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Item 6B
NEW BUSINESS
July 12, 2012

Office of the Executive Director

To: Honorable Chair
and Members of the Berkeley Housing Authority Board

From: Finance Committee and Tia M. Ingram, Executive Director

Subject: Finance Report – May 31, 2012

This report summarizes the financial operation of the Berkeley Housing Authority (BHA) for the eleven-month-period ending May 31, 2012. The approved FY2011-2012 budget anticipated a deficit for all programs of $538,997. BHA's financial operations continued to improve in May 2012. From the projected deficit of $48,947 in April 2012, we now anticipate an operating net income of approximately $19,843 across all programs.

The improvement during the month is due to increase in operating revenue of approximately $33,000 and decrease in operating expenditures of about $36,000. Operating revenue increased due to: (1) additional administrative fees of $5,753 post-HUD reconciliation for the period April through June 2012; (2) increase in Public Housing rent income due to an adjustment in the projected lease up rate. Last month we projected that relocations of families would occur in June, causing a significant drop in our June rent income. We now know that only one RHCP family actually moved out in June; (3) in the prior months, we reported that we are not going to recognize the income from the Housing Trust Fund loan from the City of Berkeley in the current fiscal year to maximize the use of available operating reserve in the Public Housing program. We learned in May 2012 that the State would not pay for relocation expenses associated with the disposition of the scattered site units. And because we already incurred a relocation expense for an RHCP participant in June, we have to draw from the HTF loan and recognize the revenue in the same month, resulting in an increase of approximately $17K in City Subsidy (HTF); and (4) increase in miscellaneous income by $3K due to collection of fraud recovery, administrative fee for incoming portable vouchers, and late fees.

Operating expenses decreased due to: (1) less than anticipated disposition expenses (i.e. relocation expenses and specialized legal services); (2) savings in routine maintenance of the public housing units.

(Please see individual program reports for details)

1. Revenues:
   A. The substantial increase in earned Admin Fees in the Section 8 and Mod Rehab programs (up by $290K or 18%) is due to higher than originally budgeted HUD pro-ration. The approved budget assumed a conservative pro-ration of 72%

throughout the fiscal year. The actual pro-rations came in higher than budgeted, at 84.938% for July through December 2011 and 80% for CY2012. Unfortunately, HUD does not release proration data ahead of budget. *(Page 1, Line 10)*

B. HUD formula funds for Public Housing for CY2011 and CY2012 are higher than originally budgeted (+$79,942). *(Page 1, Line 11)*

C. Rent is up by $60K than the approved budget. The approved budget assumed that relocation of families would begin in October 2011 and that developer would start collecting rent from the relocated families henceforth. We now know that only one RHCP family relocated in June 2012 resulting in BHA collecting rent through June 30, 2012. *(Page 1, Line 13)*

D. Approved Capital Fund Program subsidy for CY2011 is higher than anticipated (+$13,816). *(Page 1, Line 14)*

E. Additional other revenue ($9,000) resulting from our participation in the Homeless Study Program and lease up of the remaining four vouchers from last year and five additional vouchers allocated this year. *(Page 1, Line 17)*

F. The approved budget includes $251,425 revenue from the City of Berkeley's Housing Trust Fund (HTF) to cover predevelopment expenses. As reported above, only a portion ($16,713) will be recognized in FY2011-2012 to cover the relocation assistance paid to an RHCP family that moved out in June 2012. The remainder of the HTF loan will be recognized in FY2012-2013 allowing us to use the operating reserve in the LIPH program to cover the projected deficit this current fiscal year. *(Page 1, Line 18)*

G. The City Subsidy (General Fund) revenue of $26,958 represents funding from the City of Berkeley's General Fund to cover the Quadel invoice. *(Page 1, Lines 19 & 44)*

H. Miscellaneous income includes total of $7,414 in Fraud Recovery for the 11-month period that can be used for operations. *(Page 1, Lines 20)*

2. Expenses:
   A. Salary and benefits savings resulting from temporary vacancies due to resignation of the Sr. Office Assistant in September 2011; and Office Assistant I in February 2012. Additionally, the newly hired employees started at the lowest level of the salary scale. (-$90,808). *(Page 1, Line 25 & 26)*

   B. We relied heavily upon Goldfarb and Lipman for legal expertise on the Disposition project. A significant drop ($99,631) in the overall budget for general legal fees is noted in the report (*Page 1, Line 27*) however, the savings is offset by the increase in specialized legal services (also provided by Goldfarb and Lipman) in the disposition budget by $85,516. (*Page 1, Line 58*)

   C. The FY2012 budget for Office Rent is net of the approved cost cutting measure – (termination of the offsite storage). BHA now anticipates exceeding this budget by about $8,900 because the cost cutting measure is not fully implemented and fees involved to permanently remove the files from the storage is costly. Staff still is working on retrieval of the next batch of files from storage and anticipates completing this project in the next six months. *(Page 1, Line 30)*

D. Administrative fees paid to other PHAs is lower due to less than anticipated number of managed outgoing portable vouchers (-$21,461). *(Page 1, Line 33)*

E. Software Maintenance ($4,137). The opening of the Project Based waitlist was rescheduled in August 2012. It now appears that we will end the fiscal year with a savings of $4,137 in Software maintenance, which is primarily due to the decrease in the annual maintenance fee that staff was able to negotiate with Emphasys. *(Page 1, Line 46)*

F. Disposition Budget. We now know from our consultants the estimated disposition related expenses that will be incurred in the current fiscal year (i.e.: OPC fees, relocation benefits, EJP fees and specialized legal). These adjustments resulted in an overall decrease in the disposition budget by $65,428 in FY2011-2012. *(Page 2, Line 60)*

G. Total Other General Expense shows an excess of $21,680 over budget primarily due to the $25,000 invoice received from SDRMA as deductible in a personnel claim filed by a former employee.

H. Various savings in Other Administrative Expenses due to cost cutting activities implemented by staff at BHA in addition to the balancing measures identified in the approved budget.

I. Program Budget Variance Report – Period Ending April 30, 2012: Year to Date Revenues/Expenditures

A. **Section 8** (Attachment B)

We now foresee that we will end the fiscal year in the black in Section 8 ($123,504) compared to a deficit of $341,265 originally anticipated the beginning of the fiscal year. Primarily, this is the result of an increase in administrative fee revenue due to higher than anticipated pro-ration in administrative fee and decrease in expenditures due to cost cutting measures including salary savings and reallocation of expenses. *(Page 4, Line 122)*

The significant improvement in the Section 8 net income is attributable to the following:

a. FY2012 Revenues:
   i. Administrative fee revenue is up by $253,247. This is primarily due to higher than budgeted pro-ration. The approved budget assumed a conservative proration of 72% throughout the fiscal year. The actual proration in July through December 2011 was 84.938% and 80% in January through June 2012. *(Page 3, Line 10)*

   ii. We generated other revenue of $9,000 from our participation in the "HUD Homeless Study" and for leasing the remaining four housing choice vouchers from last year and the additional five vouchers allocated this year. *(Page 3, Line 17)*

iii. Miscellaneous Income includes amount recouped by BHA for Fraud Recovery. The total amount received for Fraud Recovery as of May 31, 2012 is $14,828, 50% of which ($7,414) may be used for operating expenditures. The other 50% flows into the Net Restricted Asset. *(Page 3, Line 3 & 20)*

b. FY2012 Expenses:

i. Salary and Benefits. Salary savings of about $73K in the Section 8 program resulting from temporary vacancies and lower starting rate for new hires. *(Page 3, Line 25 & 26)*

ii. Legal fees. As reported in 2.B the actual hours rendered by Goldfarb and Lipman for general services (i.e., consultation for personnel, board meetings and program matters) dropped resulting in an approximately $77K decrease in legal expense charged to the Section 8 program. However the specialized legal services related to the disposition project increased and offset the savings in general legal services. *(Page 3, Line 27)*

iii. Administrative fees paid to other PHAs are down by $21,461. BHA pays 80% of administrative fee to other PHAs that manage our portable vouchers. Last year, there were about 85 outgoing portable vouchers that were managed by other housing authorities. We have seen a decline in the number of these vouchers because most PHA's are absorbing families that are porting into their jurisdiction in order improve their lease up and maximize their earned administrative fees. In the past ten months (ending April 2012) there were only about 58 outgoing vouchers managed by other PHA's, a 30% drop from our budgeted number, resulting in less than budgeted admin fees going out to other PHA's. *(Page 3, Line 33)*

iv. Various savings in other administrative expenses (i.e. travel, publication, consulting fees, postage, advertising, etc.) due to cost cutting measures implemented in addition to the balancing measures identified in the adopted budget.

HAP revenue is 8% higher (approximately $1.6M) than originally budgeted resulting from receipt of retrospective adjustments for January through June 2011 ($477K); HAP set-aside fund eligibility ($726K) and $267 HAP funding for 25 new Tenant Protection vouchers allocated for the disposition. *(Page 3, Line 2)*

We anticipate ending the fiscal year at 95% an annual lease up in unit months and end FY2011-2012 with $1,633,367 in HAP reserve. The HAP reserve may be carried over into the next fiscal year but may not be used for any other expenses other than Housing Assistance Payment. *(Page 4, Line 130)*

B. **Moderate Rehabilitation Program** (Attachment C)

The projected annual operating deficit in the Moderate Rehabilitation Program is down by $58,115 (from $100,696 to $46,581). *(Page 6, Line 122)*

a. FY2012 Revenues:

i. Administrative Fees up by $37,426. The final budget amendment approved by HUD allocated higher Administrative Fee than what was originally budgeted for FY2011-2012. *(Page 5, Line 10)*

b. FY2012 Expenses:

i. Salary and Benefits allocated to the Mod Rehab Program are down by $6,181 ($1,838 + $4,342) resulting from temporary vacancies and lower starting salary for new hires. *(Page 5, Line 25 & 26)*

ii. Legal fees down by $10,910. As reported in *I.A.b.ii* above this savings is offset by the increase in specialized legal expense in the LIPH program for the disposition project.

iii. Various savings in other administrative expenses due to cost cutting activities implemented at the agency.

C. **LIPH** (Attachment D)

The anticipated deficit in the LIPH Program dropped by $25,891 (from $91,551 to $65,660). *(Page 8, Line 122)*

This significant change in the LIPH deficit resulted from the rescheduling and adjustments made in the disposition expenses that included among other things: (1) an increase in specialized legal services from the disposition project; (2) carry-over of relocation benefits that are anticipated to be incurred in the coming fiscal year; and (3) carry-over of the $251,425 revenue from the City of Berkeley's Housing Trust fund that we originally anticipated to earn this fiscal year, now moving to FY2012-2013.

We learned that any unused operating reserve in the LIPH program will be returned to HUD after the transfer of title of the units occurs. The above scenario will allow us to use the available operating funds in the LIPH program and make all of the $300K in Housing Trust Fund money available to cover pre-development expenses in the coming fiscal year.

a. FY2012 Revenues:

i. Operating Subsidy is up by $79,942. As reported previously, our operating subsidy for the fiscal year overlaps two calendar funding years (CY2011 and CY2012). The final allocation from HUD for CY2011 (released in September 2011) and CY2012 (released in March 2012) were both higher than what we originally budgeted resulting in more operating subsidy for BHA in the FY. *(Page 7, Line 11)*

ii. Rent income is up by $51K. The approved budget assumed that relocation of families will begin in October 2011. We now know that the first move out for a LIPH family actually occurred in July 2012 and BHA continued to recognize rental income for the remaining families in the units through June 30, 2012. *(Page 7, Line 13)*

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iii. Capital Fund – Operations (Current Year). The approved FY2011-2012 Budget assumed an 18.4% reduction in the Capital Fund grant revenue. This budget cut (18.4%) was one of the many proposed reductions in the 2011 Federal Budget at the time the BHA budget was prepared. The actual HUD approved allocation awarded to BHA for 2011 is $111,739, or $13,816 above our estimate. *(Page 7, Line 14)*

iv. City Subsidy (HTF). As previously reported, we are deferring recognition of the HTF loan into next fiscal year to cover pre-development expenses anticipated in FY2012-2013 and allowing BHA to maximize use of LIPH operating reserve before it is required to return the unused reserve to HUD.

b. FY2012 Expenses:

i. Salary and Benefits allocated to the LIPH Program are down by $9,677 ($5,845 + $3,832) resulting from temporary vacancies and lower starting salary for new hires. *(Page 7, Line 25 & 26)*

ii. As reported above (I.A.b.ii – Legal fees), there has been an increase in the use of legal services associated with the disposition project in the past several months that resulted in an increase in specialized legal services in the disposition budget and a drop in ordinary legal cost in the Section 8, Mod Rehab and even LIPH programs. *(Page 7, Line 27 & 58)*

iii. Net decrease of $82,428 in the Disposition budget. Based on information we gathered from our consultants, we adjusted our projection for the disposition budget including portions of the OPC, EJP and specialized legal fees and relocation benefits that are expected to be incurred in the current fiscal year. *(Page 7, Line 57)*

D. **RHCP** (Attachment E)

We anticipate a net profit of $4,586 in the RHCP Program, a significant improvement from the originally projected deficit of $5,485.

a. FY2012 Revenues:

i. Increase in rent income (by $9,318) is attributable to improved collection (100%) from RHCP families. The approved budget assumed a 90% collection rate. *(Page 9, Line 13)*

ii. City Subsidy (HTF). The first public housing family to move out in relation to the disposition is from an RHCP scattered site unit. BHA paid relocation expenses ($16,713) to the family in June 2012. However, we learned that the State will not pay for relocation expenses related to the disposition. BHA will cover this cost by drawing from the HTF loan and recognizing the revenue by the same amount in the same period.

b. FY2012 Expenses:

i. Salary and Benefits allocated to the RHCP Program are down by $1,500 ($1,097 + $403) resulting from temporary vacancies. *(Page 9, Line 25 & 26)*

Attachments:

A. Budget Status Report: All Programs, May 2012
B. Budget Status Report: Section 8, May 2012
C. Budget Status Report: Moderate Rehabilitation, May 2012
D. Budget Status Report: LIPH, May 2012
E. Budget Status Report: RHCP, May 2012