December 5, 2006

MARIN HOUSING
Making Housing More Affordable

4020 Civic Center Drive
San Rafael, CA 94903-4173

Executive Director
Barbara Collins

Board of Commissioners
Housing Authority of the County of Marin
Marin Civic Center
3501 Civic Center Drive
San Rafael, CA 94903

**SUBJECT: Adoption of the 2007 budget and related activities**

**RECOMMENDATIONS:** 1. Adopt the 2007 budget and
2. Accept report and
3. Authorize Executive Director to:
   a. reduce the workforce by 7.50 FTE through early retirement and reduction in force and
   b. reestablish the Deputy Director position and amend and fill an Analyst position and
   c. explore contracting for services and
   d. evaluate all non-cash assets to offset operating expenses and
   e. revise excess utility rates in Marin City and
   f. contract for further utility analysis and
   g. explore cost sharing for excess garbage and
   h. terminate existing bulk-rate contracts for cable upon renewal date with 60 day notice to tenant and
   i. explore water saving measures and landscaping and
   j. develop a recycling program and
   k. establish $20.00 late payment of rent fee effective the 2nd of the month and
   l. begin a community process for developing long-term options regarding Marin City.

**SUMMARY:** Marin Housing Authority (MHA) 2007-budget year begins in January 2007 with a consolidated budget. Staff is recommending a reduction in workforce in order to achieve the budget goals and expenses are further reduced through the offer of early retirement. Effective this year Marin Housing will begin implementation of the new United States Department of Housing and Urban Development (HUD) model of asset management for public housing. This model is fee driven and based on the number of occupied public housing units.

**FISCAL IMPACT:** In order to achieve budget goals reserves from the Section 8 Housing Choice Voucher program have been utilized to offset deficit of $57,324.

BARBARA COLLINS
EXECUTIVE DIRECTOR

Attachments:
Worksheet A - 2007 Detailed Consolidated Budget
Worksheet B - 2007 Budget Summary
Worksheet C - 2007 Staffing Changes
Worksheet D - Central Office Fees Charged to Projects

Housing Authority of the County of Marin

415/491-2525

(FAX) 415/472-2186
(TDD) 1-800-735-2929

## *HIGHLIGHTS OF THE 2007 MARIN HOUSING AUTHORITY BUDGET*

***Revenues and the Challenges***

This budget strives to implement a three-year path to sustain the Marin Housing Authority and provides for a transition to the new asset management model required by HUD. Historically, HUD has been diminishing program funding over the past 30 years, but dramatically so in public housing programs. In 2006, HUD funded MHA public housing programs at 86.2% of the estimated cost of operational expenditures. This budget estimates revenue for public housing conservatively at 83% of our subsidy allocation. At the beginning of 2006, HUD estimated that 83% of our expenditures would be covered but mid-year reduced that amount to 75% of our expenditures and at year-end funded 86.2%. If Congress appropriates an increase or decrease in the HUD budget for 2007, MHA can make a mid-year correction to adjust expenditures.

I. Utilities

Marin City is the most troublesome area in the budget with an annual projected deficit of $545,453. Staffing makes up 23% of the Marin City budget but operational costs are much higher then the elderly/disabled units. The community operates with a deficit in part due to HUD's regressive policies but also due to rising energy, water, and garbage consumption without incentives for residents to conserve or recycle these limited resources.

Marin Housing worked with a Pacific Gas and Electric sub contractor to put in place on a voluntary basis energy efficiency items such as caulk around windows and doors, lighting, and refrigerators. Marin Housing also replaces appliances with Energy Star equipment to further reduce utility costs. MHA conducted an energy efficiency study but further analysis is necessary to determine appropriate excess utilities and standard utility allowances. The analysis will consider consumption and engineered models. MHA is in negotiations with a contractor now to conduct this analysis. It is estimated to be complete in March 2007, and staff will bring the report to your Board with recommendations.

Marin City residents do not pay their own utilities to PG&E, as do the residents in the elderly/disabled developments. The units in the townhomes have utility meters for both gas and electricity and the high-rise buildings have meters for electricity only (the gas heating is provided to each of the 8 high-rise buildings via a boiler in each building).

Currently, MHA pays PG&E for each resident's bill and then quarterly bills the resident for any excess over their allowance. However, when the allowance was established in 1996 it was structured so that only 10% of the residents would pay the excess. Staff is recommending that this amount be adjusted immediately with resident participation through this Board action. Excess utilities may be further adjusted when the utility analysis is complete. In 2005, Marin Housing paid $496,950 to PG&E and recouped only $18,388 in excess payments from residents. This year, $675,721 is budgeted for PG&E alone—the entire HUD operating subsidy for Marin City is $837,101. The 2007 budget recognizes $60,000 from excess utility consumption up from $18,654 in 2006. Excess utilities will be assessed to residents who exceed an agreed upon threshold amount and will provide an incentive to conserve.

HUD regulations permit two approaches to tenant-paid utilities:

- Develop a utility allowance, have the housing authority pay the bill and then have the resident (ALL residents) pay everything above this amount, or

- Develop a utility allowance to be subtracted from the resident's portion of the rent and have the resident pay the utility bill directly to the utility company

The two advantages of the second approach are that it will a) encourage energy conservation and b) the resident can participate in the PG&E CARE program and receive a 20% discount (the housing authority is not eligible for the CARE program).

Water costs in the summer months in Marin City average $20,000 per month. Alternatives to high use water landscaping must be explored to reduce consumption. Buildings have exterior water faucets that residents use to water nearby lawn areas, wash exterior paved areas, and automobiles. The water bill for 2005 was $102,446.

Garbage pick up outside of the Bay Area Refuse contract costs MHA at least 30 staff hours per week and additional refuse disposal charges. A dump truck is required for this and MHA's truck has needed to re repaired eight times this year and is 21 years old. This budget includes $40,000 to purchase a new truck. Garbage pick up taxes the number of staff available for emergency repair, turn over of units, and capital improvement. MHA is required to complete emergency and non-emergency repairs within designated time periods per HUD criteria of reasonableness. Some repairs are health and safety repairs that need to be made immediately. Garbage, which is tossed by trees, in parking lots, and next to buildings, minimizes available staff time to conduct property management functions. Residents have not policed themselves to curtail this practice. Consequently, staff is recommending that residents share in the cost of pick up and disposal of garbage beyond the normal service provided three times per week.

II. Cable charges

Marin Housing contracted with Comcast for bulk rate of basic cable service to be provided at all MHA properties. The original reason Marin Housing began this practice was due to cable costs that were too high for residents and MHA did not want satellite dishes installed on the exterior of the buildings. Without cable or satellite many sites could not even get local channels.

Currently Marin Housing pays the cable bill and the resident pays MHA the monthly charge along with their rent. If a unit is vacant, or the resident fails to pay MHA, or the resident has no income then MHA must pay for cable out of non-HUD reserves. While most of the residents pay for their cable, some residents don't even have a television and resent the monthly charge for a service they don't desire. Many residents would not be able to afford non-bulk cable rates and are adamant that MHA should not terminate cable service.

MHA pursues the collection of all charges including cable but due to legal and court costs, does not pursue eviction unless the amount owed is over $100.00 for any reason. Cable charges are sent to collection if the resident terminates from public housing. Staff is recommending that contracts be terminated when they are due to be renewed and tenants will receive a 60-day notice.

III. Vacant units

Vacancies in Marin City challenge the budget when only 1 in 40 qualified family applicants taken from the public housing wait list are willing to accept housing in Marin City. Most reject housing in Marin City due to the crime activity reputation and the exclusivity and isolation of the community. HUD will only fund occupied units per month beginning in 2007 and the vacancy problem must be addressed to achieve maximum revenue. HUD allows for a 5% vacancy rate primarily from turn over of units. Serving exclusively very-low income residents in Marin City makes for a population in constant flux with frequent default and evictions. In March 2006 Marin City had a vacancy rate of 13%. This has improved to 6% but effective in 2007 HUD will not subsidize over 5% vacancy. (Keeping in mind that they only subsidized 86.2% of the expenses) Both HUD subsidy and rent revenue is not realized when units are vacant.

IV. Eviction Notice and Late Charge

Rent is due on the first of the month but not "late" until the 8th per our current policy. Many residents don't pay on-time. Staff is recommending that the eviction process should begin promptly for tenants late with their rent or charges as of the 2nd of each month and a $20.00 late charge be established to act as an incentive. If a stipulated agreement is put into place MHA staff could waive the fee. HUD regulations require MHA to provide a 14-day notice and then a 3-day notice—it is at this point that some late-payers finally pay. Meanwhile, we have had to spend staff time processing all the notices, which detracts from the other work the staff needs to do.

The table below illustrates this problem.

Average Rent Delinquency for 2005

| | Marin City (292 units) | Elderly/Disabled (200 units) |
|---|---|---|
| 14-day notice given | 101 | 17 |
| 3-day notice given | 53 | 7 |
| Unlawful detainer (eviction) filed in Marin superior court | 4 | .33 |

Note that in the private market the procedure for processing delinquent rent cases takes 35 to 45 days while MHA's takes at least 60 days.

V. Section 8 Housing Choice Voucher program

In the next 2 years it is anticipated that the Section 8 Housing Choice Voucher program will move to a fee-based model equivalent to asset management. It is not likely that Congress will appropriate funds to increase the number of vouchers and to the extent funding is cut and rents increase, this will reduce the number of families we can assist. Section 8 funding is no longer based on a per voucher cost—instead we are awarded a block grant of funds. In the future it is anticipated that we will receive block grant funds blended with the number of vouchers actually utilized. MHA continues to tighten our rent reasonableness reviews and requires that in-place tenants move if a landlord wants to charge more than the market rent. In addition, our occupancy standard allows one bedroom for the head of household and requires 2 persons per bedroom, regardless of age or gender. This continues to be challenged on an ongoing basis by participants through the appeal process and consumes a great deal of staff time. It does however, maximize the number of vouchers and take more families off the wait list.

VI. Below Market Rate Program (BMR)

The BMR program has been supported from MHA reserves and by fees charged to buyers and sellers. The BMR homeownership program administers inclusionary implementation of mostly ownership units for the cities, towns and county (except Novato). Over the years, as jurisdictions adopted inclusionary housing ordinances, the number of BMR units in the portfolio has grown to about 315.

MHA manages both the initial sale of the homes and re-sales. Jurisdictions refer developers to MHA and staff explains the program details including the calculation of income limits and sales price. MHA maintains the lottery and list of potential buyers. When a home becomes available, staff works with buyers to explain the program in detail, clearly describing the resale restrictions. If the home is a resale, MHA has 90 days in which to process a new buyer during which the buyer must close its loan. Under separate action staff is recommending changes in the BMR Program to increase fee revenue to cover staff and administrative costs.

***Cash Reserves***

Over the past three years MHA has covered operational expenses from reserves that had accumulated many years ago primarily from Section 8 program administrative fees. This practice has exhausted most of the agency's cash assets and not supported program activities appropriately. MHA is not unique as a housing authority with this practice and HUD is not unaware that the operational shortfall of their funding had to be addressed from some other source.

Beginning in 2004, Marin Housing had reserves of $2,151,400. In 2005, the reserve balance was further reduced to $1,720,200. At the end of 2006, it is estimated that the reserve will be $1,268,495 and if approved, the 2007 budget will provide for a remaining reserve of $725,145. HUD requires an operational reserve of $544,000 for public housing.

***Changes In Response to Asset Management***

Asset management will have the greatest impact on Marin Housing in the next few years. The current funding formula, which has been in place for 30 years and is based on an assumed per unit operating cost that is much too low, is changing. Instead of funding housing authorities on a portfolio basis, two projects have been established and each will be funded as such. Those are: Marin City and all elderly/disabled units. This new model is based on non-public housing developed under the Federal Housing Administration programs. It reflects a more private market approach to housing management and requires housing authorities to manage their properties according to an entirely different philosophy and formula cost basis.

Historically, costs have been allocated to public housing projects where funds were available. This practice must cease under asset management. Marin Housing's administrative and other central office functions (indirect costs) will be set up as independent cost centers and must "charge" the projects for their services. Funds cannot be transferred between projects unless one project has an audit-confirmed surplus at the end of the year. Specific related costs only, may be allocated and this change results in a dramatic increase of expenditures to Marin City that was previously absorbed by the capital budget and Section 8 reserves. If a project is not viable as a stand-alone project HUD wants the housing authority to review its asset management options, including selling the development.

Additionally, housing authorities are being pushed to become "market business" agencies and to be less "social service" oriented. This philosophical shift challenges the mission and past practice of the organization especially with our residents. Even with the development of new opportunities for MHA, economically the agency must make this shift in order to be sustainable.

Implementation of asset management is required by January 2008 but the 2007 budget has been developed based on asset management guidelines giving MHA a year to implement the new model and live within its limitations.

The primary purpose of the Capital Fund that HUD awards MHA annually is to plan improvements/modernization and make major repairs to public housing. Most housing authorities including MHA have used a portion of the Capital Fund for staff whose duties it is to make capital improvements and repair. The Capital Fund like all HUD funding has been shrinking and the cost associated with maintaining public housing is increasing as the buildings age. In reality, some staff funded by the Capital Fund have been diverted to do routine maintenance and repair as well as ready vacant units in Marin City. Included in the 2007 budget, are two staff positions charged to the Capital Fund who will continue to be pulled for routine maintenance if changes in the daily operation of Marin City are not implemented. It is possible that in the near future the Capital Fund will be eliminated and restructured as an additional reserve requirement under asset management.

***Expenses***

Agency expenses for staff make up the majority of the 2007 budget and were increased with cost of living adjustments and market parity adjustments beginning in July 2005 and through July 2007 by Board action. This increased existing staff expense by $233,496 and is fully funded in this budget. However, rising health care coverage and Workers Compensation, which is higher for property management staff, continue to inflate expenses. Staff is recommending that a Request for Proposal be issued to determine if property management and maintenance of public housing could be done more cost effectively through contracting with outside services. If approved by your Board staff will return with a comparison of internal versus external cost factors and a recommendation.

In order to realize budget goals staff expenses must be reduced. Your Board approved the action to offer two years of service credit toward retirement as an incentive to eligible employees to elect for early retirement. In total six employees made the decision to retire effective November 30, 2006. The savings realized from the 6.0 FTE reductions is $547,485. (It is expected that three of the six positions will be refilled with existing staff or new recruitments)
1.0 FTE (*Represented)* Office Specialist II
1.0 FTE (*Represented*) Housing Eligibility Worker (to be replaced)
1.0 FTE (*Represented)* Maintenance Specialist
1.0 FTE (*Represented*) Program Specialist Section 8 (to be replaced)
1.0 FTE Director of Leased Housing (position to be abolished)
1.0 FTE Director of Housing Rehabilitation and Development (to be restructured)

Further reductions are recommended through lay off of 6.5 FTE positions. Those are:
1.0 FTE Compliance Officer – voluntary lay off
1.0 FTE Director of Maintenance & Facilities (position to be abolished)
.50 FTE (*Represented*) Administrative Assistant
2.0 FTE (*Represented*) Office Specialist II
1.0 FTE (*Represented*) Maintenance Worker I – voluntary lay off
1.0 FTE (Represented) Maintenance Worker II

$1,049,673 is reduced from the budget through these actions.

**Restructure**

Management Partners Incorporated (MPI), a consulting firm, is under contract with Marin County to establish job standards and evaluate current staffing of MHA. MPI is also evaluating formal partnership with Marin County and MHA to support Human Resource, IST and Procurement functions. Once complete, further changes in the structure of MHA may be necessary and staff will make recommendations with that report under separate action early next year.

In light of retirement and lay off reductions, staff is recommending that the management team be restructured in order to increase organizational capacity and integrate the ability to sustain and grow while reducing dependency on HUD funding. It is recommended that the Deputy Director position be reinstituted (previously abolished) and an analyst position be amended and filled. (See Attachment D)

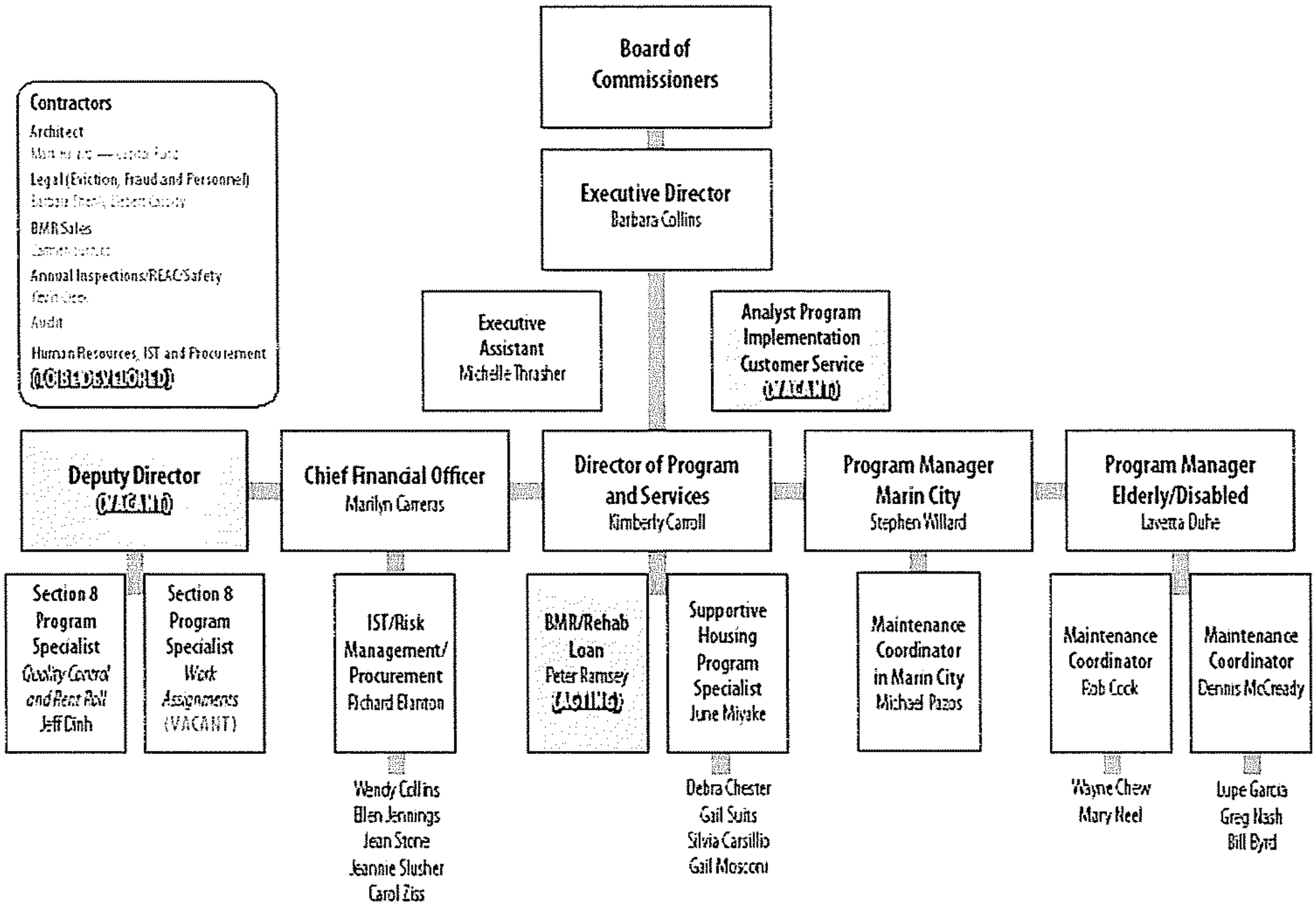
1 FTE Analyst – Monthly salary range from Step 1 at $6,123 to Step 5 at $7,400 depending on experience.

1 FTE Deputy Director– Monthly salary range from Step 1 at $7,244 to Step 5 at $8,470 depending on experience.

In addition, staff is recommending that contracting for services with some staff may be prudent for continuity and because notice of retirement from some staff came rather quickly. Contracts will be under separate action.

# Marin Housing Authority Reorganization

*Prepared December 5, 2006*



## *GOAL AND CHALLENGES OVER THE NEXT THREE YEARS*

### *(2007) Year 1– Transition to asset management*

- **Manage Change** through early retirement, lay off and reorganization. Reevaluate quarterly to make sure that we maintain compliance with regulatory requirements
- **Infrastructure** – Purchase new integrated public housing and accounting software. MHA existing software program is many updates behind and never been fully utilized or supported. Many more sophisticated software programs are now available that could streamline our work and increase productivity significantly.
- **Human Resource** functions are the duty of the Chief Financial Officer and **the Risk Manager/Safety Officer/Procurement Agent currently also supports IST**. Management Partners Incorporated will evaluate the capacity to partner with Marin County to support these functions.
- **Training and Utilization** – Staff have not received sufficient training to perform more than one task. As a result MHA has many functions that only one person knows how to perform. We must begin cross-training to function efficiently.
- **Shared Responsibility** –We must engage residents, participants and the community in a dialogue about the capacity of the organization to educate and empower

### *(2008) Year 2*

- **Develop a Strategic Plan** – As Year 1 is a transition to asset management it is recommended by staff that strategic planning occurs after implementation and the restructure process is complete.
- **Clarify the Mission** – This should be evaluated as part of the strategic plan process.

### *(2009) Year 3*

- ***Implement Plans***

## *RECOMMENDATIONS*

**1.** Adopt the 2007 budget

**2.** Accept report

**3.** Authorize Executive Director to

**a.** reduce the workforce by 7.50 FTE through early retirement and reduction in workforce and

**b.** re-establish the Deputy Director position and amend and fill an Analyst position and

**c.** explore contracting for services and

**d.** evaluate all non-cash assets to offset operating expenses and

**e.** revise excess utility rates in Marin City and

**f.** contract for further utility analysis and

**g.** explore cost sharing for excess garbage and

**h.** terminate existing bulk-rate contracts for cable upon renewal date with 60 day notice to tenants and

**i.** explore water saving measures with Marin Municipal Water District and landscaping and

**j.** work with the YEMP (Youth Employment and Training Program) under contract with MHA and the Resident Council to develop a recycling program and

**k.** establish $20.00 late payment of rent fee effective the 2nd of the month. Authorize Director to and revise appropriate MHA documents and lease agreements (Annual Plan, Occupancy Policy and lease agreements) to reflect this change and

**l.** begin a community process for developing long-term options regarding Marin City. Several options may be explored to sustain affordable family housing stock in Marin City and may include:

- Pursue a greater range of household incomes (Very-low to high-low) *Acceptable to HUD but previously rejected by the Residents Advisory Board in 2006.*
- Convert all units to Section 8 Housing Choice Vouchers. *This model would allow for higher rents to be achieved while still targeting very low-income residents. Since HUD is not issuing new Section 8 vouchers, the units in Marin City would have to be absorbed as part of the total Section 8 allocation.*
- Consider condo conversion or cooperative model. *MHA would work with current residents to improve credit and assist with down payment programs but not all residents would qualify for ownership housing. An unintended consequence from this model may be gentrification of the community. HUD has looked favorably on the model of conversion of public housing to a mixed-income ownership mode and many housing authorities are pursuing this as a viable option for aging public housing stock. Residents have expressed a desire to own the development and anticipate the property would be turned over to them for $1.00 which HUD no longer views as a viable option. The issue of the long-term viability of the physical structures may come into play in an ownership model as they are over 50 years old and have aging conditions and infrastructure challenges.*