Community Development Proposed 2019 Operating Budget

Community Development Committee –
July 16, 2018

METROPOLITAN COUNCIL

Timeline for Budget Development

Jul 16	Committee - Division Level Budget Presentations
Aug 8	Council – Preliminary Budget Presentation
Aug 22	Council - Adopt Preliminary Budget & Levies
Sept/Oct	Council Capital Budget Review
Oct 24	Council - Adopt Public Comment Versions of Operating Budget, Levies and Capital Program
Dec 12	Council - Adopt Final Budget & Levies

METROPOLITAN COUNCIL

Budget Objectives:

- Support implementation of
  - Thrive MSP 2040
  - Housing and Regional Parks Policy Plans

- Financial Stewardship
  - Construct a balanced budget
  - Prioritize structural solutions – mitigate structural gaps over time
  - Maintain reserve balances at Council policy levels.

METROPOLITAN COUNCIL

Thrive in Motion

Stewardship

Prosperity

Equity

Livability

Sustainability

TRAINING & DEVELOPMENT

PlanIt

Integration

Collaboration

Accountability

2040 Thrive MSP

Thrive in Motion

Stewardship

Prosperity

Equity

Livability

Sustainability

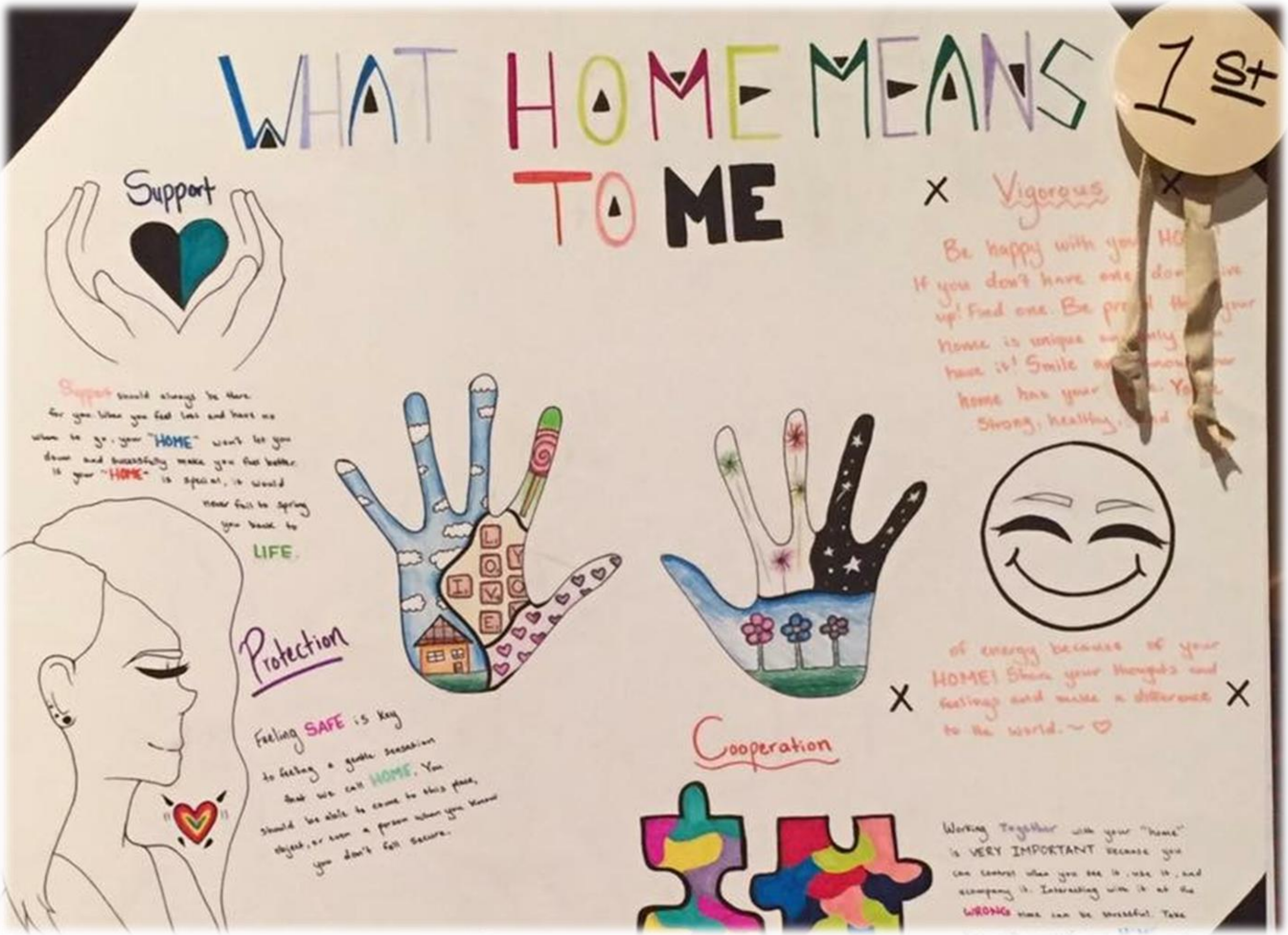
Integration

Collaboration

Accountability

Thrive MSP 2040

Thrive in Motion



Stewardship

Prosperity

Equity

Livability

Sustainability

Integration

Collaboration

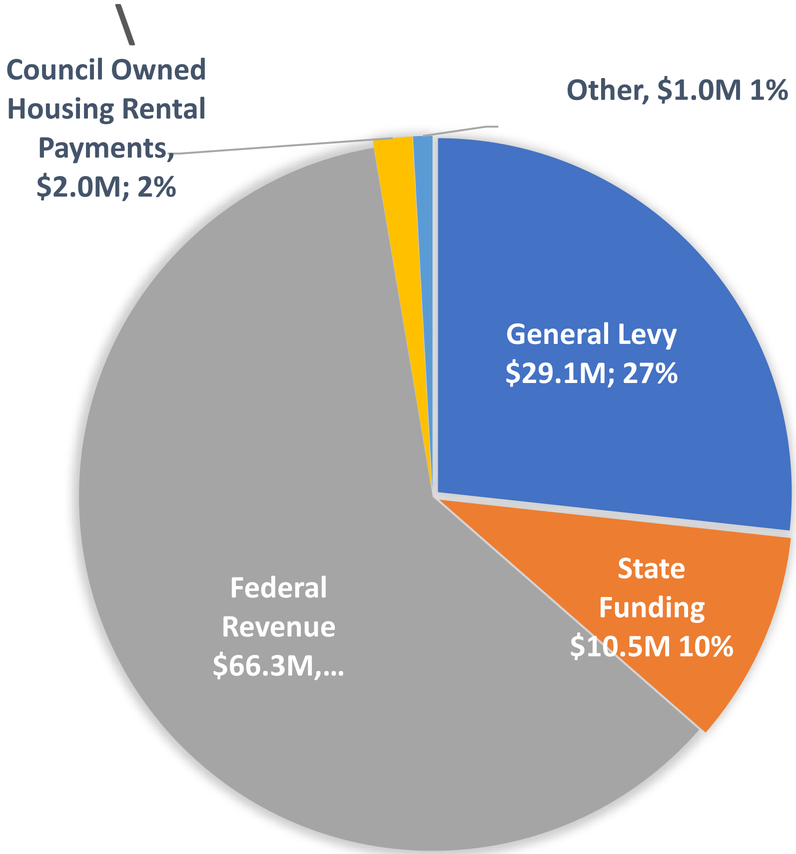
Accountability

Thrive MSP 2040

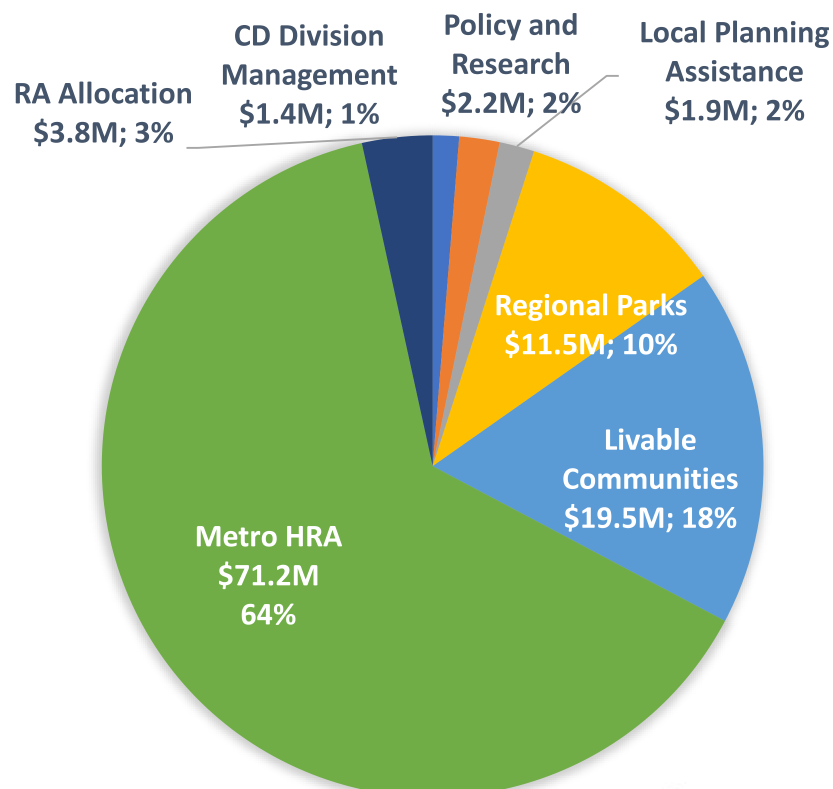
6

2019 Proposed Budget

Total Revenue: $108.9 Million

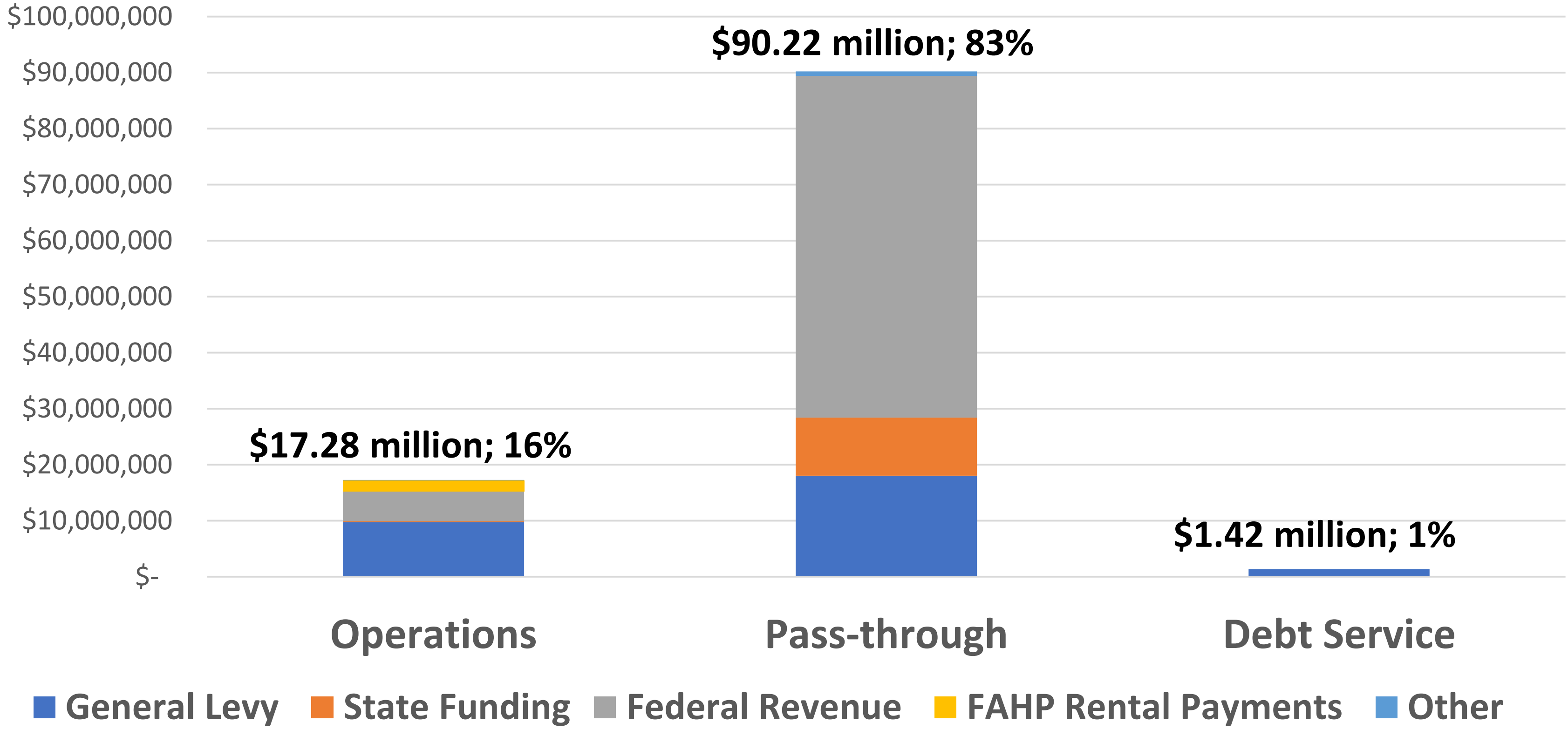


Total Expense: $111.6M



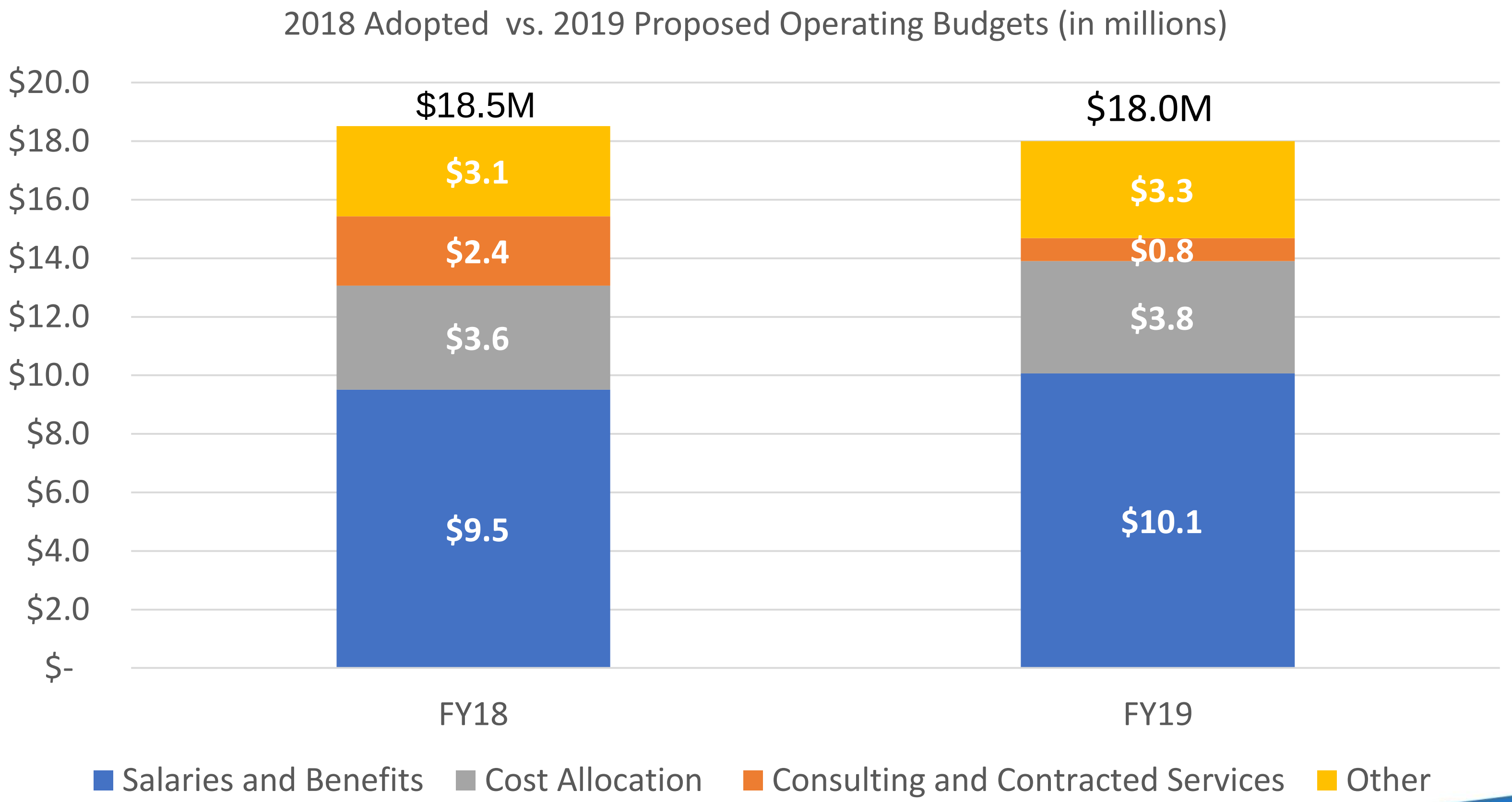
METROPOLITAN COUNCIL

Operations vs. Pass-through Revenue



METROPOLITAN COUNCIL

Proposed Operations Budget Comparison



Housing Choice Voucher (HCV) Budget Presentation

Subset of the Housing and Redevelopment Authority (Metro HRA) Programming

METROPOLITAN COUNCIL

Two Areas of Concern

- Rising housing subsidy payment cost
  - Driven by the rising cost of housing

- Administrative deficit
  - Prorated federal revenues do not cover the rising cost of administration

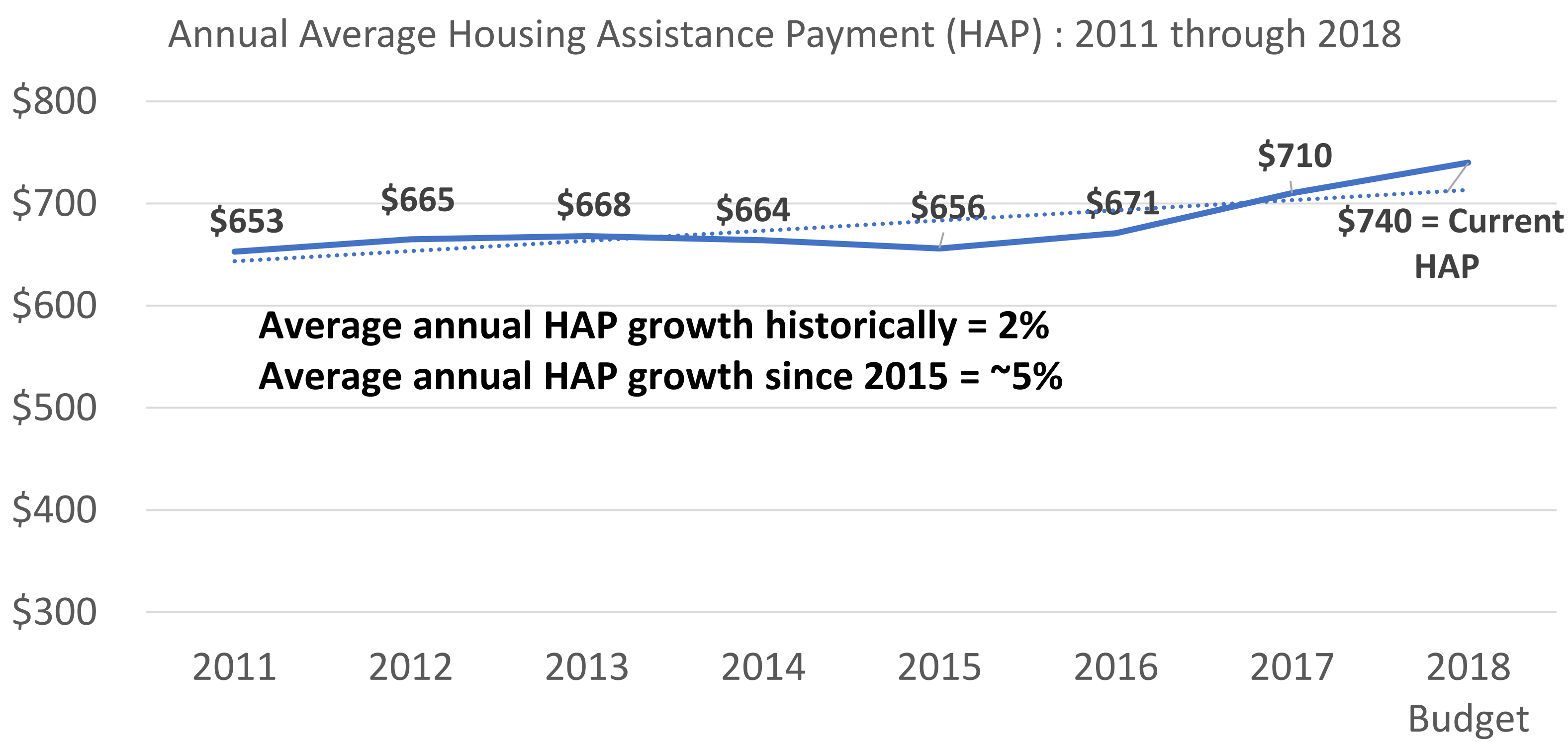
Bottomline

- Given the rising cost of housing, the Council cannot lease to all of the 6,502 families within it's current budget.

- Council faces the choice between:
  - Making program reductions
  - Subsidizing the HCV program and administration by about $2 million annually, in 2018 and on-going.

METROPOLITAN COUNCIL

Average Voucher Payment (HAP)



Did Council Policy Contribute?

- The average cost of a voucher increased from $671 per month in 2016 to $740 per month today
    - 9% increase over two years
- This increase is reflective of the fair market rents for this same period.
- The Council sets rent limits that reflect housing prices, reviewed annually.
    - Without recently approved increases in rent limits, voucher holders would not have been able to find housing they could afford.

METROPOLITAN COUNCIL

Option 1: Reduce Vouchers

The Council could reduce vouchers to live within current funding level:

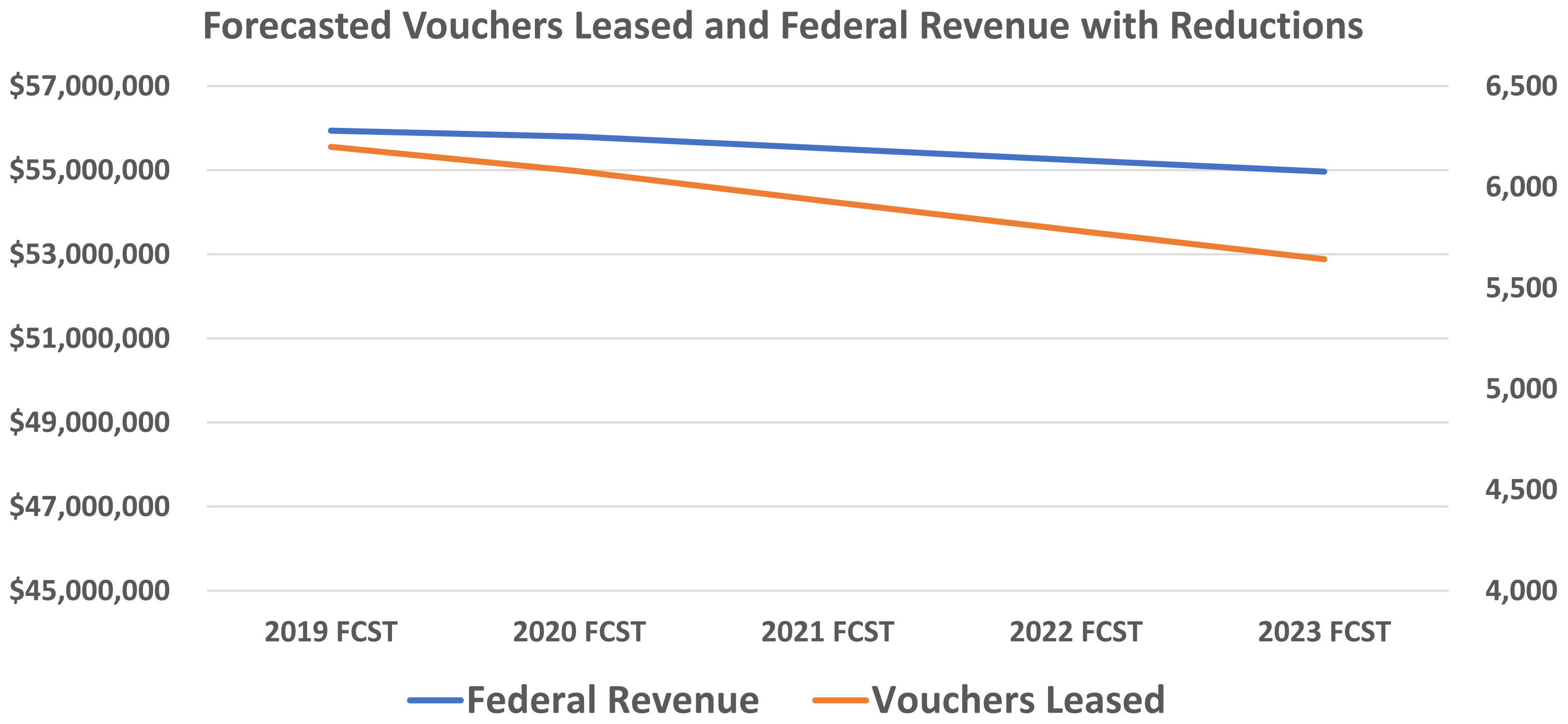
- We would need to bring lease rates down to 93% by the end of the year to avoid a deficit in 2018.
- This could be accomplished through attrition.

This option would result in a downward spiral of reductions for the program.

- Federal revenue is based on prior year spend, which would gradually decline over time.

METROPOLITAN COUNCIL

Forecasted Impact of Reductions



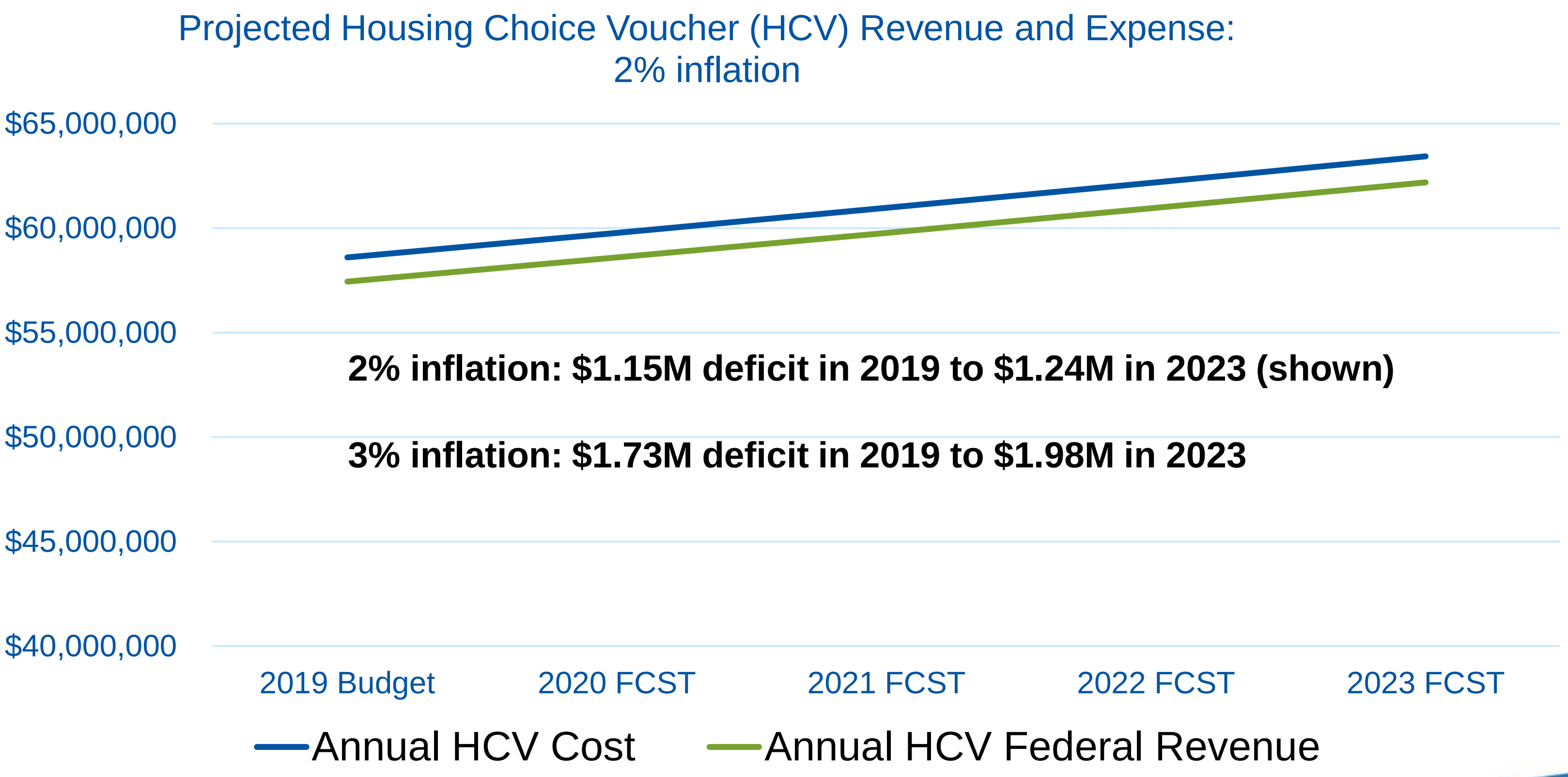
METROPOLITAN COUNCIL

Option 2: Subsidize the Program

- 2018: Subsidize HRA with reserves or general fund levy money in 2018 to continue full leasing.
  - HRA currently has $1M budgeted use of reserves in 2018 budget.
  - Approve additional $900 in reserves for the 2018 budget.
- Subsidizing the program on-going, to close the gap as housing costs rise.
  - Annual subsidy needed to fully lease the Council's 6,502 vouchers are estimated to range from $1 million to $2 million per year over the next five years, depending on housing inflation rates.

METROPOLITAN COUNCIL

Housing Subsidy Projections



METROPOLITAN COUNCIL

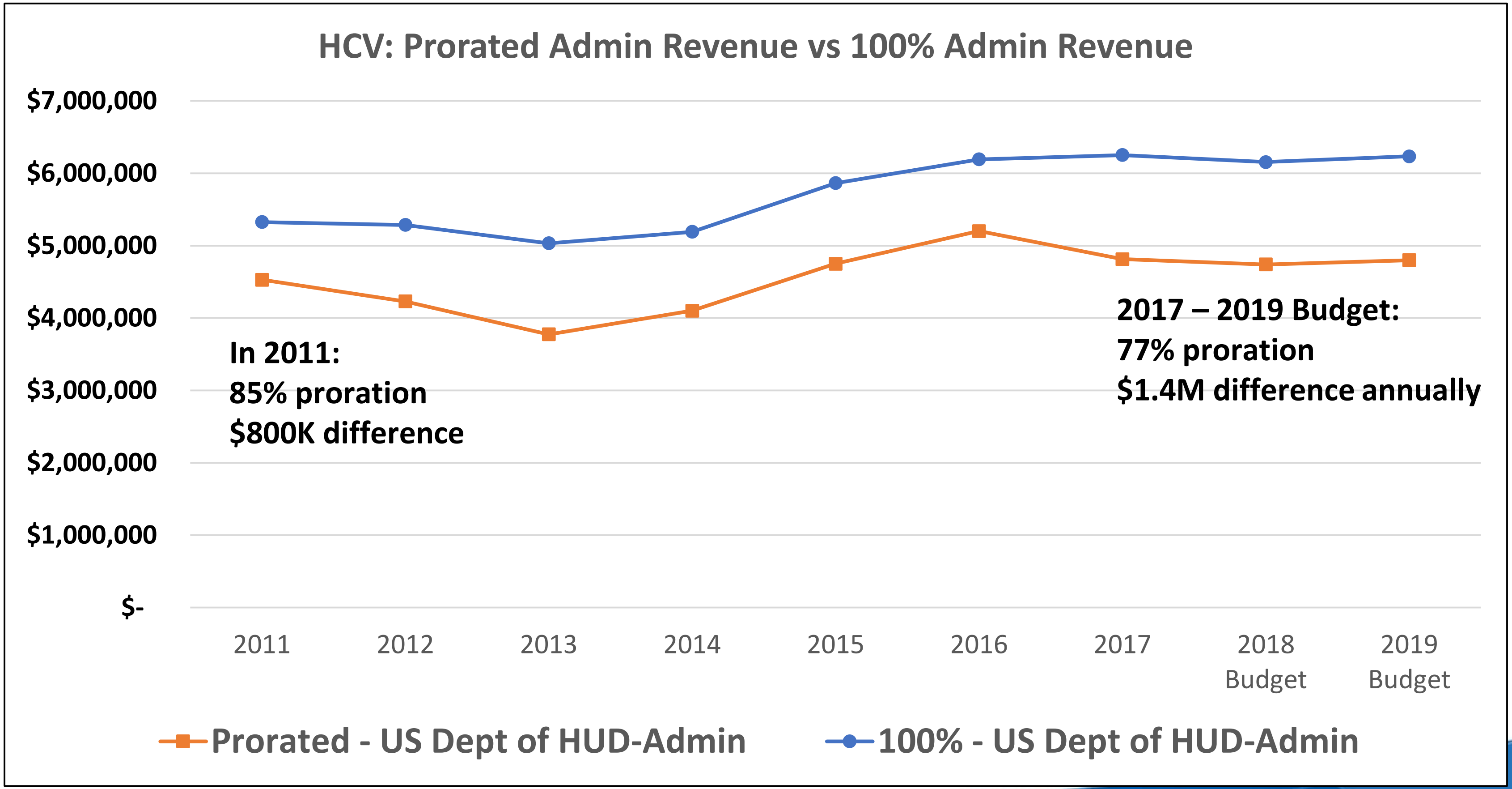
HRA Administration

Administrative Deficit

- Federal Revenue is currently prorated at 77%
    - As a result, the federal government does not cover the full cost of administering the program
- Due to proration, revenue cannot absorb the cost of administration.
- The Housing Choice Voucher (HCV) program is consequently budgeted to have a $900 thousand administrative deficit in 2019.

METROPOLITAN COUNCIL

HUD Admin Fee Proration

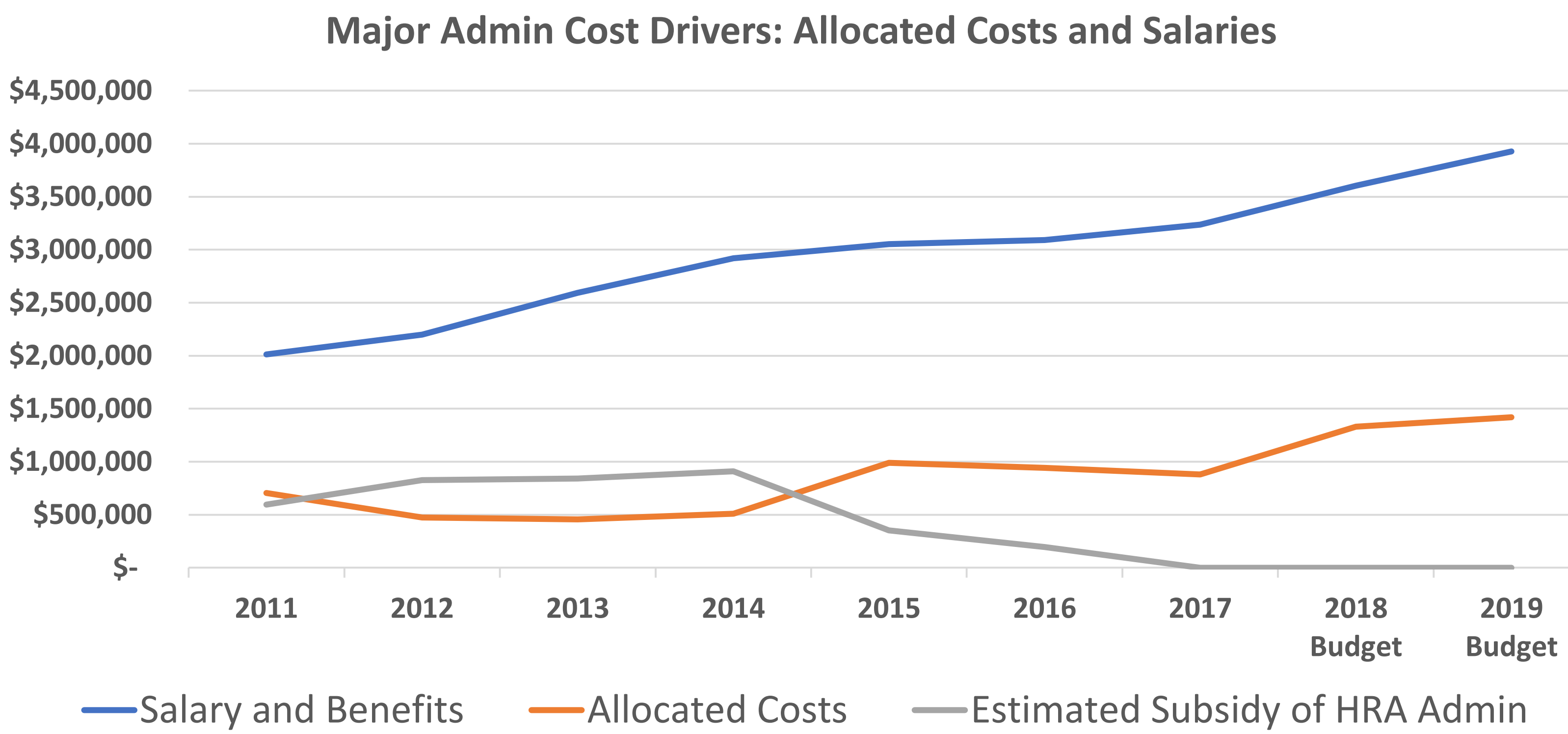


Did Council Policy Contribute?

- Alignment with Council Step System
  - HRA Coordinators moved to standard Council salary step compensation structure.
- Council Cost Allocation
  - Support costs fully allocated to programs; provided full transparency in program costs
  - Investment in Thrive initiatives

METROPOLITAN COUNCIL

Key Administrative Costs



METROPOLITAN COUNCIL

Program Performance: Current

- Considered a high-performer by the U.S. Department of Housing and Urban Development (HUD) for 14 years
  - HUD assessment recommended HRA have 47 front line staff
  - HRA has 39 front line staff today
- Staff caseloads: 375 in 2011 to between 430-450 today
  - 2015: Implemented new housing software system
    - Electronic case management
    - On-line waiting list management
    - Streamlined quality control / file review process
  - 2016: Biennial inspections pilot
  - 2017: E-signatures

METROPOLITAN COUNCIL

Program Performance: Up Next

- Evaluate current processes
- Expand biennial inspections
- Expand use of inspection certifications in lieu of reinspection
- Implement software system enhancement to expand landlord online services
- Continue collaboration efforts with neighboring agencies to align policies and practices

METROPOLITAN COUNCIL

The Long-term Problem?

- Housing voucher deficit is due to rising housing costs
  - Structure of the housing market would need to change to address this problem

- Administrative deficit due to prorated federal revenue
  - Change in federal funding needed to address this problem in the long-term

METROPOLITAN COUNCIL

New Vouchers = Net Gain

Recent application to add 200 vouchers:

- Net gain ~$100,000 for HRA
- ~$1.85M in new federal revenue
    - $1.7M voucher revenue
    - $150K administrative revenue
- ~$53K anticipated Council Cost
    - $53K voucher cost
    - Negligible new administrative costs

METROPOLITAN COUNCIL

Options for Administration

1. Subsidize administration on-going with general fund levy costs.
   - Budgeted $900K deficit in 2019
2. Make staffing reductions to reduce costs
   - 15% reduction to solve full problem is not possible – could not administer the program to standards.

METROPOLITAN COUNCIL

HRA Program Recommendations

- **2018:** Approve development of a budget amendment to allow the use of in additional $900 thousand in HRA reserves for the 2018 budget.

- **2019:** Approve $2 million general levy subsidy of the Housing Choice Voucher program as part of the 2019 budget:
  - **$1.1 million subsidy of voucher costs**
  - **$0.9 million subsidy of administration**

METROPOLITAN COUNCIL

Recommendation 1: Use Reserves in FY18

$ in millions ( ) = unfavorable to budget	2018 Adopted Budget	2018 Forecast with Full Leasing	Difference
Revenue	$60.2	$61.5	$1.3
Expense to fully lease	$61.2	$63.4	($2.2)
Net Surplus (Deficit)	($1.0)	($1.9)	***($0.9)***
Reserve Starting Balance	$9.2	$7.9	($1.3)
Reserve Projected Ending Balance*	$8.2	$6.0	($2.2)

Minimum 8.3% Reserve Requirement = $5.7M in 2018; $6.0M in 2019

METROPOLITAN COUNCIL

Recommendation 2: Subsidize Housing Choice Voucher Program in FY19

$ in millions ( ) = unfavorable to budget	2018 Forecast with Full Leasing	2019 Preliminary Budget	2019 Budget w/ Proposed Levy Subsidy
Revenue	$61.5	$62.9	$64.9
Expense to fully lease	$63.4	$64.9	$64.9
Net Surplus (Deficit)	($1.9)	($2.0)	($0.0)
Reserve Starting Balance	$7.9	$6.0	$6.0
Reserve Projected Ending Balance*	$6.0	$4.0	$6.0

Minimum 8.3% Reserve Requirement for 2019: $6.0M

METROPOLITAN COUNCIL

Option Summary

2018

Use $900K of HRA reserves

- Issue all housing vouchers

Manage to federal budget

- Voucher reduction through attrition
- 200 low-income families will not be issued vouchers
- Federal revenues and ability to issue vouchers will decline in 2019

2019

$2M general levy subsidy

- $1.1M housing vouchers
- $.9M administration
- Issue all housing vouchers

Manage to federal budget

- 200 low-income families will not be issued vouchers.
- Reduce FTEs to level where program may not be sustainable and able to meet federal standards

METROPOLITAN COUNCIL