PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS		**FROM**	**JON M. GUTZMANN** **EXECUTIVE DIRECTOR**
REGARDING	Exterior Wall Repairs at Montreal Hi-Rise MN 1-18; AMP 8 Contract No. 13-047	**DATE**	March 27, 2013

Staff requests Board approval to award a contract for exterior wall repairs at Montreal Hi-Rise (MN 1-18, AMP 8) to the lowest responsible bidder, Ram Construction Services, LLC, of Little Canada, Minnesota for the unit bid prices shown on the attached February 14, 2013 bid tabulation. Multipliers in the bid documents were used to calculate the total contract amount of $339,650. Using that method the second low bid was $363,387.

A bid in the amount of $256,559, submitted by Waumandee Creek Sealants, LLC was deemed non-responsive as the bid bond accompanying it was for less than the amount required by the contract.

This contract will correct exterior concrete and brick defects on the north elevation wall at Montreal Hi-Rise. The corrective work includes repairing spalls and cracks in concrete walls, applying a protective coating over concrete walls, replacing and tuck-pointing damaged bricks and replacing caulk.

Ram Construction has satisfactorily completed similar work on previous PHA contracts. Copies of the Employer Information Report for Ram Construction and the second lowest responsible bidder, Mid Continental Restoration Company, are attached.

Ram Construction plans to subcontract approximately 8% of the total contract amount to a woman-owned business enterprise (WBE). Because this is a unit-price contract, it is not subject to the Section 3 Policy's requirement for contributing to the PHA's Section 3 Training Fund.

The low bid is under the consultant's estimate. There are sufficient 2012 Capital Fund Program funds to accomplish this work.

TDB/mlp

Attachments

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

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

REGARDING High-Efficiency Toilet Installations
At Mt. Airy Hi-Rise
AMP 5; Contract No. 13-067

DATE March 27, 2013

Staff requests Board approval to award a contract to install 157 new high-efficiency toilets at Mt. Airy Hi-Rise (AMP 5) to the lowest responsible bidder, Erickson PHC, of Blaine, Minnesota for the base bid amount of $75,043 and the unit price shown on the March 7, 2013 bid tabulation.

This contract will remove all toilets in the apartments and public restrooms and replace them with new high-efficiency (1.28 gpf) toilets. Based on EPA estimates the new fixtures are projected to lower the water consumption at this building by up to 20%, saving 107,000 gallons annually, a cost savings of about $835 at current rates for water and sewer service. The savings to the PHA would decline to zero over the next three years, due to HUD's "rolling base" utility cost factor in the operating subsidy formula. (The reduction in water consumption and cost was more dramatic for toilet replacements at Hamline Hi-Rise, a contract approved by the Board last month, because the existing fixtures there were older and used more water [5 gpf].) Replacing the toilets also saves Maintenance staff time that is now spent replacing parts in old fixtures, both during preventive maintenance inspections and on work order calls when the parts fail.

Erickson PHC has previously performed satisfactory work for the PHA. Copies of the Employer Information Reports for Erickson PHC and the second low bidder, Jim Murr Plumbing, are attached. Erickson PHC is a Section 3 women-owned business enterprise (WBE.) Erickson's bid is equal to staff's estimate for the work, and there are sufficient funds available in the Capital Fund Program budget for this contract.

TDA

Attachments: Bid Tabulation, EEO-1 Forms

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

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

REGARDING Revise Admissions & Occupancy Policies For Public Housing; "Temporary Compliance Assistance"; Income Verifications

DATE March 27, 2013

Staff recommends Board approval of Resolution No. 13-3/27-2 to reverse one of the changes approved last month in the Admission and Occupancy (A&O) Policies for the Public Housing Program. Based on new HUD guidance, staff is recommending that the Agency rescind the provision that would have allowed future rents to be determined solely on the past income information shown in HUD's online "Enterprise Income Verification" (EIV) system. The remainder of the changes would still take effect April 1, 2013. (Because the original Section 8 policy on using EIV was worded differently, no change was needed there to follow the new notice, so no change is needed now.)

Staff's recommendations to revise the policies at the February 27 meeting were based on a January 22, 2013 HUD notice (PIH 2013-03) that offered housing agencies a series of temporary options to simplify some administrative requirements for public housing and Section 8. Staff recommended that the PHA adopt all of the options, and the Board approved. However on March 1, 2013 (after the Board meeting) HUD issued guidance (as Frequently Asked Questions, or FAQs), stating that two of the changes offered by the notice could not both be approved by a PHA because they were inconsistent.

> FAQ #4: **Question**: The "actual past income" and the "streamlining annual reexaminations for elderly and disabled families" provisions seem to conflict with each other, since they use different definitions of annual income when determining income for

> participants. Specifically, the “actual past income” provision permits a PHA to use past income while the “streamlining annual reexaminations for elderly and disabled families” provision permits PHAs to use a streamlined process to project income for elderly and disabled families on a fixed income. May a PHA use both provisions, or are they mutually exclusive?
>
> **Answer**: A PHA may not adopt both provisions. Implementing both provisions would allow PHAs to treat residents in similar circumstances differently by permitting PHAs to use actual past income for some and anticipated income for others. Therefore, PHAs must choose to implement either the provision permitting PHAs to determine annual income using past income or the provision permitting streamlined reexaminations for senior families and disabled families on fixed incomes. (underlining added)

Staff believes the provision on “streamlining annual reexaminations for elderly and disabled families” has more potential to simplify annual eligibility recertifications and rent determinations, so staff is recommending retaining that provision and rescinding the provision on using “actual past income” to determine future rents. Since the income information in EIV is at least four months’ behind and often six or more months delayed, staff usually has to review more recent earnings information provided by the residents. Since EIV reports past earnings by all adult household members, it is still useful for identifying sources of earned income that the family had not reported to the PHA.

Staff sent notices to all households in public housing with the rent statements for March, generally describing the policy changes and utility allowance increase for electricity. No comments were received as of the writing of this report.

FAH

Attachment: Resolution No. 13-3/27-1
Public Housing Admission & Occupancy Policy Revisions: Part 6 Excerpt
Section 8 Admission & Occupancy Policy: Part 6 Excerpt (no change)

SAINT PAUL PUBLIC HOUSING AGENCY

RESOLUTION NO. 13-3/27-2

RESCIND RECENT AMENDMENT TO THE ADMISSION AND OCCUPANCY POLICIES FOR THE PUBLIC HOUSING PROGRAM; "TEMPORARY COMPLIANCE ASSISTANCE"

WHEREAS, the Public Housing Agency of the City of Saint Paul (PHA) has in effect Admission and Occupancy Policies for the Public Housing Program; and

WHEREAS, on February 27, 2013 Board of Commissioners approved revisions to the Admissions and Occupancy Policies, based on a Notice (PIH 2013-03) issued by the U.S. Department of Housing and Urban Development (HUD), which notice allows housing agencies to temporarily relax some of the requirements for verifying income and assets procedures in the public housing and Section 8 programs; and

WHEREAS, HUD subsequently issued guidance stating that the Notice's provisions on "actual past income" and "streamlining annual reexaminations for elderly and disabled families" could not both be approved by a housing agency, because they conflict with each other; and

WHEREAS, staff has recommended rescinding the provision on "actual past income" and retaining the provision on "streamlining annual reexaminations for elderly and disabled families" because the latter provision has more potential to simplify annual eligibility recertifications and rent determinations; and

WHEREAS, the Board finds that this recommended policy revision is necessary and appropriate to the administration of the Public Housing Program;

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the PHA as follows:

1. The Admission and Occupancy Policies for the Public Housing Program are revised as shown on the attachments, to conform to current HUD notices, regulations and guidance;

2. The new procedures will take effect for annual eligibility recertifications and rent determinations that are effective on or after April 1, 2013.

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Audit Services
Contract No. 12044, Amendment No. 2

DATE March 27, 2013

Staff recommends approval of Amendment No. 2 to Contract No. 12044 with McGladrey (formerly "McGladrey & Pullen") to add $67,250 for audit services. The contract was awarded February 22, 2012 for one year, with options to renew for up to two additional years at rates to be negotiated. (Amendment No. 1 was for the addition of a forensic audit of the Scattered Site Resident Council records that will be completed by March 31, 2013. Staff will report to the Board on it in April.) Amendment No. 2 is for the second year of general audit services (the first renewal year). The proposed contract amount is 4.2% higher than last year's amount of $64,500.

Audit costs and services have fluctuated as government auditing methods and standards have changed the requirements for PHA audits. The recent auditing standard changes are a result of the governing bodies' clarifications to the standards and the 2011 revisions to Government Auditing Standards that became applicable in December 2012. There were also standard changes relating to supplemental information included in financial reports. The auditors also annually review the PHA's Consolidated Annual Financial Report for submission to the Government Finance Officers Association for their Certificate of Achievement for Excellence in Financial Reporting. The PHA has received that recognition for seven consecutive years, and staff expects to receive the certificate for last year's financial reports soon.

The history of this contract for auditing services and amendments is shown below.

Amendment Number	Amount of Add or (Deduct)	New Total	Audit Services for FY__	New Completion Date
Contract 12044	$64,500	$64,500	FY12	08/08/07
Amendment # 1	$10,000	$74,500	n/a	03/31/13
Proposed Amend. # 2	$67,250	$141,750	FY13	08/28/13

There are sufficient funds in the operating budgets for this contract.

RPM

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Temporary Easement Requested by
Ramsey County
3XX Maryland Avenue East

DATE March 27, 2013

Staff requests Board approval to grant a temporary construction easement to Ramsey County for a ten foot wide strip of land in front of the PHA's scattered site home at 3XX Maryland Avenue East. The County requested this easement in connection with its street reconstruction project at Maryland Avenue and Arkwright Street. The project will widen a section of Maryland Avenue and add a turn lane at Arkwright. As explained in the attached letter from Ramsey County, the County will pay the PHA $500 for the easement. Both the PHA's legal counsel and HUD's legal counsel have approved the PHA's granting the easement (HUD letter attached). The County has also notified the PHA that it will seek to acquire the easement by eminent domain if the PHA does not voluntarily grant the easement.

The temporary easement will last for an initial period of 18 months with options for up to two 6-month extensions, for which the County would provide more compensation to the PHA. The work is expected to commence in the spring of 2013.

The attached maps show the location of the requested easements.

JCW/FAH

Attachments: Legal Description of Temporary Construction Easement
Maps (3)
December 21, 2012 Letter from Ramsey County to PHA
March 11, 2013 Letter from HUD Associate Regional Counsel to PHA

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Low Rent Public Housing and Section 8 Operating Budgets; Fiscal Year Ending March 31, 2014

DATE March 27, 2013

Staff recommends the following Board actions:

1. Adopt Resolution 13-3/27-3 approving the Low Rent Public Housing Operating Budget, comprised of nine Asset Management Projects (AMPs) and the Central Office Cost Center (COCC), totaling $30,840,020, which includes $3,773,970 in fees related to Asset Management (Property Management, Bookkeeping, and Asset Management fees, as provided by HUD) paid to the COCC by the AMPs, for the fiscal year ending March 31, 2014 (FY 2014), including the staffing changes described in this report.

2. Approve the Section 8 Operating Budget totaling $39,042,918 for FY 2014 (a resolution is not required).

OVERVIEW: PROPOSED LOW RENT PUBLIC HOUSING OPERATING BUDGET

The proposed Public Housing Operating Budget (#1 above) is based on an Operating Fund subsidy from HUD of $11,605,920, ($228.54 per eligible unit month) after an estimated prorated reduction of 17.9%. (That is, we expect to receive only 82.1% of the full funding amount established by the Operating Fund formula.) That subsidy amount would be $2,016,706 less than the PHA budgeted in FY 2013. (The PHA actually received an additional $245,028 in FY 2013 due to an increase in the final proration from 93.29% to 94.97%.) The sharp reduction in FY 2014 is due to last year's reduced appropriation for the Operating Fund that was carried into this year by the Continuing Resolution, and the effects of the federal budget "sequestration". When this report was written Congress had not passed a HUD appropriation bill for the current federal fiscal year.

The projected 82.1% proration is based on estimates from HUD and the housing industry groups and the potential funding scenarios currently being considered in Congress.

The proposed Operating Budget for FY 2014 is projected to draw on operating reserves in the amount of $307,157. Staff believes this budget is prudent and will maintain the PHA's high score on the financial condition component of PHAS (HUD's Public Housing Assessment System). Staff also believes it will be possible to keep the year-end operating reserves held by each AMP at or below the four month level that HUD used last year 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. For FY 2014, the Asset Management-related fees (both the expense to the AMPs and the revenue to the COCC) in the amount of $3,774,150 are included on HUD's Operating Budget form (HUD-52564, Attachment 1 to this report). Another $379,380 is shown as revenue received by the COCC from the Capital Fund to compensate for administrative salaries, as explained below. There is no net effect on the bottom line, but the fees are an important part of the total budget presentation, so they are included in these budget proposals. A total of $4,153,530 is proposed to be paid to the COCC by the AMPs (for Asset Management fees) and by the Capital Fund (for administrative salaries).

The proposed payment to the COCC from the Capital Fund Program (CFP) for administrative expenses is permitted by HUD regulations, up to a maximum of 10% of each CFP grant. In this proposed budget the amount paid to the COCC for CFP administrative expenses represents about

6.6% of last year's CFP grant. The PHA implements this on a cost basis, so the fees collected by the COCC are fully substantiated by corresponding salary and benefit expenses incurred by the COCC. Staff believes this method is the most responsible way to recover costs for administrative services rendered while still maintaining the integrity of the Capital Fund's purpose.

In addition to the 10% allowed for CFP administrative costs as described above, Capital Fund regulations also allow up to 20% of each grant to be used for operations. This budget proposes to pay $980,384 from CFP to the AMPs for operations, which is approximately 17% of last year's CFP grant amount. Staff uses a "modified cost basis" for this payment, meaning that it is based on actual expenses but it may be capped to keep each AMP's reserve level within an acceptable range. The transfers will be made at the end of FY 2014, when each AMP's revenue and expenses for the fiscal year are known. As with the administrative fees, staff believes this method to be the most responsible way to cover operating costs while still maintaining the integrity of the Capital Fund.

LOW RENT PUBLIC HOUSING OPERATING RESERVES

Staff expects there will be a substantial contribution to the Low Rent Public Housing reserve at the end of Fiscal Year 2013. The Fiscal Year 2013 budget projected a contribution of $12,308. Final accounting will not be completed until sometime in April 2013, but projections are indicating an actual contribution of approximately $2,300,000.

The majority of this expected contribution can be attributed to the variance between budgeted and actual utility expenses. When the Harvard cost study method of calculating operating subsidy was implemented by HUD in 2004, the PHA began using HUD's subsidy calculations for utility expenses in the following year's fiscal year budget. The utility expense calculation, as used in the subsidy calculation, is based on a rolling 36-month average from July 1 to June 30 (July 1, 2009 through June 30, 2012 was used for CY 2013 funding). Staff has used HUD's numbers to maintain consistency and standardization for these difficult calculations, and for the past several years this approach has been relatively successful. In FY 2013 however, the PHA encountered an anomaly. Actual utility expenses have been significantly below HUD's projected amounts. This is a result of utility rate increases being lower than HUD's projected increase, as well as a mild winter last year (2011/2012) and energy-saving improvements made with the American Recovery and Reinvestment Act grants. (Although the utility cost savings from the energy improvements will continue, HUD will factor the lower costs into the three year rolling base, so the financial benefit to the PHA will diminish over time.)

In addition to budget-to-actual utilities cost variances, there is a substantial projected variance in maintenance contract expenditures. Maintenance contracts include items like trash removal, pest control, elevator maintenance, HVAC, and mechanical systems maintenance. These items are generally budgeted based on prior year's costs and adjusted for expected increases due to the current age of equipment, maintenance history, and expected maintenance needs for the systems. Service contracts such as trash removal and pest control are budgeted based on past history. Some expected increases in these expenses have not been realized this fiscal year, resulting in a large positive budget-to-actual variance.

The Fiscal Year 2014 budget has taken these variances into consideration and adjusted the budget line items accordingly.

Staff expects to prepare a supplemental budget for consideration at the April Board meeting to spend a portion of the projected contribution to reserves. Most fiscal-year-end accounting procedures will be completed by that time and a more accurate projection will be available.

PUBLIC HOUSING PROGRAM – PROPOSED REVENUE:

The FY 2013 budget approved by the Board last year (February 22, 2012) anticipated total Low Rent Public Housing revenues of $32,269,663. The proposed FY 2014 budget projects revenues at $30,532,863, a decrease of $1,736,800 (5.4%).

1. HUD Subsidy is projected to decrease by $2,016,706, from $13,622,626 to $11,605,920 (17.4%) as explained above.

2. Dwelling rental income for FY 2014 is projected to increase from $12,429,388 to $12,686,679, or $257,291 (2.0%) above the amount used in the FY 2013 budget. This increase is based on actual tenant revenue as reported to HUD on the Financial Data Schedule.

3. Interest on General Fund Investments is projected to decrease by $40,000 due to stagnant rates on government securities.

4. Other Income is primarily comprised of Asset Management Fees as well as the Capital Fund transfer to operations. These items inflate the revenue projection, but are offset by matching expenses. Revenue from new and existing cellphone antenna site rental, laundry revenue, and excess utility surcharges are projected to remain stable.

PUBLIC HOUSING PROGRAM – PROPOSED EXPENDITURES:

The proposed FY 2014 operating budget shows total expenditures of $30,840,020 which is a decrease of $1,417,335 (4.4%) from the FY 2013 approved budget of $32,257,355. This decrease is due primarily to cost-cutting in anticipation of the subsidy reduction described above. The proposed increases/decreases are highlighted below:

1. Administrative costs are shown as decreasing by $21,945 (-0.2%). The largest decrease is in Administrative Salaries with a reduction of $53,515 (-1.0%). This includes projected salary increases for all employees, and is partially off-set by elimination of vacant staff positions, as described in the last section of this report "Proposed Staffing Levels." Legal Expense is budgeted to increase by $13,990 (4.2%) due to projected salary increases and full staffing for legal counsel. Staff training is proposed to decrease by $2,000 (-4.0%) due mainly to reductions in agency-wide training opportunities provided by Human Resources. Audit fees are proposed to increase by $3,530 (8.4%) due to the annual increase in the contract cost. The proposed budget reflects the Board-approved revision to the organization chart adding a Resident Initiatives Director position (February 27, 2013). As stated in that report the revision is expected to be generally budget neutral.

2. Tenant services costs are proposed to decrease by $61,320 (-6.2%). Salary costs are projected to decrease by $38,610 (-6.3%), due primarily to the elimination of a vacant Human Service Coordinator position. Contract costs are proposed to decrease by $7,130 (-3.0%) and Other Services are proposed to decrease by $15,580 (-10.8%). Other Services includes Resident Participation funding, which is part of the subsidy received by the PHA from HUD, and provided by the PHA to Resident Councils. As has been done in previous years, Resident Participation amounts paid to the Councils are pro-rated at the same rate as the subsidy received from HUD. The pro-ration factor used by the PHA is approximately 11% lower than FY 2013, which accounts for the reduction in expenses on that line item. In the event subsidy is received at a higher than budgeted rate, this amount will be adjusted to provide additional funding to the Resident Councils.

3. Utilities costs are projected to decrease by $558,820 (-9.5%) compared to the FY 2013 budget. Utility costs are part of the HUD subsidy calculation and staff uses HUD's method to calculate the projected cost.

4. Maintenance costs are proposed to decrease by $314,030 (-4.2%). Labor salaries reflect a $74,640 (1.8%) increase, based on projected salary increases and partially offset by reductions in staffing. Other proposed changes in this budget category include material costs decreasing $40,080 (-4.6%), and contract costs decreasing $348,590 (-14.4%).

Certain contract costs have been adjusted to more closely reflect actual expenses and as part of the necessary cost reductions implemented in this budget.

5. Protective Services are proposed to increase by $50,180 (8.7%). This is due to a planned increase in off-duty police officer coverage for PHA properties.

6. General Expenses are proposed to decrease by $197,950 (-3.5%). These costs include insurance, benefits, collection loss, terminal leave payments, Payment in Lieu of Taxes (PILOT), inspection fees, etc. Benefit contributions decreased by $71,570 (-1.9%) due primarily to reduced staffing levels. PILOT expenses decreased $129,300 (-17.2%). The budgeted amount is the same as the PILOT amount used in the subsidy calculation, as provided by HUD, and adjusted for the annual subsidy pro-ration rate. Other General Expenses decreased by $53,070 (-20.9%) due primarily to a decrease in Other Post Employment Benefits (OPEB). OPEB expenses are calculated based on actuarial analysis and must be budgeted and accrued on a yearly basis. Collection loss is proposed to increase $40,000 (66.7%) to more closely match actual expenses, and insurance costs increase $24,730 (3.0%) due to annual increases in costs.

7. Non-routine expenditures are proposed to decrease by $313,450, from $735,450 to $422,000 (-42.6%). Historically, non-routine expenses have included large maintenance costs or capital improvements and are often budgeted in the Capital Fund Program as well. The proposed budget includes $50,000 to replace maintenance equipment and $35,000 to replace aging network components. Extraordinary Maintenance items, which are those maintenance projects which are larger in scope and less frequent than routine maintenance costs, continue to be included in this category and are proposed at $337,000. Extraordinary maintenance includes, but is not limited to, parking lot maintenance, concrete work, landscape improvements, and interior or exterior surface work.

SUMMARY: PROPOSED LOW RENT PUBLIC HOUSING BUDGET: This proposed FY 2014 Public Housing Operating Budget projects a deficit (draw on reserves) of $307,157. This would create a budgeted operating reserve on March 31, 2014 of approximately $16,806,613 (6.6 months worth of routine operating expenses). However, as explained above, staff expects the actual contribution to reserves for FY 2013 to be significantly higher than originally-budgeted, perhaps as high as $2,300,000, resulting in an estimated ending FY 2013 reserve balance of $19,401,462. Taking into account the adjusted FY 2013 ending balance, staff estimate the reserve balance for the end of FY 2014 would be approximately $19,094,305 (7.5 months routine operating expenses). Maintaining this level of reserves does not fulfill the mission of the Agency so staff plan to prepare a supplemental budget for consideration at the April Board meeting to expend a portion of the excess reserves for needed capital improvements and other projects. Staff believes this budget will further the Agency's mission by providing needed housing and services to residents while still preserving the physical assets and maintaining the financial stability of the PHA. Historically, the PHA's target reserve level agency-wide has been 6 months, which was considered safely within HUD's guidelines for maximum points on the PHAS scoring system. Changes to the PHAS scoring system (2011 Interim Rule) lowered the acceptable range for an AMP's reserves to 4 months. Staff believes that year-end operating reserves at the individual AMPs can be kept near the four-month threshold under the proposed budget, with the remaining reserves held at the COCC.

OVERVIEW: PROPOSED SECTION 8 BUDGET

SECTION 8 – PROPOSED REVENUE:

Based on HUD and housing industry analyses of the HUD budget pending in Congress, staff expects that the HUD funding for Housing Assistance Payments (HAP; the rent subsidies paid to private property owners) in 2013 will be reduced to a 94% proration level. That would reduce the PHA's annual HAP budget authority by about $2 million (estimated $2,011,928), down to about $32 million (estimated $32,988,548). The exact amount may not be known for several weeks.

Despite the expected proration, staff believes the Agency will be able to continue paying HAP for all current voucher holders this year (but not issuing new vouchers as participants leave the program). The PHA will pay the rent subsidies using new HAP revenue from HUD, supplemented as needed by HAP reserves held by the PHA ("Net Restricted Assets", or NRA, currently about $3 million) and "Program Reserves" held by HUD in Washington (now about $1 million). The "program reserves" account consists of HAP budget authority from previous years that was not disbursed to the PHA. Although the two types of HAP reserves should be sufficient to carry the program through the current year and beyond, HUD may also reduce its HAP payment to the PHA further, to require the PHA to use even more of its HAP reserves. The PHA's HAP reserves could sustain the program for a year with these cuts, but the reserves could be exhausted soon after that.

In the proposed Operating Budget staff calculated the PHA's HAP funding eligibility based on data from HUD's Voucher Management System, using the number of "Unit Months Leased" and the actual Housing Assistance Payments for the previous calendar year. Staff made further funding assumptions based on industry group information and no Annual Adjustment Factor, which equates to no adjustment for inflation.

Section 8 Administrative Fees for this proposed budget are estimated based on CY 2012 methodology and fee rates, and then pro-rated down to 69% of the formula amount, based on the appropriation bills pending in Congress. Administrative fees are paid based on the number of units <u>under lease</u> each month (up to the total authorized, not paid on overleased units), not on the total number of Housing Choice Vouchers authorized (4,353). The administrative fee during CY 2012 was $76.62 for the first 7,200 unit-months leased (yearly total) and $71.51 for the remaining unit months leased, up to the PHA's maximum authorized units. The PHA is paid a lump sum each month and HUD "settles up" at a later date for any additional administrative fees owed.

The estimated Section 8 administrative fee revenues supplemented by other revenues (fraud recovery, port-in administrative fees, and other small amounts) will not be sufficient to cover the necessary costs to administer the program this year. Staff proposes to draw approximately $121,494 from the Section 8 administrative fee reserves ("Unrestricted Net Assets" or UNA) to fill the gap. The administrative fee reserves are sufficient for this purpose. At the end of February 2013 the UNA balance was approximately $1.4 million and it had increased during the fiscal year.

The components of the Section 8 revenue in this proposed budget are as follows:

1. <u>Section 8 Housing Assistance Payments (HAP) subsidy</u> is expected to be $33,166,396, a decrease of $1,746,272 (-5.0%) compared to the FY 2013 budget amount of $34,912,668. This cut would be even deeper but for the addition of 21 "Tenant Protection Vouchers" (also called "Preservation Vouchers") and 40 VASH vouchers for homeless veterans. The budgeted subsidy total includes the Housing Choice Vouchers (HCVs) and the PHA's three smaller Section 8 programs: Disability Vouchers (117 vouchers) and the Moderate Rehabilitation Single Room Occupancy projects at Catholic Charities' Mary Hall (75 units) and the Salvation Army's Booth Brown House Foyer (6 units). The FY 2013 budget presented Disability Vouchers as a part of Housing Choice Vouchers based on HUD direction at the time. Since that time, HUD has reversed its directive and Disability Vouchers are funded as a stand-alone program, and handled similarly to the Single Room Occupancy programs. Housing Choice Vouchers include 125 VASH Vouchers, 100 Family Unification Program Vouchers, and 226 Preservation Vouchers. The budget for Disability Vouchers shows an increase of $711,764, again due to the program having a separate budget. In the combined budget for all voucher programs, that gain partially offsets the reduction in the main Housing Choice Voucher HAP subsidy. The budget for the Mary Hall SRO Mod Rehab project shows an increase of $12,600 (3.8%), and the budget for the Booth Brown SRO Mod Rehab project shows a decrease of $5,184 (-17%).

2. Section 8 Administrative Fee subsidy is expected to be $2,785,583, a decrease of $238,010 (-7.87%) program-wide from FY 2013 budgeted amounts. The decrease is the anticipated impact of Congress slashing the appropriation for Section 8 administrative fees, from 76% of full funding eligibility last year to 69% this year. The budget for Disability Vouchers shows a substantial increase due to its having a separate budget as described above. The budget for administrative fees for the Mod Rehab Single Room Occupancy programs (Mary Hall and Booth Brown) show marginal increases (0.82%) due to a slight increase in the administrative fee rate from $76.00/unit month to $76.62/unit month. The PHA received another HUD grant for the Section 8 Family Self-Sufficiency (FSS) Coordinator position this year, which adds $68,680 to the administrative revenues.

3. Portability revenue is budgeted at $400,000 for HAP and $85,263 for administrative fees, for a total of $485,263, compared to $462,101 last year, an increase of $23,162 (9.5%). 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" agencies are 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. Sending agencies are also required to send 80% of the per-unit administrative fee to St. Paul.

4. Other Section 8 revenue sources include fraud recovery amounts (received through Minnesota Revenue Recapture, a HUD grant for the Family Self-Sufficiency program, interest on invested funds and other small amounts.

5. The budgeted total of all Section 8 revenue sources excluding HAP is $3,047,016.

SECTION 8 - PROPOSED EXPENDITURES:

1. Housing Assistance Payments (HAP) are proposed at $35,474,408, which is an increase of $561,740 (1.61%). As explained above, staff expects to draw on HAP reserves to pay the rent subsidies. Staff monitors voucher utilization and payments to property owners on a

monthly basis to ensure expenses remain within HUD subsidy and available HAP reserve amounts.

2. Administrative expenses are proposed to decrease by $16,420 (-0.52%) from $3,184,930 in FY 2013 to $3,168,510 in FY 2014. The salary amounts charged to the Section 8 administrative budget are increased by $57,220 (3.64%) and related benefits are increased by $9,640 (1.64%). This is due primarily to reallocations of salaries for some PHA staff who work on multiple programs, with increased percentages of their time being applied to Section 8. In addition, as Section 8 gains additional vouchers, the ratio of Section 8 units to total PHA units changes, so the standard allocation to Section 8 is increased. (The combined Section 8 program is now authorized for 4,551 units, compared to 4,253 public housing units.) The Contract Services expense is proposed to increase due to moving the PHA's share of the HOME homeownership program costs from the Building Fund to the Section 8 administrative operating budget. Portability Fees (the fees paid by the PHA to other agencies for voucher holders "porting-out" of St. Paul) are reduced by $40,000 (-21.05%) based on historical trends. The Equipment line item is proposed to decrease by $32,200 (-73.84%) due to agency-wide cutbacks in equipment purchases due to decreased funding, and reallocations of expenses between Agency programs. "Other Post Employment Benefits" (OPEB) decreases by $7,210 (-19.49%). The OPEB cost is calculated based on actuarial assumptions that are essentially out of the PHA's control.

SUMMARY: PROPOSED SECTION 8 BUDGET

Section 8 expenses for Housing Assistance Payments (HAP) to property owners are projected to be $35,474,408, to be paid from HUD HAP subsidies estimated at $33,166,396, supplemented by approximately $2.3 million from HAP reserves. The HAP reserves are sufficient to make up the difference this year, with a combined balance of approximately $4 million now.

Section 8 administrative expenses are proposed at $3,168,510 in FY 2014, while revenues to pay those expenses total only $3,047,016. Staff proposes to draw approximately $121,494 from the Section 8 administrative fee reserves ("Unrestricted Net Assets" or UNA) to fill the gap. The administrative fee reserves are sufficient for this purpose. At the end of February 2013 the UNA balance was approximately $1.4 million and it had increased during the fiscal year.

PROPOSED STAFFING LEVELS: The agency-wide staffing level is reduced by 3.58 positions (full-time equivalents, or FTEs) in the proposed FY 2014 Combined Operating Budget for Public Housing and Section 8, as shown below. A summary of past years' staffing levels is included as Attachment 4 to this report.

RECENT HISTORY OF STAFFING LEVELS

	FY 2012 REV 1	FY 2013 Approved	FY 2014 Proposed	Increase (Decrease)
Department	FTEs	FTEs	FTEs	FTEs
Executive	3.50	3.50	3.50	0
Human Resources	3.00	3.00	3.00	0
Section 8	26.00	23.00	22.00	(1.00)
Housing Policy	1.00	1.00	1.00	0
Equal Opportunity and Diversity	0.75	0.75	0.75	0
Finance	16.50	16.50	15.50	(1.00)
Maintenance	99.0	99.00	97.80	(1.20)
Resident Services	82.11	85.11	83.48	(1.63)
Resident Initiatives	0	0	1.25	1.25
TOTAL	**231.86**	**231.86**	**228.28**	**(3.58)**

Details of the proposed FTE changes in the FY 2014 Operating Budget are as follows:

PROPOSED INCREASES:

Maintenance
- +1.00 FTE – Add Project Technician

Resident Services
- +0.12 FTE – Increase Administrative Support Assistant
- +0.25 FTE – Increase Administrative Support Technician

Resident Initiatives
- +1.00 FTE – Shift Program Coordinator from Resident Services
- +0.25 FTE – Shift Program Coordinator from Resident Services

<u>PROPOSED DECREASES:</u>

Section 8
- -1.00 FTE – Remove vacant Program Coordinator

Finance
- -1.00 FTE – Remove vacant Accounting Operations Manager

Maintenance
- -1.00 FTE – Remove vacant Caretaker Assistant
- -1.00 FTE – Remove vacant Storeroom Supervisor
- -0.20 FTE – Reduce Construction Program Manager

Resident Services
- -1.00 FTE – Shift Program Coordinator to Resident Initiatives
- -0.25 FTE – Shift Program Coordinator to Resident Initiatives
- -0.75 FTE – Remove vacant Human Services Coordinator

In addition to FTE adjustments, the following proposed reductions are reflected in the Overtime/Temp budget lines on the salary schedule. These positions are currently occupied:

- -1.00 Eliminate Temporary Resident Services Technician
- -1.00 Eliminate Temporary Assistant Manager
- -1.00 Eliminate Temporary Maintenance Helper
- -1.00 Eliminate Temporary Maintenance Helper
- -1.00 Eliminate Temporary Section 8 Occupancy Technician

JMG/RPM/AJH/FAH

Attachments:
1. FY 2014 Low Rent Public Housing Operating Budget, HUD-52564
2. Board Resolution 13-3/27-3, HUD 52574 with Attachment for Asset Management Projects
3. Asset Management Projects Expense Schedule
4. Staffing (FTE) History FY 1990 – FY 2014
5. Section 8 Program Proposed FY 2014 Budget

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, 2014

DATE March 27, 2013

Staff requests Board approval of the proposed budget for the Building Fund for Fiscal Year 2014.

Summary of Proposed FY 2014 Building Fund Budget (compared to FY 2013 Budget):

Proposed Revenue:

The FY 2013 budget approved by the Board on February 22, 2012 anticipated total Building Fund revenues of $830,910. The proposed FY 2014 budget projects revenues at $830,990, which is essentially equal to last year's projected revenues.

FY 2014 revenues will come from five sources:

PHA office rental:	$507,420
Tenant rent:	234,780
Parking rent:	83,790
Interest:	5,000
Total Revenue:	$830,990

Proposed Expenditures:

~~In response to the reduced revenues in the Building Fund budget, staff is proposing several spending cuts as listed below.~~ The FY 2013 budget proposes total expenditures of $641,965, which is a decrease of $48,825 (-7.1%) compared to the FY 2013 budget amount of $690,790. The biggest single reduction recommended is to transfer the PHA's share of the annual contract costs for the HOME homeownership program from the Building Fund to the Section 8 administrative expense budget this year.

Staff believes it is appropriate to transfer costs for the HOME Program to Section 8 because the HOME Program ~~is geared primarily towards~~ assists public housing residents and Section 8 participants who are working towards homeownership, and provides no direct benefit to the W. Andrew Boss Building or its tenants. Contributions to the Building Fund reserves have declined in recent years. The Building Fund's first obligation is to accumulate and hold funds that are needed to operate, preserve and improve the W. Andrew Boss Office Building over the long term. In addition, Building Fund revenues are unrestricted and provide additional funding for activities, such as youth programs, that would not normally be sufficiently funded under other PHA programs.

The significant changes proposed in Building Fund expenses are as follows:

1. Marketing expenses increased by $1,200 to advertise available rental space.
2. Miscellaneous expenses decreased by $46,120 due to the combined effect of transferring the HOME Program to Section 8, adding additional funding for the Hi-Rise President~~'~~s Council, and adding funding for youth programs.
3. Maintenance material costs are decreased by $7,500 ~~due to budget re-evaluation~~ based on actual and projected expenses.
4. Maintenance contract costs decreased $9,000 ~~due to budget re-evaluation~~ based on actual and projected expenses.
5. Extraordinary maintenance costs increased by $3,500 due to anticipated maintenance needs.

Building Fund Summary:

The proposed budget shows revenues exceeding expenses by $196,625. 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.

RPM/AJH/FAH

Attachments:
- Annual Report FY13 – Narrative
- Proposed Budget and Management Plan for FY 2014 – Narrative
- Proposed FY 2014 vs. FY 2013 Comparison
- Proposed FY 2014 Salary/Benefit Budget
- Table - History of Building Fund Support

BUILDING FUND

Annual Report - Fiscal Year 2013

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 2013 Budget

On February 22, 2012 the Board accepted the report on Costs and Operations through the End of Fiscal Year 2012 and approved the Proposed Budget and Management Plans for FY 2013. These documents have guided the operation of the W. Andrew Boss Building for the past year.

3. Report on FY 2013 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.

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	690,790	0	Budgeted

Notes on Financial Information

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

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

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 March 27, 2013 the W. Andrew Boss Building has vacant commercial space on the 2nd floor (4.13% of the total rentable space). Staff was having discussions with our anchor tenant, the Minnesota Credit Union Network, regarding relocating the 1st floor space to the 2nd floor, but in these difficult economic times they chose to not invest in this move. PHA staff had discussions with another viable tenant, but that has not come to fruition. ~~At this time~~ Staff will ~~be pursuing~~ pursue other options to fill vacant space in the building.

The PHA will manage the W. Andrew Boss Building according to “good business practices.” The Agency belongs to the (St. Paul) Building Owners and Managers Association (BOMA) and to the Downtown Building Owners Association (DBOA).

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.

BUILDING FUND

Proposed Budget and Management Plan
For FY 2014

All of the cash flow projections and expense analyses were based on unaudited financial information as of September 30, 2012.

1. Request for Approval of Building Fund proposed budget: FY 2014
See the attached "REVENUE AND EXPENSE BUDGET, FY 2014 vs. FY 2013 COMPARISON." The attached proposed budget for FY 2014 shows a net operating gain (revenues minus expenses) budgeted at $196,625, compared to a net operating gain budgeted at $145,120 in FY 2013. This is an increase of $51,505.

2. Property/Building Management Plan
The Executive Director and his designated representatives will manage the W. Andrew Boss Building according to good commercial property 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 Section 8 Housing Choice Vouchers;
Revised 2013 Utility Allowance Schedule;
Admission and Occupancy Policies

DATE March 27, 2013

Staff recommends Board approval of Resolution No. 13-3/27-1 approving a revised utility allowance schedule for the Section 8 Housing Choice Voucher Program with the correction shown on the attachment. On February 27, 2013 the Board approved staff's recommendation to increase utility allowances for electricity by 10% based on Xcel Energy's rate increases. However, in the utility allowance schedule attached to the Board report, staff inadvertently failed to show the 10% increase in the amounts for "Other Electric" consumption. (That allowance covers all tenant-paid electric bills for lighting, appliances and other uses except cooking and heating, which have separate utility allowances.) With the recommended correction, those amounts will increase by $1.00 per month for the smallest units up to $5.00 per month for large units.

The increase will take effect for new participants and new units leased on or after May 1, 2013, and for annual income recertifications effective on or after that date for current participants. No notice to Section 8 participants is required for changes in utility allowances.

FAH/RPM

Attachments: Resolution
Corrected Utility Allowance Schedule

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL
RESOLUTION NO. 13-3/27-1

SECTION 8 HOUSING CHOICE VOUCHER
ADMISSION AND OCCUPANCY POLICIES;
UTILITY ALLOWANCE SCHEDULE

WHEREAS, the Public Housing Agency of the City of Saint Paul (PHA) has now in effect Section 8 Housing Choice Voucher Admission and Occupancy Policies dated February 23, 2000, as amended; and

WHEREAS, on February 27, 2013 the Board of Commissioners approved staff's recommendation to increase utility allowances for electricity by 10% based on utility rate increases; and

WHEREAS, the utility allowance schedule attached to that Board report did not show the 10% increase in the amounts for "Other Electric" consumption.

WHEREAS, the utility allowance for "Other Electric" should also be increased by 10%; and

WHEREAS, the Board finds that the staff recommendation complies with HUD requirements and is in the best interests of the Agency;

NOW, THEREFORE BE IT RESOLVED by the Board of Commissioners of the PHA that the Utility Allowance Schedule stated in the Section 8 Housing Choice Voucher Admission and Occupancy Policies, Part 3, Section III, be revised as shown on the attachment, effective May 1, 2013 for new participants and for new units leased on or after that date, and for annual income recertifications effective on or after that date for current participants.

PUBLIC HOUSING AGENCY OF THE CITY OF SAINT PAUL

REPORT TO COMMISSIONERS

FROM **JON M. GUTZMANN**
EXECUTIVE DIRECTOR

REGARDING Section 8 Project-Based Vouchers;
No Vouchers Offered in Minnesota Housing's
Consolidated Request for Proposals

DATE March 27, 2013

Staff recommends that the PHA not offer Section 8 Housing Choice Vouchers for use as project-based assistance through Minnesota Housing's 2013 Consolidated Request for Proposals (SuperRFP). The SuperRFP will be issued in April with applications due to Minnesota Housing in June.

On November 23, 2011 the Board approved staff's recommendation to offer up to 50 additional PBVs over the next five years. That action lifted the moratorium on offering additional Housing Choice Vouchers (HCVs) for use as PBVs that had been in place since November 2008.

The PHA offered up to 15 PBVs through the 2012 SuperRFP, and six requests for PBVs were submitted, totaling 69 units. On November 28, 2012 the Board approved 18 PBVs for two projects, Old Home Plaza on University Avenue and PPL's Ujamaa Housing on Selby Avenue.

When this report was written, Congress had not passed a HUD appropriation bill for this federal fiscal year. However, none of the numbers in play would provide adequate funding for the Section 8 administrative fee or the voucher rent subsidies (Housing Assistance Payments, or HAP). At this point, it is likely that the administrative fee funding will be slashed to 69% of the formula amount, and that HAP will be prorated to about 94% of full funding.

Each PBV project has an impact on the HAP. By signing the HAP contract for a PBV project, the PHA commits the required subsidies for up to 15 years initially, which reduces the PHA's flexibility if federal funding declines. Faced with decreased funding for the voucher rent subsidies, staff has stopped drawing applicants from the waiting list and will stop issuing vouchers to families asking to move out of PBV units. Offering more vouchers to new PBV projects would run counter to the need to conserve resources for existing participants.

Voucher utilization was well-controlled for FY 2013, standing at 99.44% for the eleven months ended February 28, with "underutilized" and "overutilized" months mostly balancing out. By not issuing new vouchers now, staff intends to reduce utilization to match the anticipated reduced funding.

This recommendation avoids increasing the current administrative burden. Each new PBV project approved requires considerable staff time to implement, as staff must develop and then maintain a partnership with the developer, owner and/or manager of the new project. With severely reduced federal funding, the available staff time should be devoted to sustaining the existing program rather than diverted to a new PBV project(s).

FAH/DJM

Attachments: Summary of Current Project-Based Vouchers; Contract Expiration Dates

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 27, 2013

Staff recommends Board approval to renew the Agency's Workers' Compensation insurance coverage with the League of Minnesota Cities Insurance Trust for the period of April 1, 2013 through March 31, 2014. The cost of this policy will be approximately $194,599, which is an increase of $29,261 (17.7%) 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 $230,822 ($36,223 higher). The PHA has contracted with the League of Minnesota Cities Insurance Trust for Workers' Compensation insurance coverage since 1991.

Related to the Workers' Compensation insurance program, the PHA has a separate policy with the League of Minnesota Cities Insurance Trust covering volunteers at a cost next year of $1,450. The premium is the same as last year and is 10% lower than the premium of $1,595 paid for the policy year of April 1, 2011 to March 31, 2012.

The increase in the Workers' Compensation premium is primarily the result of an increase in the experience modification factor, from 0.81 last year to 0.90 for the coming year. The experience modification factor is calculated by the Minnesota Workers' Compensation Insurance Association, Inc. and 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. Last year's experience modification factor of 0.81 covered three years of claims loss experience for the period from April 1, 2008 – March 31, 2011 ($16,439, $58,494 and $127,066) totaling approximately $201,999. This year's experience modification factor increased to 0.90 for injuries that occurred during the period of April 1, 2009 – March 31, 2012, with a current total cost of approximately $285,777 ($58,494, $140,130 and $87,153). These dollar amounts vary over time for claims incurred in any given year because the dollar value assigned to each claim may increase or decrease based on additional expenses paid on a claim and/or adjustments made by the insurance carrier to the dollar reserve for a claim.

The experience modification factor has remained relatively stable over the past few years. A factor of 0.90 means that the Agency's employee injury rate is ten percent below the average employee injury rate of 1.0. 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. With all the controls described below in place, staff believes that the PHA will continue to experience a lower than average employee injury rate. Staff will continue to monitor claims costs and will recommend changing the deductible amount in the future if the trends change.

The second factor contributing to the cost increase is that the rate per $100 of payroll increased for the large maintenance employee group. Last year's rate was $4.60 per $100 of payroll and this year's rate is $4.94 per $100 of payroll (a 7.4% increase).

As shown on the charts below, the Agency's workers' compensation program has been very successful in reducing injury-related lost work time and costs, which has reduced the insurance costs. The PHA's ongoing management of its workers' compensation program costs has several components, including the following:

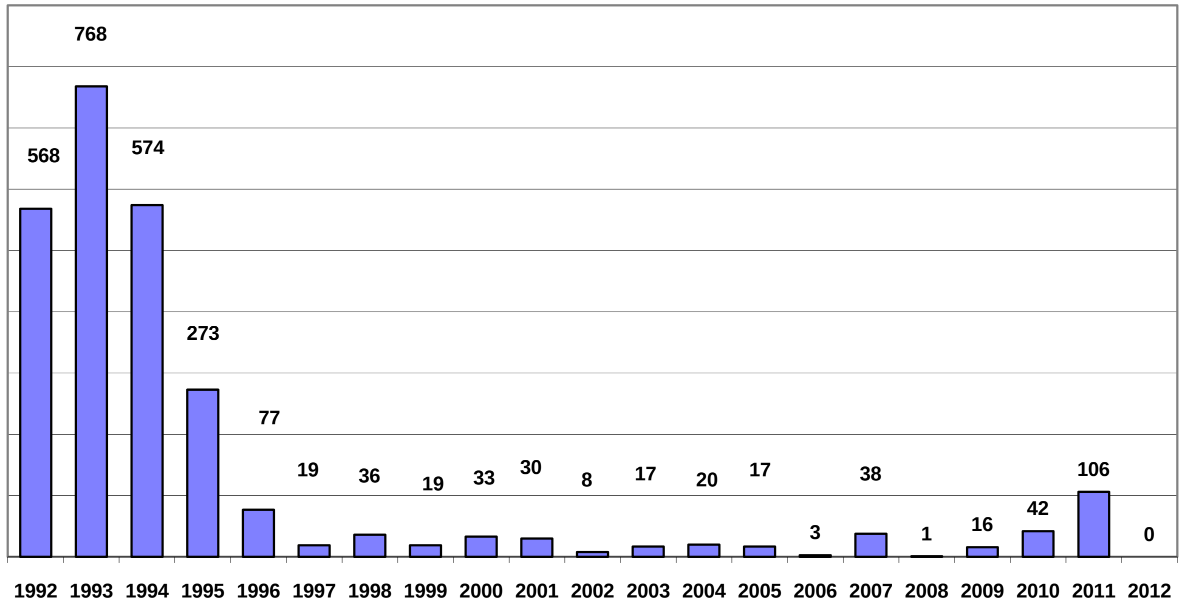
- Many years ago the PHA chose a premium option based on four employee categories instead of a single employee category called "housing authority workers". Staff continues to request and analyze quotes using both the "one category" option and the "separate categories" option. This year, by choosing the "separate employee" categories option, our premium is approximately $30,120 (13.4%) less than if we chose the "one category" option.
- 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, Worker Compensation Modification Controllers (W.C.M.C.), continues to monitor our program closely and work with our staff, at an annual cost of approximately $21,600.

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 2014 Operating Budget recommended for Board approval at this meeting.

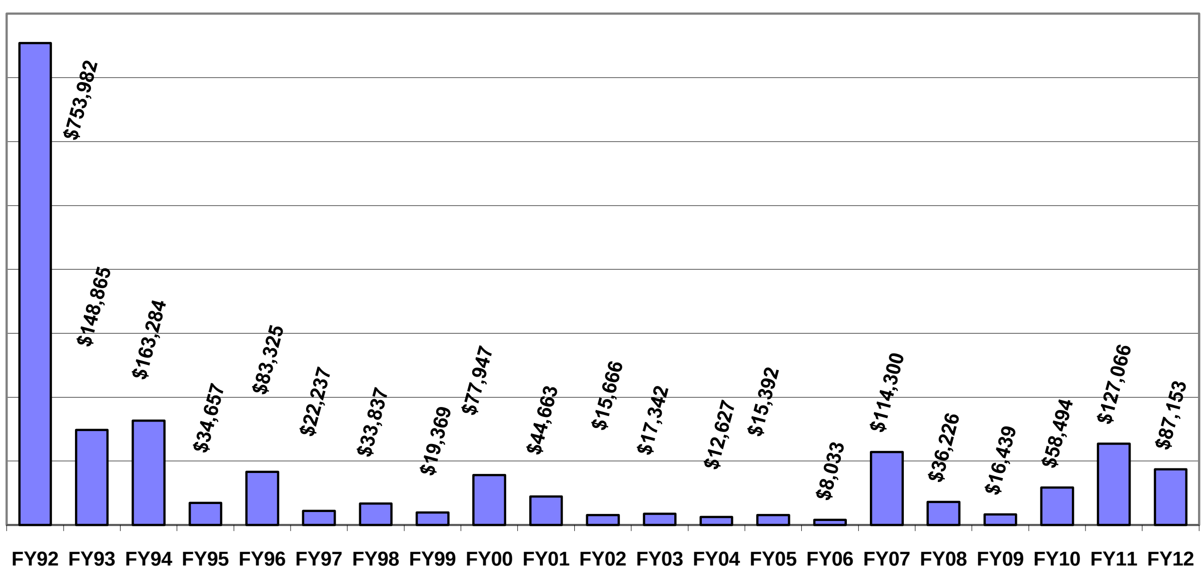
DMM

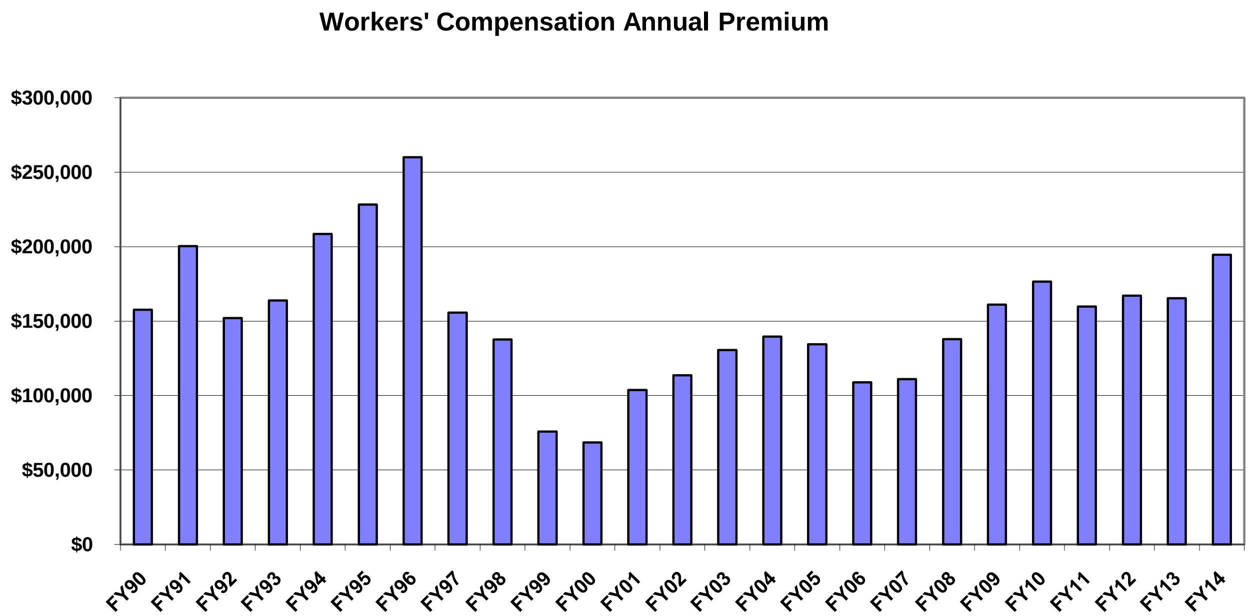
Attachments

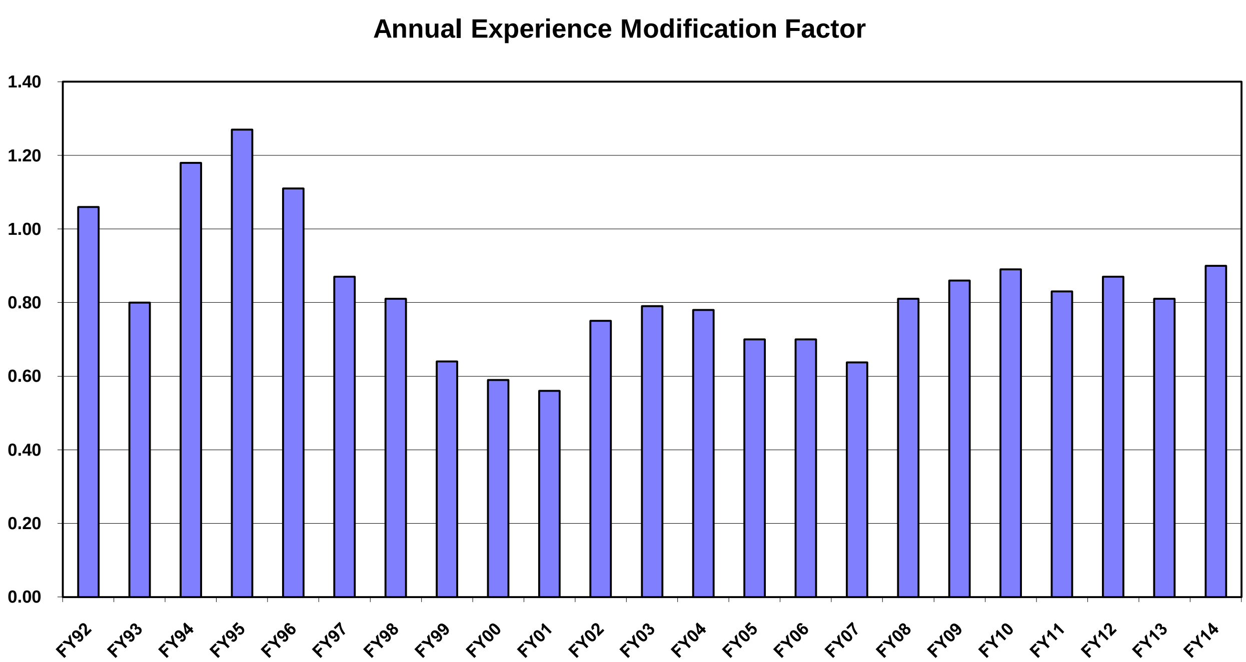
Number of Lost Days Away From Work
(Taken from the OSHA log that must be filed each calendar year)



Claims Paid Plus Amount In Reserves




Workers' Compensation Annual Premium
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
FY90 FY91 FY92 FY93 FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14


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