

Community Development Committee

Meeting date: April 1, 2013

For the Metropolitan Council meeting of April 24, 2013

Subject: 2013 1st Quarter Operating Budget Amendment

District(s), Member(s): All

Policy/Legal Reference: MN Statutes section 473.13, sub. 1 – Council Budget Requirements

Staff Prepared/Presented: Terri Smith, HRA Manager (651-602-1187)

Division/Department: Community Development / HRA

Proposed Action

That the Metropolitan Council amend the 2013 Unified Operating Budget in accordance with the table below:

<u>Description</u>	<u>Adopted</u>	<u>Proposed</u>	<u>Change</u>
HRA Operating Revenue	\$ 6,221,459	\$ 5,864,789	(\$ 356,670)
HRA Operating Expense	\$ 5,925,405	\$ 5,925,405	\$ 0
Change in Fund Balance	\$ 296,054	(\$ 60,616)	(\$ 356,670)
HRA Pass Through Revenue	\$ 57,382,915	\$ 54,882,915	(\$ 2,500,000)
HRA Pass Through Expense	\$ 57,382,915	\$ 56,382,915	(\$ 1,000,000)
Change in Fund Balance	\$ 0	(\$ 1,500,000)	(\$ 1,500,000)

Background

Sequestration, a series of automatic across-the-board federal budget cuts, went into effect on March 1, 2013. As a result, the Council's budget authority from the U.S. Department of Housing and Urban Development (HUD) has been decreased by 5.1%. This translates into a reduction of \$2.5 million available for rental subsidies for the Section 8 Program and a reduction of \$356,670 in the administrative fees generated to cover the HRA's operating costs in 2013.

A number of budget reduction strategies were discussed at the March 18, 2013 CDC Meeting, including:

1. End rental assistance for 350 families effective May 1, 2013 and reduce the program size through regular monthly attrition to keep spending within the reduced budget;
2. Use Section 8 Administrative Fee Reserves to fund the full shortfall;
3. Use a combination of Section 8 Reserves (\$1.5 million) and reduce program size through regular monthly attrition.

The budget amendment being recommended today reflects scenario number 3 above. This is the most reasonable way to mitigate the impact on as many families as possible due to the decreased budget while also acting in a fiscally responsible manner. Under this scenario, the number of households served would be reduced over the course of 2013 and would not require action to end housing assistance to any currently assisted households. The reduced program size would be accomplished through regular monthly attrition. However, because the reduction in spending is being accomplished over the remainder of the year, it will require the use of \$1.5 million in Section 8 reserves. This results in a program size by year end at a level sustainable with projected 2014 federal funding.

The reduction in administrative fee revenue results in a (\$60,616) deficit at year end. To make the budget whole, we are recommending the use of an additional \$60,616 in reserves as shown on the above chart.

This budget amendment reduces the projected administration fee revenue for the Section 8 Housing Choice Voucher (HCV) program and reduces the projected pass through revenue due to the sequestration. In response to both reductions, funds are being transferred from Section 8 Administrative reserves to mitigate the reductions.

Rationale

The Council's Target Fund Balance threshold is 8.3% of the HRA's annual budgeted operating expenses or \$5.25 million. The HRA's current reserve fund balance is \$7 million. Using \$1,560,616 in reserves will result in the reserve fund balance remaining above the Council's threshold at year end 2013.

Funding

Funding for the HCV program is provided through the U.S. Department of Housing and Urban Development. The Transfer from Other Funds line items will be funded from Section 8 reserves. This is an approved use of reserves under the HCV program rules.

Known Support / Opposition

Addressing this funding shortfall in this manner has the support of Chair Haigh.