

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Housing Authority Item Number: 2, 4

Redevelopment Agency Item Number: 3

City Council Item Number: 331

Subject: 1. Sale/Purchase of a Housing Commission First Trust Deed Note, with an Option to Sell the Hotel Metro Site Located at 434 and 435 13th Street and;
2. Funding Plan for the Homeless Emergency Shelter Program

OVERVIEW

On September 11, 2007 multiple items related to the Homeless Emergency Shelter Program will be heard by the Housing Authority, Redevelopment Agency, and City Council. This report reviews the items in regard to *funding* the Homeless Emergency Shelter Program. It does not include a discussion on City Council Item 330 - Site Location of the Single Adult Shelter FY 2008 Homeless Emergency Winter Shelter Program.

City Council Policy 000-51 provides the general framework in regard to addressing homelessness in the City of San Diego. A key component of the policy is the Emergency Shelters & "Safe Havens" section which states:

- 9) A variety of emergency shelter and safe-haven options is necessary to serve the homeless who seek assistance and to stabilize individuals or families who have become chronically homeless. These forms of respite are essential to the process of exposing the many special homeless populations to the Continuum.
- 10) There is a need for temporary shelters to serve the homeless during extreme weather conditions. The City Manager will provide annual recommendations for the operation of a dispersed site, flexible homeless shelter program, which responds to weather criteria between November 1st through March 31st.

In previous fiscal years, funding for the winter homeless program has been provided by a combination of Emergency Shelter Grant (ESG) Funds, the San Diego Housing Commission, and local non-profit organizations for in-kind services provided at the facilities. In years prior to Fiscal Year 2007, the Housing Commission used a segment of their Section 8 Housing and Urban Development (HUD) grants to fund the Homeless Emergency Winter Shelter Program. However, in Fiscal Year 2007, HUD regulations changed and the Housing Commission was unable to use these funds for the Program. As a short term funding solution for Fiscal Year 2007, the Housing Commission funded the program from their reserves. The use of the Housing Commission's reserves to fund the Program was a serious concern for the IBA as detailed in our October 23, 2006 Memorandum No. 06-27.

During the development of the Fiscal Year 2008 budget, the Housing Commission informed the Mayor that they would be unable to continue to fund the Winter Shelter Program. In May, the Mayor presented to the City Council a new allocation process for Community Development Block Grant (CDBG) funds and Social Services programs. Included in the Mayor's proposed Social Services allocation was funding for the Homeless Emergency Winter Shelter Program at the expense of other services.

At the **May 15, 2007** City Council meeting, the Council heard the Mayor's Fiscal Year 2008 Social Services Program funding proposal. During the meeting, a discussion occurred on funding options for the Fiscal Year 2008 Homeless Emergency Shelter Program. The City Council adopted a proposal to restore the Social Services Program to Fiscal Year 2007 levels which did not include funding for the Homeless Emergency Shelter Program. Additionally, they directed the San Diego Housing Commission and the Centre City Development Corporation to come back to the Council with a funding source for the Homeless Emergency Winter Shelter Program.

On **June 5th**, the San Diego Housing Commission presented the Housing Authority with options to fund the Homeless Emergency Shelter Program in FY 2008. One option included the sale of property located on 16th Street between "K" Street and Imperial Avenue from the Housing Commission to the Centre City Development Corporation (CCDC). The IBA expressed concerns about the utilization of one-time revenues (sale of asset) for recurring expenses (the Shelter).

After further discussions, it was determined that the 16th Street site was an unacceptable option, because revenues received would be restricted and unable to be utilized to fund the Homeless Emergency Shelter Program. The Housing Authority requested the Commission to further explore options and return on September 11. (While the agendas for September 11 for the Housing Authority (Item 3) and Redevelopment Agency (Item 2) carry forward the original items from June 5, it is our understanding that these items should be returned to staff.)

On **June 11th**, the City Council modified the Mayor’s Proposed Fiscal Year 2008 Budget to include \$465,000 from the General Fund Reserves to pay for the Winter Shelter (Resolution 302734). This action was subsequently vetoed on June 13th by the Mayor and the Council did not override the Mayor’s veto.

FISCAL/POLICY DISCUSSION

The items before the legislative bodies on September 11 provide recommendations on how to immediately fund the Homeless Emergency Shelter Program in Fiscal Year 2008 and how to support the operations of the Program in the long term.

Fiscal Year 2008 Funding

The proposed Fiscal Year 2008 Homeless Winter Shelter Program includes funding from the Emergency Shelter Grant (CDBG), a donation from the United Way, and proceeds from a proposed property transaction between CCDC and the Housing Commission:

Funding Source	Amount
Emergency Shelter Grant/CDBG	\$201,676
United Way	\$129,800
CCDC/SDHC property transaction	\$344,200
Total:	\$675,676

The proposed actions before the Housing Authority and the Redevelopment Agency are the sale and purchase of a First Trust Deed Note with the option to sell the Hotel Metro site located at 434 and 435 13th Street. The Hotel Metro is a single-room-occupancy (SRO) residential hotel that houses extremely low-income residents of Downtown San Diego. The Housing Commission currently owns the land and has provided three loans on the building. The proposed action would essentially transfer loan repayments from the Housing Commission to CCDC upon approval. CCDC would in turn make the principal payment of \$344,200 to the Housing Commission. The Housing Commission would then transfer these unrestricted funds to the City to fund the Homeless Emergency Shelter.

A Trust Deed is a common way to structure real estate purchases, where the title to a property is held in trust until the loan for the property is paid. A Trust Deed is placed in a specific position against any given property. The lien may be a "first trust deed, second trust deed, third trust deed," and so on. Each position greater than first puts that lien junior to that in front of it.

CCDC has commissioned a study on property management and potential rehabilitation of the Hotel Metro which will be completed in October 2007. Upon its completion, CCDC staff will review the findings and make a determination as to whether to buy the property and how that property would be used. Under the proposed action, exercising the option to purchase the site and the remaining loans and the determination of future use will be executed by the Corporation’s Chief Executive Officer and the Housing Commission’s

President. If this comes to fruition, these additional funds could be designated for shelter costs in the future.

This action is similar to the proposal in June in that one-time revenues are being proposed to fund a recurring expense. This new proposal differs in that the Housing Commission is not out right selling the site and the asset remains on their books at this time, though exercising of the option would change this. Nevertheless, one-time revenues are being utilized.

Long Term Funding Plan

The Housing Commission is proposing five actions that will provide a sustainable, multi-year funding plan for the Homeless Emergency Shelter Program:

1. **Continue to work with the County of San Diego.** The IBA is supportive of these efforts, but encourages discussions be expanded to include any other entities that may have a vested interest in this program, if not already doing so.
2. **Utilize the Housing Trust Fund for a portion of Cortez Hill transitional housing program budget.** The Cortez Hill Family Center receives \$635,000 from the City of San Diego CDBG Social Services Program allocation. Upon review by the Housing Commission it was determined that since Cortez Hill provides transitional housing, the Commission will be able to provide approximately \$200,000 in operating costs from the Housing Trust Fund, commencing in Fiscal Year 2009. This could free up \$200,000 in CDBG funds for the Homeless Shelter.
3. **Consider reducing grant funding for social services programs that use CDBG Social Services.** The Housing Commission recommends multiple methods in which the City could reduce allocations of CDBG Social Services funding along with pursuing alternative funding sources for these services to ensure no reductions are made. In conjunction with Councilmember Atkins previous declaration to docket the discussion of CDBG allocations at the Budget and Finance Committee in the fiscal year, the IBA agrees that a complete and thorough review of the allocations be studied to examine Councilmembers' priorities and whether other funding sources may exist that could enable CDBG funding to be reallocated to other programs.
4. **Commit City revenues freed up by items 2 and 3 for the Homeless Emergency Shelter Program.** The IBA is supportive of utilizing CDBG Social Services funding to provide a sustainable and long term solution for funding the Homeless Emergency Shelter Program. However, if any funds are available after the CDBG review, priorities will need to be identified and it is not certain that the Homeless Emergency Shelter Program will be allocated full funding.
5. **Explore establishing a Winter Shelter Reserve Fund in the Fiscal Year 2009 Housing Commission Budget.** The proposed action would utilize funds that would be received in the future if the Housing Commission's remaining Hotel Metro assets are sold to CCDC and a separate ground lease assignment action is

processed and approved. At the given time there is no certainty to these actions. However a further discussion on the best use of these proceeds, including all other Housing programs, should be explored.

The IBA believes additional discussion and study are required to provide a sustainable source of funding for the Homeless Emergency Shelter Program.

CONCLUSION

Although the IBA is concerned about the practice of utilizing one-time revenues for recurring expenses, given the current fiscal climate and the identification of a solution that benefits the City, the Housing Commission, and CCDC, the IBA supports the Fiscal Year 2008 Funding Plan for the Homeless Emergency Shelter Program. As mentioned above, the IBA believes additional actions, including the review of CDBG allocations, need to occur before the City can say that a solution for long term funding has been identified.

A final issue that the IBA would like to raise is the difficulty the public may face in understanding this issue given three separate stand alone reports on three legislative agendas. When an item encompasses multiple legislative bodies, a joint consolidated report would be beneficial in order to facilitate understanding of this matter.

[SIGNED]

Lisa Celaya
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst