



HOUSING AUTHORITY OF THE CITY OF LOS ANGELES
MEMORANDUM

To: Audit & Finance Committee, HACLA Board of Commissioners
From: Marlene Garza, Chief Administrative Officer
Through: Doug Guthrie, President and Chief Executive Officer
Date: March 28, 2019
SUBJECT: FY 2019 BUDGET UPDATE

2019 HUD BUDGET APPROPRIATIONS

On December 20, 2018, the Board of Commissioners adopted the Housing Authority of the City of Los Angeles' (HACLA) 2019 Consolidated Operating and Capital Budgets. At that time, Congress had not yet approved a 2019 appropriations bill, resulting in a Continuing Resolution of the final prior year appropriation, as has been the case for the past several years. In mid-February 2019, Congress passed the 2019 Appropriations bill, which resulted in increased funding for U.S. Department of Housing and Urban Development (HUD) programs.

Table with 4 columns: NATIONAL APPROPRIATIONS *, 2018 FINAL, 2019 FINAL, PERCENT INCREASE. Rows include Section 8 Admin Fee, Public Housing Operating Fund, and Public Housing Capital Fund.

* in billions

HACLA 2019 BUDGET IMPACT

As has been our practice for the past several years, the final appropriations will be incorporated into the HACLA Midyear Adjustment, typically presented to the Board of Commissioners in July. It is generally necessary to wait until the summer to provide the Board with updated revenue estimates primarily because it takes HUD several months to provide public housing agencies with their final proration levels.

Nevertheless, based on the overall appropriation increases, and estimates provided by industry groups such as the Council of Large Public Housing Agencies (CLPHA) and the National Association of Housing and Redevelopment Officers (NAHRO), preliminary estimates are available. As summarized below, proration levels for Section 8 Administrative Fees and Public Housing Operating Fund are estimated to increase 6.5% and 3.2%, respectively.

Table with 5 columns: HACLA 2019 BUDGET, ADOPTED, ESTIMATED MIDYEAR, ESTIMATED INCREASE, and a final percentage column. Rows include Section 8 Administrative Fee, Public Housing Operating Fund, and Capital Grant.

This results in *estimated* additional revenue of \$3.1 million for Section 8 Administrative Fees and \$632,000 Operating Subsidy. The estimated increase to the Capital Grant is based on the final 2018 award. As noted in the Adopted Budget presentation in December, the preliminary Capital Grant estimate was conservative and tied to the average prior year award rather than the final 2018 award, which was anomalously high.

ANTICIPATED USES

While specific programming recommendations will be made to the Board in July with the Midyear Adjustment, following are some of the general areas under consideration. With few exceptions, one-time uses are likely to be recommended in order to guard against the possibility that funding will return to more historic levels.

- **Pension, Additional Year-End Contribution** – for the past two years, HACLA has made an additional pension contribution at year end in an effort to continue to mitigate the unfunded pension liability. This contribution was \$3.7 million in 2017 and \$3.4 million in 2018 for both the Miscellaneous and Safety plans. While the Board provided authority to make this contribution in 2019, it was contingent on year-end surplus balances. With the additional revenue, it is expected both Section 8 and Public Housing can budget their anticipated respective contributions of \$1.2 million, and for this reason, we will recommend funding be set aside for the contribution.
- **Compaction Adjustments** – in an ongoing effort to ensure staff enjoy career development and incentives to promote, we have made an effort to address pay scales for key promotional tracks. We have identified two positions, the Assistant Housing Manager and Senior Accountant positions, which serve as bridges between Advisors and Managers, and between Accountants and Financial Analysts, as positions which warrant adjustment. Currently, the salary scales are disproportionately closer to the subordinate position.
- **Customer Service and Program Delivery Enhancements** – as will be discussed in more detail at the April board meeting, we are in the preliminary stages of implementing a new customer contact center (phone system). Initial implementation will focus on the replacement of current system functionality as well as a few critical enhancements. More dramatic functional changes, such as expanded call centers, will require additional investment. Specific costs will be further developed for inclusion in the Midyear adjustment.
- **Capital Grant** – with the infusion of additional capital funds, we will continue our focus on critical infrastructure projects, including electrical systems. We are in the process of identifying specific projects, which will be incorporated into the Midyear adjustment.

TRUMP 2020 BUDGET REQUEST

On March 11, President Trump released his proposed 2020 budget. While it is generally acknowledged that Congressional budget bills do not reflect presidential proposed funding levels, it is important to understand the administration's budget and policy priorities as they related to housing.

- Reduction of HUD programs overall by \$8.6 billion, or 16.4%,
- Reduction of the Public Housing Operating Fund by \$1.8 billion, or 38%,
- Elimination of the Capital Grant (\$2.775 billion),
- Elimination of CDBG, HOME, CNI

Notably, Trump proposed similar cuts last year. Congress eventually enacted higher appropriations than even 2017 levels. While it is not possible to conclude 2020 congressional appropriations will match 2019 levels, it is widely assumed appropriations will not align with the President's proposal.