



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: S500

Review of Proposed Transitional Storage Facility

OVERVIEW

Since the County of San Diego declared a local public health emergency on September 1, 2017 due to the Hepatitis A outbreak, the City has taken a number of steps during the current fiscal year to help address the outbreak as well as reduce homelessness. These efforts and associated expenditures were unanticipated, and therefore not included in the FY 2018 Adopted Budget.

Another such effort will come before the Housing Authority and the City Council on Tuesday, March 20, 2018 with a request to approve several actions related to establishing the City of San Diego's second Transitional Storage Center (Center). This item was reviewed by the Housing Commission Board of Commissioners (Board) on March 9, 2018. It is being forwarded to the Housing Authority and City Council without recommendation since fewer than four Board members were in favor of approving the proposed actions.

The purpose of the Center is to provide a free and secure place for individuals experiencing homelessness to keep their belongings. It is also intended to help keep belongings off of City streets, sidewalks, and storefronts. The Center will provide 1,000 storage containers, in addition to the City's existing site which offers 434 storage units, located at 252 16th Street in the East Village neighborhood of Downtown San Diego. The anticipated opening date for the Center is May 1, 2018.

Approval of this item would: 1) authorize an amendment to an existing Memorandum of Understanding (MOU) between the San Diego Housing Commission (Housing Commission) and the City of San Diego to include the responsibilities of each party related to the Center; 2) authorize execution of an agreement with a third party to operate the Center; 3) authorize the City to enter into a lease agreement for the Center; and 4) approve an amendment to the Housing Commission's FY 2018 Budget to fund current year activities.

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If approved, the initial term of the agreements would be as follows:

- MOU: March 2018 through the end of FY 2018; and
- Operating Agreement and Lease Agreement: April 1, 2018 through March 31, 2019.

The agreements above include options to extend the terms for two additional one-year periods. In addition, the MOU allows for one more nine-month period. Therefore, the maximum term for all agreements would run through March 31, 2021.

Total FY 2018 costs for the Center are estimated to be \$457,234, with an additional up to \$91,447 allowed for contingency costs, for a total of \$548,681. Estimated FY 2019 costs for the Center is currently \$1.6 million. If the options to extend the contracts up to March 31, 2021 are pursued and granted, total costs for the Center are estimated to be \$3.8 million (without accounting for contingency costs). Any additional costs resulting from the duties for the Center outlined in the proposed amendment to the MOU are not included (e.g. additional cleaning services to the exterior of the Center).

This report provides an overview of, and clarifying information for, the proposed actions establishing the new Center, including additional information on its funding plan. Our Office notes concerns regarding the lack of an identified ongoing funding source to support the Center. We also provide a recommendation for Housing Authority and Council consideration pertaining to contract extensions.

FISCAL/POLICY DISCUSSION

The request to docket the establishment of the Center as a supplemental item at the City Council on March 20, 2018 was made by the Mayor's Office, referencing several factors that create pressure to act quickly. These include: 1) the need for immediate action to address homelessness and continue increased sanitation efforts; 2) demonstrating good faith in potential negotiations relating to litigation involving treatment of homeless belongings in the public-right-of-way; 3) staff identifying the facility as an ideal space for the Center and the owner requesting prompt execution of the lease agreement; and 4) the need to complete tenant improvements to the facility to allow the Center to open by June 1, 2018 (which has since been updated to May 1, 2018).

The section below provides an overview of the proposed actions and additional clarifying information.

Overview of Proposed Actions

Approval of MOU Amendment for Program Administration

The Housing Authority and the City Council will be requested to approve an amendment to the existing MOU governing duties related to the Temporary Bridge Shelters to include duties associated with the new Center. The term of the agreement would cover the remainder of FY 2018 and include two options to extend the contract, each for a one-year period, as well as one additional nine-month period.

The Housing Commission would oversee the general administration Center, including oversight of related agreements and documenting program outcomes. The City would be responsible for the following:

- Providing the Housing Commission with a process for disposing abandoned shopping carts;
- Additional cleanings outside the Center to be provided by the Environmental Services Department at a frequency that will be determined based on need; and
- Providing regular San Diego Police Department (SDPD) patrols surrounding the Center.

The additional cleaning services are expected to be part of a new program announced in the FY 2018 Mid-Year Budget Monitoring Report, called Clean San Diego.¹ It is anticipated that additional patrolling will be absorbable within the SDPD budget.

Approval of Operating Agreement

The Housing Authority will be asked to approve an agreement with Mental Health Systems, Inc. in the amount of \$1,068,743 to operate a Transitional Storage Center for one year from April 1, 2018 to March 31, 2019. The agreement also includes options, at the Housing Commission's sole discretion, to extend the contract for one year, for up to two additional years. A contract extension is dependent upon funds being available, and budget approval provided by the Housing Authority.

Consistent with action taken when approving the Temporary Bridge Shelters, the Housing Authority and Council could request that any contract renewal option return to the Housing Authority for approval, in addition to requests for budget approvals.

Several key responsibilities of the operator include: addressing minor maintenance and repair of the Center; providing 24-hour security; entering basic intake data into the regional Homeless Management Information Systems; designating a point-of-contact who will handle issues that arise at the Center and coordinate with SDPD for security issues; establishing policies that allow for low-barrier access to the Center²; and working with City departments and the community to provide individuals with information on where they can go for other homeless services.

Consistent with the operating agreement for the *existing* storage facility, the proposed operating agreement includes a requirement that containers must be renewed once per week by checking in at the facility office. However, it is important to note that the Mayor's Office has indicated that this requirement will be removed due to concerns raised by community members at the Housing Commission Board meeting on March 9, 2018.

Approval of Lease Agreement for Center

The Real Estate Assets Department (READ) requests the City Council to approve a one-year lease agreement from April 1, 2018 to March 31, 2019 for the 22,000 square foot Center facility at an

¹ The Clean San Diego initiative builds off of the Litter and Graffiti Abatement Pilot Program. Program services include: street sweeping, litter removal (including homeless camp abatements), and waste abatement.

² According to the proposed operating agreement, access to the Center cannot be denied to individuals on account of inebriation, drug use, or mental health issues as long as they do not pose a danger to others.

estimated cost of \$212,518. The lease agreement also provides for two additional one-year terms, consistent with the operating agreement.

The READ staff report regarding the lease agreement states that the City will pay the rent, initial security deposit, and operating expenses (lease payments) with General Funds. However, READ has clarified with our Office that the Housing Commission is responsible for the lease payments, which is consistent with provisions outlined in the proposed MOU amendment. Upon approval from the Housing Authority, the lease payments will be transmitted from the Housing Commission to the City, and then onto the owner. Therefore, there will be no anticipated fiscal impact to the General Fund.

The staff report indicates that monthly rent of the Center facility begin at \$0.67 per square foot per month for the first year, or \$8 per square foot annually, and increase by 3% each following year. Our Office notes that these costs appear to be reasonable when compared to other industrial spaces being advertised for lease which generally range from about \$9 to \$14 per square foot, annually.

Approval of Amendment to Housing Commission’s FY 2018 Budget

The Housing Authority also is requested to approve an amendment to the Housing Commission’s FY 2018 Budget totaling \$457,234 to: support tenant improvements to the facility to make it suitable for operation; provide funding for Center lease payments; and support the contract with Mental Health Systems for the operation of the Center.

The Housing Commission also requests authority for contingency costs equal to 20% of the estimated FY 2018 costs, or \$91,447. This would allow for total authorized expenditures for FY 2018 of up to \$548,681, as reflected in Table 1. When the Housing Authority approved the Temporary Bridge Shelters, a contingency of up to 10% of costs requested for the initial term of the shelters was authorized. Staff indicates that the 20% contingency request is needed to allow for possible unforeseen costs related to maintenance and repairs to the facility and to cover any additional outreach or security costs that may be needed.

Table 1: Estimated Fiscal Year 2018 Costs

	FY 2018 Costs
Operating Agreement	\$267,186
Lease Costs	\$64,858
Tenant Improvements	\$125,190
<i>Subtotal</i>	\$457,234
20% contingency	\$91,447
Total	\$548,681

Summary of Funding

The staff report provides estimated Center costs for the first year as well as two additional years if the two options to extend the contract terms are pursued and granted. These costs are reflected in Table 2. Since the agreements would begin April 1, 2018, initial set-up costs and some Year 1 operational expenses, totaling \$457,234, are expected to occur in FY 2018.

Table 2: Estimated Annual Transitional Storage Center Costs

	Initial Setup and Year 1 April 2018 - March 2019	Year 2 April 2019 - March 2020	Year 3 April 2020 - March 2021	Total
Operating Agreement	\$1,068,743	\$997,227	\$1,034,118	\$3,100,088
Lease Costs	\$212,518	\$202,186	\$207,652	\$622,356
Tenant Improvements	\$125,190	-	-	\$125,190
Total	\$1,406,451	\$1,199,413	\$1,241,770	\$3,847,634

* An additional up to \$91,447 would be available for expenditure in Year 1 for contingency costs.

The Housing Commission has indicated that these current fiscal year costs would be funded by anticipated savings from the Temporary Bridge Shelters in the current fiscal year. On November 14, 2017 the Housing Authority and City Council approved agreements to operate three Temporary Bridge Shelters. The three agreements provide up to 700 beds for individuals and families experiencing homelessness to access shelter and services while they prepare for more permanent housing placements. The provider agreement for the Shelter for Single Women and Families contains options to extend the contract term up to November 30, 2018 due to plans to build permanent supportive housing on the site. However, the other two sites have agreement options to extend the contract term up to December 31, 2019. Therefore costs for Temporary Bridge Shelters could continue into FY 2020 if all contract extension options are approved.

The Housing Commission currently estimates that FY 2018 year-end savings for the shelters will be about \$2.5 million out of the \$8.3 million in total projected costs for FY 2018. In the Select Committee on Homelessness Meeting on February 5, 2018, Housing Commission staff indicated that it was able to achieve significant savings on contracts for shelter equipment and supplies as compared to the amount budgeted. They also attributed savings to not all shelters opening on December 1, 2017 as planned,³ and that providers did not have a good reference for estimating their costs for this new program.

Of the \$2.5 million in projected FY 2018 savings from the Temporary Bridge Shelters, \$1.6 million is expected to cover the Center's currently estimated FY 2019 costs and, after accounting for FY 2018 costs for the Center, Housing Commission staff plans to use the remainder to partially cover the costs for the Temporary Bridge Shelters in FY 2019. Housing Commission staff plans that the rest of the FY 2019 costs for the shelters will be supported by the Housing Commission's real estate reserves with the expectation that these funds would be reimbursed from the City's Successor Agency (specifically, the Low-Moderate Income Housing Asset Fund). The total FY 2019 costs for the Temporary Bridge Shelters are unknown at this time.

Our Office notes concerns that the lack of ongoing funding sources for the Center as well as the Temporary Bridge Shelters creates an ongoing budget problem to resolve each fiscal year that these programs are operational. Ongoing funding sources for both programs are unknown at this time.

³ The shelter serving adults, operated by Alpha Project for the Homeless opened on December 1, 2017. The shelter serving veterans, operated by Veterans Village of San Diego opened December 22, 2017. Finally, the shelter serving adult women and families, operated by Father Joe's Villages opened January 2, 2018.

CONCLUSION


The actions being requested of the Housing Authority and Council would allow: 1) for an amendment to an existing MOU between the Housing Commission and the City of San Diego to include duties for administering the Center; 2) for execution of an agreement with Mental Health Systems, Inc. to operate the Center; 3) the City to enter into a lease agreement for the Center; and 4) budget authority of up to \$548,681 (including contingency costs) to implement these activities for Fiscal Year 2018.

If approved, the initial term of the MOU would cover the rest of the current fiscal year, and the operating agreement and the lease agreement would run from April 1, 2018 through March 31, 2019. All proposed agreements include options to extend the contract terms for a maximum period of up to March 31, 2021.

This report provides an overview of, and clarifying information for, the proposed actions to establish the Center, including additional information on its funding plan. Our Office notes concerns that the Center lacks an ongoing funding source and relies upon anticipated savings from the set-up and operation costs of the Temporary Bridge Shelters for the current fiscal year. Without an ongoing funding source identified, funding the Center will continue to be a budget problem that needs resolution each fiscal year.

Finally, our Office recommends that, consistent with the approval of the Temporary Bridge Shelters, the Housing Authority and Council request that any Center agreement extensions be brought to the Housing Authority for approval.


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