,686
Operating Surplus (Deficit)	\$110,853	\$11,929	\$8,118	\$8,686	(\$19,718)	\$119,868

Notes:

Revenue and expenses for LIPH and RHCP includes BHA and AHA.

Depreciation Expenses for LIPH, RHCP and Voucher programs in the amount of \$173,836, \$52,434 and \$3,704 are not included.