



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

R-21

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

July 6, 2004

HONORABLE MAYOR & CITY COUNCIL
City of Long Beach
California

SUBJECT: Loan Between the City and Housing Authority to Address Funding Issues

DISCUSSION

The Housing Authority (HA) utilizes funding from the U.S. Department of Housing and Urban Development (HUD) to provide housing assistance payments to 6,172 low-income families in Long Beach. At this time, the HA is facing significant financial issues primarily caused by rising housing costs and recent program changes proposed by HUD. To ensure there is sufficient revenue to cover costs by the end of the fiscal year, staff is proposing a number of actions to address this problem. These actions are summarized as follows:

- Currently there is a gap between the actual monthly housing assistance payments (HAP) in Long Beach and the amount HUD is providing to cover these costs. A number of discussions have occurred between City staff and HUD to address this issue, but it is still unknown how HUD will ultimately fund these costs. Preliminary information projected a shortfall of \$700,000 between HUD revenue and actual HAP costs this fiscal year. Staff is proposing to utilize administrative reserve monies (currently about \$1.5 million) to cover the gap if necessary.
- HUD is also proposing a revision to the Administrative Fee allocation. These are funds provided by HUD to support all costs (staff, rent, overhead, etc.) necessary to administer the program. In April 2004, HUD stated administrative fees were going to be reduced by approximately 13 percent or \$525,000, for Long Beach this fiscal year. Since then, HUD has revised its position indicating the administrative income will only be reduced by 7 percent, but the actual reduction is not yet known. Understanding there will be some reduction to administrative income, staff is moving forward with eliminating nine positions from the Fiscal Year 2005 (FY 05) budget (this action will not result in lay-offs, staff will be reassigned and vacant positions will be eliminated) to reduce costs. Staff is proposing to utilize administrative reserve monies to cover this shortfall.

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- The Housing Authority is experiencing an "over-leasing" problem, where more units are leased than authorized for funding by HUD. By the end of the year it is estimated about 324 families will be served in addition to the 6,172 authorized, at a cost of about \$2.9 million. At this time no new housing vouchers are being issued until the number of families are reduced through attrition to be within the HUD authorized amount (it is anticipated this will occur in August). By legislation, the Housing Authority cannot use program funds to meet the extra costs resulting from this obligation. To address the funding shortfall, staff has obtained a legal opinion stating program income from an old HUD affordable housing grant called "Rental Rehabilitation Program" (RRP) can be used to make housing assistance payments. Currently, there is about \$2.9 million available from these funds, which staff intends to use to cover the over-leasing problem in the HA. The City is requested to enter into an agreement to loan these non-General Fund dollars to the Housing Authority to cover the deficit.

All of these actions are intended to preserve rental assistance to participating families without reducing payment standards, canceling contracts, or eliminating families from the program. The effectiveness of these actions will not be known until HUD has determined the extent to which it can offset program costs.

The Housing Authority Commission took action on June 22, 2004 authorizing the use of administrative reserve monies to address the funding issues and approving the request of a City loan of RRP program income.

Principal Deputy City Attorney Michael Mais and Acting Director of Financial Management Michael Killebrew reviewed this letter on June 15, 2004.

TIMING CONSIDERATIONS

Approval of the recommended action is requested at this time to address funding concerns.

FISCAL IMPACT

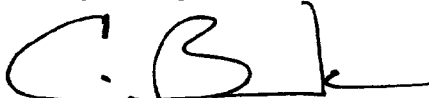
With approval, the Housing Authority will enter into a loan agreement with the City for up to \$2.9 million of RRP funding. The loan terms will be zero percent interest for ten years. It will also include a provision that it can be forgiven, if necessary, due to additional program changes by HUD. Additional administrative income will be used for repayment.

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IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute all documents necessary to initiate a non-General Fund loan of Rental Rehabilitation Program dollars to the Housing Authority to address anticipated funding shortfalls in an amount not to exceed \$2.9 million.


Respectfully submitted,



 MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT

MSF:LDT:cb

APPROVED:



GERALD R. MILLER
CITY MANAGER