



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: HA-1

Review of Temporary Bridge Shelter Program Operating Agreements Extension

OVERVIEW

The item before the Housing Authority on September 18, 2018 is a request to authorize the execution of a nine-month extension to the operating agreements for each of the City of San Diego's three Temporary Bridge Shelters (Shelters). The Shelters provide individuals experiencing homelessness a safe place to be temporarily housed and receive services while preparing for permanent housing placements.

If this item is approved, the term of the agreements would be from October 1, 2018 through June 30, 2019. The agreements allow one more option to extend, from July 1 to December 31, 2019. The operating agreements have been amended to incorporate recommendations from a third-party evaluation of the Shelter program. Recommendations related to additional staffing result in increased costs of \$982,756 over the \$10.1 million approved in the San Diego Housing Commission's (Commission) Fiscal Year (FY) 2019 Adopted Budget. Similarly, an additional follow-up program evaluation results in \$49,542 but these additional costs are outside of the operating agreements. The Commission has the authority to administratively shift funding in its budget for this purpose. Together with City funding, total Shelter program costs in FY 2019 are \$13.9 million.

This report reviews changes to the operating agreements including additional costs, and offers items for Housing Authority consideration.

BACKGROUND

The operating agreements for the Shelters were initially approved by the Housing Authority on November 14, 2017. On May 22, 2018 City Council and the Housing Authority approved a three-month extension to the operating agreements and a one-year extension of the corresponding Memorandum of Understanding between the Commission and City for the program. The three-

month extension was needed to allow time for a third-party evaluation to be completed. The item before the Housing Authority seeks approval of the operating agreements to cover the rest of the fiscal year, with recommendations from the evaluation incorporated into the agreements.

FISCAL/POLICY DISCUSSION

Overview of Changes to Agreements

Incorporation of Evaluation Recommendations

One of the main challenges identified by the third-party evaluator was the limited availability of permanent housing resources within the Coordinated Entry System (CES)¹ to support exits from the Shelters. The CES assessment tool helps determine the type of permanent housing that may meet a homeless individual's needs, which include permanent supportive housing or rapid rehousing. Because there are not enough permanent housing options available, many of the recommendations focus on broader housing strategies – often referred to as housing solutions outside of the CES. These are strategies that assist individuals without subsidies such as placement in shared housing, helping with housing searches, and reunification with family, as appropriate.

Consistent with recommendations from the evaluation, the operating agreements make staffing changes which eliminate 18 Housing Navigators and add 21 Case Managers and nine Housing Specialists across the three providers. This is intended to provide a higher level of support to homeless individuals by developing individualized housing plans and working to identify a variety of housing interventions. Reclassification of some current positions may be possible, but recruitment of all required staff is anticipated to be completed within about three months. Also, additional training requirements included in the agreements cover a variety of topics, including having conversations with homeless individuals at intake to see if they can be diverted if housing could be achieved another way, such as by regaining employment.

The staff report includes a commitment between the Commission, the City, and the Regional Task Force on Homelessness (Task Force) to further analyze the number of permanent housing opportunities within the CES likely to be available for Shelter residents and identify additional or alternative program goals. This is supportive of the recommendation to conduct further analysis to see if steps can be taken to improve the flow of individuals in the shelters to permanent housing.

The final significant recommendation incorporated into the operating agreements is a revision to the performance outcome goal that at least 30% of program participants who remain in the shelter for at least 30 days will exit to permanent housing, instead of the current goal of 65%. This adjustment is intended to be a more realistic goal based on actual outcome data. The goal also broadens the metric to include exits to other longer-term housing.

Program Changes Contingent Upon Receipt of State Funding and Further Analysis

¹ The CES is a regional and standardized process that assesses and prioritizes the needs of homeless individuals for the most appropriate housing option. Housing needs are entered into a database and prioritized to determine the next individual in line for a housing resource when it becomes available.

As part of the FY 2018-19 State Budget, SB 850, the Homeless Emergency Aid Program (HEAP) was established which is a \$500 million one-time block grant. Funding will be provided to Continuums of Care (for San Diego, the Regional Task Force on the Homeless), and large cities to provide immediate emergency assistance to people experiencing homelessness. Eligible uses of these flexible funds include but are not limited to:

- Homelessness prevention activities;
- Rental assistance or subsidies;
- Criminal justice diversion programs for homeless individuals with mental health needs;
- Capital improvements such as for emergency shelters; and
- Emergency aid.

The City anticipates receiving \$14.1 million and the Task Force is expected to receive \$18.8 million. Both allocations require that 5% be set aside for emergency assistance for homeless youth.² The City submitted an early application earlier this month. Funding for early applications can be distributed starting in October 2018. A second Notice of Funding Availability will be released on February 15, 2019. Expenditure of the City's allocation of HEAP funding will require Council approval. The program requires that 50% of funds awarded be contractually obligated by January 1, 2020.

The operating agreements discuss actions that could be taken if this state grant funding is received and if the actions are determined to be feasible. All three operating agreements include authority that would allow the Housing Commission, without action of the Board of Commissioners (Board), to increase compensation to the operators to provide "flexible spending subsidies" to help individuals secure housing. This was one of the recommendations from the third-party evaluator. Examples of how these funds could be used include providing an individual financial assistance needed to be able to secure housing without an ongoing subsidy (i.e. funds for a security deposit and first month and last month of rent) or payments to a landlord to secure units.

No funding level is specified in the agreements for this purpose. The staff report states that the flexible funding included in the agreements is still being explored to determine appropriate and available funding sources and the level of funding needed. Allowing the Commission to implement this activity without further Board action is intended to allow the operators to quickly implement state funding to improve Shelter exits once funding is received. However, to the extent state funds for flexible funding exceeds \$500,000, Housing Authority approval would be required since it must approve budget amendments which are over this threshold. Using the total number of 51 positive exits³ for the month of July, and assuming an average subsidy of \$1,500 per exit for the rest of the contract term, costs could be about \$690,000 for this activity. However, if total positive exits for the Shelter program improve, the costs could be higher.

Another provision that the Commission could implement without Board action, though separate from the evaluation recommendations, is an increase of 50 beds to the Veterans Village of San Diego (VVSD) Shelter. Total beds would increase from 200 to 250, which may be made available to non-veterans. Again, no funding level is specified in the agreements, and the expansion of the

² An additional \$7.9 million in federal grant funds was awarded to the Task Force in July to help homeless youth in the region.

³ Exits to permanent housing and to other longer-term housing

program would only go into effect if state funding for eligible activities, or other fund sources, are available and it is determined to be appropriate. Assuming an average cost per bed each night of about \$46 and the beds are occupied 90% of the time, costs could be about \$565,000 for the rest of the contract term. However, this estimate may be overstated as some of these costs may be able to be absorbed within the larger program.

Father Joe’s Villages Termination Language

As stated in the staff report, language has been added to the Father Joe’s Villages Shelter to allow for its termination so that a planned permanent supportive housing development can go in at that site. The language allows the Commission to terminate the agreement upon 30 days written notice to the operator. Similarly, it also allows the operator to terminate the agreement upon 120 days written notice, in which case both parties must work together to ensure program participants are transitioned to other housing options. Staff indicate that an alternate location for this shelter is being explored. Our Office notes that relocation of the Father Joe’s Villages Shelter would be a one-time expenditure and appears to be an appropriate use of HEAP grant funding.

Overview of Temporary Bridge Shelter Costs for FY 2019

Approval of the proposed operating agreements results in increased costs to the Shelter program over what was adopted in the Commission’s FY 19 budget. The recommended staffing changes increase costs by \$982,756 and the follow-up evaluation increases costs by \$49,542. Table 1 summarizes total costs for the Shelter Program in FY 19, including costs approved in the City’s budget.

Table 1: FY 2019 Shelter Program Costs

	Funding Use	FY 2019 Adopted Budget
SDHC¹ Adopted Budget	Alpha Project	\$4,800,000
	Veterans Village of San Diego	3,000,000
	Father Joe's Villages	2,200,000
	SDHC oversight	118,610
	<i>Total Costs in SDHC Budget</i>	<i>10,118,610</i>
City Adopted Budget²	Facility Support	2,762,000
	<i>Total Budgeted Program Costs</i>	<i>12,880,610</i>
Contract Extension	Staffing Increases	982,756
	Follow-up Evaluation	49,542
	Total FY 2019 Program Costs	\$13,912,908

¹ San Diego Housing Commission

² City costs are funded by the General Fund. All other costs are funded with SDHC Property Reserves.

The costs to implement Shelter operating agreements for the extension period (October 2018 to June 2019) is \$8.5 million. This funding is provided by the Commission’s Property Reserves⁴ with the understanding that the funds would be backfilled by the Low-Moderate Income Housing Asset

⁴ Funding in property reserves is comprised of revenue generated from the properties the Commission owns. The reserves set aside funding for major capital improvement needs, replacements, enhancements, and repairs.

Fund (LMIHAF), or other funds as determined by the City, to mitigate the impact the Shelters have on the Commission's budget. The LMIHAF is generally used to support the preservation, acquisition, and development of affordable housing and is frequently leveraged with other funding sources to support implementation of these projects.

The same commitment to backfill has been made for previous costs the Commission has taken on to support the operation of the Shelters. This includes \$6.5 million in FY 2018, \$10.1 million approved for the program in the FY 2019 Adopted Budget, and the additional \$982,756 included in this item, totaling \$17.6 million.⁵

So far \$15.0 million has been appropriated and \$2.1 million remains to be backfilled for FY 18 and FY 19 Shelter costs. These allocations include \$10.0 million in Community Development Block Grant funds approved by Council on April 23, 2018 to support the acquisition and rehabilitation of a property or properties for a homeless facility or permanent supportive housing. In addition, \$5.5 million in LMIHAF was approved by Council on July 17, 2018 for an affordable housing loan to contribute to the development and construction of the San Ysidro Senior Village Apartments, a senior permanent supportive housing project. These are funds that the Commission would have otherwise contributed for the project.

Our Office notes that, aside from \$2.8 million in City General Fund which is budgeted as an ongoing expense, the Shelters continue to lack an ongoing funding source if they are envisioned to continue past FY 2019. This leaves an \$11.2 million budget problem to be solved annually beginning in FY 2020. It is uncertain how long the LMIHAF can continue to allocate funding to projects that the Commission would have otherwise supported, to allow the continued operation of the Shelters.

CONCLUSION

The item before the Housing Authority on September 18, 2018 is a request to authorize the execution of a nine-month extension to the operating agreements for each of the City's three Shelters. Most of the funding for this contract extension is already included in the Commission's FY 2019 Adopted Budget. Additional funds required to implement the amended contracts to include recommendations from the third-party evaluator are \$982,756, plus \$49,542 for an additional follow-up evaluation.

The contracts also allow the Commission to establish flexible funding subsidies and add 50 beds to one of the shelters contingent upon receipt of state HEAP funding and completion of further analysis. The costs for these items are unknown at this time but could be roughly \$1 million for the nine-month contract term. Though implementation of these activities would not require further Board action, amendments to the Commission's budget over \$500,000 requires Housing Authority approval.

Our Office acknowledges that establishing flexible funding subsidies, as recommended by the third-party evaluator, could result in more positive exits from the Shelters. Further, serving 50

⁵ A similar commitment has been made for FY 2019 costs (\$1.7 million) for the transitional storage center approved by Council in March 2018.

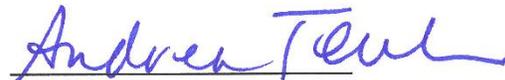
additional homeless individuals through the Shelter program is a positive step. However, because it is uncertain how much these additional activities would cost to implement or whether they are feasible at this time, the Housing Authority could consider waiting to approve these additions until the plan is more solidified.

In conclusion, **the Housing Authority may wish to consider the flexible funding subsidies when additional analysis has been completed regarding their feasibility and once state funds are known.** This would allow the flexible funding to also be considered alongside other activities envisioned for the state grants. The Housing Authority would be required to approve funding for this activity anyway if it requires a budget change of at least \$500,000.

The Housing Authority may also wish to consider an expansion of the VVSD shelter as part of the budget process when the entire program is considered for continuation. Our Office is concerned about expanding the program to serve more people when the base program does not have an ongoing funding source.



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