



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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Date Issued: May 5, 2017

IBA Report Number: 17-19

Budget Review Committee Docket Date: May 9, 2017

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## Review of City Agencies FY 2018 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Tuesday, May 9, 2017. Our review is attached.

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Trisha Tacke  
Research Analyst

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APPROVED: Andrea Tevlin  
Independent Budget Analyst

# San Diego Housing Commission

On May 5, 2017, the San Diego Housing Commission (SDHC) Board approved the FY 2018 Proposed Budget and recommended that the Housing Authority of the City of San Diego (Housing Authority) adopt it. SDHC’s FY 2018 Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 9.

## Impacts of SDHC’s FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the San Diego Housing Commission is approximately \$433.0 million, which is an increase of \$65.0 million, or 17.7%, over the FY 2017 Adopted Budget. This is the largest budget in the history of the San Diego Housing Commission. The FY 2018 Proposed Budget also includes 330.00 FTE positions<sup>1</sup>, which is an increase of 26.00 FTE positions over FY 2017. The table below illustrates the various activities funded by the Housing Commission’s budget.

Housing Commission activities are administered through four divisions for a total of

approximately \$348.7 million, excluding reserves: 1) Rental Assistance (\$165.8 million); 2) Real Estate (\$142.2 million); 3) Homeless Housing Innovations (\$22.4 million); and 4) Operations Support (\$18.3 million). The Rental Assistance and Real Estate divisions account for 47.6% and 40.8% of the Commission’s budget, respectively, totaling approximately 88.3%. Reserves, which are allocated within each division and are budgeted at \$84.3 million, are discussed in more detail later in this report.

## Funding Sources

The FY 2018 Proposed Budget for SDHC includes resources of \$433.0 million, including \$293.0 million in new revenue and \$140.0 million in fund balance. This reflects an increase of \$32.3 million in new revenue and \$32.7 million in additional fund balance, for a total increase of \$65.0 million, or 17.7%. Fund balance represents revenue that was received in prior years, but not expended or obligated, while new revenue reflects funding that is anticipated to be received and expended during the

<sup>1</sup> Excluding 9.00 FTE Intern positions and 12.00 FTE part-time Housing Services Aide positions.

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY			
ACTIVITY	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
Rental Assistance	\$ 172,329,261	\$ 174,992,758	\$ 2,663,497
Homeless Housing Innovations	18,000,243	24,086,121	6,085,878
Property Operations	52,840,727	94,515,271	41,674,544
Real Estate Finance	37,002,627	45,969,787	8,967,160
Homeownership	4,414,941	3,671,933	(743,008)
Rehabilitation and Affordable Housing Programs	2,361,461	2,547,101	185,640
Loan Servicing	1,190,116	1,386,860	196,744
Reinvestment Task Force	183,682	170,427	(13,255)
Housing Development Partners	722,562	1,352,888	630,326
Fund Balance/Reserves	78,958,810	84,312,375	5,353,565
<b>TOTAL</b>	<b>\$368,004,430</b>	<b>\$ 433,005,521</b>	<b>\$ 65,001,091</b>

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fiscal year. Of the \$433.0 million in available resources for FY 2018, \$409.7 million or 94.6% is from restricted sources, including: Section 8 rental assistance, HOME funds, and the Affordable Housing Fund. The remaining 5.4% or \$23.3 million is from contingency reserves and unrestricted revenue sources that include bond administrative fees, ground lease revenue, HOME administrative reserve funds that were reclassified as unrestricted, and discretionary funding from the City of San Diego.

The \$65.0 million increase in FY 2018 resources is largely attributable to the following:

A net increase of \$23.8 million in federal funding, which includes a \$23.7 million increase in new revenue, and an increase of \$111,000 in fund balance compared to the FY 2017 Adopted Budget. In FY 2018, SDHC plans to utilize \$36.9 million in HUD

-held reserves: \$20.0 million for property acquisition, \$15.2 million for property rehabilitation, and \$1.7 million to cover an administration related shortfall. This represents an increase of approximately \$23.2 million above FY 2017 in the use of HUD-held reserves. These additions are offset by a 5% or approximately \$8.0 million reduction in disbursements the Housing Commission is receiving from HUD due to continued funding uncertainty at the Federal level.

Other significant federal funding adjustments include:

- A \$1.1 million increase in Housing Innovation funds, which is due to an increase in Continuum of Care (CoC) funding for Permanent Supportive Housing (PSH) and rapid rehousing
- A \$1.0 million increase in Community Development Block Grant (CDBG)

<b>HOUSING COMMISSION FUNDING SOURCES</b>			
<b>FUNDING SOURCE</b>	<b>FY 2017 BUDGET</b>	<b>FY 2018 PROPOSED</b>	<b>CHANGE</b>
<b>Federal Sources</b>			
<i>Section 8/Moving to Work (MTW)</i>	\$ 200,061,286	\$ 221,186,633	\$ 21,125,347
<i>HOME</i>	15,037,297	15,580,589	543,292
<i>Housing Innovation Funds</i>	4,607,004	5,688,137	1,081,133
<i>CDBG</i>	7,323,079	8,335,279	1,012,200
<i>Other Federal Funds</i>	27,966	85,000	57,034
<b>Total Federal</b>	<b>\$ 227,056,633</b>	<b>\$ 250,875,638</b>	<b>\$ 23,819,005</b>
<b>Local Sources</b>			
<i>SDHC Real Estate</i>	\$ 57,452,510	\$ 70,637,019	\$ 13,184,509
<i>Affordable Housing Fund</i>	44,976,671	74,024,502	29,047,831
<i>Unrestricted Funds (inc. 5% Contingency)</i>	25,474,813	23,285,072	(2,189,741)
<i>Redevelopment Agency Funds</i>	2,218,044	1,680,247	(537,797)
<i>Other Local Funds</i>	10,683,599	12,203,044	1,519,445
<b>Total Local</b>	<b>\$ 140,805,636</b>	<b>\$ 181,829,884</b>	<b>\$ 41,024,247</b>
<b>State Sources</b>			
<b>Total State</b>	<b>\$ 142,160</b>	<b>\$ 300,000</b>	<b>\$ 157,840</b>
<b>Total Federal, Local, State</b>	<b>\$ 368,004,429</b>	<b>\$ 433,005,521</b>	<b>\$ 65,001,093</b>

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funding largely related to the Affordable Housing Revolving Loan (AHRL) Fund. The Housing Commission did not receive AHRL funds from the City until mid-April 2017, so in FY 2018 it plans to use the \$4.6 million budgeted for FY 2017, plus an additional \$1.6 million in FY 2018. The remaining \$1.4 million from the FY 2018 Reinvestment Initiative is expected to be utilized in FY 2019.

- A \$543,000 increase in HOME funds, including a \$253,000 net increase in program income, and a \$290,000 increase in fund balance compared to the FY 2017 Adopted Budget

A net increase of \$41.0 million in local funding, which includes an \$8.4 million increase in new revenue, and a \$32.6 million increase in fund balance compared to the FY 2017 Adopted Budget. Significant contributors to the increase in local funding include:

- An increase of \$29.0 million from the Affordable Housing Fund above the FY 2017 Adopted Budget, which is largely due to a \$28.4 million (or 83.1%) increase in fund balance from the previous fiscal year. The Housing Commission indicates that this growth in fund balance is due to an increased amount

of In-Lieu Fee collections in prior years and the first half of FY 2017, as well as the timing of when loans are made (e.g. funds may be committed for use but not expended in that same fiscal year).

- An increase of \$13.2 million in SDHC Real Estate funding, which is largely due to a set-aside of property replacement reserves that will be used to fund rehabilitation projects.

## Budget by Funding Use

### Personnel Expense (PE)

Excluding interns and part-time housing service aides, the FY 2018 Proposed Budget includes a total of 330.00 FTE positions, which is an increase of 26.00 FTE positions over the FY 2017 Adopted Budget. Personnel expenditures of \$34.4 million are included in the Proposed Budget, which is an increase of \$4.2 million, or 13.9%. This increase is largely due to a 3% Cost of Living Adjustment (COLA) and the addition of the new positions. The 26.00 new FTE positions include:

- 11.00 FTE positions in the Homeless and Housing Innovations Division, including 1.00 permanent and 10.00 temporary FTE positions to support SDHC's homelessness initiatives (which are discussed in more detail

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USE			
	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
FTE	304.00	330.00	26.00
Salaries & Benefits	\$ 30,181,333	\$ 34,386,690	\$ 4,205,357
Housing Program Expense	207,998,744	233,053,823	25,055,079
Property Expenses	15,315,471	15,655,637	340,166
Supplies & Services	10,417,270	9,656,807	(760,463)
Debt Principal Payments	3,066,941	3,153,625	86,684
Capital Expenditures	22,065,860	52,786,500	30,720,640
Reserves	78,958,809	84,312,439	5,353,630
<b>TOTAL BUDGET</b>	<b>\$ 368,004,429</b>	<b>\$ 433,005,521</b>	<b>\$ 65,001,092</b>

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later in this report)

- 7.00 FTE positions in the Real Estate Division. Four of these positions will support SDHC's expanding property and asset management efforts, and three reimbursable positions will support Housing Development Partners (a nonprofit affiliate of SDHC that constructs and rehabilitates affordable housing developments)
- 4.00 FTE positions in the Rental Assistance Division to support the expansion of SDHC's housing assistance programs
- 4.00 FTE positions in the Operations Support Division that will support Human Resources, Information Technology, and Financial Services

## **Non-Personnel Expense (NPE)**

The Housing Commission's FY 2018 Proposed Budget includes approximately \$398.6 million in NPE, which is an increase of \$60.8 million or 18.0% over FY 2017. This change is largely due to increases in Housing Program expenditures, capital expenditures, and reserves.

## **Housing Program Expenditures**

A \$25.1 million increase in Housing Program expenditures is largely attributable to:

- Additional funding that will be made available to developers through a Notice of Funding Availability (NOFA) for the creation of additional PSH units (as part of SDHC's updated Housing First initiative)
- \$10.0 million from the Affordable Housing Fund, which will be used as seed money to support the creation of an Affordable Housing Transit Oriented Development (TOD) revolving loan

fund

- \$5.5 million in additional expenditures over last year's budget to support SDHC's Homeless Initiative (which is described in more detail later in this report)

## **Capital Expenditures**

The FY 2018 Proposed Budget for capital expenditures is approximately \$52.8 million, an increase of \$30.7 million or 139.2% from the FY 2017 Adopted Budget. Significant adjustments include:

- An increase of \$25.0 million for the acquisition of PSH units
- An increase of \$7.2 million for the rehabilitation of SDHC owned properties, including \$3.1 million for the rehabilitation of Vista Verde. This increase is offset by a decrease of \$1.7 million in capital expenditures due to the completion of rehabilitation and accessibility upgrades at the Park Crest Apartments, and a reduction in capital budget needs for University Canyon Apartments and at Smart Corner
- \$200,000 for the purchase of additional SDHC vehicles

## **Reserves**

The FY 2018 Proposed Budget includes approximately \$84.3 million in reserves, which is a \$5.4 million or a 6.8% increase from the FY 2017 Adopted Budget. The Housing Commission has three reserve categories, including: Program Restricted Reserves, Property Reserves, and Contingency Reserves.

In FY 2018, the Proposed Budget includes \$45.2 million for Program Restricted Reserves, an increase of \$6.5 million or 16.8% from FY 2017. This change is primarily due to reserves for the Affordable

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Housing Fund. This funding has been identified for use on upcoming projects to support SDHC's PSH and Housing First—San Diego efforts.

The Proposed Budget also includes \$24.0 million for Property Reserves, which is a decrease of \$2.7 million or 10.2% from FY 2017. Property Reserves are set aside for major capital improvement needs, replacements, enhancements, and repairs. FY 2018 year-end property reserves are expected to decrease due to the utilization of these funds for rehabilitation work, and to supplement property acquisitions.

Approximately \$15.2 million is included in the FY 2018 Proposed Budget for the Housing Commission's Contingency Reserves. This is an increase of \$1.5 million or 11.4% over the FY 2017 Adopted Budget, and includes \$14.7 million in unobligated reserves, and \$500,000 for litigation and uninsured losses. Unobligated reserves for FY 2018 are budgeted at 5.0% of projected annual revenue. This satisfies a previous IBA recommendation that unobligated reserves equal a minimum of 5%.

## Issues to Consider

### Funding for Homeless Programs and Services

The FY 2018 Proposed Budget for the Housing Commission includes \$69.8 million for homeless program expenditures. This is an increase of \$24.8 million or 55.1% over the FY 2017 Adopted Budget, and reflects several years of continued growth in SDHC's budget dedicated to this activity. Of the Housing Commission's proposed expenditures for homeless programs and services, approximately \$2.3 million or 3.3% is proposed to come from the City's General Fund.

This \$2.3 million was included as part of the Mayor's FY 2018 Proposed Budget, and

represents level funding from the FY 2017 Adopted Budget. Per a Memorandum of Understanding (MOU) between the SDHC and the City, SDHC administers the contracts for the City's homeless shelters and services programs.

City General Fund expenditures of \$2.3 million related to these contracts include:

- Approximately \$1.5 million for Year-Round Interim Housing and Related Services. This amount funds 350 year-round interim housing beds at the St. Vincent de Paul Village campus, including 140 beds for Veterans and 50 beds for homeless triage and housing placement by the San Diego Police Department's Homeless Outreach Team.
- \$300,000 for an interim bed program at Connections Housing, which is operated by People Assisting the Homeless (PATH). This program offers 134 interim beds for homeless adults, and 16 additional units for those with special health needs.
- \$290,000 for the Serial Inebriate Program (SIP), and the provision of 56 transitional beds and supportive services for residents experiencing homelessness and struggling with substance abuse.
- \$125,000 for the Transitional Storage Center, which will continue funding for the operation of the Think Dignity (formerly Girls Think Tank) storage facility. The facility provides lockers and bins to homeless families and individuals to safely store their personal belongings.
- \$105,000 for 24/7 Restroom Access. This amount represents funding for the operation of restrooms for the homeless 24 hours a day, 7 days a

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week. SDHC subcontracts with Father Joe's Villages for the provision of these services.

Also in accordance with the MOU, the Housing Commission receives \$1.3 million in CDBG funding that is set aside to support three shelters and the Day Center Facility for Homeless Adults. This \$1.3 million is allocated as follows:

- \$541,000 for the Day Center Facility for Homeless Adults
- \$304,000 for the Connections Housing Interim Bed Program
- \$267,000 for the Interim Housing Facility for Homeless Adults
- \$206,000 for the Cortez Hill Family Shelter

The CDBG set aside creates funding certainty for homeless programs that previously competed for funding with other organizations citywide.

Also of note, SDHC administers the San Diego Misdemeanants At-Risk Track (SMART) pilot program, which includes partners at the City and County. The FY 2018 Proposed Budget includes \$98,000 in funding from the Low Income Housing Fund for this purpose.

## Housing First—San Diego

In November 2014, SDHC announced its Housing First—San Diego program, which was a three-year plan to serve as many as 1,500 homeless by providing them with housing and support services. SDHC will launch its next phase of the program (for Fiscal Years 2018–2020), with a goal of provided housing and services for up to 3,000 homeless individuals. This next phase of Housing First includes the dedication of a larger number of SDHC re-

sources, and the provision of a variety of programs.

In FY 2018, SDHC will invest the following resources for the new phase of Housing First—San Diego:

- \$25.0 million for the creation of approximately 190 additional units of Permanent Supportive Housing
- \$3.2 million for landlord engagement. SDHC plans to expand its Housing Our Heroes landlord outreach program to increase the number of available rental units for all homeless subpopulations.
- \$2.5 million for Rapid Re-Housing. Additional funding for households, and additional PSH units will be set aside for those requiring rapid re-housing assistance. The Rapid Re-Housing Plus Pilot will also be launched, and will provide 25 subsidies to families requiring rental assistance and support services longer than the two years currently permitted.
- \$637,000 to begin providing prevention and diversion services. Prevention services will help individuals and families who are at-risk of becoming homeless, and will include support like rental assistance, rental application fees, utility payments, moving costs, and security deposits, as well as case management and stabilization services. Diversion includes helping homeless individuals and families locate alternative, more permanent housing options (as opposed to emergency shelter beds), and connecting them with case management, conflict resolution, and financial assistance as needed.
- \$263,000 for the Moving On Program. This partnership with the County provides tenants of PSH units with tenant

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-based Housing Choice Vouchers so those who no longer require high-intensity services are able to move into other units, and PSH units are freed up for use.

- \$100,000 for coordinated street outreach efforts to connect homeless families and individuals with real-time opportunities for housing and services.

## **Neil Good Day Center/Day Center Facility for Homeless Adults**

As is noted earlier in this report, the Housing Commission allocates \$541,000 in CDBG funding to Father Joe's Villages for the operation of the Day Center Facility for Homeless Adults (also known as the Neil Good Day Center). The Day Center currently provides homeless individuals with access to mail services, laundry facilities, a computer lab, storage, case management, as well as medical and counseling services. Showers are currently provided at the St. Vincent de Paul Campus due to plumbing problems at the Neil Good Day Center.

Recent developments indicate that the relocation of this facility to a site closer to the St. Vincent de Paul Villages campus is no longer likely (due to Father Joe's plans to use the site as part of its five-year plan to produce an additional 2,000 permanent housing units). Since relocation of the Day Center is unlikely in the next few years, the City's Economic Development Department and the Mayor's Office are working with the Housing Commission to develop a plan to renovate the Day Center. There are a number of issues that will need to be addressed prior to a renovation, including:

- What improvements are needed at the current site (e.g. working showers, additional restrooms and storage)?

- Are there expanded services that should be provided at the renovated site?
- Will renovations occur at night, so the facility can continue to operate during the day, or will a temporary site be used to continue the provision of services so renovations can occur during the day?
- How can health and safety issues around the outside of the building be improved?

On April 25, the City Council approved the proposed FY 2018 HUD Entitlement Program Allocations, the FY 2018 Annual Action Plan, and Substantial Amendment to the FY 2015-2019 Consolidated Plan for the City. Allocations for CDBG funding through the Reinvestment Initiative were a part of that approval, and included \$2.8 million for homeless facility rehabilitation and/or acquisition. The Mayor's Office indicates that this funding will be used, in part, to add showers and restrooms to the Neil Good Day Center. Depending on the cost estimates for the needed renovation, which could be available in the next few weeks, the City may need to find additional funding for the renovation.

**Due to interest in this facility, and the potential impact on the City's homeless individuals and the surrounding community, the Council may want to confirm that a contract for the renovation will be brought before the Council (or Housing Authority)<sup>2</sup> for review.**

## **2016 Performance Audit of the Housing Commission**

In September 2016, the Office of the City Auditor issued a performance audit of SDHC. One of the findings was that SDHC

<sup>2</sup> It is still to be determined if a contract for renovation will be executed by the City or the Housing Commission for this work.



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can better demonstrate the cost effectiveness of affordable housing developments by using performance indicators and benchmarks. In its response to the audit, the Housing Commission noted the criteria it is already using in its assessment of cost effectiveness, but agreed to “enhance, augment, and establish a defined set of performance metrics in addition to the internal benchmarks currently utilized by SDHC staff and the SDHC Board.” At the Audit Committee’s review of the audit, SDHC indicated it could bring an update about its benchmarks to the Smart Growth and Land Use (SG&LU) Committee.

The Housing Commission’s response to the audit also stated that they “believe that a comprehensive report with data from all programs and revenues sources and uses would be beneficial in helping track our progress in meeting production and public policy goals with respect to affordable housing in the city of San Diego.”

**Given the interest in preserving and expanding affordable housing, as well as reducing the costs associated with these types of developments, Council may want to request an update about the status of these items at an upcoming Audit or SG&LU meeting.**

## **Federal Funding**

SDHC receives a majority of its funding from the federal government. In the FY 2018 Proposed Budget, for instance, SDHC projects it will receive \$236.8 million or

81% of its new revenue from federal sources, namely the U.S. Department of Housing and Urban Development (HUD).

On March 16, 2017, the President released his FY 2018 Budget Blueprint, which included the elimination of both the CDBG program and the HOME Investment Partnerships program. Although this is the beginning of the budget process, and Congress has the ability to preserve these programs, we note that SDHC provides important programs and services with the funding it receives from these two sources. As is noted earlier in this report, SDHC receives \$1.3 million in CDBG funding through the City for the provision of homeless shelters and services. SDHC also allocates approximately \$3.9 million in HOME Investment Partnership funding for rental housing development and to assist first time homebuyers.

Also of note, SDHC is currently receiving a 5% reduction in actual disbursements from HUD for Housing Assistance Programs, and has been told by HUD that there could be cuts ranging from 2.5% to 6% for future Housing Assistance funding.

**Due to SDHC’s reliance on federal funding, and the fact that SDHC is already seeing some cuts in federal disbursements, the City Council may want to ask what potential impact these cuts or the elimination of certain programs could have on the Housing Commission’s provision of its programs and services.**