



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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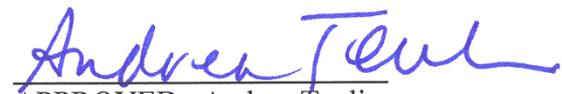
Budget Review Committee Docket Date: May 7, 2018

Review of City Agencies FY 2019 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 7, 2018. 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. Its 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 4, 2018, the San Diego Housing Commission (SDHC) Board will review the FY 2019 Proposed Budget. SDHC staff recommends, that the Housing Commission recommend, that the Housing Authority approve the proposed budget. SDHC's FY 2019 Proposed Budget is scheduled to be heard at the Budget Review Committee meeting on May 7.

Impacts of SDHC's FY 2019 Budget Proposal

The FY 2019 Proposed Budget for the SDHC is \$387.8 million, which is a decrease of \$45.2 million, or 10.4%, over the FY 2018 Adopted Budget.

The SDHC's activities are administered through four divisions for a total of \$324.5 million, excluding reserves: 1) Rental Assistance (\$171.8 million); 2) Real Estate (\$101.1 million); 3) Homeless Housing Innovations (\$32.7 million); and 4) Operations Support (\$19.0 million). The Rental Assistance and Real Estate divisions account for 52.9% and 31.2% of the Commission's budget, respectively, totaling nearly 85%. Reserves are budgeted at \$63.3 million, which is a decrease of \$21.0 million (33.2%) from the FY 2018 Adopted Budget. Together, the total SDHC proposed budget for FY 2019 is \$387.8 million.

The table below displays the SDHC's FY 2019 Proposed Budget by activity with Operations Support allocated to each activity. The shaded area represents activities that fall under the Commission's Real Estate division. As indicated in the table, the Rental Assistance program is the SDHC's

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY			
Activity	FY 2019 Proposed Budget	FY 2018 Budget	Change
Rental Assistance	\$180,528,000	\$174,994,000	\$5,534,000
Homeless Housing Innovations	34,612,000	24,086,000	10,526,000
Property Operations	68,562,000	94,514,000	(25,952,000)
Real Estate Finance	31,572,000	46,140,000	(14,568,000)
Homeownership	3,457,000	3,672,000	(215,000)
Rehabilitation and Affordable Housing Prog	3,120,000	2,547,000	573,000
Loan Services	1,211,000	1,387,000	(176,000)
Housing Development Partners	1,439,000	1,353,000	86,000
Ending Fund Balance	63,274,000	84,312,000	(21,038,000)
Total Operating Budget	387,775,000	433,005,000	(45,230,000)

City Agencies: San Diego Housing Commission

largest program. Within Rental Assistance, federal housing assistance vouchers are funded at \$160.5 million which supports approximately 15,400 households with federal rental assistance vouchers.

Most of the SDHC's resources are restricted to certain programs or purposes. Of the \$387.8 million in available resources for FY 2019, all but \$11.8 million (which includes \$6.8 million in SDHC local funds from the contingency reserve) are from restricted sources, including: Section 8 rental assistance, HOME funds, and the Affordable Housing Fund.

Funding Sources

The FY 2019 Proposed Budget includes \$387.8 million in resources, of which \$108.0 million is attributed to funds carried over from the previous fiscal year (fund balance). The other \$279.7 million

is attributed to new revenue, or funding that is anticipated to be received and expended during FY 2019. Together, total available resources in FY 2019 have decreased by a net of \$45.2 million, or 10.4%, over the FY 2018 budget. This decrease is comprised of \$31.9 million in fund balance and \$13.3 million in new revenue.

Decrease in the Beginning Fund Balance

The \$108.0 million in fund balance is a decrease of \$31.9 million from FY 2018. The decrease in beginning fund balance as compared to the beginning fund balance for FY 2018 is primarily attributed to the following:

- A decrease of \$11.3 million in Affordable Housing Funds primarily for loans to developers.

HOUSING COMMISSION FUNDING SOURCES			
Funding Source	FY 2019 Proposed Budget	FY 2018 Budget	Change
Federal Sources			
Section 8/Moving to Work (MTW)	\$208,019,000	\$221,187,000	(\$13,168,000)
HOME	11,689,000	15,581,000	(3,892,000)
Housing Innovation Funds	5,888,000	5,688,000	200,000
CDBG	8,335,000	8,335,000	-
Other Federal Funds	82,000	85,000	(3,000)
Total Federal	\$234,013,000	\$250,876,000	(\$16,863,000)
Local Sources			
SDHC Real Estate	60,182,000	73,027,000	(12,845,000)
Unrestricted	4,868,000	6,243,000	(1,375,000)
Affordable Housing Fund	62,315,000	74,025,000	(11,710,000)
Other Local Funds	11,628,000	13,703,000	(2,075,000)
Total Local	\$138,993,000	\$166,998,000	(\$28,005,000)
State Sources			
Total State	\$782,000	\$480,000	\$302,000
Contingency Reserve			
Contingency Reserve - Federal	7,194,000	-	7,194,000
Contingency Reserve - Local	6,793,000	14,652,000	(7,859,000)
Total Contingency Reserve	13,987,000	14,652,000	(665,000)
Total Federal, Local, State	\$387,775,000	\$433,005,000	(\$45,230,000)

City Agencies: San Diego Housing Commission

- A decrease of \$8.3 million in SDHC Real Estate funds for the implementation of the three bridge shelters and for acquisitions and rehabilitation of SDHC properties.
- A decrease of \$8.0 million in federal Section 8/Moving to Work (MTW) funds transferred to the contingency reserve in order to free up SDHC Real Estate funds to support the bridge shelters and to also maintain contingency reserves at 5% of new revenue.

Decrease in New Revenue

The FY 2019 Proposed Budget also includes a total of \$279.7 million in new revenue, which is a net decrease of \$13.3 million, or 4.5%, over FY 2018. Significant adjustments contributing to this decrease in revenue include:

- \$5.6 million in less federal reserves held at the U.S. Department of Housing and Urban Development largely used for property acquisition and rehabilitation of SDHC properties.
- \$4.5 million decrease in SDHC Real Estate funds from FY 2018 proceeds attributed to issuing debt against a SDHC-owned property to rehabilitate other SDHC properties. No such pro-

ceeds are expected for FY 2019.

- \$3.1 million in less loan repayments anticipated for the federal HOME program in FY 2019.

The FY 2018 fund balance expenditures and decreases in new revenue for the upcoming fiscal year establish the revenue base for the 2019 fiscal year from which to allocate for priority uses.

Budget by Funding Use

The FY 2019 Proposed Budget includes \$36.5 million in personnel expenses (PE) and \$351.3 million in non-personnel expenditures (NPE). With a \$2.1 million increase in PE and a \$47.3 million decrease in NPE, total changes in expenditures are \$45.2 million.

Personnel Expense (PE)

The proposed budget includes \$36.5 million in PE costs which is an increase of \$2.1 million, or 6.0%, over FY 2018. According to the SDHC, this increase is primarily due to a 3% cost-of-living-adjustment and average 2.5% performance incentive. The proposed budget also maintains the same level of staff as the FY 2018 budget of 330.00 FTE positions.

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USE			
	FY 2019 Proposed Budget	FY 2018 Budget	Change
FTE	330.00	330.00	-
Personnel Expenses	\$36,463,000	\$34,387,000	\$2,076,000
Housing Program Expense	223,526,000	233,053,000	(9,527,000)
Property Expense	16,748,000	15,656,000	1,092,000
Supplies, Services, Other	10,396,000	9,657,000	739,000
Debt Principal Payments	3,172,000	3,153,000	19,000
Capital Expenditures	34,196,000	52,787,000	(18,591,000)
Reserves	63,274,000	84,312,000	(21,038,000)
Total Budget	\$387,775,000	\$433,005,000	(\$45,230,000)

Office of the Independent Budget Analyst

May 2018

City Agencies: San Diego Housing Commission

Non-Personnel Expense (NPE)

The Housing Commission's FY 2019 Proposed Budget includes \$351.3 million in NPE, when including total reserves. This is a decrease of \$47.3 million, or 11.9%. Changes in NPE from FY 2018 are primarily in three categories: 1) reserves, 2) capital expenditures, and 3) housing program expenses.

Reserves

The Housing Commission has three reserve categories, including: Program Restricted Reserves, Property Reserves, and Contingency Reserves. The FY 2019 Proposed Budget includes \$63.3 million in total reserves, which is a decrease of \$21.0 million, or 25.0% from FY 2018. The decrease is primarily attributed to the use of property reserves. Property reserves are funds generated from SDHC properties and are set aside for major capital improvement needs, replacements, enhancements, and repairs.

The decrease in property reserves reflects funding going to support expenditures for the three bridge shelters (\$10.1 million), which began in the winter of 2017, and a new transitional storage center (\$1.7 million) which was approved by the Housing Authority and City Council on March 20, 2018. In addition, approximately \$9.2 million is planned from property reserves to fund renovations and rehabilitate SDHC-owned properties. This \$9.2 million allocation from reserves makes up a portion of the \$34.2 million capital budget.

Capital Expenditures

The FY 2019 Proposed Budget includes \$34.2 million for capital expenditures. This is a decrease of \$18.6 million, or 35.2%, from FY 2018. This decrease is primarily attributed to a \$18.3 million de-

crease in property acquisitions planned for FY 2019.

The SDHC capital budget includes \$6.8 million (compared to \$25.0 million in FY 2018) for acquisitions and various comprehensive renovation projects totaling \$18.0 million.

Housing Program Expenditures

Housing Program Expenses include rental assistance payments, real estate financing, and Homeless Housing Innovations and other program grants. The FY 2019 Proposed Budget includes \$223.5 million in Housing Program Expense costs. This is a decrease of \$9.5 million, or 4.1% over FY 2018, and is driven by the following:

- A decrease of \$10.0 million in Affordable Housing Funds. This is related to seed money set aside in FY 2018 for an Affordable Housing Transit Oriented Development revolving loan fund. The SDHC indicates that this program is currently on hold.
- A decrease of \$14.6 million primarily due to fewer loans expected to be made to developers in FY 2019.

These decreases are offset with the following increases:

- \$13.4 million for City homelessness programs. This includes \$10.1 million for the bridge shelters, \$1.7 million for the Transitional Storage Center, and \$1.6 million for the Housing Navigation Center.
- \$5.6 million attributed to the calculation change for determining the rental assistance subsidy paid to landlords on behalf of participants. This adjustment is related to the Public Housing and Housing Choice Voucher program.

City Agencies: San Diego Housing Commission

Issues to Consider

Funding for Homeless Programs and Services

The FY 2019 Proposed Budget for the Housing Commission includes \$88.3 million for homeless program expenditures. This is an increase of \$17.4 million or 24.5% over FY 2018 (including \$1.1 million in one-time General Funds provided for Homeless Prevention and Diversion in FY 2018).

City's Homeless Shelters and Services Programs

Of the Housing Commission's proposed expenditures for homeless programs and services, approximately \$2.6 million or 3.0% is proposed to come from the City's General Fund.

Of this amount, \$2.3 million is related to contracts administered by the SDHC for the City's homeless shelters and services programs through a Memorandum of Understanding (MOU) with the City. Funding to operate these programs is passed through the City's Economic Development Department to the SDHC.

Additional City funds include \$300,000 in General Funds and \$250,000 from the Low and Moderate Income Housing Asset Fund (LMIHAF) to partially support the Housing Navigation Center, anticipated to open this fall. The other funding component for the Housing Navigation Center is Community Development Block Grant (CDBG) funding discussed later in this report.

City General Fund expenditures of \$2.3 million related to SDHC-administered contracts include:

- \$1.6 million for Year-Round Interim Housing and Related Services, as well as 24/7 restroom access. 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.

- \$272,000 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. This funding level is about \$28,000 less than prior year due to a General Fund budget reduction.
- \$290,000 for the Serial Inebriate Program (SIP), and 56 transitional beds and supportive services for residents experiencing homelessness and struggling with substance abuse.
- \$125,000 for the first Transitional Storage Center established by the City, operated by Think Dignity. The facility provides lockers and bins to homeless families and individuals to safely store their personnel belongings.

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

City Agencies: San Diego Housing Commission

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

In addition and outside the MOU, the FY 2019 CDBG Reinvestment Initiative allocations, approved by City Council on April 23, 2018, provide the SDHC \$1.0 million for the operation of the Housing Navigation Center. Another \$10.0 million in CDBG was approved to be passed through to the SDHC for Homeless Facility/Permanent Supportive Housing Acquisition/Rehabilitation, for which no projects have yet been identified. This \$10.0 million is in addition to the SDHC's \$88.3 million planned investment for homelessness activities.

Also of note, in prior years, the SDHC administered the San Diego Misdemeanants At-Risk Track (SMART) pilot program. Starting in FY 2019, funds will not be passed through to the SDHC as the program will be managed by the City Attorney's Office.

Separate MOU Between SDHC and City

Two new programs have been included in a separate MOU this fiscal year — the three bridge shelters and a new Transitional Storage Center. The MOU sets out the responsibilities of the City and the SDHC related to these two programs. The SDHC's proposed budget for FY 2019 includes \$10.1 million for the bridge shelters and \$1.7 million for the new Transitional Storage Center. These allocations are provided by SDHC property reserves and one-time savings.¹

The City's proposed budget includes \$2.8 million in ongoing General Funds to sup-

port the City's duties outlined in the MOU which largely include the continued renting of equipment and facilities needed to continue operating the bridge shelters. For the Transitional Storage Center, the City committed to providing various services, among them being sanitation activities. These activities are funded in the City's CleanSD budget. The SDHC's role includes, among other things, overseeing and monitoring the operating agreements for both programs.

As we discuss in our Office's review of the City's FY 2019 Proposed Budget (beginning on page 32), these programs lack an ongoing funding plan if they are to continue past FY 2019. The City's FY 2019 Proposed Budget includes \$2.8 million in ongoing General Funds, but no ongoing funding source has been identified in the SDHC's budget, which is proposed to provide the other \$11.8 million needed to operate both programs in FY 2019.

Included in our report is a recommendation that **Council request an ongoing funding plan for both the bridge shelters and the new Transitional Storage Center.**

We also recommend in our report that Council request more information on a plan and the timeline to reimburse the SDHC for the reallocation of permanent supportive housing funding used to launch the bridge shelters in the current fiscal year. Please refer to page 32 of our report for additional information. Since the issuance of our report, City staff has indicated that a request to approve LMIHAF monies to support the San Ysidro Senior Village Apartments project is anticipated to come to Council for approval before the summer.

¹The SDHC is proposing to fund bridge shelters in FY 2019 with its property reserves. FY 2018 bridge shelter savings are being proposed to support FY 2019 Transitional Storage Center costs.

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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 is implementing the next phase of the program (for Fiscal Years 2018–2020), by providing \$79.7 million in federal, City, and SDHC resources over three fiscal years (FY 2018—FY 2020), with a goal of providing housing and services for 3,000 homeless individuals.

In FY 2019, SDHC plans to invest \$35.1 million for the following Housing First—San Diego activities:

- \$24.3 million in federal Section 8/MTW funds and City Affordable Housing Funds to support the creation of new Permanent Supportive Housing. This includes \$4.3 million in rental assistance voucher support, as well as \$10.0 million for a FY 2019 Permanent Supportive Housing Notice of Funding Availability.
- \$5.1 million in federal Section 8/MTW funds, SDHC local funds, and City Affordable Housing Funds for Rapid Re-Housing.
- \$4.1 million in City Affordable Housing Funds and SDHC local funds for landlord engagement to increase the number of available rental units for all homeless subpopulations.
- \$1.1 million in City Affordable Housing Funds and SDHC local funds to provide prevention and diversion services. Prevention services help individuals and families who are at-risk of becoming homeless, and includes support like rental assistance, rental application fees, utility payments, moving costs,

and security deposits, as well as case management and stabilization services. Diversion services help 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.

- \$500,000 in SDHC local funds for family reunification.

In addition, the FY 2019 Proposed Budget includes \$100,000 for a position supporting coordinated street outreach efforts, not limited to the Housing First—San Diego Program.

After accounting for the various programs and initiatives discussed above, other major contributions towards the total \$88.3 million in SDHC homelessness-related expenditures include:

- \$27.4 million in federal housing voucher support; and
- An additional \$3.6 million for permanent supportive housing (above the \$24.3 million including in the Housing First—San Diego initiative).