



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 2, 2019

IBA Report Number: 19-11

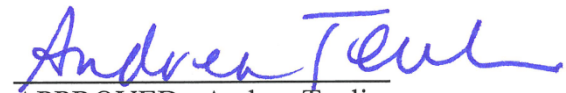
Budget Review Committee Docket Date: May 6, 2019

Review of City Agencies FY 2020 Budgets: San Diego Housing Commission

The IBA has reviewed the San Diego Housing Commission (SDHC) proposed budget which is scheduled to be heard Monday, May 6, 2019. Our review is attached.



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San Diego Housing Commission

The San Diego Housing Authority (Housing Authority) is composed of the members of the City Council and governs the San Diego Housing Commission (SDHC). The Housing Authority provides final approval of various actions, including the SDHC budget.

The Housing Authority is advised by a seven-member board of commissioners, each appointed by the Mayor, and confirmed by the City Council. The SDHC's main programs include 1) providing low-income households rental assistance supported by federal funds; 2) creating and preserving affordable housing; and 3) providing homeless individuals with housing and necessary supportive services.

On May 3, 2019, the SDHC Board will review the FY 2020 Proposed Budget and make a recommendation to the Housing Authority. SDHC staff recommends that the Board advise the Housing Authority to approve the Proposed Budget.

SDHC's FY 2020 Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 6.

Impacts of SDHC's FY 2020 Budget Proposal

The FY 2020 Proposed Budget for the SDHC is \$452.4 million, which is an increase of \$64.7 million, or 16.7%, over the FY 2019 Adopted Budget. This contrasts with the year over year change between the FY 2018 and FY 2019 Adopted Budgets which *decreased* by 10.4%.

The SDHC has four major divisions:

- Rental Assistance (\$185.5 million)
- Real Estate (\$105.6 million)
- Homeless Housing Innovations (\$41.1 million)
- Operations Support (\$19.2 million)

Together, these divisions make up \$351.4 million, with the remaining \$101.1 million budgeted in reserves.

The table below displays the SDHC's FY 2020 Proposed Budget by activity with Operations Support allocated to each activity. The shaded area represents activities that fall under the SDHC's Real Estate division.

BUDGET SUMMARY BY ACTIVITY			
Activity	FY 2020 Proposed Budget	FY 2019 Budget	Change
Rental Assistance	\$ 195,755,000	\$ 180,528,000	\$ 15,227,000
Homeless Housing Innovations	43,584,000	34,612,000	8,972,000
Property Operations	72,069,000	58,190,000	13,879,000
Real Estate Finance & Asset Manatement	31,930,000	41,944,000	(10,014,000)
Homeownership	4,033,000	3,457,000	576,000
Affordable Housing Programs	1,027,000	3,120,000	(2,093,000)
Loan Services	1,090,000	1,211,000	(121,000)
Housing Development Partners	1,878,000	1,439,000	439,000
Ending Fund Balance	101,063,000	63,274,000	37,789,000
Total Budget	\$ 452,429,000	\$ 387,775,000	\$ 64,654,000

City Agencies: San Diego Housing Commission

As indicated in the table, the Rental Assistance program is the SDHC's largest program. Within Rental Assistance, federal housing assistance vouchers are funded at \$169.1 million which supports approximately 15,400 households with rental assistance vouchers.

Funding Sources

The FY 2020 Proposed Budget includes \$452.4 million in resources, of which \$121.7 million is attributed to funds carried over from the previous fiscal year, otherwise known as the beginning fund balance.

Total new revenue for FY 2020 is \$330.7 million. Together, total available resources in FY 2020 have increased by net of \$64.7 million. This is comprised of a \$13.7 million increase in fund balance and \$51.0 million in new revenue.

Increase in Beginning Fund Balance

The amount of funds that the SDHC anticipates being available going into FY 2020 is a net increase of \$13.7 million, or 12.6%, as compared to FY 2019. This increase is primarily attributed to the following:

- An increase of \$22.6 million due to pending affordable housing projects. Once all financing components are secured and approved (tax credits, developer funding, etc.) for projects, SDHC issues the loans. Fund sources associated with this increase include the Community Development Block Grant Affordable Housing Revolving Loan Fund, HOME funds, and Affordable Housing funds.
- The increase above is primarily offset by approximately \$6.0 million for decreases in property reserves attributed to funding the Bridge Shelters and the

BUDGET BY FUNDING SOURCE			
Funding Source	FY 2020 Proposed Budget	FY 2019 Adopted Budget	Change
Federal			
Section 8/MTW	\$ 241,970,000	\$ 203,206,000	\$ 38,764,000
HOME	13,278,000	11,689,000	1,589,000
Housing Innovation Funds	5,734,000	5,888,000	(154,000)
CDBG	12,377,000	7,375,000	5,002,000
Other Federal Funds	80,000	82,000	(2,000)
Total Federal	273,439,000	228,240,000	45,199,000
Local			
Real Estate	34,671,000	32,689,000	1,982,000
Unrestricted Funds	2,601,000	2,624,000	(23,000)
Affordable Housing Fund	7,049,000	10,981,000	(3,932,000)
Other Local Funds	5,032,000	4,726,000	306,000
Total Local	49,353,000	51,020,000	(1,667,000)
Total State	7,944,000	480,000	7,464,000
Contingency Reserve	11,576,000	13,987,000	(2,411,000)
Program and Property Reserves	110,117,000	94,048,000	16,069,000
Total Sources	\$ 452,429,000	\$ 387,775,000	\$ 64,654,000

City Agencies: San Diego Housing Commission

Storage Connect Center for FY 2019.

Increase in New Revenue

The amount of new resources the SDHC anticipates being available for FY 2020, is a net increase of \$51.0 million, or 18.2%, as compared to the FY 2019 Adopted Budget. This increase is primarily attributed to the following:

- \$38.8 million in Section 8 Moving to Work funds (MTW) which includes \$26.4 million coming from the SDHC's request for use of its federal MTW reserves that are held by the U.S. Department of Housing and Urban Development ("HUD-held reserves"). These funds are proposed to support the Bridge Shelter costs in FY 2020 as well as capital expenditures. Another driver of this increase is funding provided by HUD for increased rental assistance for the San Diego area. This will go to support SDHC's increase in payment

standards for the Choice Communities Initiative, as discussed in more detail later in this report.

- \$5.0 million in Community Development Block Grant (CDBG) for the Affordable Housing Revolving Loan Fund and \$1.6 million in HOME funds to support affordable housing projects.
- \$7.5 million increase in one-time state funding related to the City allocating a portion of its Homeless Emergency Aid Program (HEAP) funds to the SDHC to implement programs on the City's behalf.

The updated fund balance and revenue projections for FY 2020 establish the revenue base from which the SDHC can allocate for priority uses. The table below displays the Proposed Budget by funding source.

BUDGET BY FUNDING SOURCE			
Funding Source	FY 2020 Proposed Budget	FY 2019 Adopted Budget	Change
Federal			
Section 8/MTW	\$ 241,970,000	\$ 203,206,000	\$ 38,764,000
HOME	13,278,000	11,689,000	1,589,000
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City Agencies: San Diego Housing Commission

Budget by Funding Use

The FY 2020 Proposed Budget includes \$38.1 million in personnel expenditures, reflecting salaries and benefits of 341.00 Full-time Equivalent positions. It also includes \$414.3 million in other non-personnel expenditures. Together, this represents \$64.7 million in additional expenditures for FY 2020.

Personnel Expense (PE)

Of the total increase in budgeted expenditures, \$1.6 million, or 4.5%, is attributed to personnel expenses (salaries and benefits). According to SDHC, this is primarily reflective of the additional 11 positions for FY 2020.

Non-Personnel Expense (NPE)

The Proposed Budget includes an additional \$63.0 million, or a 17.9% increase in NPE. Changes in NPE from the FY 2019 budget are primarily in three categories: 1) reserves, 2) capital expenditures, and 3) housing program expenses.

Reserves

SDHC has three reserve categories: Program Restricted Reserves, Property Reserves, and Contingency Reserves, which in the FY 2020 Proposed Budget total \$101.1 million. This represents the amount of funding in the SDHC that is not anticipated to be spent in FY 2020. The balance is an increase of \$37.8 million, or 59.7%, from FY 2019.

This is primarily driven by the increase in Program Restricted Reserves related to FY 17, 18, 19, and 20 Notices of Funding Availability for affordable housing projects. Similar to the increase in beginning fund balance discussed above, once all financing components are secured, the loans will be funded.

Our office notes that there is also a decrease of \$2.4 million in contingency reserves. The SDHC's practice in recent years has been to set aside 5% of the new revenue it receives into a contingency reserve to mitigate unanticipated costs or funding decreases. Our office has supported this practice. However, beginning in FY 2020 the SDHC is reducing its contingency reserve to equal 3.5% of new revenue, which is \$11.6 million in FY 2020. The funding that would have otherwise gone towards the higher contingency reserve threshold of 5%, will instead be used to support the Bridge Shelters in FY 2020.

Capital Expenditures

The FY 2020 SDHC Proposed Budget allocates \$41.6 million in capital expenditures. Of this amount, \$30.0 million is for acquisitions of three buildings for affordable housing, which according to the SDHC, will result in 120 affordable housing units including those for homeless individuals. In addition, \$11.6 million is provided for rehabilitation and renovations to 303 SDHC-owned affordable units.

This funding level is a \$7.4 million increase over the FY 2019 Adopted Budget. The FY 2020 capital budget reflects a greater focus on acquisitions than the FY 2019 Adopted Budget, which was more focused on rehabilitation and renovation projects.

Housing Program Expenditures

Housing Program Expenses include rental assistance payments, real estate financing, homelessness programs, and other program grants. The total budget for Housing Program Expenses for FY 2020 is Proposed \$239.5 million. This is a net increase of \$15.8 million, or 7.1% from FY 2019, and is driven primarily by:

City Agencies: San Diego Housing Commission

- \$11.7 million increase for federal Moving to Work to fund the increase in payment standards for the Choice Communities Initiative. The initiative provides families that receive rental assistance with more flexibility on choosing which neighborhood to live, in which some communities trigger a higher payment standard. The payment standard is the maximum subsidy payment that the voucher would pay for a rental. Families pay a predetermined amount of rent plus any extra rent in excess of the voucher.
- \$6.9 million increase for HEAP, excluding administrative costs.
- \$1.3 million increase for the Bridge Shelters and the Storage Connect Center. This is driven by the last contract extension for the Bridge Shelters that incorporated recommended staffing changes which led to increased costs.

These increases are offset with several decreases including:

- \$2.8 million related to fewer loans expected to be made to developers in FY 2020.
- \$1.7 million due to a discontinued housing rehabilitation loan program funded with redevelopment agency funds. According to the SDHC, this funding will be returned to the City.

Funding for Homeless Programs and Services

Most of the SDHC's homelessness programs are included within the \$239.5 million proposed for Housing Program Expenditures. The FY 2020 Proposed Budget includes a total of \$104.4 million for homelessness, which is a \$16.1 million in-

crease over FY 2019. These programs are funded with a variety of funding sources. Of this increase, \$7.5 million is attributed to SDHC receiving a portion of the City's one-time HEAP funding. An additional \$7.9 million is attributed to MTW voucher support.

Other notable increases include:

- \$239,000 for Cortez Hill Family Center
- \$315,000 for Rapid Rehousing. Our Office notes that \$1.7 million was added in HEAP funding for Rapid Rehousing. This combined with a decrease in other funds results in a net increase of \$315,000 for the program. According to SDHC, the decrease is intended to be reflective of actual spending trends in FY 2019.

The table below reflects a summary of the SDHC's homelessness programs for FY 2020. We note that of the total, \$12.6 million is comprised of City General Fund, CDBG, HEAP, and Low-to-Moderate Income Housing Asset Fund which are funds that are sent from the City to the SDHC so that the programs can be implemented on the City's behalf. An additional \$13.3 mil-

Summary of FY 2020 Homelessness Programs

Program	FY 2020 Proposed Budget
Federal Voucher Support	\$ 35,318,366
Temporary Bridge Shelters	11,532,303
Housing First SD 3.0	9,973,916
Rapid Rehousing	7,056,832
Other Programs	2,323,616
Storage Connect Center	2,120,174
Interim Shelter	2,042,879
Housing Navigation Center	1,608,908
Admin Costs	1,254,568
Cortez Hill	980,739
Transitional Housing	664,852
Day Center	541,250
Serial Inebriate Program	290,000
Think Dignity Storage Center	56,387
Total	\$ 104,409,284

City Agencies: San Diego Housing Commission

lion is attributed to City programs paid for by SDHC in FY 2020.

Issues to Consider

Impacts of Bridge Shelters and Storage Connect Center on SDHC's Budget

As we discussed in our review of the Mayor's FY 2020 Proposed Budget section on Homelessness (see the Key Citywide Issues: Homelessness), our Office continues to raise concerns about the lack of a stable funding plan to support the City's Bridge Shelters and the Storage Connect Center, and continued use of one-time funding.

When these programs were established, no new revenue source was identified. Consequently, the SDHC used its property reserves to support them. Property reserves are funded with revenue generated from affordable housing properties that the SDHC owns and is set aside for one-time expenses for capital improvements, enhancements, and major repairs, as well as to purchase new affordable housing. Property reserves are the net income from SDHC properties after accounting for the costs to operate them.

Implications of the use of property reserves are seen in the SDHC's Proposed Budget. In recent years, the SDHC's contingency reserve has been maintained at 5% of new revenue and has historically been funded with property reserves. However, since the beginning of the Bridge Shelter Program, SDHC has used some of its MTW funds for the contingency reserve in order to maintain the 5% practice. In the FY 2020 Proposed Budget the contingency reserve level is reduced to 3.5% of new revenue in order to support the \$5.2 million from property reserves going towards the Bridge Shelters and Storage Connect Center.

In addition, the budget includes \$8.0 million in one-time federal MTW funds to support these programs, since according to the SDHC, continued use of property reserves is unsustainable. As explained our Office's review of the Mayor's FY 2020 Proposed Budget, this does not affect allocation for the set number of rental assistance vouchers since SDHC has the ability to use a portion of its MTW funds for other initiatives. However, it does have the effect of making less available for those initiatives. With these funds SDHC has supported rapid rehousing, more than 4,000 rental housing vouchers to address homelessness, and the SDHC Achievement Academy aimed at providing resources to help individuals and families become more financially self reliant.

The City has backfilled some of the SDHC's costs for supporting these programs by providing funds for affordable housing projects. However, it has been done using limited or one-time funding, and the funds provided falls short by \$13.1 million, including FY 2020 costs.

As these programs continue to be funded on a one-time basis, it is important to recognize the associated trade-offs and budget implications. It is unknown how long this funding strategy can be continued.