On March 28, 2018, the Saint Paul Public Housing Agency (PHA) Board of Commissioners approved the following actions:

- Low Income Public Housing Operating Budget for the Fiscal Year Ending March 31, 2019
- Section 8 Operating Budgets for the Fiscal Year Ending March 31, 2019
- Building Fund Operating Budget for the Fiscal Year Ending March 31, 2019
- Capital Fund Program: 2015, 2016 and 2017 CFP Budget Revisions; Initial 2018 Capital Fund Program Budget; Initial 2018 Replacement Housing Factor (RHF); Budget; CFP Five-Year Action Plan and Agency Plan Amendment
- Housing Management Software System; Contract No. 18-118
- Professional Auditing Services; Contract No. 18-112
- Workers' Compensation Policy; League of Minnesota Cities Insurance Trust

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS		**FROM**	**JON M. GUTZMANN** **EXECUTIVE DIRECTOR**
REGARDING	Low Income Public Housing Operating Budget for the Fiscal Year Ending March 31, 2019	**DATE**	March 28, 2018

Staff recommends the Board adopt Resolution 18-3/28-02 approving the proposed Fiscal Year 2019 Low Income Public Housing (FY 2019 LIPH) Operating Budget, comprised of nine Asset Management Projects (AMPs) and the Central Office Cost Center (COCC), totaling $36,658,105 (Column E, Line #46), including operating expenses, Agency-wide organizational chart changes and the staffing changes described in this report. This compares to approved total operating expenses, including Budget Revision #1, for Fiscal Year 2018 of $34,867,805 (Column B, Line #46), an increase of $1,790,300 or 5.1% from last year's budget (Column F, Line #46).

BACKGROUND:

1. **Current Year Budgets are in Excellent Shape**: The PHA's current budget year ends on March 31, 2018. In HUD's parlance these are the PHA's Fiscal Year 2018 (or FY 2018) budgets. As stated above, the FY 2018 Low Income Public Housing (LIPH) budget had approved total operating expenses of $34,867,805. This included a deliberate draw from reserves of $3,610,850. This approved and planned draw on reserves, if made, would still have left the PHA with more than 5 months of routine expenses in reserve, meeting another budgeting target we set for ourselves. The good news is rather than making the planned draw on reserves of $3.6 million, we project making a contribution to reserves of $1,328,191 on March 31, 2018. The details of how this positive swing of $4,939,041 in LIPH net position occurred are explained in this report.

2. Additionally, the FY 2018 HCV budget is also projected to end the year with a program-wide contribution to administrative reserves (Unrestricted Net Position) of $329,301, resulting in a projected reserve ending balance of $2,682,796 on March 31, 2018.

3. The other two budgets the Board will consider at this meeting are in good shape as well, the Building Fund and Capital Fund Program (CFP) budgets.

FY 2019 BUSINESS PLAN AND BUDGET THEMES: Careful and fiscally conservative financial management are evidenced by the positive projections for FY 2018. The same principles and projected healthy net positions underlie the FY 2019 budget recommendations and drive staff action to meet Agency Goals. Some details of this year's business plan include:

1. **Proposed LIPH Budget does more extraordinary maintenance than expected/required:** Demonstrating traditional PHA fiscal discipline, the LIPH budget proposes Extraordinary Maintenance (EM) work that improves resident quality of life (LED lighting upgrades and walk-in bathtubs in hi-rise tub rooms) in addition to the capital improvements recommended in the CFP budget. None of this EM work in the LIPH budget "has" to happen. Rather it provides additional assurance and evidence of this Agency's careful stewardship of the public trust.

   a) **Green Initiatives**: Staff is seeking $50,000 in the FY 2019 LIPH budget for the replacement of existing exterior site lighting fixtures with new LED components. This conversion will provide a potential energy savings of 50% compared to the light fixtures they replace. The LED fixture retrofits will be focused on the hi-rise buildings in AMP 7 and AMP 8 that do not receive Solar Energy Credits. We hope to replicate these LED upgrades to other PHA-owned properties in future budgets. We will leverage Xcel Energy LED fixture rebates of approximately $3,500 in conjunction with the LED light fixture conversion work. After the LED conversion, residents should find a brighter outdoor environment that feels safer. Maintenance of the new LED exterior fixtures should be reduced considerably compared to the fixtures they replace. (See Appendix 1 – Current Exterior and Interior Lighting at PHA Properties.) During FY 2019 staff will explore recommending Agency participation in the City of Saint Paul's Building Energy Benchmarking program once enacted by City ordinance and more details are available to share with the Board.

b) **Resident quality of life.** In 2017, the PHA installed one walk-in hydrojet therapy bathtub in the existing tub-room to the delight of the Hamline Hi-Rise residents. This feature provides a safer experience for persons unable to use the standard bathtub with which these tub-rooms are currently outfitted. The PHA has seen considerable use of this walk-in bathtub and received many positive responses from residents at Hamline. Staff is proposing $200,000 for the installation of eight additional walk-in bathtubs in existing tub-rooms at eight other PHA Hi-Rises to further expand this offering and improve resident quality of life. The remaining Hi-Rise tub room conversions will be proposed in the FY 2020 budget. (See Appendix 2 – Bathtubs: Before and After Photos.)

c) **Additional Life Safety and other capital improvements** are proposed in the LIPH budget (Lines 49-50) totaling $1,110,000. These are explained in greater detail on page 17 and again demonstrate the extent to which staff are proposing significant investments in PHA-owned apartments and properties in the FY 2019 LIPH operating budget, in addition to that proposed in the CFP budgets.

2. **Asset Preservation and Homeownership Initiative (APHI) and RAD:** Demonstrating additional fiscal discipline, the proposed FY 2019 LIPH budget bears its share of new RAD consulting expenses. (See Appendix 3 - Summary of RAD Budgeted Expenditures, totaling $236,000.) Staff expects the PHA will receive a RAD "CHAP" (Commitment to Enter into a Housing Assistance Payment Contract) from HUD in FY 2019, although the timing is outside the PHA's control. Significant APHI work is planned in FY 2019 as well to advance the Board-approved Section 32 Homeownership Concept Plan to the next level. (For example, staff is drafting a multi-tiered homeownership and asset preservation plan for the 418 scattered site and duplex properties that will remain in the LIPH Program following RAD conversion. The Section 32 Homeownership plan is expected to include offering existing scattered site residents the one-time opportunity to purchase the home they currently live in. Staff will continue to meet with local non-profit agencies to discuss options to sell multiple properties. With the projected cuts to the LIPH Capital and Operating Funds, the PHA may be forced to sell some scattered site properties beyond those purchased by scattered site residents, to fund maintenance and

operating costs of the remaining scattered site portfolio. All will be presented to the Board for refinement and additional consideration during FY 2019.)

3. **Continued Succession Planning and Other Structural Changes**: The FY 2019 proposed organizational chart (See Appendix 4) reflects continued succession planning and structural reorganization with the establishment of the HCV Director and Deputy Executive Director positions as direct reports to the Executive Director; Housing Policy and Finance Department realignment; and new directions for the IT function (See Appendix 5, RSM Executive Summary. Note: the IT directions described in the RSM document are essentially cost neutral comparing the FY 2018 IT budget of $1,844,480 with the proposed FY 2019 IT budget of $1,861,530.)

   a. If the Deputy Executive Director position is created by Board action, I would encourage our General Counsel, Louise Seeba, to seek an interim appointment. Both public and private organizations have had the same individual serve as both General Counsel and Deputy Executive Director, including the following:

      i. Indiana Civil Rights Commission
      ii. Summit County (Ohio) Children Services
      iii. Kentucky Housing
      iv. Chester (PA) Housing Authority
      v. Indiana Housing and Community Development Authority
      vi. Nebraska Department of Administrative Services
      vii. Santa Clara (CA) Housing Authority.

   In fact, Santa Clara Housing Authority's current Executive Director first served as Deputy Executive Director/General Counsel for three years before she was named Executive Director. Each Deputy Executive Director/General Counsel was assigned duties that were in addition to typical General Counsel duties, e.g., compliance, administering agency initiatives, strategic planning, insurance, personnel, development and redevelopment, policy and data, government affairs, public/community relations. There is no legal reason that would prevent someone from holding both titles (Deputy Executive Director and General Counsel). Furthermore, many organizations already do this.

If Ms. Seeba was selected to fill the role, this would be separate from her position as General Counsel. As Commissioners are aware, she is currently serving as Interim Executive Director for Superior Housing Authority on her own time. That contract is set to expire April 30, 2018. Similarly, if she was chosen to fill the role of Deputy Executive Director, she would be reporting exclusively to the PHA Executive Director in the Deputy Executive Director capacity. The compensation for any Deputy Executive Director responsibilities would be outside the contract with the City for legal services and not be subject to overhead costs and City Attorney involvement. The City's contracts, however, as reference, do allow adjustments in pay for "increased responsibility or authority" (AFSCME Local 3757 Legal) or "other job duties that represent a substantial addition to the duties and responsibilities generally associated with the employee's position."

General Counsel responsibilities in this model remain the same. That is, if there is a conflict between the PHA Executive Director and the Board of Commissioners, General Counsel represents the Board. In house counsel, other than General Counsel, may be called on to represent the Executive Director. Or, the Executive Director may retain outside counsel. If General Counsel cannot represent the Board and continue the role of Deputy Executive Director during the time of the conflict, the Deputy Executive Director duties go to the Executive Director. An ethical wall, which is standard practice in such situations, would be put in place between General Counsel representing the Board, and counsel representing the Executive Director.

b. The FY 2019 budget proposes the creation of the HCV Director position as a direct report to the Executive Director (moving from the Housing Policy Department). The Section 8 Programs have grown dramatically in both size and complexity (from just over 2000 certificates/vouchers in the late 1980's to over 4,700 today). With the continued addition of preservation vouchers, along with special allocations through the Veteran Affairs Supportive Housing (VASH) program and the Family Unification Program (FUP), this program now provides over 4,700 assistance opportunities for families in need. Though the Section 8 Program continues to receive bi-partisan support, in recent years it has also been increasingly reviewed and analyzed by both our local and national partners who seek to increase its ability to fulfill its promise of deconcentrating poverty through housing choice. This shows no signs of slowing, and will continue to require more time and direct, informative community advocacy from staff. Though our Housing Policy Director has done an admirable job of overseeing this program, most large HCV programs have all come to be represented to their Executive Director in a sole direct report. With the Housing Policy Director's proposed voluntary reduction in hours (from 40 to 32 hours per week) it is now prudent to create an HCV Programs Director who can represent the Agency's interests in this growing and increasingly complex program, and who will report directly to the Executive Director in that sole and important function.

4. **Innovation Dividen**d: Staff requests consideration of a new concept in the FY 2019 budgets we call an "innovation dividend." The idea is to quantify the initiative and creativity staff drive that has a direct and positive financial impact on PHA annual operations. For example, specific revenue increases or expense reductions that resulted from staff creativity and initiative beyond "standard performance" <u>total over $275,000 for FY 2019</u>. These include a $112,075 Community Solar Garden credit; the first time ever $77,735 community center rental income; new LED rebates of $3,500; ongoing HAI safety/risk management dividend of $13,325; and ongoing sales tax rebate of $71,365. Staff recommends the Board adopt an informal practice of dedicating this annual "innovation dividend" to certain annual management improvements. The proposed FY 2019 budgets recommend this year's "innovation dividend" be dedicated to the Roosevelt Community Center/office remodeling project that was tabled last year. The cost estimation for that construction project is $280,000 and appears in the proposed FY 2019 LIPH budget. The Maintenance portion of the Roosevelt Office Remodel is included in the total for Line 44 Extraordinary Maintenance ($250,000). There is also $30,000 included in the Finance budget under Equipment for the wiring needs, which flows into Line 18 on the LIPH budget.

5. **Resident Initiatives:** The proposed FY 2019 budget and business plan continues a robust Resident Initiatives Department thereby strengthening the Agency's participation in contracts, grants, partnerships and programs that promote supportive services, and

resident economic development and self-sufficiency. For example, the Agency's partnership with Saint Paul-Ramsey County Public Health and the Saint Paul-Ramsey County Statewide Health Improvement Partnership (SHIP) support healthy lifestyles and communities for residents of all ages through various initiatives that improve access to opportunities for physical activity and active lifestyles, healthier food, and tobacco cessation. Resident Initiatives staff supports youth development through collaboration with partners to strengthen youth literacy. They increase the capacity of Family and City Wide Resident Councils through officer training and support the Presidents Council and the 16 Hi-Rise Resident Councils as they engage and improve the lives of all hi-rise residents. The Resident Initiatives Department is also responsible for helping the Agency meet resident education and training requirements under Section 3. The FY 2019 budget includes a funding request from Mayor Carter's Office to serve as one of 12 VISTA (Volunteers in Service to America) sites to build a strong network of services surrounding early childhood education and wellness in Saint Paul during the 2018-2019 program year. Each partnering organization contributes $4,200 annually to share in the costs of the Saint Paul VISTA Program, including the living allowance and training provided to VISTA members, program staff and supplies, etc. The PHA's proposed $4,200 cost sharing payment is included in Line 24 of the proposed LIPH Budget.

6. **Software conversion proposed in FY 2019 budgets:** Our relationship with Emphasys Elite has declined in recent years, despite the PHA's hard work and continued investment. This decline has caused both the services we offer to our clients and our efficiency in operating our programs to suffer, at a time when we have very few corners left to cut. In their recent review of formal software proposals, each staff reviewer unanimously recommended Tenmast as the most qualified software provider. Software conversion costs are eligible expenses under both LIPH and CFP Management Improvements. The Capital Fund budget, also presented at this Board meeting, proposes $250,000 for one-time software conversion costs. The LIPH budget proposes $125,000 in the FY 2019 IT budget (included in Line #18) for one-time software conversion costs. Together these amounts are sufficient to cover the proposed software conversion costs recommended in a separate Board Report. (As a footnote, the $125,000 is part of the

proposed FY 2019 IT budget of $1,861,530. We have worked hard to present a cost neutral IT budget when comparing the FY 2018 IT budget of $1,844,480 with the proposed FY 2019 IT budget of $1,861,530. We believe it is significant that the FY 2019 IT budget does new things, including helping support the cost of the proposed software conversion, for essentially the same amount of money budgeted in FY 2018.)

7. **Other elements of the PHA's FY 2019 business plan funded by the proposed budgets include but are not limited to:** continue to aggressively apply for FHLBDM capital grants; continue to apply for MN Housing capital loans and grants; actively participate in new initiatives spearheaded by Ramsey County, the St. Paul Foundation and the City of St. Paul to address homelessness (with the expected request for PHA PBV assistance in FY 2019); continue to participate in discussions regarding regional affordable housing and AFFH; implement the HUD mandated public housing smoke free policy no later than July 31, 2018; open the HCV waiting list in the fall of 2018; commence contract negotiations with AFSCME and policy negotiations with S&C during FY 2019; refine the PHA's lead paint abatement reporting as a new annual report to the PHA Board following Commissioner Chang's inquiry; seek out additional process improvements especially those geared to creating a more "visit-less" Central Administrative Office (CAO) for clients to reduce burdens associated with traveling to the CAO in person; continue offering "PHA 101" briefings for the new Mayor, Deputy Mayor, Council Members, and other key appointed officials; continue the PHA's educational outreach with the Governor and the Minnesota State Legislature on the Homes for All agenda; continue the PHA's leadership role in national policy setting and funding advocacy; and more.

OVERVIEW: PROPOSED LOW INCOME PUBLIC HOUSING OPERATING BUDGET

The proposed LIPH Operating Budget is based on an Operating Fund subsidy from HUD of $11,709,824 after an estimated prorated reduction of 10.0%. (That is, based on estimates from industry groups, we expect to receive only 90.0% of the full funding amount established by the

Operating Fund formula.) The subsidy is $735,463 more than the PHA budgeted in FY 2018. Last year's PHA LIPH budget was based on proration factor of 85.0%.

Due to recent HUD guidance describing how housing authorities are able to use up to 20% of their yearly Operating Subsidy for Capital Activities, a portion of this year's Operating Subsidy ($540,000 or 4.6%) is being "earmarked" for Non-Routine Capital Activities. This amount is still considered Operating Subsidy, and is reported as such. The subsidy amount will be available to cover the eligible expenses through a separate requisition process. These Non-Routine expenses are described more fully below. The remaining Operating Fund subsidy available for Operating Activities is $11,169,824 (Column E, Line #11).

The FY 2019 LIPH Operating Budget is proposing a deliberate draw on operating reserves in the amount of $3,489,244 (Column E, Line #47). As explained below, staff anticipates there will be a contribution to reserves of perhaps as much as $1,328,191 (Column C, Line #47) for FY 2018, as opposed to the budgeted draw on reserves of $3,610,850 (Column B, Line #47). This results in an estimated ending FY 2018 reserve balance of $18,987,489 (Column C, Line #52). With the projected draw on reserves in the proposed FY 2019 Operating Budget, the operating reserve balance for the end of FY 2019 would be approximately $15,498,245 (Column E, Line #52) or 5.28 months routine operating expenses (Column E, Line #57).

As Commissioners and staff have noted in the past, keeping too large an operating reserve unnecessarily ties up assets that could be used to benefit the PHA's housing programs and participants. We think this budget proposal strikes the right balance for FY 2019.

Staff believes this budget will also maintain the PHA's high score on the financial condition component of PHAS (HUD's Public Housing Assessment System). Staff believes it will be possible to keep the year-end operating reserves held by each AMP at the four month level that HUD has used in the past as the threshold for offsetting (recapturing) "excess" reserves.

The PHA continues to operate under HUD's Asset Management requirements stated in the regulations (24 CFR Part 990). When the Board approves the combined Operating Budget it will also be approving the budgets (revenue and expense totals) for each of the nine AMPs and the COCC (Central Office Cost Center). For FY 2019, Asset Management-related fees totaling $4,058,170 are included as budget line items both as revenue to the COCC (Lines #7 - 9), and expense to the AMPs (Lines #19 - 21). There is no net effect on the bottom line, but the fees are an important part of the Asset Management accounting system and the annual budget presentation.

For the third consecutive year, this budget does not recommend making any payments from the Capital Fund Program (CFP) to the COCC or the AMPs this year. Although HUD regulations allow the PHA to make such transfers to the LIPH operating budget, staff believes the properties' critical capital improvement needs should take precedence (for example, Montreal Hi-Rise plumbing replacement).

MORE DETAIL ON OPERATING RESERVES:

Our most recent financial projections indicate there will be a contribution of $1,328,191 to the Low Income Public Housing operating reserves at the end of FY 2018, instead of the projected draw on operating reserves of $3,610,850 shown in the FY 2018 budget.

The turnaround in FY 2018 from the budgeted draw on reserves, to the projected contribution to reserves, is due to a combination of higher revenues (+ $3.132 million) and lower expenses (-$1.775 million) during the year. The increase in revenue is due almost exclusively to actual tenant rental income being greater than budgeted by approximately $1.47 million, and HUD subsidy being more than budgeted by approximately $1,232,218 (Column D, Lines #1 and #11 respectively). Reduced expenses are projected Agency-wide, with notable reductions as follows:

- **Administrative expenses:** $891,732 less than budgeted. This variance can be attributed to administrative expenses being lower Agency-wide. Continued operational efficiencies have allowed staff to realize savings in most administrative areas.

- **Utilities expenses:** $204,468 less than budgeted. The largest variance was in electric expenses. Utility expenses are based on the formula used for the HUD subsidy calculation. The Agency began receiving credits from the community solar gardens during FY 2018, but those credits were not included in the data used to determine utility expenses. Over the next three years, staff expect these variances to diminish.

- **Maintenance expenses:** $158,741 less than budgeted. Maintenance expenses are expected to be lower Agency-wide than budgeted. The largest variance is in Maintenance Salaries, which is attributed to vacancies in budgeted positions.

- **Extraordinary Maintenance expenses:** $528,911 less than budgeted. This is due primarily to the budgeted office remodels for Dunedin and Roosevelt not being completed in FY 2018.

<u>PROPOSED REVENUE:</u>

The proposed FY 2019 budget projects LIPH operating revenues of $33,168,861, an increase of $1,911,906 (6.1%) from $31,256,955 in the FY 2018 budget approved by the Board on March 22, 2017. Details (Column E) are as follows:

1. <u>Dwelling Rental Income</u> (Line #1) for FY 2019 is projected to increase from $15,244,904 to $16,544,417 or $1,299,513 (8.5%) above the FY 2018 budget. This increase is based on actual tenant revenue as reported to HUD on the Financial Data Schedule.

2. Interest on General Fund Investments (Line #3) is projected to increase from $50,000 to $150,000, which is $100,000 (200.0%) above the FY 2018 budget. This increase is based on analysis of historical data and current investment activity. Investment rates have improved and staff continue to seek out secure, profitable investment opportunities.

3. Cell-Site Revenue (Line #4) for FY 2019 is projected to increase from $653,330 to $694,580 (6.3%). This increase is due to annual increases built into the agreements with the cell-site providers.

4. Other Income (Line #5) is projected to increase from $413,710 to $474,080 (14.6%). This increase is due primarily to the execution of first time ever non-dwelling space rental agreements with social service providers operating in the family site community centers. The rental income generated from these agreements is $77,740 annually. Other income includes rebates, laundry income, and sales and service charges to tenants. Staff continues to pursue energy incentive rebates for lighting efficiency improvements made to PHA properties, for which we expect to receive approximately $3,500 in FY 2019.

5. Asset Management fees (Lines #7-9) are projected to increase from $3,843,000 to $4,058,170 (5.6%). The increase is due primarily to a HUD authorized change in the property management fee paid to the COCC from the AMPs, increasing from $58.54 per occupied unit to $62.59 per occupied unit ($4.05 increase per unit). The property management fee amount had not been increased since CY 2015. The other allowable fees paid to the COCC, a bookkeeping fee and an asset management fee, remain constant at $7.50 and $10.00 per unit respectively.

6. HUD Subsidy (Line #11) is projected to increase by $195,463 (1.8%), from $10,974,361 to $11,169,824 due to increased eligibility and improved proration rates described above.

PROPOSED EXPENDITURES:

The proposed FY 2019 Operating Budget shows total operating expenditures of $36,658,105 which is an increase of $1,790,300 (5.1%) from the FY 2018 budget, including Budget Revision #1, of $34,867,805. The proposed increases/decreases are highlighted below:

1. Administrative costs are proposed to increase overall by $406,789 (3.2%) from $12,613,375 to $13,020,164. Significant changes within this category are:

   a. Administrative Salaries (Line #12) are projected to increase by $2,000 from $6,068,050 to $6,070,050 (0.0%). Administrative salaries remained essentially the same as last year in spite of including a modest salary increase. This is due to operational efficiencies allowing for reductions in vacant staff positions as outlined below throughout this report. As shown in the annual auditors' presentation, administrative costs have remained relatively constant in comparison to the rest of the budget. (See Appendix 6 – Annual Audit Presentation by Baker Tilly, September 27, 2017 – Excerpts.)

   b. Legal Expense (Line #13) is projected to increase by $40,780 (8.3%) from $494,150 to $534,930. This is due primarily to promotional and annual increases for the three attorneys and one clerk currently utilized by the Agency.

   c. Staff Training (Line #14) is projected to increase by $38,450 (74.2%) from $51,850 to $90,300. A significant portion of this increase is due to anticipated staff training needs related to HUD's Rental Assistance Demonstration (RAD) Program in the next fiscal year. Training is included for Finance and Resident Services staff to facilitate the procedural changes needed during and after a potential RAD conversion.

   d. Staff Travel (Line #15) is projected to decrease by $11,500 (-7.4%) from $154,690 to $143,190. This is due primarily to the elimination of travel related to the asset preservation consultant (MaryAnn Russ). This line item includes travel expenses for the Assistant Controller to continue attending conferences related to the anticipated RAD conversion. Industry groups and private consultants provide various training opportunities (usually out of state) that provide depth and understanding of the very complex RAD program.

   e. Audit Fees (Line #16) are projected to increase by $2,229 (5.0%) from $44,425 to $46,654. This increase is due to anticipated annual increases by audit service providers overall.

f. Administrative Sundry Expenses (Line #18) are projected to increase by $120,730 (7.6%) from $1,595,190 to $1,715,920. The most notable increase in this line item is for Contract Services which includes consultant services to assist the Agency with the anticipated RAD conversion ($200,000). This increase is partially offset by the correction of a budgeting error which resulted in a $72,000 reduction in postage expenses. The other 19 line items in Administrative Sundry have only minor increases or decreases.

2. Tenant Services costs are proposed to increase by $47,761 (4.7%) as follows:
   a. Salaries (Line #22) are projected to decrease by $18,070 from $637,940 to $619,870 (-2.8%) due to staff turnover and subsequent filling of positions with new staff. New staff are generally hired at lower base salaries than existing staff for administrative positions resulting in a reduction of salaries from previous year's budgeted amounts.
   b. Other Expenses (Line #23) are proposed to increase by $7,181 from $131,010 to $138,191 (5.5%). This includes resident participation funding provided to the Resident Councils.
   c. Contracts Expenses (Line #24) are proposed to increase by $58,650 from $250,200 to $308,850 (23.4%). This increase is due primarily the addition of an on-call computer technician to provide support for resident computer labs, and an increase in the amount budgeted for applicant verification services. Computer support was previously provided by the ROSS grant administered by the Presidents Council and Citywide Council which ended on February 25, 2018. This support is a critical service for residents and will continue to be provided by the PHA. Staff are also proposing a partnership opportunity with the St. Paul Mayor's office to support the AmeriCorps VISTA program that will provide youth reading and technology classes in the family site computer labs in conjunction with the Youth Connections Program.

3. Utilities costs (Lines 25-31) are projected to increase by $719,390 (15.2%) compared to the FY 2018 budget. Utility costs are part of the HUD subsidy calculation and staff uses HUD's method to calculate the projected cost. Significant changes within this "formula driven" category are:

a. Water and Sewer costs (Line #25) are projected to increase by $361,510 from $2,044,250 to $2,405,760 (17.7%).
b. Electricity costs (Line #26) are projected to increase by $209,300 from $1,365,130 to $1,574,430 (15.3%).
c. Natural Gas costs (Line #27) are projected to increase by $106,720 from $561,790 to $668,510 (19.0%).
d. Fuel Oil costs (Line #28) are projected to decrease by $17,910 from $106,960 to $89,050 (-16.7%).
e. Engineers Labor costs (Line #29) are projected to increase by $2,520 from $152,840 to $155,360 (3.7%) due primarily to annual salary increases.
f. District Energy costs (Line #30) are projected to increase by $57,270 from $486,590 to $543,860 (11.8%).

4. Maintenance costs are proposed as follows:
   a. Maintenance Salaries (Line #32) are projected to increase by $20,490 from $4,674,550 to $4,695,040 (0.4%).
   b. Materials Costs (Line #33) are projected to increase by $78,030 from $883,970 to $962,000 (8.8%). This is due primarily to increased non-capital equipment items (those items valued under $5,000) as well as $10,000 to begin replacing commercial kitchen appliances at meal program sites (the very beneficial CHSP program).
   c. Contract Costs (Line #34) are projected to increase by $204,910 from $2,202,160 to $2,407,070 (9.3%). The proposed increase is due to historical budget to actual analysis as well as an anticipated increase in trash hauling expenses.

5. Protective Services (Line #35) are proposed to increase by $31,760 from $818,240 to $850,000 (3.9%). This is due primarily to the anticipated increase in contract costs associated with the ACOP service provided by the St Paul Police Department.

6. General Expenses (Lines 36-42) are proposed to increase overall by $286,670 (4.4%). These costs include insurance, benefits, collection loss, terminal leave payments, Payment in Lieu of Taxes (PILOT), inspection fees, etc.

a. Insurance costs (Line #36) are projected to increase by $52,940 (5.3%) from $991,900 to $1,044,840. Budgeted insurance costs are based on information received from the PHA's insurance provider.

b. PILOT expenses (Line #37) are projected to increase by $130,580 (16.6%) from $784,680 to $915,260. Budgeted PILOT expenses are based on actual data reported in the Financial Data Schedule as provided in the subsidy calculation. The PHA applies the yearly subsidy proration to this amount.

c. Terminal Leave Payments (Line #38) are projected to decrease by $3,400 (-1.9%) from $182,480 to $179,080. Budgeted terminal leave payments are based on historical amounts paid to employees upon retirement.

d. Other Post-Employment Benefits (OPEB, Line #39) are projected to decrease by $21,980 (-9.2%) from $238,660 to $216,680. OPEB expenses are calculated based on actuarial analysis and must be budgeted and accrued on a yearly basis. They are held in a designated account.

e. Employee Benefit Contributions (Line #40) are projected to increase by $127,530 (3.1%) from $4,177,060 to $4,304,590. Budgeted benefit contributions are directly related to salary activity.

f. Collection Loss Expense (Line #41) is projected to remain flat with no increase from FY 2018 budgeted amounts. Collection loss expense projections are based on historical trends with correlations between increased tenant rental revenue, increases in service charges billed to tenants and increased amounts written off as collection loss. In FY 2017 the PHA wrote off $86,826 in Low Income Public Housing bad debt. This was 0.55% of $15,824,214 in total dwelling rent and other charges billed to tenants.

7. Extraordinary maintenance costs (Line #44) are budgeted at $1,362,500, a decrease of $25,500 (-1.8%) from $1,388,000 in the FY 2018 Operating Budget. Extraordinary Maintenance items are those maintenance projects which are larger in scope and less frequent than routine maintenance costs. Extraordinary maintenance includes, but is not limited to, parking lot maintenance, concrete work, landscape improvements, and interior or exterior surface work. Major expenses included in this line item in FY 2019 budget

are the proposed Roosevelt office remodel ($250,000), hi-rise interior improvements including enhanced tub-rooms in eight hi-rises ($200,000), and LED exterior lighting improvements ($50,000).

Remodeling of the existing Roosevelt management office space in the Community Center will allow the PHA to repurpose underutilized space for an expansion of the overcrowded staff offices. This work will include the expansion of workspace and improved security for the front-line staff, six enclosed offices, bathroom, expanded work area for shared printing and file storage needs, separate conference facilities for greater tenant access and staff safety, and expanded waiting areas and building entry for improved resident mobility. These features are also present in the recently completed Mt. Airy Homes Management Office remodel.

As explained elsewhere in this report, staff are recommending $200,000 for the installation of eight additional walk-in bathtubs in hi-rise tub rooms, and $50,000 for the replacement of existing exterior site lighting fixtures with new LED components.

8. Capital Non-Routine Costs (Line #49-50) are included in this budget but are not considered operating expenses. The proposed budget includes $1,110,000 for capital improvement items, and $180,000 for equipment replacement. The capital improvement line item includes a portion of the plumbing work scheduled to begin at Montreal Hi-Rise in FY 2019 ($750,000) and electrical panel replacements for Cleveland Hi-Rise ($360,000). The PHA has received a grant from the Federal Home Loan Bank of Des Moines Affordable Housing Program ($750,000) to partially fund the plumbing work at Montreal. The electrical panel replacement was identified during the RAD Capital Needs Assessment process completed in late FY 2018 as work requiring immediate attention. The Cleveland electrical panel work and equipment replacement are included in the $540,000 designated as Operating Subsidy for Capital Activities.

SECTION 3 RESIDENT TRAINING OPPORTUNITIES:

The Section 3 Training Fund receives contributions from PHA contractors that do not qualify as a Section 3 business, and are unable or unwilling to hire Section 3 residents or to subcontract with Section 3 businesses for some of the work under their contract. In these cases the contractor must pay 2.5% of the contract award amount to the Section 3 Training Fund. In FY 2019, the Section 3 Training Fund is proposed to support the following activities:

1.	Contracted Coordinator	$17,180
2.	Jobs skills foundation classes for residents	$7,000
3.	PHA-hosted Resident Job Fairs	$600
4.	Outreach, case management assistance, and subsidized training for participants in the PHA's existing construction training program, Step Up.	$700
5.	Ready for Success Referrals	$100
6.	Youth job skills and post-secondary training	$1,200
7.	Ramsey County Section 3 Hiring Connections Subscription	$2,400
8.	Resident-owned business scholarship program	$1,000
9.	Administration expenses (supplies, stipends, mileage)	$1,150
	TOTAL	$31,330

PROPOSED STAFFING LEVELS: The Agency-wide staffing level is proposed to decrease by 0.40 positions (full-time equivalents, or FTEs) in the FY 2019 Operating Budgets for Public Housing and Section 8, as shown below. A summary of past years' staffing levels is attached.

RECENT HISTORY OF STAFFING LEVELS

	FY 2017 Approved	FY 2018 Approved	FY 2019 Proposed	Increase (Decrease)
Department	FTEs	FTEs	FTEs	FTEs
Executive	3.00	3.00	3.00	0
Human Resources	3.50	3.50	3.00	(0.50)
Section 8	22.00	22.00	22.00	0
Housing Policy	1.00	1.00	0.80	(0.20)
Equal Opportunity and Diversity	1.00	0.00	0.00	0
Finance	13.75	14.00	13.00	(1.00)
Maintenance	98.00	98.00	99.00	1.00
Resident Services	84.61	81.88	82.18	0.30
Resident Initiatives	2.00	2.00	2.00	0
TOTAL	**228.86**	**225.38**	**224.98**	**(0.40)**

Details of the FTE changes proposed in the FY 2019 Operating Budget are as follows:

<u>PROPOSED INCREASES:</u>

Human Resources
- + 0.50 FTE – Add Administrative Support Technician (NEW)

Section 8
- + 1.00 FTE – Add Section 8 Director (NEW)

Resident Services
- + 0.20 FTE – Increase CHSP Program Coordinator
- + 1.00 FTE – Add Rental Office Specialist (NEW)
- + 1.00 FTE – Add Rental Technician (NEW)

Maintenance
- + 1.00 FTE – Add Construction Program Manager (NEW)

<u>PROPOSED DECREASES:</u>

Housing Policy
- - 0.20 FTE – Reduce Housing Policy Director

Section 8
- - 1.00 FTE – Eliminate Administrative Support Technician (Vacant)

Human Resources
- - 0.50 FTE – Reduce Human Resources Director (Vacant)
- - 0.50 FTE – Eliminate Program Manager (Vacant)

Finance
- - 1.00 FTE – Eliminate Information Systems Manager (Occupied – layoff)

Resident Services
- - 0.75 FTE – Eliminate Administrative Support Assistant (Vacant)
- - 0.20 FTE – Reduce CHSP Program Manager (Voluntary)
- - 0.95 FTE – Eliminate CHSP Program Coordinator (Vacant)

<u>SUMMARY:</u>

The FY 2019 Low Income Public Housing Operating Budget provides the spending blueprint to implement established Agency Goals. Headlines for Income, Expenses and Reserves this year include:

a. **Income:** A substantial increase in projected tenant rent combines with projected increases in HUD Operating Subsidy, investment income, and Other Income as a result of newly executed non-dwelling rental agreements. Result: Revenue increases $1,911,906 (6.1%) from the FY 2018 approved budget.

b. **Expenses:** The FY 2019 budget proposes an increase in total operating expenses of $1,790,300 (5.1%). This increase helps preserves the physical asset while supporting activities consistent with established goals.

c. **Reserves:** Column E, Line #52 projects FY 2019 year end reserves (Net Restricted Position) at $15,498,245, or approximately 5.28 months (Line #57) of routine expenses. We hope attaining the PHA's historical target reserve level in this difficult budget environment gives Commissioners even more confidence that staff is once again recommending a spending blueprint that is prudent as well as fiscally conservative.

Staff believes this proposed LIPH Budget will further the Agency's mission by providing needed housing and services to residents while preserving the physical assets and maintaining the financial stability of the PHA.

JMG/AJH/FAH/RPM

Attachments:
1. FY 2019 Low Rent Public Housing Operating Budget
2. Board Resolution 18-3/28-02, HUD 52574 with Attachment for Asset Management Projects
3. Staffing (FTE) History FY 1990 – FY 2019
4. Rental Income Bar Graph

Appendix 1 – Current Exterior and Interior Lighting at PHA Properties
Appendix 2 – Bathtubs: Before and After Photos
Appendix 3 - Summary of RAD Budgeted Expenditures
Appendix 4 – Proposed Organizational Chart Changes
Appendix 5 – RSM Executive Summary
Appendix 6 –Annual Audit Presentation by Baker Tilly; September 27, 2017 (Excerpts)

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Section 8 Operating Budgets for the Fiscal Year Ending March 31, 2019

DATE March 28, 2018

Staff recommends approval of the Section 8 Housing Choice Voucher (HCV) and Disability (Mainstream) Voucher Operating Budgets, and the Moderate Rehabilitation Single Room Occupancy (Mod Rehab SRO) programs Expense Budgets, totaling $42,528,256 for FY 2019 (Column E, Line #24; a resolution is not required). This is an increase of $1,395,095 or 3.4% (Column F, Line #24) compared to budgeted expenses for FY 2018 that totaled $41,133,161 (Column B, Line #24).

SECTION 8 – PROPOSED REVENUE:

Housing Assistance Payments (HAP). HUD provides renewal funding for the Housing Choice Voucher (HCV) program's rent subsidies paid to private property owners based on actual Housing Assistance Payment (HAP) expenses the PHA reported last year in the online Voucher Management System (VMS). Program-wide Section 8 expenses for Housing Assistance Payments (HAP) to property owners are projected to be $37,159.960 (Column E, Line #22), to be paid from HUD HAP subsidies estimated at $36,722,467 (Column E, Line #1), supplemented by approximately $437,493 from prior years' excess HAP budget authority held by HUD on behalf of the PHA. The HUD-held reserve is sufficient to make up the difference this year, with a balance of approximately $2.1 million now.

Section 8 Administrative Fees for this proposed budget are estimated based on CY 2018 methodology and fee rates, and then pro-rated down to 76% of the formula amount, based on

HUD guidance, due to inadequate Congressional appropriations. Administrative fees are paid based on the number of units under lease each month, not on the total number of Housing Choice Vouchers authorized (currently 4,501). (No fee is paid for unit-months leased that exceed the PHA's authorized limit.) The administrative fee for CY 2018 is $87.93 for the first 7,200 unit-months leased (yearly total) and $82.07 for the remaining unit months leased, up to the PHA's maximum authorized units.

Program-wide Section 8 routine expenses are proposed at $3,868,296 (Column E, Line #21) for FY 2019. Revenues to pay those expenses total $3,902,072 (Column E, Lines #2, #3, #5, and #7). Based on budgeted expenses and revenues, there will be a small contribution to the Section 8 Housing Choice Voucher administrative fee reserves (also called "Unrestricted Net Position" or UNP). The proposed HCV administrative budget would contribute approximately $2,410 to the UNP. The other three Section 8 programs (Disability Vouchers and the two Moderate Rehabilitation projects, Mary Hall and Booth Brown House Foyer) are budgeted to make contributions to the UNP of $31,366. This results in a projected program-wide contribution to the UNP of $33,766 at the end of FY 2019 and a projected FY 2019 year-end UNP balance of $2,713,761.

The projected FY 2018 program-wide contribution to UNP is $329,301, which would create an ending balance of $2,682,796 (Column C, Line #26). (The FY 2018 Section 8 Operating Budget approved by the Board on March 22, 2017 projected a year-end contribution to UNP of $250,431, resulting in a projected ending balance of $2,605,189 on March 31, 2018. The latter figure was based on the projection of the previous year's ending balance. The actual fiscal year ending balance for each year is not finalized until after that year's books are closed.)

The estimated Section 8 Housing Choice Vouchers administrative fee revenues are supplemented by other revenues (fraud recovery, port-in administrative fees, and other small amounts), and are sufficient to cover budgeted operating expenses. The components of the Section 8 revenue in this proposed budget are as follows (Column E):

1. <u>Section 8 Housing Assistance Payments (HAP) subsidy (Line #1)</u> is expected to be $36,722,467, an increase of $1,398,815 (4.0%) compared to the FY 2018 budget amount of $35,323,652. As shown below, the budgeted subsidy total includes the Housing Choice Vouchers (HCVs) and three smaller Section 8 programs that are budgeted separately:

    a. <u>Housing Choice Vouchers</u> include 176 VASH Vouchers, 100 Family Unification Program Vouchers, and 300 Preservation Vouchers, in addition to the 3,925 “regular” HCVs, for a total of 4,501 vouchers, excluding the special programs immediately below. The proposed budget for the Housing Choice Voucher program shows an increase of $1,373,811 (4.0%).

    b. The <u>Disability Voucher</u> budget (117 vouchers) shows an increase of $12,528 (1.6%).

    c. The <u>Moderate Rehabilitation Single Room Occupancy</u> (Mod Rehab SRO) project at Catholic Charities’ Mary Hall (75 units) shows an increase of $10,557 (3.3%).

    d. The <u>Mod Rehab SRO</u> project at Salvation Army’s Booth Brown House Foyer (6 units) shows an increase of $1,919 (6.3%).

2. <u>Section 8 Administrative Fee subsidy (Line #2)</u> is expected to be $3,565,588. That would be an increase of $34,912 (1.0%) program-wide from FY 2018 budgeted amounts. HUD increased the administrative fee <u>rate</u> but that is partially offset by a deeper proration: The administrative fee proration is estimated at 76% for FY 2019, down from 77% budgeted in FY 2108. At a 76% proration, the PHA would receive <u>24% less</u> than the full cost of running the programs, according to HUD’s own formulas. The administrative fee budgets for the three smaller programs vary based on factors specific to each program. (Disability Vouchers decreased (-22.0%) while the Mod Rehab SRO programs (Mary Hall and Booth Brown) increased of 2.6% and 2.7% respectively.)

3. Portability revenue (Line #6 and #7 respectively) is budgeted at $1,500,000 for HAP and $155,684 for administrative fees, for a total of $1,655,684, compared to $1,647,785 last year, an increase of $7,899 (5.3%). This amount is based on estimates each year of how many voucher participants may be transferring ("porting") into St. Paul from other jurisdictions, and whether the PHA will "absorb" any of those participants into our program, issuing our own vouchers to them (and increasing our voucher utilization). When the PHA does not absorb the participant, the "sending" agency is required to reimburse St. Paul for HAP expenses, and those payments become part of the portability revenue. The HAP portion of this amount is a 100% reimbursement so it has no effect on the bottom line. (See Line #23 for offsetting HAP expense) "Sending" agencies are also required to send 80% of their administrative fee for that unit to St. Paul.

4. Other (Lines #3 and #5) Section 8 revenue sources include interest on invested funds, fraud recovery amounts (primarily received through Minnesota Revenue Recapture) and other small amounts.

SECTION 8 - PROPOSED EXPENDITURES:

Section 8 expenditures include direct costs associated with Section 8 staff, as well as indirect costs associated with other PHA Administrative staff. Indirect costs for these staff are allocated based on rates established during the annual budget preparation, to take effect on April 1st each year.

1. Administrative Expenses are proposed at $2,709,786, which is an increase of $99,371 (3.8%) from $2,610,415 in FY 2018. Details (Column E) are as follows:
   a. Salaries (Line #9) are increased by $16,460 (0.9%) due to projected annual salary increases, **partially offset by savings from continued process improvements. The implementation of hand-held devices for Section 8 inspections reduced the need for staff to process inspection results, so one full-time position (1.0 full-time equivalent/FTE) has been eliminated; and that cost savings is captured in this budget.**
   b. Legal expense (Line #10) is increased by $8,300 (6.8%) due to annual contract adjustments for the PHA's Legal department.

c. Staff training (Line #11) is increased by $6,290 (43.7%) from $14,410 to $20,700 due to additional administrative staff training.

d. Staff travel (Line #12) is decreased by $4,630 (-7.5%) from $62,140 to $57,510 due to reduced travel needs associated with industry conferences.

e. Audit Fees (Line #13) is increased by $1,291 (6.3%) due to auditors' anticipated annual fee increases.

f. Other administrative expenses (Line #15) are increased by $70,590 (18.6%) from $378,730 to $449,320, primarily due to increases in Agency-wide administrative expenses that are partially allocated to the Section 8 budget.

2. General Expenses are proposed at $1,158,510 which is an increase of $36,020 (3.2%) from $1,122,490 in FY 2018.

   a. Insurance expenses (Line #16) are increased by $13,510 (20.4%) from $66,240 to $79,750. Insurance costs are calculated based on industry assumptions and are applied to each program as applicable.

   b. "Other Post-Employment Benefits" (OPEB, Line #18) are decreased by $2,970 (-8.4%) from $35,280 to $32,310. OPEB costs are calculated based on actuarial assumptions.

   c. Employee benefits (Line #19) are increased by $25,480 (3.7%) from $695,970 to $721,450. Budgeted benefit contributions are directly related to salary activity.

3. Housing Assistance Payments (HAP, Line #22) are proposed at $37,159,960, which is an increase of $1,259,704 (3.5%) from the FY 2018 amount of $35,900,256. Staff monitors voucher utilization and payments to property owners on a monthly basis to maximize utilization while ensuring expenses remain within HUD subsidy and available HAP reserve amounts.

The Unrestricted Net Position balance (administrative fee reserves) is projected to be $2,713,761 at the end of FY 2019 (Column E, Line #26).

JMG/AJH

Attachments:

1. Section 8 Program-Wide Proposed FY 2019 Budget
2. Graph – Housing Choice Voucher Unrestricted Net Position Projection

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS		**FROM**	**JON M. GUTZMANN** **EXECUTIVE DIRECTOR**
REGARDING	Building Fund Operating Budget for Fiscal Year Ending March 31, 2019	**DATE**	March 28, 2018

Staff requests Board approval of the proposed budget for the Building Fund for Fiscal Year 2019.

Summary of Proposed FY 2019 Building Fund Budget (compared to FY 2018):

Proposed Revenue:

The FY 2018 Building Fund Operating Budget was approved by the Board on March 22, 2017. The budget anticipated total Building Fund revenues of $812,800. The proposed FY 2019 budget projects revenues at $866,990, which is an increase of $54,190 (6.7%) from last year's projected revenues. Details are as follows (Column E):

1. Tenant Rent (Line #1) is projected to increase by $46,550 (6.6%) from $709,530 to $756,080. Most of the increase is a result of the new tenant (Clear Lake Dental) moving into Suite 250 and paying a higher rental rate.

2. Parking Rent (Line #2) is projected to increase by $2,640 (3.0%) from $88,270 to $90,910, to more closely align the budgeted amount to actual revenue.

3. Interest (Line #3) is projected to increase by $5,000 (33.3%) from $15,000 to $20,000. This increase is based on analysis of historical data and current investment income activity. Investment rates have improved recently and staff continue to seek out secure, profitable investment opportunities.

Proposed Expenditures:

The FY 2019 budget proposes total operating expenditures of $745,670 (Column E, Line #22), which is an increase of $16,750 (2.3%) compared to the FY 2018 budget amount of $728,920 (Column B, Line #22). Details are as follows (Column E):

1. Administrative Salaries (Line #5) are budgeted to increase by $2,450 (6.5%) due to annual salary increases. This includes the portion of the Executive Director's salary that exceeds HUD's limit on the amount paid from the Central Office Cost Center.

2. Administrative Sundry expenses (Line #7) are budgeted to decrease by $11,830 (-21.7%) due to the biennial PHA Partner recognition event not being budgeted for this year. In addition, the costs for the Urban Beekeeping Initiative were assumed by other partners.

3. Utility Expenses are budgeted to decrease by $2,370 (-0.9%) compared to the FY 2018 budget amount, based on actual expenses to date.

    a. Water & Sewer expenses (Line #8) are projected to decrease by $2,500 (-25.0%) from $10,000 to $7,500.

    b. Engineers Labor expense (Line #10) is projected to increase by $130 (1.6%) due to annual salary increases.

4. Maintenance Materials expenses (Line #13) are budgeted to increase by $1,350 (41.5%) to more closely align budgeted amounts to actual expenses.

5. Maintenance Contracts expenses (Line #14) are budgeted to decrease by $21,800 (-15.9%) to more closely align budgeted amounts to actual expenses.

6. General Expenses are budgeted to increase by $5,100 (5.4%) compared to the FY 2018 budgeted amount, from $94,730 to $99,830.

    a. Insurance Expenses (Line #16) are budgeted to increase $2,570 (15.3%) due to annual increases.

b. Other Post Employment Benefits expense (“OPEB”, Line #18) is projected to increase by $60 (6.3%). OPEB is determined by actuarial analysis and is allocated to the Building Fund based on salary percentages.

c. Employee Benefits expense (Line #19) is budgeted to increase by $1,570 (7.2%). Budgeted benefit contributions are directly related to salary expenses.

7. Extraordinary Maintenance expenses (Line #21) are budgeted to increase by $44,600 (50.7%) compared to the FY 2018 budgeted amount. This increase is due primarily to necessary parking lot repair and recoating, exterior roof repairs, replacing automatic door openers (for ADA accessibility), and interior ceiling tile replacement.

Building Fund Summary:

The proposed budget shows revenues exceeding expenses by $121,320. These funds provide a resource for future improvements to the building and allow the PHA to continue addressing the Strategic Planning options as approved by the Board.

As shown on the attached bar chart, staff estimates the Building Fund reserve balance will be about $2,908,990 at the end of the current fiscal year.

RPM/AJH

Attachments:
Annual Report FY 2018 – Narrative
Proposed Budget and Management Plan for FY 2019 – Narrative
Proposed FY 2019 vs. FY 2018 Comparison
Proposed FY 2019 Salary/Benefit Budget
Table - History of Building Fund Support
Bar Charts: Net Income from Operations; Building Fund Reserve Balance

BUILDING FUND

Annual Report - Fiscal Year 2018

1. Background
The PHA purchased property on West 10th Street (later designated 555 N. Wabasha Street) in February 2000 at a total cost of $1,804,945, including original financing costs of $85,044. Working through the Port Authority, the PHA used tax-exempt bonds as the funding vehicle to provide $1,750,000. The balance of needed funds ($54,945) was taken from Building Fund retained equity. A portion of the bonds ($450,000) was redeemed on January 31, 2005 with the remainder ($1,300,000) redeemed on May 31, 2005. The new CAO building contract was awarded to Lund Martin on January 29, 2003, and construction began on March 26, 2003. The budgeted amount for the Lund Martin contract was $12,439,000. Actual Lund Martin expenses equaled $12,532,710. Total all-inclusive building and land expense equaled $15,683,843. The PHA took occupancy on March 23, 2004. In 2007 the building was dedicated and named after W. Andrew Boss in recognition of his long service as PHA Commissioner and Chair.

2. Board Approval of FY 2018 Budget
On March 22, 2017 the Board accepted the report on Costs and Operations through the End of Fiscal Year 2016 and approved the Proposed Budget and Management Plans for FY 2018. These documents have guided the operation of the W. Andrew Boss Building for the past year.

3. Report on FY 2018 Building Fund Budget and Changes in Financial Position
The Board has received quarterly reports on actual costs regarding the operations of the W. Andrew Boss Building. Building Fund expenses include such things as administration, taxes, maintenance, and insurance. A historical summation of expenses is listed below.

4. Report on Building, Land Management and Operations
During the fiscal year staff conducted their daily business operations from the W. Andrew Boss Building and leased the commercial office space. The PHA Controller is the Facility/Property Manager. The PHA Maintenance Department is responsible for the upkeep and appearance/improvement of the building.

As of January 1, 2018 the W. Andrew Boss Building is fully occupied. The dental office leasing Suite 250 closed its business on December 31, 2017. Another dental practice (Clear Lake Dental) agreed to lease the space as-is, at a higher rental rate, and occupied the space the following day. The next lease to expire is MN NAHRO on December 31, 2019.

The PHA will continue to manage the W. Andrew Boss Building according to “good business practices.”

5. Reference Guide
Staff has a Reference Guide for W. Andrew Boss Building that includes emergency contact information, PHA staff phone numbers, tenant contacts and after-hours procedures. The manual is available to all PHA staff and building tenants.

Fiscal Year	Total Operating Expenses (Including Bond Interest)	Bond Interest	Actual/Budgeted
2000	$ 464,221	$ 11,244	Actual
2001	642,104	72,976	Actual
2002	575,471	40,219	Actual
***2003**	232,296	25,972	Actual
****2004**	209,616	39,593	Actual
2005	551,507	26,441	Actual
2006	483,114	6,308	Actual
2007	580,236	0	Actual
2008	554,637	0	Actual
2009	558,082	0	Actual
2010	580,173	0	Actual
2011	632,496	0	Actual
2012	727,328	0	Actual
2013	658,610	0	Actual
2014	704,813	0	Actual
2015	608,249	0	Actual
2016	678,087	0	Actual
2017	682,575	0	Actual
2018	728,920	0	Budgeted
2019	745,670	0	Budgeted

Notes on Financial Information

* Beginning March 1, 2003, the Discretionary Fund was closed and all costs were incorporated into the Building Fund.
** Bond interest was capitalized in FY 2004 during construction but was included in costs above for comparison purposes.

NOTE: 480 Cedar was sold to Minnesota Public Radio in February 2002.

BUILDING FUND

Proposed Budget and Management Plan
For FY 2019

All of the cash flow projections and expense analyses were based on unaudited financial information as of December 31, 2018.

1. Request for Approval of Building Fund proposed budget: FY 2019
See the attached "PROPOSED INCOME AND EXPENSE BUDGET (COMPARATIVE)". The attached proposed budget for FY 2019 shows a net operating gain (revenues minus expenses) budgeted at $121,320, compared to a net operating gain budgeted at $83,880 in FY 2018. This is an increase of $37,440.

2. Property/Building Management Plan
The Executive Director and his designated representatives will manage the W. Andrew Boss Building according to good business practices. Any proposed use outside of normal and customary commercial office and parking use will be brought to the Board for consideration and approval.

As vacancies occur in the future, new building tenants will be solicited and offered leases with terms consistent with market conditions and those of other building tenants, with rent no less than the minimum required for operating expenses. Lease incentives may be offered to attract prospective tenants, including free rent periods, improvements to leased space, or other incentives. Tenant-financed leasehold improvements will continue to be the preferred method to accomplish build-out of tenant space.

The marketing budget will be utilized for various promotional activities, both before and after tenant occupancy of the building, including printed materials and incidentals such as minor appreciation or promotional gifts or meals of less than $50 value.

3. Policy for Use of Surplus Building Fund Proceeds
Surplus Building Funds shall be used first to maintain and improve the property in a manner consistent with "good business practices" for comparable properties. Any remaining surplus Building Funds shall be utilized and available for legitimate low income housing purposes, with an emphasis on home ownership and self-sufficiency. Please see the attached spreadsheet for the complete history of payments or transfers to support housing related programs.

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS | **FROM** **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Capital Fund Program: 2015, 2016 and 2017 CFP Budget Revisions; Initial 2018 Capital Fund Program Budget; Initial 2018 Replacement Housing Factor (RHF); Budget; CFP Five-Year Action Plan and Agency Plan Amendment

DATE March 28, 2018

Staff requests Board approval of Resolution No. 18-3/28-03 approving the following budgets and amending the Agency Plan accordingly:

1. Initial budget for the 2018 Capital Fund Program (CFP) grant estimated at $7,159,806 (attached on green paper);
2. Initial budget for the 2018 Replacement Housing Factor (RHF) grant estimated at $9,564 (attached on yellow paper);
3. Revisions to the CFP Five Year Action Plan FFY2018 through FFY2022 (attached on blue paper); and
4. Revisions for the 2015, 2016 and 2017 CFP grants (attached on green paper); and
5. To supplement the CFP grant, the Agency Plan is further amended to include the use of limited amounts of operating subsidy for capital improvements.

The initial CFP budgets reflect the PHA's anticipated 2018 CFP grant amounts based on 2017 CFP grant amounts. The budgets will be revised after HUD announces the PHA's actual 2018 CFP grant allocations.

The revised budgets for the 2015, 2016 and 2017 CFP grants adjust line items to match actual obligations and expenditures but do not change the total amount of the grants. The Capital Fund Program Five Year Action Plan for FFY 2018 through FFY 2022 will be revised to match the PHA's final FFY 2018 CFP funding amount. The 2017 CFP budget has been revised to propose $250,000 for replacement of the PHA's business software and $250,000 for the PHA's planned

Asset Preservation and Homeownership Initiatives efforts by deferring the modernization of the elevators at the Exchange Hi-Rise until 2019.

The uses of the funding shown in the attached budgets are consistent with the draft CFP budget and draft CFP Five Year Action Plan staff discussed with residents and presented at the Agency Plan public hearing in November, 2017. Since the amount of the 2018 grant was not known at that time, staff used the amount of last year's CFP grant in those draft CFP budgets.

The FFY 2018 Replacement Housing Factor grant will be saved for future construction or acquisition of replacement housing.

A summary of planned expenditures in the 2018 through 2022 CFP Five Year Action Plan is as follows:

2018 CFP: McDonough Homes (bathroom glass block replacement), Hamline Hi-Rise (community room kitchen remodeling, community room air handler replacement), Hamline, Seal, Wilson, Central and Cleveland hi-rises (domestic water pressure booster pump replacement), Roosevelt Homes (furnace replacement), Mt. Airy Hi-Rise (community room air handler replacement), Valley Hi-Rise (corridor painting and flooring), Mt. Airy Homes (retaining wall replacement, exterior trim architectural fees, exterior modernization) and scattered site homes (modernization on vacancy). Combined with the $750,000 grant from the Federal Home Loan Bank of Des Moines, this budget has been revised to provide full funding for replacing the plumbing at Montreal Hi-Rise. However, the final phase of exterior brick repair at the Dunedin Hi-Rise and the final phase of modernizing the Dunedin family units are deferred until 2019.

2019 CFP: Front Hi-Rise (parking lot replacement), Front and Montreal hi-rises and Roosevelt "A" buildings (circuit breaker replacements in apartments), Exchange and Dunedin hi-rises (elevator modernization), Iowa Hi-Rise (parking lot repairs), Edgerton, Wabasha and Montreal hi-rises (trash compactor replacement), Roosevelt Homes (furnace replacement), Mt. Airy

Homes (parking lot repairs, retaining wall replacement, exterior modernization), Exchange Hi-Rise (roof replacement), Central Hi-Rise (parking lot repairs, roof replacement), Dunedin family (dwelling unit modernization), Dunedin Hi-Rise (exterior brick repair), scattered site homes (modernization on vacancy). Work items have been added to the 2019 CFP budget to match the PHA's 2018 Federal Home Loan Bank of Des Moines applications for circuit breaker replacements in apartments at the Montreal and Front hi-rises and Roosevelt "A" buildings as well as the elevator modernizations at the Exchange and Dunedin hi-rises. To fund these new work items the following projects were deferred to future years: conversion of the Maintenance Contracts office area to dwelling units at the Valley Hi-Rise and elevator modernization at the Cleveland Hi-Rise.

2020 CFP: McDonough Homes (parking lot repairs), Front Hi-Rise (boiler replacement), Hamline, Mt. Airy, Ravoux, Cleveland and Dunedin hi-rises (trash compactor replacement), Edgerton Hi-Rise and Roosevelt Homes (parking lot repairs), Mt. Airy Homes (retaining wall replacement, exterior modernization), Central Hi-Rise (plumbing replacement engineering, plumbing replacement), Neill and Cleveland hi-rises (elevator modernization) and scattered site homes (modernization on vacancy).

2021 CFP: McDonough Homes (parking lot repairs), Front Hi-Rise (plumbing replacement engineering), Wilson Hi-Rise (window replacement), Wilson, Iowa, Valley, and Neill hi-rises (trash compactor replacement), Roosevelt Homes (parking lot repairs, tot lot replacement), Valley Hi-Rise (window replacement, community room kitchen upgrade), Mt. Airy Homes (exterior modernization), Wabasha Hi-Rise (window replacement), Central Hi-Rise (plumbing replacement) and scattered site homes (modernization on vacancy).

2022 CFP: McDonough Homes (parking lot repairs), Front Hi-Rise (plumbing replacement), Wilson Hi-Rise (window replacement), Mt. Airy Hi-Rise (plumbing replacement engineering), Mt. Airy, Valley and Ravoux hi-rises (elevator modernization), Mt. Airy Homes (exterior modernization) and scattered site homes (modernization on vacancy).

The table below shows the CFP grant amounts, the dates when the PHA gained access to the funds (when HUD signed the ACC amendments) and the timelines for expenditure. The PHA routinely meets or exceeds all of HUD's goals for timely obligation of CFP grant funds (90% obligated within 24 months) and expenditure (grants fully expended within 48 months). The Actual Modernization Cost Certificate closing the 2014 CFP grant of $6,725,092 was submitted to HUD on February 21, 2018. The PHA met the 2014 CFP 90% obligation date of May 12, 2016 and spent the entire 2014 grant well ahead of the May 12, 2018 goal.

	2015 CFP Funds	**2016 CFP Funds**	**2017 CFP Funds**	**2018 CFP Funds**
Grant Amount	$6,786,832	$7,118,173	$7,159,806	$7,159,806 Anticipated
ACC Date	4/13/2015	4/13/2016	8/16/2017	Unknown
Percent Obligated	95.18% (3/9/18) Met 90% Goal by 4/12/17	94.69% (3/9/18) Goal: 90% by 4/12/18	73.08% (3/9/18) Goal: 90% by 8/15/2019	0% Goal: 90% by ______
Percent Expended	91.17% (3/9/18) Goal: 100% by 4/12/19	93.61% (3/9/18) Goal: 100% by 4/12/20	31.87% (3/9/18) Goal: 100% by 8/15/2021	0% Goal: 100% by ___

A new HUD notice (PIH 2018-03, issued February 28, 2018) permits PHAs to use a portion of their operating subsidy for capital improvements. As explained in the staff's report on the FY 2019 Operating Budget that is also on this meeting's agenda, staff is proposing to allocate $540,000 from the operating subsidy for capital improvements. The funds would be used to upgrade the electrical system at Cleveland Hi-Rise and purchase or replace capital equipment (Maintenance Department trucks, etc.). If approved by the Board, this would be an amendment to the Agency Plan.

DAL/va

Attachments: Resolution No. 18-3/28-03
Summary Spreadsheets of CFP Grant Budgets

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL
RESOLUTION NO. 18-3/28-03

CAPITAL FUND PROGRAM (CFP) BUDGETS: INITIAL 2018 CFP BUDGET; INITIAL 2018 REPLACEMENT HOUSING FACTOR BUDGET; REVISIONS FOR 2015, 2016 & 2017 CFP BUDGETS; REVISED FIVE YEAR ACTION PLAN FOR 2018 - 2022.

WHEREAS, the U.S. Department of Housing and Urban Development (HUD) has awarded the Public Housing Agency of the City of Saint Paul (PHA) the following grants:

1. FFY 2017 Capital Fund Program Grant No. MN46P00150117
2. FFY 2017 Replacement Housing Factor Grant No. MN46R00150117
3. FFY 2016 Capital Fund Program Grant No. MN46P00150116, and
4. FFY 2015 Capital Grant Program Grant No. MN46P00150115; and

WHEREAS, the U.S. Department of Housing and Urban Development (HUD) plans to award the Public Housing Agency of the City of Saint Paul (PHA) the following grants:

1. FFY2018 Capital Fund Program Grant No. MN46P00150118
2. FFY2018 Replacement Housing Factor Grant No. MN46R00150118; and

WHEREAS, HUD requires the PHA to establish a budget for the expenditure of funds under each grant provided under the Capital Fund Program, Replacement Housing Fund Program; and

WHEREAS, HUD requires the PHA to establish a Five Year Action Plan for the expenditure of Capital Fund Program funds; and

WHEREAS, staff drafted the attached Capital Fund Program, Replacement Housing Fund Program, and Revised Capital Fund Program Five Year Action Plan:

1. Initial Budget for the FFY 2018 Capital Grant Program Grant No. MN46P00150118
2. Initial Budget for the FFY 2018 Replacement Housing Factor No. MN46R00150118
3. March 9, 2018 Budget Revision for the FFY 2017 Capital Grant Program Grant No. MN46P00150117
4. March 9, 2018 Budget Revision for the FFY 2016 Capital Grant Program Grant No. MN46P00150116
5. March 9, 2018 Budget Revision for the FFY 2015 Capital Grant Program Grant No. MN46P00150115
6. Revised Capital Fund Program Five Year Action Plan FFY 2018 through FFY 2022; and

WHEREAS, HUD Notice PIH 2018-03 permits PHAs to use a portion of their operating subsidy for capital improvements, which can supplement the funding available through the Capital Fund Program and help the Agency accomplish needed capital improvements; and

WHEREAS, staff is recommending that a portion of the PHA's operating subsidy be used for capital improvements as described in the accompanying staff reports; and

WHEREAS, the Board of Commissioners finds that these CFP, RHF grant budgets and Revised Five Year Action Plan, and the use of limited amounts of operating subsidy for capital improvements, are necessary and appropriate to comply with HUD requirements and to best serve the needs of PHA residents;

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the Public Housing Agency of the City of Saint Paul as follows:

1. The five budgets listed above and the Revised CFP Five Year Action Plan listed above are approved as presented;
2. Staff is authorized to execute and submit all required documents relating to these grants and budget revisions;
3. The Agency Plan is amended accordingly; and
4. To supplement the CFP grant, the Agency Plan is further amended to include the use of limited amounts of operating subsidy for capital improvements; and
5. Pursuant to HUD notice dated January 11, 1990, the PHA certifies that no employee is serving in a variety of positions that will exceed 100 percent of his or her work time.

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS **FROM** **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Housing Management Software System
Contract No. 18-118 **DATE** March 28, 2018

Staff requests Board approval to award a four-year contract to Tenmast Software, an MRI Software Company based in Lexington, Kentucky, in the amount of $678,655, for a new computer software system for managing the Agency's housing programs, to replace the PHA's current business systems software. The recommended contract includes the following components that Tenmast would provide:

1. Installation and implementation of Tenmast's housing management software;
2. Conversion of at least 5 years of historical data from our current vendor, Emphasys Software;
3. Staff training on the new software;
4. Hosting internet "cloud" service that stores the software and data on remote internet computer servers, which will allow staff to access the system over the internet ("Software as a Service") and reduce the need for onsite servers;
5. Ongoing maintenance of the software including updates; and
6. RAD conversion services.

As explained below, Tenmast received the highest rating from each of the evaluation committee members who reviewed the proposals; and Tenmast's proposed cost was also lower than the other two proposals. The expected cost in the first year of the contract would be $369,108, which would be more than half of the total contract cost. Staff has recommended adequate funding for this expense in the proposed FY 2019 LIPH Budget and the CFP Budget which are also on the agenda for this meeting. After the first-year costs for converting data, installing and configuring the software and training staff, Tenmast's annual maintenance charge would average

$72,600 per year for the following three years, which is much lower than the annual charges quoted in the other two proposals and less than the PHA's current annual maintenance fee to Emphasys ($114,500 in FY 2018).

As staff explained in a written report to the Board for the January 24, 2017 business meeting ("Software Due Diligence", copy attached) and discussed then, the Agency has been using systems created and supported by Emphasys Software since 1994. Staff explained that Emphasys was not demonstrating they could meet the PHA's current needs for sophisticated specialty software for managing the Public Housing and Section 8 programs. After informally investigating whether other available software tools could streamline the administration of our programs, staff concluded that important features not currently used by the PHA are in fact available in other software systems.

Consequently, the PHA issued a Request for Proposals (RFP) on February 1, 2018 for a new housing management software system. The RFP was advertised and sent to six housing software vendors. Three vendors submitted proposals: Tenmast Software, Yardi Systems and Emphasys Software. A seven-member evaluation committee consisting of representatives from the Resident Services, Executive, Section 8, Information Technology/Finance and Maintenance departments independently reviewed and scored the proposals. The evaluation criteria stated in the RFP were responsiveness (to the request for proposals) and suitability, cost, product support and maintenance, implementation plan and training, Section 3 status or efforts, and MBE/WBE status or efforts. The evaluators' scores were tallied and Tenmast received the highest average score. A summary of the evaluators' ratings is attached.

Tenmast Software has been providing software to public housing agencies since 1984. Staff identified the following features as some of the particular strengths in Tenmast's proposal:

1. Tenmast has extensive experience and proven methods for converting a PHA's data and processing from another company's software to Tenmast's. They have reportedly converted more PHAs from Emphasys to Tenmast's system than any other competitive software over the past 10 years.
2. Tenmast provides training through its online "Tenmast University" that allows new staff to get up to speed and existing staff to take refresher training and learn about software upgrades at any time, as well as offering training on HUD issues and other affordable housing topics.
3. Tenmast provides extensive tools to simplify using HUD's PIC system ("**P**ublic & Indian Housing **I**nformation **C**enter), which collects, stores and reports extensive data on PHAs and their tenants. HUD requires PHAs to submit data reports to PIC on every public housing resident and Section 8 participant at the time of admission, and annually, and to resubmit for every change of address, income, household composition, etc. Tenmast's system greatly simplifies that process.

The following are some of the comments that line staff and supervisors submitted, supporting this recommendation to convert from Emphasys software to Tenmast:

- We need a better product. Emphasys' products have been lacking in development, despite our active partnership. For example, both Public Housing and Section 8/HCV staff do not believe that the current waiting list management system is meeting basic needs for client updates, staff purges, and client preference point adjustments, among other things. Though we put in substantial time and effort with Emphasys, their lack of actions and responses is a reflection that they are disinclined to ensure our interest and satisfaction. Tenmast has promised a more tailored approach, and has already reflected a waitlist product that can meet many of our needs.

- Software updates. Staff have increasingly encountered problems with what should be routine software updates. For example, when HUD issues new HCV administrative fees amounts, those numbers need to be updated promptly in the software. The process has been too slow and problematic with Emphasys. In our interactions, Emphasys staff have demonstrated poor customer service, a lack of investment in our satisfaction, and a lack of knowledge around general industry concepts and how HUD operates. Our staff have invested substantial time in their own workarounds to account for these deficiencies. Staff believe a conversion to Tenmast would yield better customer service, less staff-time on workarounds, and a more knowledgeable software partner.

- Improved Efficiency and Customer Service. With anticipated federal budget cuts to housing authorities, we need to look at ways to become more efficient; do more with less. A more sophisticated software with portals and modules will allow staff to be more efficient. For instance, residents will be able to report or request changes that affect their tenancy (e.g. income changes, reasonable accommodations, etc.) beyond the 8-4:30 office hours. They can do this quickly and easily by logging into a tenant portal. In turn, staff can more quickly process these changes while eliminating timely steps.

- Paperless Initiative. Staff are interested in a document management solution, where we can move toward paperless files with complete integration between software and expected/required file documentation, without generating more paper. Our current vendor does not have this capability, and Tenmast promises substantial improvement in this area.

- Mobile Inspections. Section 8/HCV staff do not believe that current software [Emphasys] solutions are meeting all expectations for handheld and paperless inspections. There has been a lack of "bug" fixes and improvements, including five outstanding and dormant requests from staff for service, which reflect a lack of commitment to a long-term handheld solution. Tenmast promises more compatibility with both iOS (Apple products) and Android platforms, which will deliver more efficiency, along with a more polished, comprehensive paperless product that meets basic needs.

Staff believes that Tenmast's product has the most useful features to streamline the administration of public housing and the Housing Choice Voucher (HCV)/Section 8 programs. Once fully implemented, Tenmast's system would enable the PHA's Low Income Public Housing (LIPH) and HCV/Section 8 staff to operate in a much more efficient manner.

The dollar amount of this contract will be included in the total of non-construction contracting activity that the PHA reports to HUD on the annual Section 3 report. However, this contract is not subject to the PHA's Section 3 Policy requirement for contributing to the Section 3 Training Fund, because it is a contract for specialized professional services.

Sufficient funds have been recommended in the proposed LIPH Budget and CFP Budget for this contract.

KNG/MLM/FAH

Attachment: Housing Management Software System RFP Ratings
Informational Board Report dated January 24, 2017, "Software Due Diligence"

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS | **FROM** **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Professional Auditing Services
Contract No. 18-112

DATE March 28, 2018

Staff recommends awarding a new contract for annual audit services to the firm of Baker Tilly Virchow Krause, LLP, for a fee not to exceed $70,535. The contract includes all services related to the Agency's annual financial and compliance audits. The contract is for one year with options to renew for each of two additional years. Baker Tilly Virchow & Krause LLP held the previous contract for professional audit services (spanning three years). The firm's fee for the 2017 audit was $68,480.

The PHA advertised the Request for Proposals (RFP) and also mailed copies to fourteen firms. Seven proposals were received, along with two regret letters and one regret phone call. A committee of four staff, including the Finance Director/Controller, two Assistant Controllers, and the Maintenance Senior Manager, evaluated the proposals independently. The evaluation criteria stated in the RFP were MBE/WBE status, discrimination/harassment statements and EEO activities, technical qualifications (expertise/experience and staffing quality), audit approach (staffing plan, sampling and analytical procedures), and price. The evaluators' scores were tallied and Baker Tilly Virchow Krause, LLP received the highest average score. A summary of the evaluators' ratings is attached.

The dollar amount of this contract will be included in the total of non-construction contracting activity that the PHA reports to HUD on the annual Section 3 report. However, this contract is not subject to the PHA's Section 3 Policy requirement for contributing to the Section 3 Training Fund, because it is a contract for specialized professional services.

Adequate funds are budgeted in each related program for the cost of the audit.

RPM

Attachment: Audit Services Proposal Ratings

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS **FROM** **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Workers' Compensation Policy
League of Minnesota Cities Insurance Trust

DATE March 28, 2018

Staff recommends Board approval to renew the Agency's Workers' Compensation insurance coverage with the League of Minnesota Cities (LMC) Insurance Trust for the period of April 1, 2018 through March 31, 2019. The cost of this policy will be approximately $255,934, which is a decrease of $30,158 (12%) from the current year's projected cost. The recommended policy continues the current $10,000 deductible per occurrence, which applies only to medical costs. With no deductible, the cost for next year's policy would be $292,038 ($36,104 higher).

The PHA has contracted with the LMC Insurance Trust for Workers' Compensation insurance coverage since 1991. This policy includes ancillary Volunteer Accident Coverage at no additional cost. The policy will also include Elected or Appointed Officials (Board members), all of whom are considered as "employees" for the purposes of this coverage, at an estimated premium cost of $76 for the entire agreement period of April 1, 2018 through March 31, 2019.

The Workers' Compensation insurance premium is determined by the following three factors:

1. The first factor is the PHA's <u>annual payroll</u> for each of the four employee groups (CHSP, Project Leaders, Maintenance and Clerical). The PHA's total annual payroll increased by about 3.0% which corresponds to the salary increases for all employees approved by the Board.
2. The second factor is the <u>premium rate</u> per $100 of payroll for each of the four employee groups and the addition of the Elected or Appointed Officials group. The premium rates per $100 of payroll, which are set by the LMC Insurance Trust, remained nearly the same for this renewal for all four employee groups and the Elected Officials' group (CHSP 3.43; Project Leaders 0.55; Maintenance 5.23; Clerical 0.72; and Elected Officials 0.42).
3. The third factor is the PHA's <u>experience modification factor</u>, which is calculated by the Minnesota Workers' Compensation Insurance Association, Inc., based on the Agency's

claims loss experience. The experience modification factor decreased from 1.16 to 0.98 this year, which is the primary reason the new premium is lower.

The experience modification factor is specific to the Agency's claims loss experience during the past three years. Each year the oldest year's dollar amount for claims loss drops off and the newest year's dollar amount for claims loss is factored into the calculation. The dollar amounts assigned to claims incurred in any given year vary over time because the cost of each claim may increase or decrease based on additional expenses paid on a claim and/or adjustments made by the insurance carrier. Last year's experience modification factor of 1.16 covered claims loss experience for the period from April 1, 2013 – March 31, 2016. This year's experience modification factor of 0.98 covered claims loss experience for the period from April 1, 2014 – March 31, 2017.

A factor of 0.98 means the Agency's employee injury rate is 0.02% below the average employee injury rate of 1.0 for all agencies covered by the LMC Insurance Trust. The reason this number decreased this year is that the "primary loss number" for the rolling three-year period decreased from $142,813 to $111,001 ($31,812 lower). The primary loss number for each claim is the actual cost of the claim plus a reserve, up to a maximum of $16,500 per claim. All additional costs over $16,500 for a claim are charged to a risk pool.

The experience modification factor varies from year to year, as shown on the attached chart. The Agency's experience modification rating has been as high as 1.27 in FY 1995 and as low as 0.56 in FY 2001. Staff and WCMC (Worker Compensation Modification Controllers, the PHA's Worker's Compensation consultant) believe that the decrease to the experience modification factor over the past year is a result of a small number of employee claims with very high expenses reaching the maximum for claims plus reserves coming off the modification factor calculation with the latest three year rating period. Staff will continue to monitor claims costs and may recommend changing the deductible amount in the future if the premium increases.

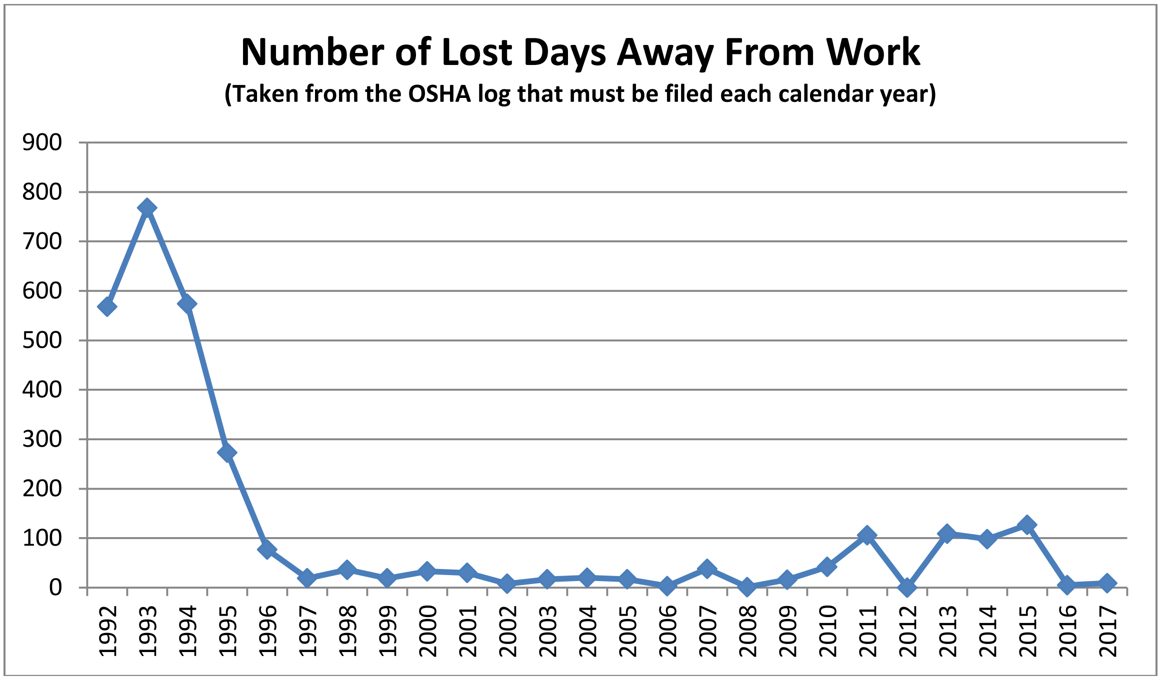
As shown on the charts below, the Agency's Workers' Compensation program has succeeded in reducing injury-related lost work time and costs from higher levels in the early 1990s, resulting in lower insurance costs for the past 20+ years. The PHA's ongoing management of its Workers' Compensation program costs has several components, including the following:

- Many years ago the PHA chose a premium option based on multiple employee categories instead of a single employee category called "housing authority workers". Staff continues to request and analyze quotes using both the "one category" option and the "separate categories" option. This year, by choosing the "separate employee" categories option, our premium is approximately $74,246 less than if we chose the "one category" option at the $10,000 deductible rate.
- Staff continues to work closely with employees, doctors, and the insurance carrier to minimize claim losses and injuries.
- The PHA has developed and implemented an aggressive return-to-work program including providing light duty work when necessary to comply with an employee's medical restrictions.
- Our Workers' Compensation management consultant (WCMC) continues to monitor our program closely and work with our staff, at an annual cost of approximately $23,000.

The PHA's Section 3 Policy states that insurance contracts including Workers' Compensation are not subject to the PHA's requirements of submitting a Section 3 Action Plan or contributing to the Section 3 Training Fund. Sufficient funds to cover this premium are included in the FY 2019 Operating Budget recommended for Board approval at this meeting.

ANH/AAG/MGB

Attachments


Number of Lost Days Away From Work
(Taken from the OSHA log that must be filed each calendar year)
900
800
700
600
500
400
300
200
100
0
1992
1993
1994
1995
1996
1997
1998
1999
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2013
2014
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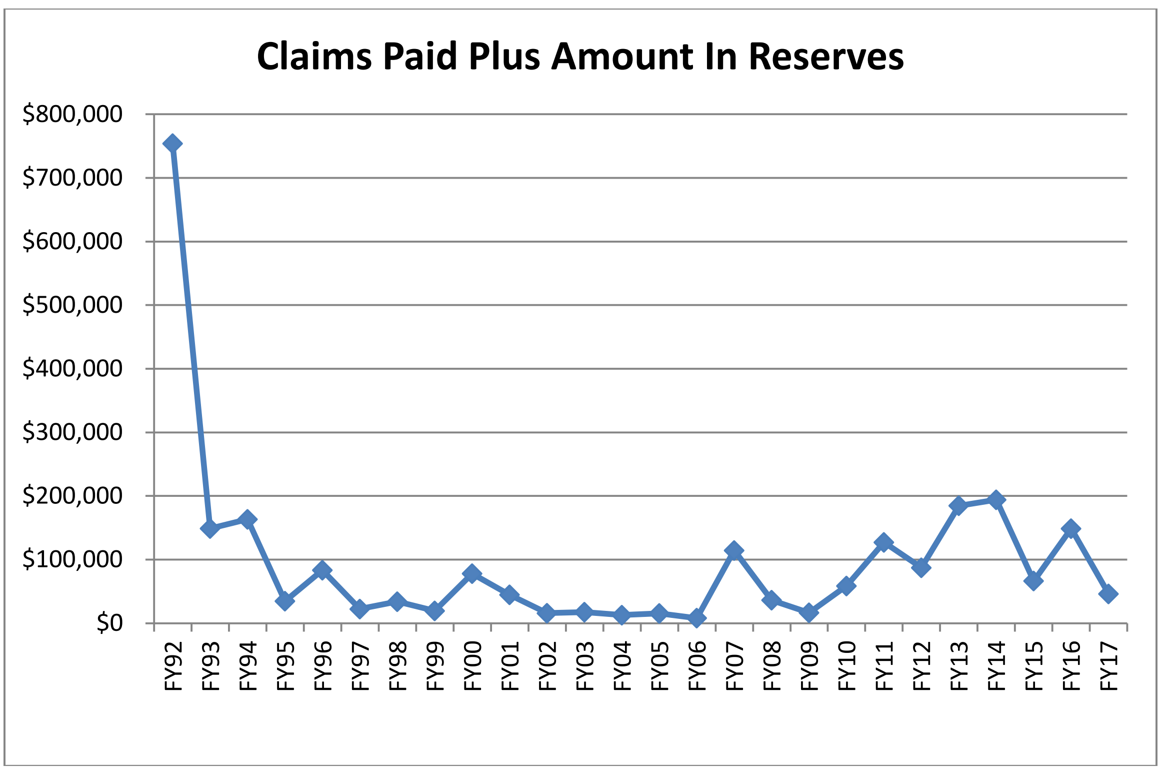
2017


Claims Paid Plus Amount In Reserves
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
FY92
FY93
FY94
FY95
FY96
FY97
FY98
FY99
FY00
FY01
FY02
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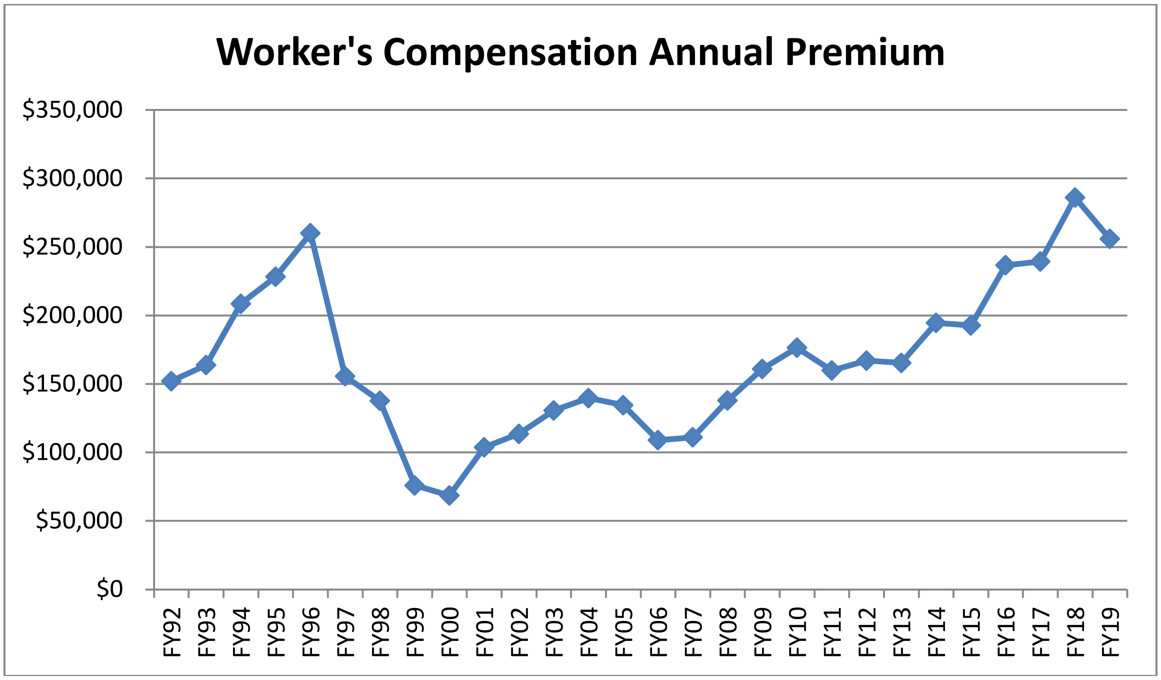
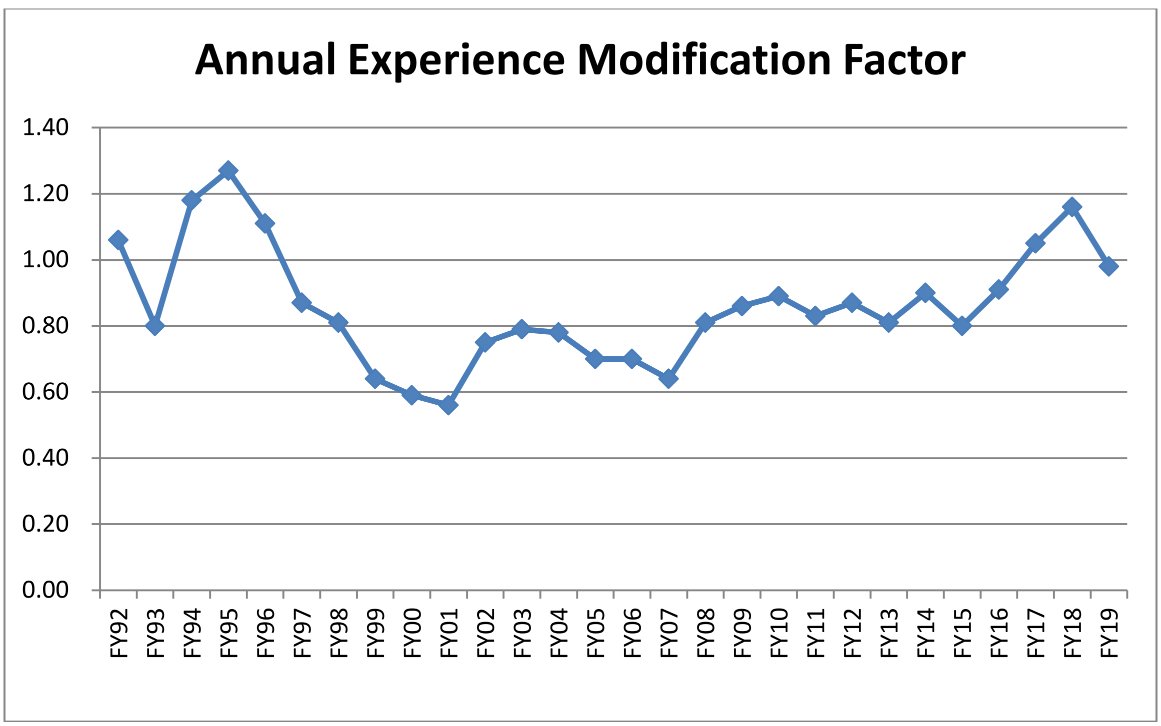
FY14
FY15
FY16
FY17


Worker's Compensation Annual Premium
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19


Annual Experience Modification Factor
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19